

22 February 2016

UGL delivers improved performance in HY16; on track to deliver FY16 guidance

- Net profit after tax of \$18.5 million and EPS of 11.3 cents per share
- Operating revenue of \$1.2² billion in line with the prior comparative period
- EBIT of \$34.9³ million and EBIT margin of 2.9%
- Strong operating cash flow of \$70.0 million excluding the Ichthys power project
- Stable order book of \$4.6 billion plus \$5.4 billion in preferred opportunities
- On track to achieve FY16 guidance of \$2.3 billion revenue and 3% EBIT margin. Over and above this, a \$5.7 million FX gain was realised in HY16 relating to repayment of UGL's USPP debt
- No dividend will be declared in FY16

Sydney: UGL Limited (ASX: UGL) today reported net profit after tax (NPAT) of \$18.5 million (HY15: \$11.9 million¹) for the half year ended 31 December 2015.

Operating revenue was \$1.2² billion (HY15: \$1.2² billion) and earnings before interest and tax (EBIT) was \$34.9³ million (HY15: \$28.7¹ million).

UGL CEO Ross Taylor said: "Pleasingly we have achieved solid progress against the objectives we set for the company in June last year.

"Having delivered revenue of \$1.2 billion and EBIT of \$34.9 million in the half, we remain on track to deliver our FY16 guidance of \$2.3 billion revenue and 3% EBIT margin. Full year EBIT will further benefit from a one-off \$5.7 million FX gain realised in the first half relating to repayment of our USPP debt.

"Through continued focus on cash and working capital, we generated strong operating cash flow in the half of \$70 million excluding cash outflows associated with the Ichthys power project.

"We secured an additional \$1.0 billion in work during the period, maintaining a solid order book of \$4.6 billion at 31 December 2015. This is enhanced by a further \$5.4 billion in preferred opportunities including contracts with

¹ Adjusted for the Ichthys CCPP project provision, impairments associated with the resources slowdown, settlement of project claims, change in tender capitalisation policy, and interest and tax on equity accounted joint ventures. HY15 also excludes DTZ earnings in order to provide comparative financial performance. A reconciliation of underlying to reported NPAT is set out in the Appendix.

² Includes UGL's share of joint venture revenue.

³ Adjusted for interest and tax on equity accounted joint ventures.

renewal and extension options and shutdown work to be executed under existing contracts which are not included in our order book.”

Update on Ichthys CCPP and SMP Projects

The UGL and CH2M Hill project scope for Ichthys CCPP is now 72% complete, with the construction component of the project 52% complete.

Mr Taylor said: “The project continues to progress well with construction past the half way mark and continuing to track to the revised program and cost to complete estimate.

“The Ichthys SMP project is now approaching 30% complete. The client has advised of delivery dates for all client supplied materials and components and we are working with the client to agree the revised completion schedule and associated claims and variations.

“We expect to conclude this process in the coming months and will commence margin recognition on the SMP project once we have achieved an outcome on these commercial discussions.”

Operational Performance

A summary of the financial results by operating division is set out in the Appendix.

Rail & Defence

Revenue in Rail & Defence was \$482.5 million in HY16, down on the comparative period largely due to reduced locomotive sales in the coal sector.

EBIT however increased 29% to \$21.4 million driven by savings associated with the rationalisation of under-utilised rail facilities undertaken in FY15.

Rail & Defence maintains a solid order book at \$2.3 billion with 95% of the order book comprising long term recurring revenue.

“We expect the second half of the 2016 financial year to be in line with the first half, with continued strength in our maintenance and upgrade markets offsetting subdued locomotive sales,” Mr Taylor commented.

Asset Services

Asset Services delivered a 26% increase in revenue to \$285.5 million in HY16 driven by the growth in contracts secured in the prior year, the ramp up of the Chevron maintenance contract and increased shut down and turnaround projects at Stanwell during the period.

EBIT increased by 67% to \$10.5 million with margin improvement driven by the closure of the Western Australia design business and the reset of the coal sector to a new base in the prior year.

Order book remained stable at \$1.0 billion with the business securing a new two year contract in the period to provide a range of services at the Woodside Karratha Life Extension Program.

“With a strong ongoing contribution from the Chevron maintenance contract and the ramp up of the BP fuel terminals contract, we expect the second half of FY2106 to be in line with the first half of the year,” said Mr Taylor.

Technology Systems

Revenue for Technology Systems was \$108.3 million, down on the comparative prior period due to completion of the Regional Rail Link project in FY15, yet to be replaced with the Sydney Metro Northwest and NorthConnex projects still in early stages.

EBIT of \$3.4 million was impacted by nil margin revenue on DTRS now nearing completion, as well as Sydney Metro Northwest which will commence margin recognition in the second half of FY16.

The NorthConnex contract was secured during the period, where UGL, in alliance with the Lend Lease Bouygues joint venture, will deliver the mechanical, electrical, control, fire and communication systems for the new motorway.

“Revenue for Technology Systems is expected to remain subdued in the second half, pending the ramp up of major projects in the 2017 financial year which will drive a substantial revenue increase for this business,” Mr Taylor commented.

Engineering & Construction

Revenue in Engineering & Construction was down 9% to \$309.5 million in the half year with EBIT of \$12.4 million, impacted by the ongoing contraction in resources sector capex. The revenue decline was partially offset by increased revenue from the Ichthys power and SMP projects however, no margin was recognised on these projects in the period.

During the period, Engineering and Construction secured a number of key wins including the design and construction of the Wagga Wagga water treatment plant, design and installation of a solar farm at Darwin Airport and the refurbishment of the Heatherton Terminal substation.

“Second half revenue is expected to increase for Engineering & Construction driven by the increased contribution from Ichthys SMP, with margin recognition expected to commence once commercial negotiations on this project are complete.

“EBIT margin in FY16 will continue to be impacted by nil margin revenue on the Ichthys power project,” Mr Taylor said.

International

Revenue and earnings for the International business continued to be impacted by low project volumes in the first half of FY16. EBIT improved on the comparative period due to right sizing of the cost base in the prior year and exit of the Texmaco joint venture.

During the half, the business secured a significant contract for the upgrade of the Chao Chu Kang water works in Singapore.

“International’s revenue is expected to be materially higher in the second half of FY16 as Chao Chu Kang and other new projects secured move to the delivery phase,” Mr Taylor said.

Safety

During the half year period, UGL’s Total Recordable Frequency Rate improved to 5.2 per million hours worked and the Lost Time Injury Frequency Rate also improved to 0.6 per million hours worked.

Mr Taylor said: “While we remain confident that our safety focus is on the correct areas, in the coming six months we will continue to place a greater emphasis on proactive reporting measures and high potential incidents. Combined with greater transparency of safety performance on a site by site basis, we are targeting top quartile industry performance within the next two and a half years.”

Capital Management

Net cash inflow from operations was \$70.0 million in the half, excluding a \$67.0 million cash outflow on the Ichthys power project.

The balance sheet was ungeared at 31 December 2015 with net cash of \$22.9 million.

Dividends

The Board does not intend to declare a dividend for the 2016 financial year. The future restatement of dividends will be considered by the Board as is considered appropriate in the context of UGL's capital requirements and outlook.

Outlook

Mr Taylor said "While challenges continue for those parts of our business exposed to the resources capex investment cycle, our diversity and strong market position across a number of sectors provides a strong counter balance to this contraction.

"Having delivered revenue of \$1.2 billion and secured an additional \$1.0 billion of work in the half, we are currently 97% sold for FY16 and expect to achieve our revenue guidance of \$2.3 billion for the full year.

"With profit recognition on Ichthys SMP and Sydney Metro Northwest expected to commence in the second half, we also remain on track to deliver our EBIT margin guidance of 3% for FY16. Over and above this, full year EBIT will benefit from the one-off FX gain of \$5.7 million realised in HY16.

"We continue to expect a step change in revenue in FY17, with an increase of at least \$300 million, driven by growth in contracts already secured in LNG maintenance and transport infrastructure. In FY17, we should see margins return towards 4% as the turnaround of the business is completed and nil margin revenue is replaced with new profitable revenue."

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Appendix: UGL HY16 Results Summary

Table 1: Underlying Results Overview

\$m	HY16	HY15	Change
Operating revenue ¹	1,187.4	1,229.1	(3%)
Divisional EBIT ^{2,3}	45.8	49.6	(8%)
Corporate	(16.6)	(20.9)	20%
FX Gain on USPP Hedge	5.7	-	
EBIT ^{2,3}	34.9	28.7	22%
EBIT margin ^{2,3}	2.9%	2.3%	
Interest	(4.1)	(9.5)	57%
Tax	(10.8)	(5.7)	(90%)
Non-controlling interest	(1.4)	(1.6)	13%
NPAT ^{2,3}	18.5	11.9	55%
NPAT margin ^{2,3}	1.6%	1.0%	
EPS ^{2,3} (cents per share)	11.3	7.2	57%

Table 2: Reconciliation of HY16

The results presented for HY16 are adjusted to include revenue, interest and tax associated with equity accounted joint ventures.

\$m	HY16 Results	JVs (Equity method)	Statutory Results
Revenue	1,187.4	(164.4)	1,023.0
EBIT	34.9	(2.6)	32.3
Net interest	(4.1)	0.1	(4.0)
Tax	(10.8)	2.5	(8.3)
Non-controlling interests	(1.4)	-	(1.4)
NPAT	18.5	-	18.5

¹ Includes UGL's share of joint venture revenue.

² HY16 adjusted for interest and tax on equity accounted joint ventures.

³ HY15 adjusted for the Ichthys CCPP project provision, impairments associated with the resources slowdown, settlement of project claims, change in tender capitalisation policy, and interest and tax on equity accounted joint ventures. HY15 also excludes DTZ earnings in order to provide comparative financial performance.

Table 3: Reconciliation of HY15 Underlying Results

\$m	UGL ex-DTZ	DTZ	Underlying HY15	JVs (Equity method)	Provision for contract loss	Claims resolution & settlement	Resources slowdown	Tender costs written off	Discontinued operations	Continuing operations
Revenue	1,229.1	728.1	1,957.2	(231.8)	-	-	-	-	(717.5)	1,007.9
EBIT	28.7	27.8	56.5	(3.3)	(175.0)	(17.3)	(78.4)	(8.7)	(27.8)	(254.0)
Net interest	(9.5)	(6.2)	(15.7)	-	-	-	-	-	6.2	(9.5)
Tax	(5.7)	(4.1)	(9.8)	3.3	52.5	5.2	20.6	2.6	4.1	78.5
Non- controlling interests	(1.6)	(0.1)	(1.7)	-	-	-	-	-	0.1	(1.6)
NPAT	11.9	17.4	29.3	-	(122.5)	(12.1)	(57.8)	(6.1)	(17.4)	(186.6)
Profit attributable to discontinued operations (net of tax)										64.1
Statutory Loss										(122.5)

Table 4: Divisional Performance

Rail & Defence

\$m	HY16	HY15	Change
Revenue	482.5	534.3	(10%)
EBIT	21.4	16.6	29%
EBIT margin	4.4%	3.1%	
Order book - \$b	2.3	2.5	(7%)

Asset Services

\$m	HY16	HY15	Change
Revenue	285.5	226.2	26%
EBIT	10.5	6.2	67%
EBIT margin	3.7%	2.8%	
Order book - \$b	1.0	1.0	-

Technology Systems

\$m	HY16	HY15	Change
Revenue	108.3	130.4	(17%)
EBIT	3.4	4.8	(28%)
EBIT margin	3.2%	3.7%	
Order book - \$b	0.7	0.6	14%

Engineering & Construction

\$m	HY16	HY15	Change
Revenue	309.5	339.0	(9%)
EBIT	12.4	25.1	(50%)
EBIT margin	4.0%	7.4%	
Order book - \$b	0.6	0.7	(17%)

International

\$m	HY16	HY15	Change
Revenue	4.1	3.6	15%
EBIT	(1.9)	(3.1)	38%
EBIT margin	NM	NM	
Order book - \$m	60.5	35.0	73%