

23 February 2015

UGL reports 2015 half year results

- Underlying net profit after tax of \$29.3 million¹ and underlying EPS of 17.6 cents per share¹ including only a four month contribution from DTZ
- Reported net loss after tax of \$122.5 million includes a number of provisions and impairments
- Net proceeds of \$1.05 billion from the sale of DTZ
- Engineering revenue up 7 per cent to \$1.2 billion² and EBIT up 9 per cent to \$39.3 million
- Stable order book of \$4.9 billion with \$0.9 billion in opportunities where UGL is preferred
- On track to achieve full year revenue target of \$2.4 billion
- Second half EBIT margin expected to be impacted by initiatives undertaken to reset the business for improved margin performance from FY2016
- No interim or final dividend will be declared in FY2015
- Further market update planned for May 2015

Summary of major one-off items	EBIT \$m	After Tax \$m
Provision recognised on Ichthys Combined Cycle Power Plant (CCPP) project	-\$175.0	-\$122.5
Impairments associated with a sustained slowdown in the resources sector	-\$78.4	-\$57.8
Other one-off write downs and charges	-\$26.0	-\$18.2
Profit on sale of DTZ	+\$64.4	+\$46.7

¹ Adjusted for the Ichthys CCPP project provision, impairments associated with the resources slowdown, settlement of project claims, change in tender capitalisation policy and profit on sale of DTZ. The Board believes that underlying NPAT and underlying EPS provide a more accurate reflection of operating performance as the adjustments reflect non-recurring costs incurred during the period as well as the accounting profit on sale of DTZ.

² Includes UGL's share of joint venture revenue.

³ Adjusted for restructuring costs, DTZ separation costs, the amortisation of acquired intangibles, gain on property sales and release of DTZ pre-acquisition provisions.

⁴ Reflects EBIT impact.

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Sydney: UGL Limited (ASX: UGL) today reported an underlying net profit after tax (NPAT) of \$29.3 million¹ (HY14: \$49.7 million³) for the half year ended 31 December 2014.

The statutory reported net loss after tax was \$122.5 million (HY14: \$29.5 million NPAT). The reported result includes:

- a \$122.5 million provision on the Ichthys CCPP project
- \$57.8 million of impairments associated with the resources slowdown
- a \$12.1 million write down relating to the settlement of historical project claims
- a \$6.1 million charge reflecting a change in the tender cost capitalisation policy
- net accounting profit on the DTZ sale of \$46.7 million.

A reconciliation of underlying NPAT to reported NPAT is set out in the Appendix.

Operating revenue was \$2.0 billion² (HY14: \$2.2 billion²) and underlying earnings before interest and tax (EBIT) was \$56.5 million¹ (HY14: \$78.5 million³) including only a four month contribution from DTZ.

UGL Managing Director & CEO, Ross Taylor said: “The reported earnings of the business include a number of one-off events which occurred during the period. The sale of DTZ completed on 5 November 2014 with a four month contribution from DTZ included in the half year result.

“A \$175.0 million⁴ provision was raised for the Ichthys CCPP project following a review and reforecast of the project.

“Impairments of \$78.4 million⁴ were taken during the period as soft commodity prices are driving a sustained slowdown in the resources cycle.

“With a significant focus on reducing WIP, we have made good progress in the half, settling various longstanding claims with customers in the resources sector which will result in a cash inflow of \$40 million in the second half of the 2015 financial year. A \$17.3 million⁴ write down of WIP has been recognised in the half year associated with this. WIP reduction will remain a key focus area in the second half.

“A change to our capitalisation policy on tender costs was implemented in the period resulting in a one-off charge of \$8.7 million⁴.

“At the business level, Engineering delivered underlying growth with revenue increasing 7 per cent and EBIT up 9 per cent relative to the comparative half year period. Despite the sustained slowdown in the resources cycle, Engineering has maintained a stable order book of \$4.9 billion reflecting the diversity of UGL’s revenue streams and core capabilities in the current growth sectors of transport infrastructure and LNG maintenance. Safety performance continued to improve through the period.

“During the six months to 31 December 2014, we secured \$1.2 billion in new contract wins and renewals, including the North West Rail Link project in Sydney. Our order book is further enhanced with the award of a new four year contract by APLNG to provide downstream maintenance services for the operational phase of the Curtis Island LNG Facility. This is an important strategic win building on our existing expertise in LNG maintenance for Chevron Australia.”

Ichthys CCPP Project Update

A complete reprogram of the Ichthys CCPP project has been undertaken following a detailed review of the design, procurement, construction and commissioning stages which has resulted in a later forecast completion of the various project milestones. A reforecast of the cost to complete estimate has been performed to align with the revised program and delivery schedule.

As a result, UGL has raised a provision of \$175.0 million⁴ for the project. The provision includes assumptions on appropriate risk contingency and some allowance for future commercial settlements. The cash flow impact of the provision will be spread over a three year period.

Mr Taylor said: "With the installation of a new project team, we have reprogrammed and reforecast the Ichthys CCPP project. Over the next two to three months, we will closely monitor the performance of the new team to deliver against the revised program and cost estimate which will provide us with additional confidence in the provision we have taken.

"We are actively pursuing both present and historical claims on the project, and in parallel we continue to discuss acceleration and commercial settlement options with the client.

"While there is still a significant amount of work to be performed on the project, there is no guarantee that additional cost growth will not occur. However, if commercial negotiations are successful this may result in an improvement to our current position.

"In May, we expect to be in a position to provide a further update on the project having assessed actual performance against the delivery program and cost estimate. We will update the market on the progress of claims where appropriate as we move through commercial negotiations."

Resources Slow Down Impacting Rail and Resources Business

With the challenging outlook for the resources sector expected to continue in the medium term, impairments and provisions amounting to \$78.4 million were recognised during the half year period with a future cash impact of \$8.9 million.

An impairment charge of \$48.5 million was recognised due to the significant contraction in coal markets which has impacted demand for UGL's new narrow gauge locomotive product.

A \$9.7 million investment made in India to establish bogie manufacturing as part of a low cost supply chain in the production of locomotives for the coal and iron ore markets has been fully written down.

A provision of \$14.9 million has been recognised for the planned future consolidation of under-utilised facilities and an onerous lease for excess office space. Closure of the under-utilised facilities is expected to result in savings of \$3 million per annum.

Other impairments of \$5.3 million recognised in the period relate to the write down of rail inventory as a result of project cancellations and opportunities not realised.

Other One-Off Events

Solid progress has been made on reducing work in progress (WIP) during the half year period. The settlement of longstanding claims with resources sector customers will result in UGL receiving \$40.0 million in 2H FY2015. A write down of \$17.3 million associated with this was incurred during the half year.

During HY2015, a change to the policy for capitalising tender costs was implemented resulting in a non-cash one-off charge of \$8.7 million.

DTZ Sale Completion

The sale of DTZ to the TPG and PAG Consortium was completed on 5 November 2014 for \$1.215 billion.

Net proceeds from the sale were \$1.05 billion after transaction costs and other sale adjustments including known liabilities transferred with the business. Deferred cash proceeds of \$59.0 million will be received in 2H FY2015. A net profit after tax on sale of \$46.7 million was recognised during the half year period.

Surplus net proceeds of \$3 per share were distributed to shareholders on 27 November 2014.

DTZ's operating revenue for the four months prior to sale was \$729.1 million and EBIT was \$27.8 million.

Cashflow and gearing

A net cash outflow from operations of \$3.6 million was reported in the half year period. Underlying cash flow from operations of \$41.4 million was generated excluding a DTZ cash outflow of \$45.0 million, resulting in an underlying cash realisation of 109 per cent.

Gearing (as defined as net debt to net debt plus equity) was 10.2 per cent as at 31 December 2014 following the pay down of debt from DTZ sale proceeds. Net debt of \$63.0 million does not include \$59.0 million of funds held by DTZ to be returned to UGL in 2H FY2015.

Engineering

Revenue increased 7 per cent to \$1,229.1 million² in the half year period and EBIT increased 9 per cent to \$39.3 million².

Revenue growth was underpinned by a stronger performance in our Rail operations reflecting our market leading maintenance capabilities in both passenger and freight rail. Revenue also increased in the period due to previous period contract wins in power and LNG maintenance.

The business generated an EBIT margin of 3.2 per cent for the half year period. The margin was impacted by revenue recognised with nil margin, largely Ichthys CCPP, and loss making operations including a rail facility and the South East Asia infrastructure business.

Engineering maintained a \$4.9 billion order book with recurring revenues comprising 70 per cent of the order book. The revenue outlook for the business is supported by a solid order book and pipeline with UGL the preferred tenderer on \$0.9 billion of opportunities, primarily in the transport infrastructure and LNG maintenance sectors.

Safety

Improvements in safety continued over the six month period reflecting UGL's focus on the health and wellbeing of its people. UGL's lost time injury frequency rate declined to 1.1 per million hours worked. The total recordable case frequency rate also fell to 6.5 per million hours worked.

These results were supported by a significant reduction in high potential incidents and the severity of injuries incurred. UGL's leading indicators on safety are also positive and as a result, this trend is expected to continue.

Dividends

The Board does not intend to declare an interim or final dividend in the 2015 financial year. The future reinstatement of dividends will be considered by the Board when underlying earnings have normalised and it is considered appropriate in the context of UGL's capital requirements and outlook.

Outlook

Mr Taylor said: "The broad outlook for the engineering and construction sector remains challenging, however diversity in UGL's revenue is providing a balance to the ongoing contraction in resources capital expenditure. Many parts of our business remain stable or have exposure to current areas of growth, particularly transport infrastructure and LNG maintenance.

"We are on track to achieve our 2015 financial year revenue target of \$2.4 billion with 97 per cent already sold.

"In 2H FY2015, we expect the business will generate a similar underlying EBIT margin to the first half. Our primary focus in the second half though will be on resetting the business for improved margin performance from the 2016 financial year and as a result, the second half EBIT margin is expected to be impacted by initiatives undertaken to achieve this.

"An update to the market is planned for May 2015 following the completion of our business and strategic planning process. At that stage, the path to improved performance will be defined including the structure under which we will operate moving forward. Once this work is done, we will be in a position to provide refined guidance for the 2015 financial year. We will also provide a further progress update on the Ichthys CCPP project at that time."

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Appendix: UGL Half Year 2015 Results Summary

The Board believes that underlying NPAT and underlying EPS provide a more accurate reflection of operating performance as the adjustments reflect non-recurring costs incurred during the period as well as the accounting profit on sale of DTZ.

Table 1: Underlying Results Overview

\$m	HY15	HY14	Change
Operating revenue ¹	1,957.2	2,233.6	(12%)
EBIT ^{2,3}	56.5	78.5	(28%)
<i>EBIT margin^{2,3}</i>	2.9%	3.5%	
Interest	(15.7)	(18.8)	16%
Tax	(9.8)	(8.3)	(18%)
Minority interest	(1.7)	(1.8)	6%
NPAT ^{2,3}	29.3	49.7	(41%)
<i>NPAT margin^{2,3}</i>	1.5%	2.2%	
EPS ^{2,3} (cents per share)	17.6	29.8	(41%)

Table 2: Reconciliation of Underlying Results

\$m	Underlying	JVs	Ichthys CCPP	Resources Slowdown	Claims Settlement	Tender Costs	Discontinued Operation	Continuing Operations
Revenue	1,957.2	(213.8)	-	-	-	-	(717.5)	1,007.9
EBIT	56.5	(3.3)	(175.0)	(78.4)	(17.3)	(8.7)	(27.8)	(254.0)
Net interest	(15.7)	-	-	-	-	-	6.2	(9.5)
Tax	(9.8)	3.3	52.5	20.6	5.2	2.6	4.1	78.5
	31.0	-	(122.5)	(57.8)	(12.1)	(6.1)	(17.5)	(185.0)
Non-controlling interests	(1.7)	-	-	-	-	-	0.1	(1.6)
NPAT	29.3	-	(122.5)	(57.8)	(12.1)	(6.1)	(17.4)	(186.6)
Profit attributable to discontinued operations								64.1
Net loss for the period								(122.5)

¹ Includes UGL's share of joint venture revenue

² HY15 adjusted for a provision on the Ichthys CCPP project, impairments associated with the resources slowdown, settlement of project claims, change in tender capitalisation policy and profit on sale of DTZ.

³ HY14 adjusted for restructuring costs, DTZ separation costs, the amortisation of acquired intangibles, gain on property sales and release of DTZ pre-acquisition provisions.