ASX Release

22 August 2016

UGL base business delivers strong performance in FY16; confirms FY17 guidance

UGL including Ichthys projects:

- Operating revenue of $2.3 billion[1] in line with guidance
- Net loss after tax of $106 million including $200 million provision raised against the Ichthys CCPP and SMP projects as foreshadowed in June 2016
- Commercial settlement on the Ichthys SMP project for claims up to 31 May 2016 expected by the end of August 2016
- No dividend declared in FY16 as previously guided

UGL excluding Ichthys projects:

- Operating revenue of $2.0 billion[1] in line with guidance
- EBIT of $65.5 million[2] and EBIT margin of 3.3% as previously guided
- Strong operating cash flow of $128.3 million with EBITDA conversion of 144%
- Solid order book of $4.8 billion with strong sales in July and August adding $800 million to the order book
- FY17 guidance confirmed for revenue growth of ~$300 million with an EBIT margin of ~4%

Sydney: UGL Limited (ASX: UGL) today reported a net loss after tax of $106.3 million (FY15: $109.6 million) for the financial year ended 30 June 2016. The net loss after tax includes a $200 million provision raised across the Ichthys CCPP and SMP projects due to significant client delays and disruption, as foreshadowed in June 2016.

Operating revenue across the group was stable at $2.3 billion[1] (FY15: $2.3 billion[1]), in line with previous guidance.

As outlined in June 2016, to provide greater transparency of earnings and better reflect the performance of UGL's base business, the Ichthys projects have been reported separately from the remaining UGL businesses. This is also reflected in our operating model with the Engineering & Construction business and the Ichthys projects being run as separate divisions with dedicated management focus.

[1] Includes UGL's share of joint venture revenue.

[2] Adjusted for interest and tax on equity accounted joint ventures.

[3] Adjusted for impairments associated with the resources slowdown, settlement of project claims, change in tender capitalisation policy, and interest and tax on equity accounted joint ventures. FY15 also excludes DTZ earnings in order to provide comparative financial performance.

Ichthys CCPP and SMP projects

Over FY16, UGL and its joint venture partners progressed with the delivery of the Ichthys CCPP and SMP projects with the projects now 81% and 42% complete, respectively. Across the projects, aggregate revenue recognised was $295 million and net cash outflows were $183 million.

As previously disclosed, the projects continued to be impacted by significant client delays and disruption which have resulted in additional costs incurred to complete the projects. Together with our joint venture partners, UGL has submitted substantial claims to the client in relation to these costs on both projects.

Pleasingly, good progress has been made on the Ichthys SMP project with a commercial settlement on historical claims up to 31 May 2016 expected by the end of August 2016. While negotiation of the Ichthys CCPP claims is yet to commence, it is anticipated that these claims are likely to be addressed with the client over the coming months.

The Board has determined to raise a $200 million provision against the Ichthys projects which reflects the need under accounting standards to forecast the costs to complete the projects now with limited ability to recognise revenue associated with future claims settlement. While the Board believes this provision is appropriate, all or a portion of this may be recoverable from JKC. This $200 million provision is in addition to the $175 million provision raised against Ichthys CCPP in FY15.

On both projects, UGL continues to manage the delivery of the projects and the respective contracts diligently to ensure an acceptable commercial outcome is achieved for the company and its joint venture partners through to completion.

UGL excluding the Ichthys projects

Operating revenue of $2.0 billion[1] (FY15: $2.2 billion[1]) was generated by the base business in FY16, in line with previous guidance.

Earnings before interest and tax (EBIT) of $65.5 million[2] (FY15: $47.5 million[3]) was delivered with an EBIT margin of 3.3% (FY15: 2.2%), including a one-off $5.7 million FX gain realised in the first half of FY15.

The base business generated net profit after tax of $33.5 million[2] (FY15: $12.9 million[3]) and EPS of 20.5 cents per share[2] (FY15: 7.8 cents per share[3]), a significant improvement year on year.

UGL CEO, Ross Taylor said: “We are pleased with the strong progress achieved in the base business in FY16, with the business delivering against the key objectives we set for the Company in June last year.

“As guided, we delivered $2.0 billion of revenue and an EBIT margin of 3.0%, excluding the one-off FX gain realised in the first half. We generated strong operating cash flow of $128.3 million, excluding cash outflows associated with the Ichthys projects, due to our continued focus on cash and working capital disciplines.

“We secured $2.4 billion in work during the year and have continued to sell well in July and August with an additional $800 million in wins secured, including the recently announced New Intercity Fleet contract with the NSW Government which further broadens our recurring revenue base.”

“The base business is well set-up as we enter FY17 to meet the objectives we set more than a year ago, including revenue growth of around $300 million and further EBIT margin improvement to approximately 4%.”

Divisional performance

Rail & Defence

Rail & Defence delivered stable revenue of $941.8 million in FY16. EBIT increased 44% to $49.9 million with improved performance across both the passenger and freight rail businesses. The order book increased to $2.7 billion, 92% of which is long term recurring revenue. With the award of the New Intercity Fleet contract in August, the order book increased to $3.3 billion.

“We expect FY17 revenue to be stable with continued strength across maintenance and upgrade markets offset by subdued freight locomotive sales,” Mr Taylor commented.

Asset Services

Revenue in Asset Services increased 20% to $557.4 million in FY16 driven by revenue secured in the prior year, the ramp up of the Chevron maintenance contract and increased shutdown and turnaround activity at Stanwell. Profitability significantly improved with EBIT up 182% to $24.1 million driven by consistent delivery across the division’s portfolio of contracts. The order book was stable at $1.0 billion refilling well with strong sales achieved during the year.

“With the commencement of turnaround and shutdown programs across a number of sectors, including the first LNG shutdown cycle, as well as good early win momentum in July and August, we expect revenue to increase substantially in FY17,” Mr Taylor said.

Technology Systems

As anticipated, Technology Systems revenue declined 14% to $199.5 million in FY16, with the Sydney Metro Northwest and NorthConnex projects still in early stages. EBIT was strong at $11.7 million with initial profit recognition commencing on Sydney Metro Northwest during the second half of FY16.

“We expect FY17 revenue to increase significantly as Sydney Metro Northwest and NorthConnex move from the design to delivery phase. The business is also strongly positioned to benefit from significant opportunities coming to market driven by Government spending on transport infrastructure,” Mr Taylor said.

Engineering & Construction

Revenue in Engineering & Construction was $253.9 million impacted by the ongoing contraction in resources capital expenditure and reduced projects across the utilities sector. EBIT was $13.9 million and includes restructuring costs incurred to align overhead with the size of the market opportunity for this business.

The business is achieving good momentum in the water and waste water sectors as well as the renewable energy market. Key projects during the year included the commencement of the Wagga Wagga water treatment plant, completion of the Darwin Airport solar project and a further three solar projects commencing construction. The New Zealand business successfully secured a three year contract for the maintenance of Mighty River Power’s hydro and geothermal stations, establishing an important footprint in the New Zealand energy sector.

“Early wins secured in July, including the award of the Lower South Creek and Shoalhaven water treatment programs, have increased Engineering & Construction’s order book to $330 million supporting revenue growth in FY17 through the delivery of work secured,” Mr Taylor said.

Asia
Revenue in Asia was $38.0 million with growth driven by the commencement of the Choa Chu Kang water upgrade project and construction of the First Solar module assembly building. The Hong Kong operations were closed in FY16 due to ongoing underperformance to allow the business to focus efficiently on the growth opportunities in South East Asia. EBIT for Asia includes the restructuring costs associated with this further consolidation.

"Sales were stronger in Asia this year with the delivery of these secured projects expected to drive revenue growth and a return to profitability for Asia in FY17," Mr Taylor commented.

Safety

UGL's safety performance improved significantly in FY16 with a 30% per cent improvement in our key lagging safety metrics. We are now achieving a Lost Time Injury frequency rate of 0.6 per million hours worked.

Ross Taylor said: "UGL's strong safety performance this year has been supported by a greater emphasis on proactive reporting measures and structured reviews of high potential incidents as we work hard to prevent injuries before they happen. While these results are very encouraging, improving our safety performance is a constant focus for us with the ultimate goal of achieving zero harm to the people that work for us, and with us."

Capital management

Net cash inflow from operations of the base business was $128.3 million, excluding cash outflows associated with the Ichthys projects over the last twelve months.

Net debt at 30 June 2016 was $65 million with gearing at 17 per cent. At year end, UGL had $283 million in available cash and undrawn debt facilities. UGL's balance sheet is supported by healthy cash flow conversion across the base business and adequate funding facilities which will support the peak debt requirements associated with the Ichthys projects in FY17.

As previously guided, the Board has not declared a dividend in FY16. The future reinstatement of dividends will be considered by the Board as appropriate in the context of UGL's capital requirements and outlook.

Outlook

Ross Taylor said: "UGL is one of a small number of Australian companies with deep experience in the growth areas of public infrastructure, power generation, oil & gas services and defence in Australia, New Zealand and Asia.

"We secured an additional $2.4 billion in work during FY16 and pleasingly, we have continued to sell well in July and August with over $800 million of sales. We are currently 80% sold in for FY17, supporting a revenue uplift of around $300m across the base business as previously guided.

"With the transformation of the business largely completed in FY16, we are on track to return to an EBIT margin of approximately 4% in FY17, excluding the Ichthys projects, as we grow revenue volumes and deliver improved profitability across our divisions."

"Furthermore, through FY17, we expect to make significant progress in the delivery of the Ichthys projects with the construction phases of both projects to be largely completed by June 2017 and only the commissioning and testing phases to be delivered in FY18," Mr Taylor concluded.

ENDS

FOR FURTHER INFORMATION CONTACT:

Rebecca Hill
EGM Investor Relations & Corporate Development
UGL Limited
+61 2 9492 1431
rebecca.a.hill@ugllimited.com

Carrie Barrack
Group Investor Relations & Corporate Affairs Manager
UGL Limited
+61 2 9492 1510
carrie.barrack@ugllimited.com

Ross Taylor
CEO
UGL Limited
+61 2 9492 8802
ross.taylor@ugllimited.com

Media please contact:
Fleur Jouault
GRACosway
+61 2 8353 0419
+61 405 669 632

Appendix: UGL FY16 Divisional Summary

Rail & Defence

$m	FY16	FY15	Change
Revenue	941.8	977.6	(4%)
EBIT	49.9	34.6	44%
EBIT margin	*5.3%*	*3.5%*	
Order book - $b	2.7	2.4	10%

Asset Services

$m	FY16	FY15	Change
Revenue	557.4	463.2	20%
EBIT	24.1	8.5	182%
EBIT margin	*4.3%*	*1.8%*	
Order book - $b	1.0	1.0	(4%)

Technology Systems

$m	FY16	FY15	Change
Revenue	199.5	231.3	(14%)
EBIT	11.7	10.3	14%
EBIT margin	*5.9%*	*4.5%*	
Order book - $b	0.6	0.6	8%

Engineering & Construction

$m	FY16	FY15	Change
Revenue	253.9	507.8	(50%)
EBIT	13.9	42.1	(67%)
EBIT margin	*5.5%*	*8.3%*	
Order book - $m	198	219	(10%)

Asia

$m	FY16	FY15	Change
Revenue	38.0	19.7	93%
EBIT	(7.3)	(7.9)	(7%)
EBIT margin	*(19%)*	*(40%)*	
Order book - $m	124	35	256%