



**UGL Limited** ABN 85 009 180 287

## Interim financial report 2016

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# Directors' report

The directors of UGL Limited (UGL) present their report together with the consolidated interim financial report of UGL and its subsidiaries (the Group) for the half-year ended 31 December 2015 and the review report thereon.

## Directors

The names of directors in office during or since the end of the interim period are:

- Ms Kathryn D Spargo - Chairman
- Mr Ross Taylor - CEO
- Mr John D Cooper
- Mr Guy M Cowan
- Ms Jane Harvey (appointed 10 August 2015)
- Mr Richard G Humphry AO
- Mr Robert Kaye SC (appointed 10 August 2015)
- Dr Douglas F McTaggart (resigned 7 August 2015)

Unless indicated otherwise, all directors held their position as a director throughout the half-year and up to the date of this report.

## Principal activities

UGL is a leading provider of outsourced engineering, construction and maintenance services, partnering with world-leading technology suppliers to provide industry-leading services and whole-of-life solutions across the core sectors of rail, technology systems, power, resources, water and defence. UGL employs over 7,000 people across its operations in Australia, New Zealand and South East Asia and has a customer base of large blue-chip companies, government agencies, private enterprise and public institutions.

## Operating and financial results

Statutory profit after tax from continuing operations for the half year ended 31 December 2015 was \$19.9 million as compared to a loss of \$185.0 million in the same period last year. Operating revenues from continuing operations increased 1.5% during the half-year to \$1,023 million from \$1,008 million in the corresponding period.

The Company is making solid progress against its strategic priorities and delivered significantly improved results in the half-year. Underlying EBIT of \$34.9 million was 22% ahead of the same period last year when compared to equivalent earnings excluding the DTZ business. Rail & Defence delivered \$21.4 million of EBIT, 29.3% higher than the previous period due to stronger results from freight maintenance and defence contracts and cost savings associated with the rationalisation of under-utilised facilities in the prior year. Growth in new Asset Services contracts along with cost savings resulting from the closure of the WA based design business delivered a 67.4% increase in EBIT to \$10.5 million. Improved Rail & Defence and Asset Services earnings have partially offset the impact of lower EBIT contribution from Engineering and Construction due to nil margin revenue on the Ichthys CCPP and SMP projects. Technology Systems EBIT also declined during the period due to the completion of contracts not yet offset by the ramp up on the new major projects secured.

Despite the challenging market and economic outlook the business secured \$1.0 billion in contract wins and extensions in the first half to hold its order book steady at \$4.6 billion. Around 70% of the order book comprises long term recurring revenues which along with diversity in revenue, provides a degree of protection against the challenging market environment. UGL is well positioned to benefit from solid growth opportunities, particularly across transport infrastructure and LNG maintenance.

UGL's EBIT return on funds employed (ROFE) improved from 4.1% to 6.4% due to operational improvements implemented across the business. Operating cash flow was \$3.0 million compared to an outflow of \$3.6 million in the prior period. UGL maintained a net cash position at 31 December 2015 of \$22.9 million compared to net cash of \$33.7 million at 30 June 2015. Stronger financial results coupled with higher cash conversion from improved working capital management have kept debt levels low; resulting in a strong cash position.

UGL's improved performance has generated positive basic earnings per share of 11.3 cents per share.

## **Dividend**

Despite the improved financial performance the directors do not recommend the payment of an interim dividend at this time. Reinstatement of dividends will be considered by the Board when a sufficient level of normalised earnings has been retained and it is determined appropriate in the context of UGL's capital requirements and outlook.

## **Lead auditor's independence declaration**

The lead auditor's independence declaration is set out on page 3 and forms part of the directors' report for the half-year ended 31 December 2015.

## **Rounding of amounts**

The parent entity is a company of the kind specified in Australian Securities and Investments Commission class order 98/100 dated 10 July 1998. In accordance with that class order, amounts in the consolidated interim financial report and the directors' report have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

Signed in accordance with a resolution of the directors.



Kathryn D Spargo  
Chairman



Ross Taylor  
Managing Director & CEO

Dated at Sydney this 19th day of February 2016.



## Lead auditor's independence declaration under section 307C of the Corporations Act 2001

To: the directors of UGL Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2015 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink that reads 'KPMG' in a stylized, cursive font.

KPMG

A handwritten signature in black ink that reads 'T. Gilerman' in a cursive font.

Tanya Gilerman  
Partner  
Sydney  
19th February 2016

# Consolidated income statement

## for the half-year ended 31 December 2015

	Note	31 December 2015 \$'000	31 December 2014 \$'000
<b>Continuing operations</b>			
Revenue		1,022,991	1,007,872
Other income		8,898	2,084
Raw materials and consumables		(308,719)	(331,676)
Employment costs		(545,666)	(485,349)
Depreciation and amortisation		(12,691)	(18,834)
Subcontractor expenses		(49,924)	(85,671)
Rental and occupancy expenses		(20,816)	(25,077)
Communication expenses		(4,155)	(4,561)
Insurance		(5,408)	(5,495)
Plant and equipment expenses		(10,505)	(15,236)
Motor vehicle expenses		(8,118)	(8,471)
Travel		(15,115)	(11,683)
Other expenses		(22,278)	(273,701)
Share of profit of equity accounted investees (net of income tax)		5,821	6,283
Operating profit/(loss)		34,315	(249,515)
Finance income		1,318	1,639
Finance costs		(7,347)	(15,555)
Net finance costs	2	(6,029)	(13,916)
Profit/(loss) before tax		28,286	(263,431)
Income tax (expense)/benefit		(8,340)	78,460
Profit/(loss) from continuing operations		19,946	(184,971)
<b>Discontinued operation</b>			
Profit from discontinued operation, net of tax	10	-	64,134
Profit/(loss) for the period		19,946	(120,837)
Profit/(loss) attributable to:			
Owners of the Company		18,554	(122,522)
Non-controlling interests		1,392	1,685
Profit/(loss) for the period		19,946	(120,837)
Profit attributable to discontinued operation:			
Owners of the Company		-	64,038
Non-controlling interests		-	96
Profit for the period		-	64,134
<b>Earnings per share</b>			
Earnings per share from continuing and discontinued operations		Cents	Cents
Basic and diluted earnings per share (cents per share)		11.3	(73.6)
Earnings per share from continuing operations			
Basic and diluted earnings per share (cents per share)		11.3	(112.0)

The accompanying notes form an integral part of these consolidated interim financial statements.

# Consolidated statement of comprehensive income

## for the half-year ended 31 December 2015

	31 December 2015 \$'000	31 December 2014 \$'000
Profit/(loss) for the period	19,946	(120,837)
<b>Other comprehensive income from continuing operations:</b>		
<b>Items that are or may be reclassified to profit or loss</b>		
Foreign currency translation differences - foreign operations	30	(25,403)
Cash flow hedges	(4,349)	7,513
<b>Other comprehensive income from continuing operations for the period (net of tax)</b>	<b>(4,319)</b>	<b>(17,890)</b>
<b>Other comprehensive income from discontinued operations:</b>		
<b>Items that are or may be reclassified to profit or loss</b>		
Foreign currency translation differences - foreign operations	-	28,999
<b>Other comprehensive income from discontinued operations for the period (net of tax)</b>	<b>-</b>	<b>28,999</b>
Total comprehensive income from continuing operations	15,627	(202,861)
Total comprehensive income from discontinued operations	-	93,133
<b>Total comprehensive income for the period</b>	<b>15,627</b>	<b>(109,728)</b>
<b>Total comprehensive income from continuing operations attributable to:</b>		
Owners of the Company	14,235	(204,450)
Non-controlling interests	1,392	1,589
<b>Total comprehensive income for the period</b>	<b>15,627</b>	<b>(202,861)</b>
<b>Total comprehensive income from discontinued operations attributable to:</b>		
Owners of the Company	-	93,048
Non-controlling interests	-	85
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>93,133</b>

The accompanying notes form an integral part of these consolidated interim financial statements.

# Consolidated statement of financial position

as at 31 December 2015

	Note	31 December 2015 \$'000	30 June 2015 \$'000
<b>Current assets</b>			
Cash and cash equivalents		117,411	164,597
Trade and other receivables		202,168	231,062
Inventories		246,954	245,089
Income tax receivable		128	21,283
Other financial assets		24	4,589
<b>Total current assets</b>		<b>566,685</b>	<b>666,620</b>
<b>Non-current assets</b>			
Trade and other receivables		-	1,234
Other financial assets		9,850	9,750
Investments accounted for using the equity method		12,775	17,000
Property, plant and equipment		50,538	51,749
Intangible assets		334,005	338,861
Deferred tax assets		148,426	154,019
<b>Total non-current assets</b>		<b>555,594</b>	<b>572,613</b>
<b>Total assets</b>		<b>1,122,279</b>	<b>1,239,233</b>
<b>Current liabilities</b>			
Trade and other payables		370,548	415,891
Loans and borrowings	4	23,434	13,331
Employee benefits		91,761	91,056
Other financial liabilities		4,271	5,114
Income tax payable		-	952
Provisions	5	74,479	125,272
<b>Total current liabilities</b>		<b>564,493</b>	<b>651,616</b>
<b>Non-current liabilities</b>			
Loans and borrowings	4	71,056	117,572
Employee benefits		4,753	5,043
Other financial liabilities		989	286
Provisions	5	27,966	29,304
<b>Total non-current liabilities</b>		<b>104,764</b>	<b>152,205</b>
<b>Total liabilities</b>		<b>669,257</b>	<b>803,821</b>
<b>Net assets</b>		<b>453,022</b>	<b>435,412</b>
<b>Equity</b>			
Share capital	6	422,656	421,293
Reserves		(28,844)	(27,109)
Retained earnings		53,424	34,870
<b>Total equity attributable to owners of the Company</b>		<b>447,236</b>	<b>429,054</b>
Non-controlling interests		5,786	6,358
<b>Total equity</b>		<b>453,022</b>	<b>435,412</b>

The accompanying notes form an integral part of these consolidated interim financial statements.



# Consolidated statement of changes in equity

for the half-year ended 31 December 2015

Half-year ended 31 December 2015 \$'000	Attributable to owners of the Company									Non- controlling interests	Total equity
	Translation reserve	Hedging reserve	Employee equity benefit reserve	Reserve for treasury shares	Total reserves	Share capital	Retained earnings	Total			
Balance at 1 July 2015	(22,733)	(172)	13,996	(18,200)	(27,109)	421,293	34,870	429,054	6,358	435,412	
Profit for the period	-	-	-	-	-	-	18,554	18,554	1,392	19,946	
Foreign currency translation differences - foreign operations	30	-	-	-	30	-	-	30	-	30	
Gains on cash flow hedges taken to equity	-	26	-	-	26	-	-	26	-	26	
Net change in fair value of cash flow hedges transferred to the initial carrying amount of the hedged item	-	1,323	-	-	1,323	-	-	1,323	-	1,323	
Hedge close out transfer to income statement	-	(5,698)	-	-	(5,698)	-	-	(5,698)	-	(5,698)	
Income tax	-	-	-	-	-	-	-	-	-	-	
Total comprehensive income for the period	30	(4,349)	-	-	(4,319)	-	18,554	14,235	1,392	15,627	
Transactions with owners in their capacity as owners:											
Share-based payments	-	-	2,447	-	2,447	-	-	2,447	-	2,447	
Treasury shares transferred	-	-	-	137	137	-	-	137	-	137	
Sale of unexercised options (Note 6)	-	-	-	-	-	1,363	-	1,363	-	1,363	
Dividends to owners	-	-	-	-	-	-	-	-	(1,964)	(1,964)	
Total transactions with owners	-	-	2,447	137	2,584	1,363	-	3,947	(1,964)	1,983	
Balance at 31 December 2015	(22,703)	(4,521)	16,443	(18,063)	(28,844)	422,656	53,424	447,236	5,786	453,022	

The accompanying notes form an integral part of these consolidated interim financial statements.

# Consolidated statement of changes in equity

for the half-year ended 31 December 2015

Half-year ended 31 December 2014 \$'000	Attributable to owners of the Company									Non- controlling interests	Total equity
	Translation reserve	Hedging reserve	Employee equity benefit reserve	Reserve for treasury shares	Total reserves	Share capital	Retained earnings	Total			
Balance at 1 July 2014	(11,936)	(2,956)	23,538	(28,465)	(19,819)	910,836	281,257	1,172,274	12,818	1,185,092	
(Loss)/profit for the period	-	-	-	-	-	-	(122,522)	(122,522)	1,685	(120,837)	
Foreign currency translation differences - foreign operations	3,607	-	-	-	3,607	-	-	3,607	(11)	3,596	
Gains on cash flow hedges taken to equity	-	6,199	-	-	6,199	-	-	6,199	-	6,199	
Net change in fair value of cash flow hedges transferred to the initial carrying amount of the hedged item	-	1,314	-	-	1,314	-	-	1,314	-	1,314	
Income tax	-	-	-	-	-	-	-	-	-	-	
Total comprehensive income for the period	3,607	7,513	-	-	11,120	-	(122,522)	(111,402)	1,674	(109,728)	
Transactions with owners in their capacity as owners:											
Share-based payments	-	-	516	-	516	-	-	516	-	516	
Treasury shares transferred	-	-	-	118	118	-	-	118	-	118	
Transfer of vested shares	-	-	(5,645)	5,645	-	-	-	-	-	-	
Transfer to profit on sale of subsidiaries	(15,742)	337	-	-	(15,405)	-	-	(15,405)	(5,735)	(21,140)	
Return of capital	-	-	-	-	-	(489,543)	-	(489,543)	-	(489,543)	
Dividends to owners	-	-	-	-	-	-	(9,991)	(9,991)	(944)	(10,935)	
Total transactions with owners	(15,742)	337	(5,129)	5,763	(14,771)	(489,543)	(9,991)	(514,305)	(6,679)	(520,984)	
Balance at 31 December 2014	(24,071)	4,894	18,409	(22,702)	(23,470)	421,293	148,744	546,567	7,813	554,380	

The accompanying notes form an integral part of these consolidated interim financial statements.

# Consolidated statement of cash flows

## for the half-year ended 31 December 2015

	Note	31 December 2015 \$'000	31 December 2014 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		1,170,528	1,866,750
Cash payments to suppliers and employees		(1,190,367)	(1,848,130)
Interest received		1,396	2,794
Interest and other costs of finance paid		(6,396)	(23,509)
Distributions from equity accounted investments		10,096	11,870
Income taxes refunded/(paid)		17,736	(13,393)
<b>Net cash from/(used in) operating activities</b>		<b>2,993</b>	<b>(3,618)</b>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(6,269)	(13,501)
Proceeds from sale of plant and equipment		1,119	215
Payments for software		(1,508)	(3,234)
Project establishment costs		(1,020)	(6,642)
Payments for other intangibles		(445)	(1,291)
Proceeds from sale of business	10	-	1,052,428
Investment in unlisted company		(100)	-
Investment in associates and joint ventures		(50)	-
<b>Net cash (used in)/from investing activities</b>		<b>(8,273)</b>	<b>1,027,975</b>
<b>Cash flows from financing activities</b>			
Return of capital		-	(489,543)
Proceeds from borrowings		74,725	82,472
Repayment of borrowings		(111,464)	(706,384)
Payment of finance lease liabilities		(130)	-
Proceeds from sale of expired options	6	1,363	-
Dividends paid to owners	7	-	(9,991)
Dividends paid to non-controlling interests		(6,357)	(944)
<b>Net cash used in financing activities</b>		<b>(41,863)</b>	<b>(1,124,390)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(47,143)</b>	<b>(100,033)</b>
Cash and cash equivalents at the beginning of the financial period		164,597	179,230
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(43)	755
<b>Cash and cash equivalents, at 31 December</b>		<b>117,411</b>	<b>79,952</b>

The accompanying notes form an integral part of the consolidated interim financial statements.

Consolidated cash flows for the half-year to 31 December 2014 include the discontinued DTZ businesses sold in the period - See Note 10: Assets held for sale and discontinued operations.

# Notes to the consolidated interim financial statements

## Note 1: Operating segments

In June 2015 the Group was reorganised into five business divisions, based on their products and services. The reorganisation was due to the sale of the DTZ business in November 2014 and the ensuing move to a new business structure transitioning to a standalone engineering group.

Operations of each reportable segment are as follows:

- Rail and Defence: operates extensively across both the passenger and freight rail markets in rolling stock supply and asset management. The business also provides naval ship maintenance.
- Asset Services: offers industry leading services in maintenance, shutdowns and turnarounds in liquefied natural gas, minerals processing, petroleum, power and water sectors. The business is Australia's largest LNG maintenance service provider.
- Technology Systems: an industry leader in road tunnel and rail infrastructure systems and provides signalling communications and telecommunications solutions across a range of sectors.
- Engineering and Construction: delivers complex projects from the initial design through to procurement, construction and final commissioning in the power, water and resources sectors.
- International: provides water infrastructure capabilities in Singapore and Malaysia; and transport systems and oil and gas pipeline services principally in South East Asia.

Prior to June 2015, the Group was organised into two business units: UGL Engineering; and DTZ Property. Comparative information for the half-year ended 31 December 2014 has been restated to align with the new management structure. The measurement basis for the segment profit or loss in both periods remains the same, except for the allocation of overhead to each of the five business divisions, previously allocated in total to the UGL Engineering segment.

Management measures performance based on segment profit before interest and income tax (EBIT); and after adjusting for non-recurring expenditure.

Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Revenue from external customers is measured in a manner consistent with that in the income statement except for the proportional consolidation of the results of associates and joint ventures for management reporting purposes. Inter-segment pricing is determined on an arm's length basis.

Note 1: Operating segments (continued)

\$'000	Rail & Defence	Asset Services	Technology Systems	Engineering & Construction	International	Reportable segments	Corporate/unallocated	Eliminations	Total
<b>Half-year ended 31 December 2015</b>									
External revenues	482,377	284,787	107,472	308,928	3,814	1,187,378	-	-	1,187,378
Inter-segment revenue	142	746	876	585	336	2,685	-	(2,685)	-
<b>Total reportable segment revenue</b>	<b>482,519</b>	<b>285,533</b>	<b>108,348</b>	<b>309,513</b>	<b>4,150</b>	<b>1,190,063</b>	<b>-</b>	<b>(2,685)</b>	<b>1,187,378</b>
Reconciliation:									
Revenue - joint ventures and associates								(164,387)	(164,387)
Consolidated revenue									1,022,991
<b>Reportable segment profit/(loss) (Segment EBIT)</b>	<b>21,433</b>	<b>10,454</b>	<b>3,442</b>	<b>12,419</b>	<b>(1,909)</b>	<b>45,839</b>	<b>(10,939)</b>	<b>-</b>	<b>34,900</b>
Reconciliation:									
Interest income	374	2	497	236	-	1,109	209	-	1,318
Interest expense							(5,294)	-	(5,294)
Interest expense in equity accounted results								(142)	(142)
Tax on equity accounted income								(2,496)	(2,496)
Consolidated profit before income tax from continuing operations									<b>28,286</b>

Note 1: Operating segments (continued)

UGL Engineering - continuing \$'000	Rail & Defence	Asset Services	Technology Systems	Engineering & Construction	International	Total
<b>Half-year ended 31 December 2014</b>						
Reportable segment revenue						
External revenues	534,101	225,407	127,438	338,533	3,592	1,229,071
Inter-segment revenue	182	763	2,919	470	15	4,349
<b>Total reportable segment revenue</b>	<b>534,283</b>	<b>226,170</b>	<b>130,357</b>	<b>339,003</b>	<b>3,607</b>	<b>1,233,420</b>
Reportable segment profit/(loss) (Segment EBIT)	16,573	6,245	4,762	25,080	(3,057)	49,603
Interest income	400	-	88	4	17	509
<b>Half-year ended 31 December 2014</b>						
Reportable segment revenue						
External revenues	1,229,071	728,138	1,957,209	-	-	1,957,209
Inter-segment revenue	4,349	1,010	5,359	-	(5,359)	-
<b>Total reportable segment revenue</b>	<b>1,233,420</b>	<b>729,148</b>	<b>1,962,568</b>	<b>-</b>	<b>(5,359)</b>	<b>1,957,209</b>
Reconciliation:						
Revenue - joint ventures and associates					(231,833)	(231,833)
Elimination of discontinued operation					(717,504)	(717,504)
<b>Consolidated revenue</b>						<b>1,007,872</b>
Reportable segment profit/(loss) (Segment EBIT)	49,603	27,797	77,400	(20,894)	-	56,506
Reconciliation:						
Provision for contract loss				(175,000)	-	(175,000)
Claims resolution and settlement				(17,282)	-	(17,282)
Asset impairment and provisions				(78,400)	-	(78,400)
Tender costs written off				(8,700)	-	(8,700)
Interest income	509	1,008	1,517	1,130	-	2,647
Interest expense				(18,365)	-	(18,365)
Tax on equity accounted income					(3,304)	(3,304)
Elimination of discontinued operation					(21,533)	(21,533)
<b>Consolidated loss before income tax from continuing operations</b>						<b>(263,431)</b>

<b>Note 2: Finance costs (net)</b>	<b>Note</b>	<b>31 December 2015 \$'000</b>	<b>31 December 2014 \$'000</b>
<b>Finance costs:</b>			
Interest expense		5,294	11,109
Other finance costs		2,053	4,446
		<b>7,347</b>	<b>15,555</b>
<b>Finance income:</b>			
Interest revenue		(1,318)	(1,639)
		<b>(1,318)</b>	<b>(1,639)</b>
<b>Net finance costs</b>		<b>6,029</b>	<b>13,916</b>

### Note 3: Significant expenses

Profit/(loss) before income tax from continuing operations includes the following significant expenses:

Included in other expenses:

Provision for contract loss	5	-	175,000
Narrow gauge locomotive development costs impaired		-	48,500
Investment in Indian joint venture impaired		-	9,700
Tender costs written off		-	8,700

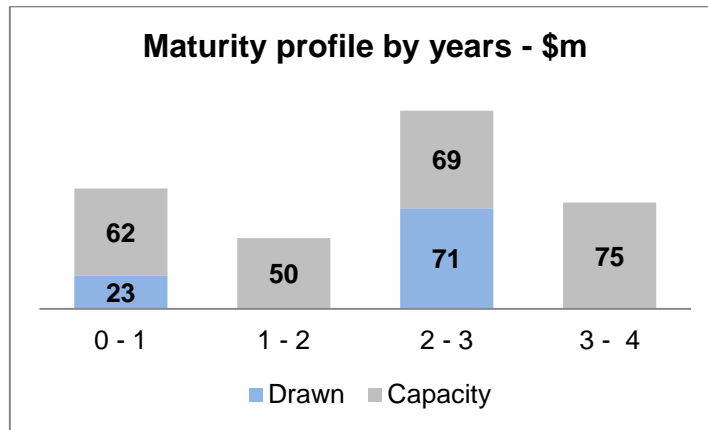
Included in raw materials and consumables, rental and occupancy costs, and employment costs:

Planned property closures		-	14,900
Rail inventory written off		-	5,300
Claims resolution and settlement		-	17,282

<b>Note 4: Loans and borrowings</b>		<b>31 December 2015 \$'000</b>	<b>30 June 2015 \$'000</b>
<b>Current</b>			
<b>Unsecured:</b>			
- bank loan		1,595	-
- other loan		2,457	-
- US notes		19,162	13,021
<b>Secured:</b>			
- finance lease liabilities		220	310
		<b>23,434</b>	<b>13,331</b>
<b>Non-current</b>			
<b>Unsecured:</b>			
- bank loans		56,000	85,000
- US notes		15,056	32,552
<b>Secured:</b>			
- finance lease liabilities		-	20
		<b>71,056</b>	<b>117,572</b>

**Note 4: Loans and borrowings (continued)**

The Group has total debt facilities available of \$350 million, of which \$94 million was drawn as at 31 December 2015, with the maturity profile as set out below:



<b>Note 5: Provisions</b>	<b>31 December 2015 \$'000</b>	<b>30 June 2015 \$'000</b>
Current	74,479	125,272
Non-current	27,966	29,304
	<b>102,445</b>	<b>154,576</b>

Movement in provisions

	Warranty and contract \$'000	Workers' compensation \$'000	Public liability \$'000	Restructure \$'000	Make good & onerous leases \$'000	Other \$'000	Total \$'000
Balance at 1 July 2015	102,789	3,350	2,945	22,220	21,878	1,394	154,576
Provisions made during the period	1,610	156	419	-	-	1,896	4,081
Provisions used and reversed during the period	(36,185)	(1,305)	(669)	(12,655)	(3,041)	(2,541)	(56,396)
Foreign exchange movement	-	4	-	-	-	-	4
Unwinding of discount	-	-	-	-	180	-	180
Balance at 31 December 2015	<b>68,214</b>	<b>2,205</b>	<b>2,695</b>	<b>9,565</b>	<b>19,017</b>	<b>749</b>	<b>102,445</b>
Current	56,591	2,058	2,695	9,565	2,821	749	74,479
Non-current	11,623	147	-	-	16,196	-	27,966
	<b>68,214</b>	<b>2,205</b>	<b>2,695</b>	<b>9,565</b>	<b>19,017</b>	<b>749</b>	<b>102,445</b>

**Warranties and contract provisions**

During the 2015 financial year a \$175 million provision, included in warranties and contract provisions, was raised for potential contract losses arising from the Joint Venture of CH2M HILL and UGL (the JV) to build a Combined Cycle Power Plant for the Ichthys LNG Project. The provision was raised after the JV completed a detailed review of the cost to complete, resulting in the JV recognising a provision of \$350 million, with UGL's 50% share of the provision being \$175 million.

In November 2015 the Ichthys CCPP Consortium (consisting of GE and the JV) announced that it had reached agreement with JKC Australia LNG Pty Ltd (a joint venture between JGC Corporation, KBR and Chiyoda Corporation) settling all the Consortium's claims up to 31 August 2015. This settlement supported UGL's confidence in the adequacy of the \$175 million initially provided, as did the extension of time agreed between the parties as part of this settlement, reducing the risk associated with delays to the project.

In determining the cost to complete, the review considered all key components of the complex design and construction schedule, based on significant judgements, to arrive at estimates of forward scheduling and procurement, production and contingencies. Although management consider the current estimated cost to complete the project is valid and reliably measured, there is still a significant amount of work that needs to be performed on the project before achieving completion and additional cost growth is possible.



## Note 5: Provisions (continued)

### Warranties and contract provisions (continued)

As at 31 December 2015 the remaining provision, taking into account the settlement, amounts to \$61,249,000. (30 June 2015: \$91,486,000).

As at 31 December 2015, the total contract value of the JV's share of the project was approximately \$719 million (30 June 2015: \$587 million), and the JV's share of the project was approximately 67% complete, with engineering and procurement substantially completed and construction activities ongoing.

	31 December 2015 \$'000	30 June 2015 \$'000
<b>Note 6: Share capital</b>		
Share capital		
166,511,240 (30 June 2015 - 165,761,240) ordinary shares	422,656	421,293
Movements in contributed equity	\$'000	Number of ordinary shares
Opening balance	421,293	165,761,240
Unexercised options sold on market (see below)	1,363	750,000
Closing balance	422,656	166,511,240

Total ordinary shares at 30 June 2015 excluded 750,000 issued shares, treated for accounting purposes as options. These options expired unexercised in the 2015 financial year. The 750,000 shares were subsequently sold on market, with a resultant increase in paid-up capital of \$1,363,000.

### Treasury shares

Treasury shares are shares in UGL that are held by the UGL Limited Employee Share Plan Trust, purchased on market to be available for UGL employee share plans. As at 31 December 2015, the Trust held 3,662,439 of the Company's shares (30 June 2015: 1,421,628 shares).

## Note 7: Dividends

No dividends were recognised in the current period by the Company. The directors do not recommend the payment of an interim dividend (2014: \$Nil), and no final dividend was paid for the 2015 or 2014 financial years.

An unfranked dividend of \$9,991,000 (6 cents per share) was paid in November 2014, as a component of the \$3.00 per share distribution (\$2.94 per share: capital return) approved by shareholders at the Company's Annual General Meeting held on 30 October 2014.

## Note 8: Contingencies

The directors are of the opinion that provisions are not required in respect of the matters noted below, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement:

- (i) Under the provisions of certain joint venture agreements undertaken by entities controlled by UGL, the controlled entities are jointly and severally liable for all liabilities incurred by these joint ventures/joint operations. As at 31 December 2015, with the exception of the CH2- UGL joint operation, where a provision has been made for contract losses (See Note 5: Provisions), the assets of the joint ventures exceed such liabilities.
- (ii) In the normal course of business, entities within the Group may incur contractors' and product liability, or be subject to threatened or pending legal actions arising from their activities. Such liabilities include the potential costs to carry out further works and/or costs of litigation by or against those Group entities. The business carries professional indemnity insurance and no separate disclosure is made of the costs of claims covered by insurance as to do so could seriously prejudice the position of the Group.  
Where such costs are not covered by professional indemnity insurance, provision is made for the potential costs of carrying out further works based on known claims and previous claims history, and for legal costs and claims where litigation has been commenced, or it is probable that litigation will commence.  
Based on previous experience, amounts specifically provided, and the circumstances of specific claims outstanding, no additional costs are anticipated. However, as the ultimate outcome of these claims cannot be reliably determined at the date of this report, contingent liabilities may exist for any amounts that ultimately become payable in excess of current provisioning levels.
- (iii) The Company is a defendant in a shareholder class action commenced by Melbourne City Investments Pty Ltd (MCI) in the Supreme Court of Victoria. The Writ claims loss and damage arising from UGL's alleged misleading and deceptive conduct and failure to disclose material information to the market prior to 8 August 2014 at the latest regarding the Combined Cycle Power Plant for the Ichthys LNG Project. (Refer Note 5: Provisions). The Company is vigorously defending these proceedings and, to date, has been successful in having the majority of MCI's claims struck out. The Company is now seeking to have the proceedings permanently stayed as an abuse of process.

## Note 9: Financial instruments

### Carrying amounts versus fair value

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Fair value hierarchy level	31 December 2015		30 June 2015	
		Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Trade and other receivables		189,613	189,613	225,802	225,802
Cash and cash equivalents		117,411	117,411	164,597	164,597
Forward exchange contracts net - at fair value	2	(4,512)	(4,512)	(239)	(239)
Finance lease liabilities	2	(220)	(199)	(330)	(298)
Unsecured bank facilities	2	(57,595)	(57,595)	(85,000)	(85,000)
US notes	2	(34,218)	(35,988)	(45,573)	(48,775)
Other loans	2	(2,457)	(2,457)	-	-
Trade and other payables		(370,548)	(370,548)	(415,891)	(415,891)
		(162,526)	(164,275)	(156,634)	(159,804)

### Fair value hierarchy

Financial instruments carried at fair value are classified by valuation method based on the following hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivate financial instruments (forward exchange contracts) are the only financial instruments carried by the Group at fair value, with a Level 2 valuation method applied consistently in the current and prior period. A Level 2 valuation method was also applied consistently in the current and prior period to assets and liabilities not recognised in the statement of financial position at fair value.

### Estimation of fair value

The following methods and assumptions are used in estimating the fair values of financial instruments:

- forward exchange contracts - bank valuations adjusted as necessary to reflect the credit risk of the various counterparties
- loans and borrowings, and finance leases - present value of future principal and interest cash flow, discounted at the market rate of interest at the reporting date; and
- trade and other receivables and payables - carrying amount equals fair value.

## Note 10: Assets held for sale and discontinued operations

### Half-year ended 31 December 2014

In November 2014 the Company sold the DTZ businesses, receiving net proceeds on sale of \$1.052 billion. The after tax profit from the discontinued operation for the period, including the trading profit for the period and gain on sale, was \$64.134 million.

For further details refer to Note 26: Assets Held for Sale and Discontinued Operations in the consolidated annual financial report for the year ended 30 June 2015.

## Note 11: Significant accounting policies

UGL Limited (the Company or UGL) is a company domiciled in Australia. The consolidated interim financial statements of the Company for the half-year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and jointly controlled entities.

The consolidated annual financial report of the Group for the year ended 30 June 2015 is available at [www.ugllimited.com](http://www.ugllimited.com).

### a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

These consolidated interim financial statements do not include all information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group for the year ended 30 June 2015. The consolidated interim financial statements were authorised for issue by the directors on 19 February 2016.

### b) Basis of preparation

These consolidated financial statements are presented in Australian dollars. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The Group is a for-profit entity for the purpose of preparing the consolidated financial statements.

These financial statements have been prepared in accordance with the historical cost convention and except for derivative financial instruments, which are stated at fair value, do not take into account changing money values or fair values of assets.

Except as described below, the accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 30 June 2015.

### c) Accounting Standards and Interpretations not previously applied

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to the Group's operations and effective for the current reporting period.

The adoption of these new and revised Standards and Interpretations has not had any material impact on the Group's assets, profits or earnings per share in the half-year ended 31 December 2015.

### d) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are relevant to the Group's operations but are not mandatory for the 31 December 2015 accounting period. The Group's assessment of the impact of these is set out below.

- **AASB 9 *Financial Instruments*** which will become mandatory for the Group's annual reporting period ending 30 June 2019, addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model. The standard also introduces expanded disclosure requirements and changes in presentation.  
As the new hedging rules align hedge accounting more closely with the Group's risk management practices it is expected that it will be easier to apply hedge accounting in the future.  
The new impairment model includes expected credit loss, which may result in earlier recognition of credit losses.  
The Group does not plan to adopt this standard early, and the full extent of the impact has not yet been determined.
- **AASB 15 *Revenue from Contracts with Customers*** which will become mandatory for the Group's annual reporting period ending 30 June 2019, replaces the existing revenue standard and interpretations and is based on the identification of performance obligations under a contract to determine revenue treatment.  
Management is currently assessing the impact of the new rules, noting that application of the new standard to traditional construction contracts is expected to result in a revenue accounting outcome broadly similar to the present current stage of completion method.  
Management will review new and existing contracts to ensure that enforceable contractual rights and obligations satisfy the revenue recognition criteria.  
The Group does not expect to adopt the new standard before 1 July 2018.
- **IFRS 16 *Leases*** issued by the IASB in January 2016, will become mandatory for the Group's annual reporting period ending 30 June 2020, replacing the existing leases standard. The new standard removes the distinction between operating and finance leases, recognising all lease assets and liabilities on balance sheet, with limited exceptions for short-term leases and leases of low value assets. The change will result in a more front-loaded expense pattern for operating leases as compared to current straight-lining, with lease expense allocated to interest and depreciation.  
The Group does not plan to adopt this standard early, and the full extent of the impact has not yet been determined.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods.

### e) Estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these consolidated interim financial statements the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 30 June 2015.

### f) Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 30 June 2015.

# Directors' declaration

In the opinion of the directors of UGL Limited:

- 1) the consolidated financial statements and notes, set out on pages 4 to 17, are in accordance with the *Corporations Act 2001*, including:
  - a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year period ended on that date; and
  - b) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- 2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



Kathryn D Spargo  
Chairman



Ross Taylor  
Managing Director & CEO

Dated at Sydney this 19th day of February 2016.



# Independent auditor's review report

## to the members of UGL Limited

### Report on the financial report

We have reviewed the accompanying half-year financial report of UGL Limited ("the Company"), which comprises the consolidated statement of financial position as at 31 December 2015, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year period ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year period.

### Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of UGL Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

### Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of UGL Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Tanya Gilerman  
Partner  
Sydney  
19 February 2016

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# Corporate directory

## Directors

Kathryn D Spargo  
Non-executive Chairman

Ross Taylor  
Chief Executive Officer

John D Cooper  
Non-executive Director

Guy M Cowan  
Non-executive Director

Jane Harvey  
Non-executive Director

Richard G Humphry AO  
Non-executive Director

Robert Kaye SC  
Non-executive Director

## Chief Financial Officer

Ray Church

## Company Secretaries

Pryce Dale  
Lyn Nikolopoulos

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