

6 June 2016

## Update on commercial negotiation of claims arising from substantial client delays and disruption on Ichthys SMP and CCPP projects

- Substantial claims have been raised with JKC on both SMP and CCPP
- UGL maintains a strong contractual position with issues clearly attributable to client delays and disruption
- Substantive commercial negotiation of the SMP claims is ongoing however, negotiations have become protracted
- As previously stated, margin will not be recognised on the SMP project while commercial negotiations are ongoing
- To the extent negotiations cannot be satisfactorily concluded on SMP and CCPP and recovery of claims is pursued through formal dispute processes, this could give rise to contract loss provisions of up to \$200m
- In accordance with its continuous disclosure obligations, UGL will inform the market should it determine to raise a provision across SMP and CCPP
- Excluding the Ichthys projects, UGL is on track to achieve 3% EBIT margins plus \$5.7m FX gain in FY16 and 4% EBIT margins on increased revenue of at least \$300 million in FY17
- UGL will continue to generate strong cash conversion of 100% of EBITDA, excluding the Ichthys projects
- UGL's balance sheet is strong and is expected to remain fully compliant with all relevant financing covenants

**Sydney:** UGL Limited (ASX: UGL) today advises that the construction of the Ichthys SMP and CCPP projects being undertaken by UGL (in joint venture with Kentz and CH2M Hill, respectively) continues to experience substantial delays and disruption attributable to the client, JKC Australia LNG Pty Ltd (JKC, a joint venture between JGC Corporation, KBR and Chiyoda Corporation).

While commercial negotiations are continuing on the SMP project, they are becoming protracted with a satisfactory commercial outcome yet to be agreed. If timely resolution of the claims cannot be achieved, it is likely that the claims will need to be concluded through formal dispute processes in order to achieve an outcome which appropriately reflects UGL's entitlements.

As we have previously stated, UGL will not recognise margin on the SMP project while commercial negotiations are ongoing. Due to the status of negotiations and the uncertainty around their timely conclusion, UGL has updated its FY16 and FY17 earnings guidance to exclude any margin from this project.

The UGL-CH2M Hill JV has also raised substantial claims with JKC around the CCPP project based on anticipated client driven delays to the completion of the power plant. Due to the protracted negotiations on the SMP project, UGL is no longer confident of timely resolution of the CCPP claims.

To the extent negotiations cannot be satisfactorily concluded on SMP and CCPP and recovery of claims is pursued through formal dispute processes, this could give rise to contract loss provisions of up to \$200 million across the SMP and CCPP projects, all or a portion of which may be recoverable from JKC. If required, this would be in addition to the \$175 million provision previously raised against the CCPP project.

UGL continues to evaluate all available information and is closely monitoring the progress of negotiations. In accordance with its continuous disclosure obligations, UGL will inform the market should it determine to raise a provision attributable to the client delays and disruption across the SMP and CCPP projects.

### **Ichthys SMP project**

The Ichthys SMP project being undertaken by the UGL-Kentz JV has been and continues to be impacted by significant client delays and disruption.

UGL CEO, Ross Taylor said: "Despite substantive discussions with JKC in relation to the SMP project, we have not yet been able to achieve a satisfactory outcome in relation to the JV's claims. This is very disappointing given the co-operation of the JV to ensure client delays to the project were, and continue to be, accommodated. UGL maintains a strong contractual position with regards to the delay and disruption impacts and we will pursue the recovery of the JV's claims through formal dispute processes should a near term resolution of commercial negotiations not be achieved."

### **Ichthys CCPP project**

The UGL-CH2M Hill JV is on track to meet the first major contract milestones for the delivery of the Ichthys CCPP project, through July and August 2016. However, the CCPP project will experience delays to completion as JKC has advised it is unable to meet its obligations in line with the current program schedule.

As a result of JKC's delays, the CCPP project has incurred and will likely incur additional cost increases to the total estimated cost to complete the project. The UGL-CH2M Hill JV has submitted a significant claim for these delays and expects to engage in negotiations with JKC in the immediate future. The JV partners are evaluating additional entitlements and anticipate submitting further claims to JKC.

"The Ichthys CCPP Consortium is on track and confident it will hit its first major contractual milestones in July and August in 2016, and has a strong contractual position in relation to the recovery of additional costs arising from client driven delays. We continue to administer these claims in accordance with the contract terms and are committed to obtaining an acceptable commercial outcome for UGL and our consortium partners," Ross Taylor said.

### **Guidance update**

To provide greater transparency of earnings and to better reflect the performance of the underlying UGL businesses, the Ichthys CCPP and SMP projects will be reported separately from the remaining UGL businesses going forward.

**In FY16**, excluding the Ichthys projects, UGL continues to perform in line with guidance. We remain on track to deliver 3% EBIT margins on around \$2.0 billion of revenue. Over and above this, full year EBIT will benefit from the one-off FX gain of \$5.7 million realised in HY16.

**In FY17**, excluding the Ichthys projects, UGL is on track to achieve 4.0% EBIT margins on strong revenue growth of at least \$300 million, based on contracts already secured in LNG maintenance and transport infrastructure. Strong cash flow is expected to be generated across the underlying business with an average cash conversion of 100% of EBITDA (also excluding the Ichthys projects).

UGL's balance sheet remains well funded with a net debt position of up to \$85 million expected at 30 June 2016. The increase in expected net debt reflects the impacts of the SMP and CCPP project delays including, the potential drawdown of cash advances on the SMP project and cash outflows relating to costs associated with the delay in commissioning of CCPP, without the offset of claims settlement. UGL will hold at least \$280 million in cash and undrawn facilities at 30 June 2016, depending on the outcome of negotiations.

Future cash outflows associated with the Ichthys CCPP project and potential cash outflows associated with the SMP project are expected to be largely funded through strong cash generation from the underlying business and existing debt facilities. UGL expects to remain fully compliant with all relevant financing covenants.

UGL is well advanced in negotiating extended debt facilities, with in-principle support already secured from lenders for this additional funding, if required. This will ensure UGL maintains comfortable facility headroom to support potential peak debt requirements which may occur late in 2016, depending on the progress of claim negotiations.

"With diversity across our business and strong market positioning in a number of sectors, the outlook for UGL remains solid," said Mr Taylor.

"We have good opportunities in transport infrastructure as government investment continues to grow in the medium-term. Growth in LNG and oil & gas maintenance work continues as remaining construction projects reach the operational phase.

"Renewable project developments are also emerging which we see as an important growth area for UGL. Overall, UGL's growth is underpinned by a strong recurring revenue base across our Rail & Defence and Asset Services businesses and a solid base of smaller projects across the power and water sectors," Mr. Taylor said.

<b>FY16 Outlook</b>	<b>UGL excl. Ichthys CCPP &amp; SMP</b>	<b>Ichthys CCPP &amp; SMP</b>
Revenue	\$2.0 billion	\$300 million
EBIT margin	3% + one-off FX gain of \$5.7m realised in HY16	Nil

<b>FY17 Outlook</b>	<b>UGL excl. Ichthys CCPP &amp; SMP</b>	<b>Ichthys CCPP &amp; SMP</b>
Revenue	Revenue increase of at least \$300 million	\$270 million
EBIT margin	4.0%	Nil

**ENDS**

#### FOR FURTHER INFORMATION CONTACT:

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#### **Ichthys SMP Background**

The UGL-Kentz JV is a 50/50 joint venture between UGL and Kentz Corporation Limited. In February 2014 the UGL-Kentz JV was awarded a \$740 million contract for the structural, mechanical and piping (SMP) construction package for the Ichthys LNG Project in Darwin, Australia.

The contract was awarded by JKC Australia LNG Pty Ltd (JKC), a joint venture between JGC Corporation, KBR and Chiyoda Corporation. JKC is responsible for the engineering, procurement and construction of the Ichthys Project Onshore LNG Facilities, including the gas processing plant at Blaydin Point.

The UGL-Kentz JV scope of work includes the provision of services for site wide installation for process trains and additional pre-commissioning and commissioning expertise. Work commenced on site in August 2014 and is scheduled to be completed before start-up of the second LNG train, originally expected around December 2016 and later revised by Inpex to September 2017.

#### **Ichthys CCPP Background**

UGL in 50/50 joint venture with CH2M Hill was awarded a \$550m contract by JKC for the construction of a combined cycle power plant for the Ichthys LNG project. As part of the agreement, GE has engineered and supplied the gas turbines, steam turbines and heat recovery steam generators for the Ichthys LNG project. The UGL-CH2M Hill JV has designed and supplied the balance of plant around the GE technology and is undertaking complete construction of the project.

In February 2015 UGL recognised a \$175 million provision in relation to the Ichthys CCPP project following a reprogram of the project schedule and reforecast of the cost estimates. In November 2015, the UGL-CH2M Hill JV's claims to 31 August 2015 were commercially settled with JKC along with an agreed extension of time.