ASX Release

24 August 2015

UGL reports FY15 results with business reset for improved performance in line with June update

- **Underlying net profit after tax of $30.3 million[1] and underlying EPS of 18.2 cents per share[1] including four month contribution from DTZ prior to date of sale**
- **Reported net loss after tax of $236.4 million includes a number of provisions and impairments**
- **Engineering revenue up 3 per cent to $2.3 billion[2] and underlying EBIT of $47.5 million in line with June guidance**
- **Stable order book of $4.7 billion plus $4.6 billion in further opportunities where UGL is preferred or subject to being awarded renewals or extensions**
- **Significant work undertaken in FY15 to reset the business**
- **No dividends declared in FY15**
- **On track to achieve FY16 guidance of $2.3 billion revenue and 3% EBIT margin**

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	($84.9)	($55.6)
Goodwill impairment	($63.0)	($63.0)
Restructuring costs	($38.1)	($26.7)
Other one-off write downs and charges	($58.7)	($41.0)
Profit on sale of DTZ	$66.1	$49.0

[1] Adjusted for the Ichthys CCPP project provision, impairments associated with the resources slowdown, impairment of goodwill, settlement of project claims, restructuring costs, 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 to reset the business 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 provision

[4] Reflects EBIT impact

Sydney: UGL Limited (ASX: UGL) today reported an underlying net profit after tax (NPAT) of $30.3 million[1] (FY14: $111.7 million[3]) for the financial year ended 30 June 2015.

The statutory reported net loss after tax was $236.4 million (FY14: $62.1 million NPAT). The reported result includes:

- a $122.5 million provision on the Ichthys CCPP project
- $63.0 million impairment of goodwill
- $55.6 million of impairments associated with the resources slowdown
- a $27.8 million write down relating to the settlement of historical project claims
- $26.7 million of charges relating to the restructuring of the business
- a $13.2 million charge reflecting a change in the tender cost capitalisation policy
- net accounting profit on the DTZ sale of $49.0 million.

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

Operating revenue was $3.0 billion[2] (FY14: $4.5 billion[2]) and underlying earnings before interest and tax (EBIT) was $75.3 million[1] (FY14: $185.8 million[3]) including a four month contribution from DTZ prior to the date of sale.

UGL CEO, Ross Taylor said: “FY15 was a critical year for UGL to ensure we took the necessary steps to reposition the business for its future. As part of the business reset, a number of one-off events are included in the Company’s reported earnings.

“A new operating model was introduced as of 1 July 2015 and through this restructure, we removed significant overhead as well as the associated surplus office space and facilities. A one-off charge of $38.1 million[4] associated with restructuring is included in the FY15 result. These initiatives though are expected to generate annual cost savings of $33 million from FY16.

“The balance sheet was also cleaned up as part of the reset. Strong progress was made in reducing WIP in FY15 through the cash settlement of longstanding claims and the write-down of historical disputes where certainty was reassessed. Total cash settlements of $66 million were received during the financial year and associated with this, a $39.8 million[4] write-down of WIP was recognised.

“Given the sustained slowdown in the resources cycle, we raised impairments of $84.9 million[4] across our operations exposed to the resources sector.

“We also assessed the book values of our divisions based on our new operating model to determine if the carrying values were supportable in the current markets and determined that it was prudent to book impairments to goodwill of $63.0 million[4] for our rail exposed operations.

“A more conservative tender capitalisation policy was introduced in FY15 to expense bid costs, only allowing for the capitalisation of these costs when UGL is preferred or successfully contracted resulting in a one-off charge of $18.9 million[4].

“Finally, as announced in February 2015, a $175.0 million[4] provision was raised for the Ichthys CCPP project following a review and reforecast of the project

“At the business level, Engineering delivered underlying revenue of $2.3 billion increasing 3 per cent on the prior year. Underlying EBIT was $47.5 million reflecting a margin of 2.0 per cent. Both revenue and EBIT were in line with the guidance provided at our June update.

"Despite the sustained slowdown in the resources cycle, the business continued to sell well in FY15, maintaining a stable order book of $4.7 billion. Over the last twelve months, we secured $2.1 billion in new contract wins and renewals, which is a particularly pleasing result in the challenging economic environment. This is further enhanced by the award of the Tangara technology upgrade project in August 2015 as well as the NorthConnex project which is expected to be closed in the coming weeks."

Update on Ichthys CCPP Project

The UGL and CH2M Hill JV project scope for Ichthys CCPP is now 60 per cent complete, with the construction component 36 per cent complete. Since the reprogram in February 2015, the project has stabilised with productivity targets achieved and performance in line with the revised cost to complete. Current performance maintains UGL's confidence that the $175 million provision raised against the project is adequate.

Mr Taylor said: "We have continued to achieve good progress on the Ichthys CCPP project with construction now more than one third complete and the project continuing to track to the revised program and cost to complete estimate.

"We continue to actively pursue both present and historical claims on the project, and in parallel we remain in discussions with the client on acceleration and commercial settlement options. We will update the market on the progress of claims where appropriate as we move through commercial negotiations."

Operational Performance

To provide greater transparency and comparability of our divisional performance as a standalone engineering and maintenance services company, the following commentary reflects the financial results for FY15 under UGL's new operating structure. A summary of the financial results by division is set out in the Appendix.

Rail & Defence

Rail & Defence, which includes UGL's freight and passenger rail build and maintenance businesses as well as its naval ship maintenance operations, delivered a 2 per cent increase in revenue to $986.3 million in FY15.

EBIT of $32.4 million was impacted by reduced coal freight locomotive sales during the year and the associated under-utilisation of rail facilities. Rationalisation of these sites to optimise the cost base for current market conditions occurred in the second half of FY15.

Key opportunities were secured during the year, most significantly the award of the 15 year maintenance and operations contract with Sydney Metro Northwest and in August, the award of the Tangara technology upgrade project.

"While the freight locomotive market remains subdued, we expect this to be offset by continuing strength in the maintenance and upgrade markets with flat revenue expected for the business in FY16. Profitability for our Rail & Defence business is expected to improve in FY16 following the rationalisation of under-utilised facilities and overhead reductions," said Mr Taylor.

Asset Services

Asset Services, which is UGL's maintenance, shutdown and turnaround services business, delivered a 2 per cent increase in revenue to $463.2 million in FY15 due to the Stanwell and Chevron maintenance contracts secured during the prior year.

EBIT fell to $8.5 million due to the ongoing cost focus of coal sector customers resulting in further margin pressure for maintenance services and low work volumes in UGL's Western Australian resources focused engineering design business. As part of the corporate restructure the Western Australian design business was closed in June 2015.

Significant maintenance contracts were secured during the year with APLNG and GLNG reflecting UGL's market leading position in LNG maintenance in Australia. The business was also awarded a new three year $190 million contract to operate and maintain BP Australia's 17 fuel terminals in joint venture with BP.

"Our Asset Services' revenue is expected to grow in FY16 driven by contracts secured in FY15 and the ramp up of maintenance services for Chevron. Profitability is also expected to improve with the close of the Western Australia design business and the coal sector now reset to a new base," Mr Taylor said.

Technology Systems

Technology Systems, which includes UGL's road and rail tunnel systems, train signalling and control systems and wireless communications businesses, generated revenue of $231.3 million, down 23 per cent on the prior year largely due to the completion of Regional Rail Link and Solomon Spur and reduced revenue from DTRS as the project moved to the later stages of the contract.

Despite a very strong contribution from Regional Rail Link which was completed ahead of time and under budget, EBIT fell to $10.3 million as a result of the ongoing DTRS dispute.

As part of the Sydney Metro Northwest contract secured in FY15, Technology Systems in joint venture with MTR Corporation will design and deliver the tunnel systems, rail signalling and overall control systems for the new rapid transit service.

"In FY16, Technology Systems revenue is expected to be flat with Sydney Metro Northwest replacing completed projects in FY15. The medium term outlook for this business is supported by the large contracts already secured and we expect revenue to increase substantially in FY17 as these large tunnel projects move from design to the delivery phase," Mr Taylor said.

Engineering & Construction

Engineering & Construction, which is UGL's projects business, delivered a 21 per cent increase in revenue in FY15 to $636.3 million driven by the ramp up of the Ichthys CCPP and SMP projects as well as power projects undertaken during the year at Roy Hill and West Angelas.

Despite Ichthys CCPP and SMP revenue earned at nil margin, EBIT increased 53 per cent to $42.0 million resulting in an EBIT margin of 6.6 per cent due to the strong contribution of power systems and transmission projects during the year.

"Engineering & Construction revenue is expected to grow in FY16 due to a full year contribution from the Ichthys SMP project. Margin recognition will start to occur on the SMP project during FY16 when the project is 30 per cent complete.

In FY16, Engineering & Construction's EBIT margin will continue to be impacted by nil margin revenue recognised on Ichthys CCPP. Our clear priority over the next year is the successful delivery of Ichthys CCPP and SMP projects and we remain focused on an improved financial outcome for Ichthys CCPP," said Mr Taylor.

International

International, which is UGL's South East Asia business, delivered revenue of $11.3 million in FY15, impacted by reduced levels of secured infrastructure projects in the region.

Due to the low level of secured activity, overhead costs for the business were not recovered and a loss of $5.9 million was incurred during FY15. The cost base for the International business was right-sized during the year to appropriately support the scale of operations going forward.

"We see strong prospects in the near to medium term in South East Asia for water, tunnelling and oil and gas. That said our continued investment in the region will be contingent on securing key identified opportunities in the coming year," Mr Taylor said.

Safety

Improvements in safety continued over FY15 reflecting UGL's focus on the health and well-being of its people. UGL's lost time injury frequency rate declined to 0.9 per million hours worked. The total recordable injury frequency rate also fell to 6.4 per million hours worked.

Our people are working hard to prevent injuries before they happen. Through proactive reporting, UGL has achieved a 50 per cent improvement in our leading indicators over the past two years. We will further build on this momentum in FY16 with the target of achieving safety performance consistent with industry best practice.

Balance Sheet

The balance sheet was ungeared at 30 June 2015 with net cash of $33.7 million.

In June 2015, UGL's debt and bonding facilities were refinanced to lower finance costs and increase the maturity profile of available facilities. The new facilities have been sized appropriately to provide sufficient capacity to meet the requirements of significant projects in the pipeline. At the 30 June 2015, UGL had $250 million of headroom and an average debt facility maturity of 2.6 years.

Dividends

The Board does not intend to declare a dividend in FY15. 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

Ross Taylor said: "A significant amount of work was undertaken in FY15 to reposition UGL for its future and I am confident from FY16 we will deliver improved profitability. UGL is very well positioned in the current growth markets of transport infrastructure and LNG maintenance with future growth underpinned by our strong order book of $4.7b.

"In FY16, we expect to deliver revenue in line with FY15 with more than 80% of FY16 revenue already sold. With improved project execution and the full realisation of overhead cost savings, our FY16 EBIT margin is expected to return to 3%. Cash flow conversion is expected to return to 100% of NPAT from FY16, excluding Ichthys CCPP."

"We expect that in FY17 there will be a substantial step change in revenue of at least $300m driven by UGL's exposure to transport infrastructure and LNG maintenance. We have already secured or are preferred on new contracts which underpin this growth. We also expect new profitable projects will replace current nil margin revenue and combined with a more appropriate overhead structure will see further improvement in EBIT margins towards 4%.

"Beyond FY17, we will continue to build on the momentum we have created through FY16 and FY17. I also believe we will be strongly positioned as an industry leader to deliver significant growth in new and adjacent market opportunities."

ENDS

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Appendix: UGL FY15 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 to reset the business as well as the accounting profit on sale of DTZ. Non-recurring costs include the Ichthys CCPP project provision, impairments associated with the resources slowdown, impairment of goodwill, settlement of project claims, restructuring costs and change in tender capitalisation policy.

Table 1: Underlying Results Overview

$m	FY15	FY14	Change
Operating revenue[1]	3,048.6	4,511.5	(32%)
EBIT[2,3]	75.3	185.8	(59%)
EBIT margin[2,3]	*2.5%*	*4.1%*	
Interest	(25.5)	(37.4)	32%
Tax	(15.5)	(30.2)	49%
Minority interest	(4.0)	(6.4)	37%
NPAT[2,3]	30.3	111.7	(73%)
NPAT margin[2,3]	*1.0%*	*2.5%*	
EPS[2,3] (cents per share)	18.2	67.1	(73%)

Table 2: Reconciliation of Underlying Results

$m	Underlying	JVs (Equity method)[4]	Provision for contract loss	Claims resolution & settlement	Resources slowdown	Goodwill impairment	Tender costs written off	Restructure costs	Discontinued operations	Continuing operations
Revenue	3,048.6	(319.9)							(717.5)	**2,011.1**
EBIT	75.3	(6.9)	(175.0)	(39.8)	(84.9)	(63.0)	(18.9)	(38.1)	(27.8)	**(379.1)**
Net interest	(25.5)								6.2	**(19.3)**
Tax	(15.4)	6.9	52.5	11.9	22.6	-	5.7	11.4	4.1	**99.6**
Non-controlling interests	(4.0)								0.1	**(3.9)**
NPAT	**30.3**		**(122.5)**	**(27.8)**	**(62.4)**	**(63.0)**	**(13.2)**	**(26.7)**	**(17.4)**	**(302.7)**
Profit attributable to discontinued operations										**66.3**
Statutory Loss										**(236.4)**

[1] Includes UGL's share of joint venture revenue
[2] FY15 adjusted for the Ichthys CCPP project provision, impairments associated with the resources slowdown, impairment of goodwill, settlement of project claims, restructuring costs and change in tender capitalisation policy
[3] FY14 adjusted for restructuring costs, the amortisation of acquired intangibles and gain on sale of property
[4] Includes $11m DTZ revenue for details refer to note 3 and note 26 of the financial statements

Table 3: Divisional Performance

Rail & Defence

$m	FY15	FY14	Change
Revenue[1]	986.3	971.1	2%
EBIT[2]	32.4	45.8	(29%)
EBIT margin[2]	*3.3%*	*4.7%*	
Order book - $b	2.4	2.6	(6%)

Asset Services

$m	FY15	FY14	Change
Revenue[1]	463.2	455.8	2%
EBIT[2]	8.5	11.4	(25%)
EBIT margin[2]	*1.8%*	*2.5%*	
Order book - $b	1.0	1.0	1%

Technology Systems

$m	FY15	FY14	Change
Revenue[1]	231.3	301.3	(23%)
EBIT[2]	10.3	21.2	(52%)
EBIT margin[2]	*4.4%*	*7.0%*	
Order book - $b	0.6	0.3	102%

Engineering & Construction

$m	FY15	FY14	Change
Revenue[1]	636.3	525.4	21%
EBIT[2]	42.0	27.5	53%
EBIT margin[2]	*6.6%*	*5.2%*	
Order book - $b	0.7	1.0	(35%)

International

$m	FY15	FY14	Change
Revenue[1]	11.3	22.8	(50%)
EBIT[2]	(5.9)	(5.1)	16%
EBIT margin[2]	*(52.1%)*	*(22.4%)*	
Order book - $b	0.04	0.01	161%

[1] Includes UGL's share of joint venture revenue
[2] Adjusted for the Ichthys CCPP project provision, impairments associated with the resources slowdown, impairment of goodwill, settlement of project claims, restructuring costs and change in tender capitalisation policy