

15 May 2013

Earnings guidance and market outlook

Sydney: Following completion of our quarterly review process, UGL Limited (ASX: UGL) announced today that the continued slowdown in capital investment in Australia, cost management initiatives of the major miners and project underperformance have led to a revision of earnings guidance for FY2013.

“Ongoing uncertainty and volatility in commodity markets have driven a continued slowdown of capital investment in the resources and infrastructure sectors with further delays of major projects impacting revenues in the Engineering business. Additionally, the cost management programmes of the major miners have led to scope reductions and cancellations across UGL’s Operations and Maintenance business,” said UGL Managing Director and CEO, Richard Leupen.

“Disappointingly, underperformance across several power projects has also adversely impacted our second half earnings outlook for the 2013 financial year,” Mr Leupen continued.

As a result, UGL expects underlying net profit after tax (NPAT)¹ for FY2013 of between \$90-100 million.

Organisational changes

In light of the more subdued Australian outlook, UGL has determined that the market potential does not justify a separate cost structure dedicated to Operations & Maintenance. As such, Operations & Maintenance will be vertically integrated back into UGL’s traditional sector-focused Engineering business. This will provide end-to-end sector-focused service delivery to clients in the core sectors of power, water, rail, resources, transport & technology systems and defence.

“We believe it is critical to drive cost and efficiency while ensuring we are highly sector-focused. We can more effectively deliver end-to-end technology based solutions to our clients across the whole asset life cycle, optimising the performance and value of their operating assets. The organisational changes announced today reinforce our absolute client and delivery focus with a single integrated delivery model,” Richard Leupen said.

To drive performance under this new structure and give UGL Engineering the dedicated resources it demands, Russell Waugh, previously Group President, Development and International, has been appointed as Chief Operating Officer of UGL’s Engineering business.

¹ Adjusted for restructuring costs, rebranding, the amortisation of acquired intangibles and gain on sale of property.

Russell is a Chartered Professional Engineer and has over 25 years' experience in the construction industry across Australia and Asia with significant operational leadership experience in the oil and gas, building and infrastructure sectors.

Additionally, to improve UGL's Project Management delivery, Patricia Manton-Hall has been appointed Head of Project Management Systems, reporting to Russell. Patricia has over 23 years' major project and program management experience in the USA and Australia with 18 years at global engineering leader, Bechtel.

The new structure presents an opportunity to improve UGL's operating efficiency and productivity and Russell is charged with an organisational review targeting a \$20 million reduction in overheads across the combined Engineering and Operations & Maintenance businesses. This work is scheduled to be completed by August 2013.

Gearing

Despite the revision to FY2013 earnings guidance, gearing (defined as net debt to net debt plus equity) is expected to be at the lower end of UGL's target gearing range of 30-40 percent as at 30 June 2013.

Notwithstanding, UGL has commenced a program to reduce gearing over the next 12 to 18 months. Initiatives include the restriction of expansionary capital expenditure, reduced working capital requirements through improved management of debtor days and divestment of non-core property.

Corporate Structure Review update

The Corporate Structure Review announced in March 2013 is progressing well with substantial work already undertaken.

With the assistance of UGL's legal and investment banking advisers, a three-phase Review is being conducted. The Board has noted that a demerger appears more likely than other options to optimise value for UGL shareholders. However, the Review is subject to completion of Phase 3 which will examine a number of significant issues including structural, tax, refinancing and progress of DTZ global integration.

UGL will provide an update to the market at the conclusion of the three-phase Review on or before the announcement of its full year results on 12 August 2013.

Outlook

UGL is well placed to respond to the challenging operating environment in Australia with a strong recurring revenue base from its \$9 billion order book. The combined revenue base in Property, Rail and Industrial maintenance generates approximately \$3 billion annually and is expected to continue at that rate into FY2014. This base will provide some degree of insulation against the slowdown being experienced in the Australian resources sector. In addition, over 40 percent of Group earnings are now generated offshore.

Expected to deliver its eleventh consecutive year of earnings growth, we anticipate Property will continue to deliver long term growth as it expands to nearly 50 percent of Group earnings in the next few years.

Internationally, we are encouraged by the growth potential in both the USA and Asian markets, particularly China where we anticipate growth of nearly 20 percent in FY2013.

For Engineering, a combination of our order book and targeted growth opportunities should see UGL operate in FY2014 at similar revenue levels to FY2013 of \$2.3-2.5 billion, assuming no further project cancellations nor deferrals.

UGL's structured program of debt reduction over the next twelve months will strengthen the balance sheet and also support our growth prospects into the medium term.

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