ASX Statement

TRANSFIELD SERVICES

26 February 2013

Transfield Services result impacted by contrasting performances; strategy refined and portfolio review complete

- First half NPAT A$26.9 million (pre impairments and pre amortisation)
- Statutory Net Loss of $247.0 million
- Core EBITDA in Australia New Zealand business up 12 per cent to A$61.5 million
- Strategy refined, execution focus sharpened, delivery discipline and capability enhanced
- Portfolio review complete, business improvement initiatives announced
- Gearing reduction plans in place
- Focus on shareholder returns

Financial performance

Transfield Services announces first half Net Profit after Tax pre impairments and amortisation for FY13 of A$26.9 million, down 38 per cent on the prior comparable period. The result was affected by contrasting performances across the Company's portfolio of businesses.

First half EBITDA in its core Australia and New Zealand (ANZ) business increased 12 per cent period on period to A$61.5 million. The increase was despite challenging macroeconomic conditions and is a direct reflection of business improvement initiatives.

Easternwell's Energy divisions EBITDA of $23m increased 35 per cent period on period. Earnings from the minerals division were $5.5m, down 76 per cent period on period driven by a dramatic weakening in the minerals exploration market. Minerals production delivered a solid result.

First half EBITDA in the Americas business was flat year on year. Out performance by Steier Oil Field Service was offset by competition and persistent slow economic activity in TIMEC's West Coast refining markets. Cost reduction and remediation plans are underway to improve TIMEC's performance.

The Middle East and Asia delivered a first half EBITDA loss of A$0.8million. This business, which is forecast to be profitable on a full year basis, only represented 1.5 per cent of Group proportionally consolidated revenue during the half. It continues to be affected by a competitive market and small scale.

The 1H EBITDA result for the Company includes restructuring costs of A$11.2m (pre tax) absorbed above the line.

Operating cash flow of $30.6m was up 20 per cent period on period. This equates to first half EBITDA cash conversion of 55 per cent. This is below the FY13 full year target of 80 per cent primarily due to investment in new contracts including QGC (multiple contracts), Rio Tinto and Northland in NZ as well as seasonal shutdown work in December with BHP, BP and Origin Energy. This first half skew in cash conversion is a normal pattern. Excluding the impact of restructuring costs, first half cash conversion was 61 per cent.

Strategy and value proposition

"In conjunction with the portfolio review announced at last year's AGM, we have evaluated the Company's strategy with the aim of creating greater clarity around our direction, focus and value proposition," said Managing Director and Chief Executive Officer, Mr Graeme Hunt.

"Our strategic focus is providing high value asset management services to clients in sustainable-growth resources, energy, infrastructure sectors, including government outsourcing. Ideally our delivery will be critical to our clients' delivery of their products or services. Or to put it even more simply *If we stop - they stop*."

"As well, we will continue to provide consulting, design and construct services to our core customer base. That second plank of our strategy gives us early entry into the asset chain bringing our operations and maintenance know-how into the design and construct stages of projects."

"We are confident the refined strategy will deliver improved long term returns for shareholders" said Mr Hunt.

Portfolio review

An in-depth review of the Company's portfolio of businesses has been completed. Viewed through the lens of the refined strategy, the portfolio review has identified core businesses, businesses in need of remediation, and other businesses which have value but are non-core.

The focus of the core businesses are as follows:

- **In Australia and New Zealand**, the focus is on long term sustainable growth markets - oil and gas, mineral resources and selected infrastructure sectors, targeting first generation outsourcing contracts like Sydney Ferries, which are higher value-add, as well as improving efficiency and value on more mature contracts.
- Early engagement and creating value for clients as evidenced by recent niche consulting & engineering & construction services projects with FMG and Rio Tinto.
- Offering an integrated service to clients – which the Company is already doing for QGC and Santos.
- Providing asset-based solutions rather than a pure labour hire service offering.
- Easternwell will focus on production related activities in energy and minerals where potential for 24/7 utilization of rigs is high;
- Using Easternwell's minerals production sector exposure to move the ANZ Resources & Energy business into opportunities with mining clients, mirroring the energy sector model's success.

- **In the Americas**, the restructure initiated under new Americas President Phil Wratt will continue.
- The business will be focusing on upstream unconventional hydrocarbons - building on the success of the Steier acquisition, and growing synergies with our Easternwell Energy and downstream businesses.
- Repositioning the TIMEC downstream business to be less exposed to the largely commoditized West Coast refineries market through an increased focus on higher value specialty services and targeting the petrochemical sector, particularly in the Gulf Coast region.
- Continuing to grow the FTS business in Canada with our partner Flint-URS.
- Enhancing the integration of Inser-TS Chile business, and growing the core operations and maintenance service offering to the Chilean mining sector.

- **In Asia** the Company will retain the Hofincons Indian back- office to support Resources & Energy and Infrastructure operational work and will continue the Transfield Worley Philippines joint venture.
- There will be selective growth in Asia where there are niche market opportunities and contracting arrangements that allow the Company to offer value-added services.

The non-core businesses will be managed to maximise value, but will ultimately be divested or exited over time. These businesses have inherent value but Transfield Services is no longer the natural owner.

The non-core businesses are Easternwell's Minerals Exploration and Marine Geotechnical businesses, the majority of Transfield Services Middle East and Asia operations, and Transfield Services 20 per cent Ratch-Australia Corporation Limited investment. Easternwell's high performing businesses, Energy and Minerals (excluding exploration), will be integrated into Transfield Services' Resources and Energy businesses. Proceeds from the divestments and exits will be used to strengthen the Company's capital position.

Organisational Changes

In the period, steps were taken to renew the leadership team including the appointment of Joe Sofra as Chief Executive ANZ Resources and Energy. Joe brings a wealth of experience in the oil and gas sector and significant leadership experience.

Phil Wratt, previously Chief Executive ME&A business has taken over responsibility for the Americas Region following the departure of Larry Ames. Phil also has extensive global oil and gas experience which will be important as we reposition and remediate the Americas downstream business.

Subsequent to the period end activity has continued at the corporate office level to focus on taking layers and cost out. As a result the responsibility for operational excellence and safety now resides in the operating businesses and the corporate Chief Executive Operations Support role has been removed.

Going forward the CFO Tiernan O'Rourke will also assume the responsibility for the Middle East & Asia operations including the implementation of the portfolio review activities. With Tiernan's appointment to an operating role, a search for a replacement CFO has commenced and there will be an orderly handover of CFO responsibilities to the successful candidate.

Steve MacDonald, currently Chief Executive Marketing & Investments, will assume responsibility for implementing the balance of the portfolio renewal outcomes and will relinquish his current marketing functions.

A new role of Chief Development Officer is being implemented to ensure the TSE 'go to market' approach aligns with our revised strategy and improving business development & account management effectiveness.

Ian Maxted, currently EGM Property and Services, in the ANZ Infrastructure business will commence in this role from March with a concurrent transition process from his former role.

The CIO, Stephen Phillips, will now have additional responsibility for business processes which service the operations. Initially, this includes Financial Shared Services however the scope will expand as the upgraded technology platform rolls out through Project Quantum

Impairment of intangible assets

As announced on 19 February 2013, the Company's period end impairment testing, in conjunction with the portfolio review outcomes, has resulted in reductions in asset carrying values. The impairments are:

- Easternwell: A$187.8 million
- TIMEC: A$87.2 million
- Middle East and Asia A$9.3 million

The write downs are non-cash, do not impact the Company's leverage covenant under its banking agreements and have no impact on operations. The Company will not need to raise equity as a consequence of these write downs. The impairments have resulted in an increase of approximately 7 per cent in the Company's balance sheet gearing ratio.

The Company is progressing plans to reduce the revised gearing, including exploring options for funding the expansion of Easternwell's CSG service rig fleet in a special purpose vehicle with non-recourse finance. This will reduce capital intensity and increase the Company's return on capital employed.

Other improvement initiatives include a 25 per cent reduction in Group capital expenditure in five months, a prime focus on return on capital, improved portfolio management and a target to reduce gearing to a range of 25-35 per cent Net Debt/(Net Debt + Equity) within two years.

These initiatives run alongside ongoing streamlined business processes which have achieved A$29 million in savings so far this year.

Outlook and dividend

The decline in earnings in Easternwell arising from the weak minerals exploration market, and the impact on TIMEC from the slow economic environment in US refining is expected to continue in the short term.

As a result, the Company now expects full year FY13 NPAT pre- amortisation and impairment charges to be between $85 million to $90 million.

Further restructuring costs are expected to be incurred in the second half. In revising the full year FY13 NPAT restructuring costs of A$9.2m (post tax) have been absorbed above the line.

This guidance assumes A$/US$ of $1.05 and does not rely on any significant non-recurring income or expense items.

As outlined, the Company has plans to address the impact of Easternwell's minerals exploration and TIMEC in the medium term. Other key initiatives have commenced to drive value including:

- Further overhead reduction flowing from the flatter ANZ organisation structure and integration of Easternwell into ANZ Resources & Energy business as well as the ongoing portfolio review actions;
- A program to identify and streamline contract overheads;
- A detailed operating model review to increase productivity and service level effectiveness;
- Optimisation of procurement and purchasing repetitive processes through automation or outsourcing; and
- Further assessments of the business benefits of outsourcing back-office activities.

The impact of these initiatives will be realised in FY14.

The Board declared an unfranked interim dividend of 3 cents per share, payable on 1 May 2013. The dividend declared aligns the dividend per share with the earnings per share and represent an interim portion of an annual payout ratio of between 50 to 70 per cent of full year operating NPAT, consistent with policy.

ENDS.

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