ASX Statement

TRANSFIELD SERVICES

29 August 2014

Transfield Services delivers FY2014 commitments

- Total Recordable Injury Frequency Rate improved by 10 per cent
- Statutory NPAT pre-amortisation of $67 million within guidance range of $65-$70 million
- Underlying NPAT up 85 per cent to $73 million
- Underlying EBITDA up 7 per cent to $217 million, with margins restored
- Normalised operating cash conversion of 108 per cent
- Capital expenditure reduced by $75 million
- Contracted revenue up 8 per cent winning 46 per cent of new contract opportunities and 72 per cent of renewals
- Balance sheet quality improved by $145 million
- Net debt of $534 million, reduced by $8 million
- Debtors, inventory and work in progress reduced by $56 million
- Net debt to EBITDA ratio reduced to 2.4 times
- Board and Senior Management renewed, with operating model implementation underway and early signs of benefits starting to accrue
- Strategic portfolio simplification on track with exit from Middle East and India now complete
- No full year dividend declared, with cash prioritised towards debt reduction in line with previously stated strategy to reduce Net Debt to EBITDA to target levels of 2.0 times or below

Transfield Services has concluded FY2014 by delivering on its commitments to shareholders and the market, while continuing the renewal journey.

“Our FY2014 result is in line with guidance despite the challenging market conditions,” said Transfield Services Managing Director and Chief Executive Officer, Graeme Hunt.

“The Company’s pleasing performance reflects well on our increased focus on execution discipline and targeted business development, resulting in us winning new work in sustainable, growth markets.”

“Importantly, we’ve also made good progress in strengthening our balance sheet. This remains a prime focus for us and our objective of achieving target leverage levels in the short-term and living within our means is unchanged”

“Safety performance improved across the Company, with the Total Recordable Injury Frequency Rate improving by 10 per cent. Sadly, despite this good performance, we experienced a fatality in our now divested Hofincons business in India. Our forward focus is on felt leadership and ensuring we understand and eliminate root cause of all high potential incidents. Our heartfelt condolences go to our former employee’s family and loved ones”.

“While the result is pleasing and confirms that our strategy is appropriate, we still have work ahead of us to deliver the Company’s full potential. We are committed to this.”

Performance overview

Net Profit after Tax (NPAT) pre-amortisation for FY2014 of $67 million is in line with guidance and contrasts with the $238 million loss incurred during the previous financial year. Underlying NPAT increased 85 per cent on the prior year to $73 million.

Revenue rose compared to the prior year, while underlying Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) was $217 million, up 7 per cent. This was driven by growth in the Company's Defence, Social and Property and Telecommunications operations.

The Company's operating cash conversion during the period was 54 per cent, however normalised operating cash conversion, excluding the one-off movement in trade creditors was 108 per cent.

Net debt at 30 June 2014 was $534 million, $8 million lower than at the same time last year and included a $105 million reduction in the second half. The Company's leverage ratio (net debt to EBITDA) reduced to 2.4 times and gearing improved to 41 per cent in the second half.

Capital expenditure in FY2014 was $85 million, a reduction of $75 million from FY2013. Of this amount, $28 million related to the Company's ERP system upgrade. Excluding this cost, capital expenditure was $57 million, of which $32 million was maintenance and $25 million was growth.

The core Australia and New Zealand (ANZ) Infrastructure business, which represented 63 per cent of the group's revenue during FY2014, delivered a strong performance. Underlying EBITDA of $165 million was up 25 per cent year on year, while EBITDA margins increased to 7.1 per cent, the highest in a number of years.

Revenue increased 51 per cent in our Defence, Social and Property business, and 25 per cent in our Telecommunications operations as a result of new contract wins, renewals and extensions.

Revenue in the ANZ Resources and Energy business grew by 6 per cent, underpinned by growth in the Oil and Gas Sector. This was offset by declining volumes in mining, industrial and petrochemicals, contributing to an overall 10 per cent decline in the business' EBITDA to $71 million.

EBITDA in the Americas of $6 million was significantly down on the prior year due to ongoing, challenging conditions in our North American roads business, coupled with a reduction in the contribution from the Flint Transfield Services joint venture in Canada. EBITDA in our US downstream Oil and Gas business improved following rationalisation of the business to focus on tier one clients, and the upstream Oil and Gas business based in North Dakota also performed strongly.

During the period, the Company divested non-core assets, including the Transfield Worley New Zealand joint venture, the Hofincons operations in India, and investments in the U.A.E. and Qatar. These divestments are consistent with the Company's strategy to simplify its portfolio.

Operating model

The Company launched its new operating model across the ANZ region during FY2014. The model, which was formally adopted on 1 July 2014, facilitates more effective and efficient delivery across all our contracts and promotes a stronger understanding of the key sectors in which we operate and deeper client knowledge, thereby improving our ability to bid for and win new work. The model will also reduce the Company's overhead cost base by replacing Regional overhead burden.

Leadership renewal

Kathy Hirschfeld and Dean Pritchard were appointed to the Company's Board as non-executive directors in October 2013, while Sandra Dodds was appointed Chief Executive, Infrastructure in May 2014. This month Stuart Nevison was appointed Chief Executive, Operations and Maintenance, and Well Servicing.

Strategy update

The Company's strategic focus remains on delivering high value, integrated and non-discretionary services, aligned with our clients' production related activities, in sectors with sustainable, long-term growth prospects, such as the Defence, Social and Property, Infrastructure and Resources and Industrial Sectors.

To implement this strategy, the Company has established the following six focus areas:

1. Superior safety performance
2. Differentiated, non-discretionary service offerings
3. Integration into Client's operations
4. Disciplined contract evaluation and selection
5. Portfolio management with non-core assets divested
6. Strengthened balance sheet and increased liquidity

Outlook and guidance

The Company expects the positive momentum from the second half of FY2014 to continue into FY2015, given the extended and expanded contracts in Immigration, Defence, Housing and Health, the return of volumes in the Telecommunications Sector as well as our additional capacity in the Oil and Gas Sector.

The Company expects to generate EBITDA in the range of $240-260 million in FY2015.

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