UGL

ANNUAL REPORT
2016

MAINTAINING TODAY
creating tomorrow

Cover image

In the 2016 financial year UGL completed the design, installation and commissioning of the Darwin Airport Solar project. The solar farm is one of the largest photovoltaic systems in Australia and is expected to supply Darwin Airport with around a quarter of its total energy consumption a year.

Notice of Annual General Meeting

Shareholders are advised that the 2016 Annual General Meeting of UGL Limited will be held on Thursday 27 October 2016 at 10:00am in the ASX Auditorium, Exchange Square, 18 Bridge Street, Sydney, New South Wales, Australia.

UGL's Corporate Governance Statement can be found at ugllimited.com/corporate-governance

Representatives from UGL's Gladstone team

Who we are today

UGL Limited is a leading provider of engineering, construction and maintenance services with a diversified end-market exposure across the core sectors of rail, transport and communication systems, oil & gas, power, water, resources and defence. Headquartered in Sydney, Australia, UGL operates across Australia, New Zealand and South East Asia, employing over 10,000 people, including subcontractors.

Highlights for FY2016

A turnaround in financial and operational performance setting up the business for growth in FY2017

$2.4 billion in work secured during FY2016

Sydney Trains
A $131 million contract undertaken by UGL Unipart Rail for the technology upgrade of the Tangara passenger rail fleet in Sydney

Pacific National
A $594 million agreement for the supply and maintenance of locomotives to Pacific National, extending existing maintenance agreements to 30 June 2026

Woodside
A two year contract in joint venture with Cape plc to provide a range of services to the Karratha Gas Plant Life Extension Program

Lend Lease Bouygues Construction
A four year $476 million alliance agreement with the Lend Lease Bouygues Joint Venture for the design, procurement, construction and commissioning of the mechanical, electrical, control, fire and communication systems for the NorthConnex motorway

Commonwealth of Australia
Continued provision of long term maintenance support services for the ANZAC Class Ships, entering into the Warship Asset Management Agreement (WAMA) with the Commonwealth of Australia

Mighty River Power
Maintenance services across Mighty River Power's hydro and geothermal stations in New Zealand over an initial three year contract term commencing 1 July 2016, with provision for two, two year extension options

First Solar
Design and construction of a new module assembly building for First Solar in Kulim, Malaysia with a contract value of around $50 million

Pacific National C44ACi locomotive, UGL Broadmeadow

UGL KVMRT team, Safety Selfie

USafe means working together to complete a given task effectively and efficiently

Order Book growth to
$4.8 b

Order Book over
70%
recurring revenue

$5.0 b
in preferred opportunities and renewal options

80%
of revenue secured for FY2017

EBIT margin increased to
3.3%[2]

$2.3 b[1]
revenue delivered in line with guidance

EBIT up 38% to
$65.5 m[2]

Corporate overhead reduced to
1.6%
of revenue

Operating cash flow of
$128 m[3]

1. Total UGL revenue including share of revenue from joint ventures
2. Excluding Ichthys projects and based on underlying EBIT for FY2015
3. Operating cash flow adjusted for interest and tax as a proportion of EBITDA excluding Ichthys projects

Our vision & strategy

Our vision is to be an industry disruptor that dominates the Australian market through the application of world leading technology and execution capabilities taking the smartest solutions to our clients and sectors globally

Our strategic priorities drive the key areas we focus on to achieve our vision

Lead in safety and sustainability

Achieve Zero Harm in our work practices and provide a genuine health focus for our employees. Be a sustainable enterprise in our own right and a leader in delivering projects that are sustainable across the asset lifecycle.

Build our portfolio strengths through innovation

Invest in attractive markets where we have differential ability to win and ensure a relentless focus on cost and productivity optimisation across our businesses to deliver global best practice industry performance and drive a culture of innovation across UGL.

Build a world class talent base

Build, develop and retain a world class talent base. Value, engage and empower our people ensuring that UGL's values and culture are consistently and genuinely lived across the business.

Be the partner of choice

Build a portfolio of loyal customers by always looking to exceed their expectations through a constant relentlessness to improve and innovate to deliver superior value.

Consistently deliver

Rigorously apply standards, processes and procedures matched to the correct capability to enable consistent industry leading delivery at above target margin (no project surprises).

Deliver strong economic returns for shareholders

Reliably deliver EPS growth of 10%+ p.a. and ASX 200 Industrials Index top quartile shareholder returns. Hold a market reputation for predictably delivering on guidance.

Our vision is being delivered through a clear four stage process

FY18 & Beyond STAGE 4
Consistent Growth

- Maintain minimum organic growth of 10% p.a.
- Sustainable enterprise and industry leader
- Continue to seek opportunities for growth and value enhancement

FY17 STAGE 3
Strong Top and Bottom Line Growth

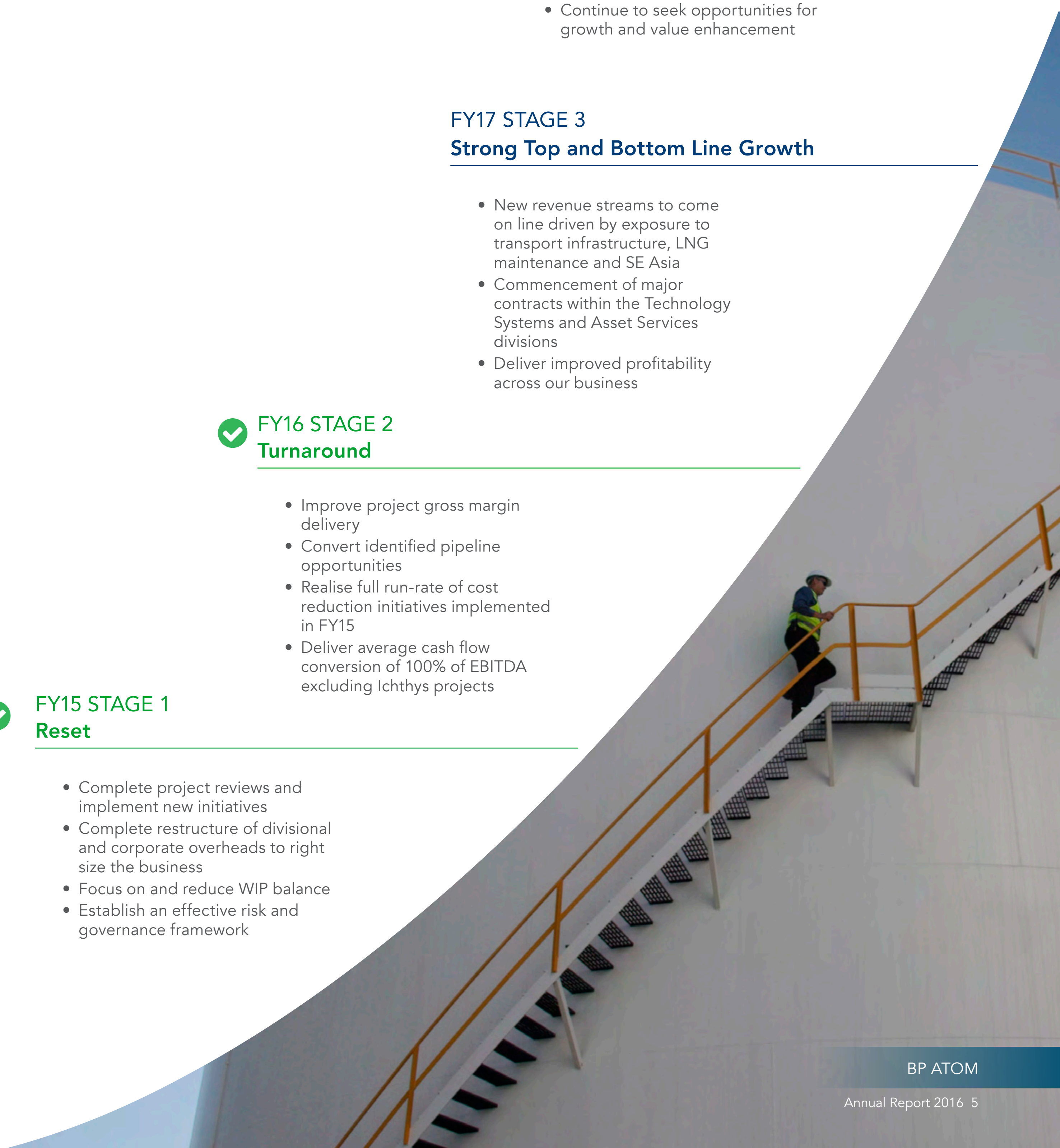
- New revenue streams to come on line driven by exposure to transport infrastructure, LNG maintenance and SE Asia
- Commencement of major contracts within the Technology Systems and Asset Services divisions
- Deliver improved profitability across our business

FY16 STAGE 2
Turnaround

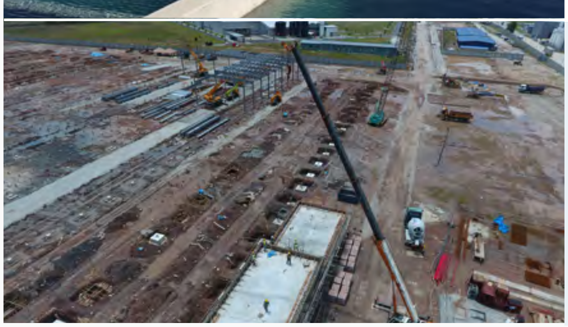
- Improve project gross margin delivery
- Convert identified pipeline opportunities
- Realise full run-rate of cost reduction initiatives implemented in FY15
- Deliver average cash flow conversion of 100% of EBITDA excluding Ichthys projects

FY15 STAGE 1
Reset

- Complete project reviews and implement new initiatives
- Complete restructure of divisional and corporate overheads to right size the business
- Focus on and reduce WIP balance
- Establish an effective risk and governance framework



Five operating divisions with strong market focus

	Division	Overview
	**RAIL & DEFENCE**	Our Rail & Defence division operates extensively across both the freight and passenger rail markets in rolling stock supply, asset management and metropolitan network operation. The business is also one of the few Australian companies providing naval ship and landing craft maintenance services.
	**ASSET SERVICES**	With over 30 years of experience our Asset Services division offers industry leading services in maintenance, shutdowns and turnarounds across a number of sectors. The business is Australia's largest LNG maintenance services provider.
	**TECHNOLOGY SYSTEMS**	Technology Systems is an industry leader in road tunnel and rail infrastructure systems and provides signalling communications and telecommunications solutions across a range of sectors.
	**ENGINEERING & CONSTRUCTION**	Engineering & Construction delivers complex projects from initial design through to procurement, construction and final commissioning.
	**ASIA**	Our South East Asia division has been built on our longstanding history in water infrastructure in Singapore and Malaysia. UGL leverages on local capability and draws on Australian expertise in specialised sectors including oil & gas and tunnel systems.

	Value Proposition	Operating Sectors	Market Outlook / Positioning	
	Complete and integrated single source solution in passenger and freight rail with best practice delivery through international partnering. In-house engineering and build capability delivering efficiencies to clients from design through to maintenance of assets. Industry leading performance in cost and quality along with strong fleet reliability and availability. Optimal supply chain management with international expertise in inventory purchasing, logistics management and lean practices.	FREIGHT RAIL	→	●
		PASSENGER RAIL	↑	●
		DEFENCE	↑	●
	Industry leading provision of LNG, power and mineral processing maintenance and shutdown, turnaround & sustaining capital services. Full lifecycle asset support with asset management solutions aligned with client objectives including integrated partnering where appropriate. Committed and flexible workforce with significant capacity and capability supporting a near permanent shutdown crew.	OIL & GAS	↑	●
		POWER GENERATION	↑	●
		MINING SERVICES	→	●
	In-house engineering design and construction capability resulting in design cost savings to the client and continuity across design, build, commissioning and maintenance phases. Unique and complementary rail signalling and communications capability. Established partnerships with world-leading OEM technology providers.	TUNNEL SYSTEMS	↑	●
		RAIL SIGNALLING	↑	●
		WIRELESS COMMUNICATIONS	→	●
	Industry leading footprint with a significant geographical spread across Australia and New Zealand. In-house engineering and construction capability delivering lower project costs through smart design optimising outcomes both financially and through asset performance and reliability. A reliable, predictable and collaborative approach maintaining client relationships focused on delivery.	POWER	↓	●
		RESOURCES	↓	●
		WATER	↑	●
		RENEWABLES	↑	●
	Over 35 years of engineering procurement and construction (EPC) and process engineering capabilities for water treatment plants, both industrial and municipal, in Singapore. EPC capability for onshore and near shore pipelines, floating structures and subsea structures. Existing EPC capability for specialised mechanical and electrical project works.	WATER & WASTEWATER	↑	●
		OIL & GAS	↑	●
		SPECIALISED MECHANICAL & ELECTRICAL	↑	●

A common set of values lived by our people differentiates us

Critical to achieving our vision and the goals we have set for UGL are our values. A common set of core values genuinely lived by our people to deliver our vision differentiates us and ensures we have the right people to grow UGL into the future.

The UGL Awards recognise individuals and teams who demonstrate UGL values through their achievements. The winners of our 2016 Value Awards across each category are featured, in this year's annual report and celebrate those people who exemplify our values in their day to day work.

CLIENT FOCUS
exceeding customer expectations

Rod Townsend & Adam Dale
Julia Creek Train Derailment Recovery

They went the extra mile and were highly commended by the clients and instrumental in UGL securing the contract for repair of the rail cars after their recovery.

On 27 December 2015, a goods train carrying sulphuric acid to an Incitec Pivot facility derailed at the remote location of Julia Creek, west of Townsville. Working beyond the requirements of UGL's rail maintenance contract with Incitec Pivot, Rod and Adam provided valuable expertise in the planning and execution of the complex rail car recovery operation, exceeding client expectations with their rapid response during the holiday season, working away from their families in difficult conditions and to the highest safety standards.

SAFETY & SUSTAINABILITY
protecting people and our environment

Jason Brown, Adam Raeck & Brendan Burns,
Hand Safety Initiatives

Since implementation of the hand safety initiatives the Ichthys SMP project has achieved an 80% reduction in hand injuries, making a significant difference to safety outcomes for our people.

In their role as Health and Safety advisors on the UGL-Kentz Ichthys SMP project in Darwin, Jason, Adam and Brendan implemented a range of hand safety initiatives and awareness campaigns that not only raised appreciation of hand injuries at UGL but have scope to impact safety across the construction industry. Specifically, the 'Lend a Hand' program, which facilitates the provision of prosthetic hands for workers in underdeveloped nations, built by volunteers using just one hand each, provides a clear and memorable message of the impact of hand injuries.

Image of UGL-Kentz Ichthys SMP Project team members in the 'Lend-a-Hand' program workshop, run by Safety and Sustainability winners (Jason Brown, Adam Raeck and Brendan Burns not shown)

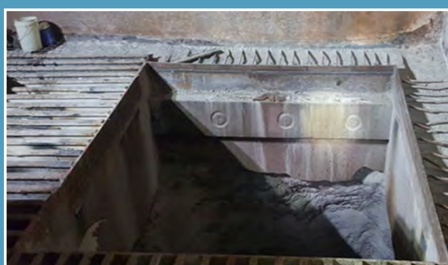
THE PREMIER AWARD

Recognising the individual or team whose actions and behaviours demonstrate excellence across all UGL values

The Olympic Dam Mine Maintenance Team, Grizzly Pass Initiative

The team can now work upright, in a much safer and ergonomic environment.

At BHP Billiton's Olympic Dam underground mine site in South Australia, this team of 16 UGL people demonstrate all UGL values in their delivery of mine maintenance services, notably through the successful implementation of an innovative work platform designed to eliminate safety risks around a hazardous open void area known as a 'Grizzly Pass'. The team collaborated with BHP Billiton's engineers, demonstrating integrity and courage in both raising the hazard and putting forward a solution, receiving high commendation from the client.



Grizzly Pass before

Grizzly Pass today

INNOVATION
delivering smarter solutions

Adrian Gornall,
UGL "Stick" Turnaround Smartphone App

This initiative has helped create a market differentiator, providing consistency and improved reporting capabilities.

In our Asset Services division, the Centre of Excellence provides our people with the training and tools to deliver industry-leading LNG maintenance services, including best practice turnaround and shutdowns. Adrian's cloud-based Turnaround Reporting Tool, is a Centre of Excellence initiative in the form of a smartphone app, revolutionising how UGL manages the reporting of shutdowns and turnarounds. The app has been successfully implemented on our Stanwell contract and is ready for deployment on future shutdowns and turnarounds.

COLLABORATION
accomplishing more together

Jamie Ross Smith,
Electronic Feedback Station

Connecting over 500 people at a site where the majority have limited email access. Since implementation hazard and suggested improvement reporting has increased twenty fold.

Jamie displayed great innovation in the development of an electronic feedback station. The station includes a communication portal which has significantly improved the distribution of key messages across the large site with 10 buildings spread across 17 hectares. The touch screen kiosk allows employees on the shop floor to electronically submit hazard forms and environmental or safety concerns and feedback, improving the timeliness of responses to potential issues. As a result collaboration and engagement have improved on the shop floor.

INTEGRITY & COURAGE
doing what is right, even when difficult

Oliver Torkel,
Pre-Award Commercial Team

Significant contribution to recent winning bids, including the Solomon Islands 'Sustainable Energy Project', Mugga Lane Solar Facility and Wyong Road Electrical Relocation Works.

Ollie is part of the Pre-Contract Award commercial team in Engineering & Construction. He is recognised by his peers for questioning the norms and raising challenging issues even when it is difficult to do so, with a relentless focus on adding value to UGL clients. His strength in communication and collaboration across various disciplines within UGL, particularly operational teams, greatly contributes to UGL successfully delivering projects as promised. In his effective balancing of UGL and client interest, Ollie is an integral part of UGL's bidding success and a great example of a positive approach delivering strong outcomes.

Our leadership team

ALAN BEACHAM

Executive General Manager,
Rail & Defence

Alan joined UGL in 2010 and is responsible for leading UGL's Rail & Defence business. He is a chartered engineer with 20 years of experience in manufacturing and maintenance in the transport sector. Alan holds a Bachelor of Manufacturing Engineering & Management from Nottingham University.

SHANE KIMPTON

Executive General Manager,
Asset Services

Shane joined UGL in 2009 and is responsible for leading UGL's Asset Services business. He has strong operational experience nationally and internationally in the resources and power sectors. Shane holds a Diploma of Engineering from Swinburne University of Technology and is a member of the Maintenance Engineering Society of Australia.

DAVID MACKENZIE

Executive General Manager,
Technology Systems

David joined UGL in 2005 and is responsible for leading UGL's Technology Systems business. He has over 30 years of experience across the transport, power, telecommunications, broadcast and mining sectors throughout Australia and the Asia Pacific region. David holds a Bachelor of Electrical & Computer Engineering from the Queensland University of Technology and is a member of the Institution of Engineers Australia.

PHILLIP BOYLEN

Executive General Manager,
Major Projects

Phillip recently re-joined UGL with 14 years of prior service. He provides dedicated leadership to the management of the Ichthys projects. Phillip is an experienced project manager with over 25 years in the engineering and construction sector and strong skills in commercial management and project governance. He holds a New Zealand Certificate of Engineering in Industrial Automation & Control, an Advanced Diploma in Project Management and is an accredited Master Project Director with the Australian Institute of Project Management.

RAY CHURCH

Chief Financial Officer

Ray joined UGL in 2015 and is responsible for the overall financial management of the company as well as the corporate functions of commercial, estimating, treasury & insurance, legal, internal audit, ICT and shared services. He is a senior finance executive with over 30 years of extensive financial, commercial and operational experience with deep experience in oil & gas, infrastructure and engineering services. Ray holds a Bachelor of Commerce from James Cook University and is a Chartered Accountant.

REBECCA HILL

Executive General Manager,
Investor Relations
& Corporate Development

Rebecca joined UGL in 2011 and is responsible for UGL's investor and media relations, strategy and corporate development, business development and marketing and communications functions. She has 20 years of experience across investment banking, investor relations and strategic communications. Rebecca holds a Bachelor of Commerce (Hons) and a Master of Financial Management from the University of Queensland.

JOHN GREAVES

Executive General Manager,
Engineering & Construction

John joined UGL in 2009 and is responsible for leading UGL's Engineering & Construction business. He has over 15 years of experience in the construction industry with proven expertise in project management, from design through to construction and commissioning. John holds a Diploma of Manufacturing Technology (Industrial Engineering).

EDGAR RAMANI

Chief Executive, Asia

Edgar joined UGL in 2013 and is responsible for leading UGL's business in the Asian region. He is a civil engineer with extensive experience in delivering turnkey resource and infrastructure projects throughout Australia, South East Asia, India and the Middle East. Edgar holds a Bachelor of Civil Engineering (Hons) from the University of Queensland and an MBA from the University of Manchester. He is a member of the College of Civil Engineers Australia.

JAYNE WHITNEY

Executive General Manager,
People & Culture

Jayne joined UGL in 2015 and is responsible for the overall management of UGL's people, learning and development and organisational culture. She has held senior executive positions at some of Australia's leading engineering firms and has been instrumental in lifting employee engagement and setting a strong and collaborative organisational culture. Jayne holds an MBA from Warwick University, a Bachelor of Science in Economics from the University of Wales and Graduate Diplomas through both the Australian Institute of Company Directors and the Australian Investor Relations Association.

MARTIN SMITH

Executive General Manager,
Health, Safety, Quality & Environment

Martin joined UGL in 2015 and is responsible for the overall management of health, safety, quality and environment (HSQE) at UGL. He is a highly experienced HSQE leader having spent more than 20 years working across a broad range of industries including major hazardous facilities, energy, mining, infrastructure, construction, general industrial and telecommunications. Martin holds an MBA from Latrobe University and Diplomas in Business Management and Occupational Health and Safety as well as a Graduate Diploma through the Australian Institute of Company Directors.

You can read more about the UGL executive leadership team on our website
ugllimited.com/corporate-executive-leadership

Our board

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KATHRYN SPARGO
LLB (Hons), BA, FAICD
Chairman

Kate Spargo has extensive business experience gained from advisory roles on strategic and governance issues following a career in legal practice in both the public and private sectors. Her experience as a director of both listed and unlisted companies over the last 18 years mainly in the finance, infrastructure, and professional services sectors, brings a general legal and governance focus to board considerations.

Kate is also a non-executive director of Sonic Healthcare Limited (since July 2010), Fletcher Building Limited (since March 2012), Adairs Limited (since May 2015) and Sigma Pharmaceuticals Limited (December 2015). She is director of ColnvestLtd, SMEC Holdings Limited and The Geelong Football Club.

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ROSS TAYLOR
Bachelor of Engineering – Civil (Hons)
Chief Executive Officer

Ross Taylor has over 30 years of experience in the construction, engineering and real estate industries in Australia and internationally.

Prior to joining UGL, Ross held the position of Group CEO at Tenix, a privately held engineering and construction company delivering services in the gas, electricity, water, wastewater, heavy industrial and mining sectors across Australasia.

Before this Ross held various senior roles during his 24 years at Lend Lease Corporation, most recently as the former Group Chief Operating Officer.

Ross is currently the Chairman of Bairo Pite Clinic, a not-for-profit organisation providing health services in Timor-Leste.

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GUY COWAN

BSc (Hons), FCA (UK), MAICD
Non-Executive Director

Guy Cowan has worked extensively in the oil and gas industry, including more than 23 years working in senior international financial strategy roles with the Royal Dutch Shell Group. Previous positions have also included working as the Chief Financial Officer for the Fonterra Co-operative Group Limited and as a chartered accountant with PwC and KPMG.

Guy's international finance career has given him a sound understanding of risk and internal control as well as international accounting standards.

Guy is currently a non-executive director of Santos Limited (since May 2016). He is the Chairman of Queensland Sugar Limited, Beak and Johnston Limited and Winson Group Pty Ltd.

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RICHARD HUMPHRY AO

FCA, FCPA, S Fin
Non-Executive Director

Richard Humphry has extensive experience as a company director, in financial markets, financial reporting and auditing, and risk management.

During Richard's tenure as Managing Director & CEO of ASX, it became the first exchange in the world to simultaneously demutualise and list on its own exchange. Before joining ASX, Richard was Director General of the NSW Premier's Department and Auditor General of Victoria. These positions followed 20 years' experience in the Australian federal public service in the departments of Defence and Finance, and 13 years in the banking industry. Richard was President of the Australian Commonwealth Remuneration Tribunal for five years to 2003.

Richard is a non-executive director of BUPA Australia Pty Ltd, BUPA Australia Holdings Pty Ltd and BUPA Foundation (Australia) Ltd.

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JOHN COOPER

BSc (Building) (Hons), FIE Aust, FAICD, FAIM
Non-Executive Director

John Cooper has over 35 years of experience in the construction and engineering sectors in Australia and internationally. His executive management career has encompassed roles in large civil, commercial and infrastructure projects as well as complex engineering and project management activities in the mining, oil & gas, engineering and property sectors.

His broad business and board experience has been gained having spent over 20 years in various roles with Concrete Construction Group (later known as Walter Construction), CMPS&F, Clough Engineering and Murray Roberts Engineering.

John is a non-executive director of Aurizon Holdings Limited (since April 2012) and a director of Sydney Motorway Corporation Pty Limited.

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JANE HARVEY

B Com, MBA, FCA, FAICD
Non-Executive Director

Jane Harvey is an experienced non-executive director and audit committee chair with 15 years of experience in both listed and not-for-profit organisations. Ms Harvey has extensive commercial and financial skills applied in a range of line management and advisory roles across various industries including utilities, energy infrastructure, transport and logistics, financial services and retail.

Jane was formerly a Partner at PricewaterhouseCoopers until 2002. She is currently a director of Colonial Foundation Trust and Orygen, the National Centre of Excellence in Youth Mental Health.

Jane is currently a non-executive director of IOOF Holdings Limited (since October 2005) and DUET Finance Limited (since August 2013).

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ROBERT KAYE SC

LLB, LLM (Hons)
Non-Executive Director

Robert Kaye SC has over 35 years of experience in legal practice and is a barrister at law. Since his appointment as Senior Counsel, he has provided advice to both public and private corporations across a range of commercial matters including transactions, corporate and property.

He has significant mediation experience and has participated in the successful resolution of complex commercial disputes. He previously served on a number of NSW Bar Association committees including the Professional Conduct and Equal Opportunity Committees.

Robert is currently the Chairman of Collins Foods Limited (since October 2014, and Spicers Limited (since September 2012) as well as a non-executive director of Magontec Limited (since July 2013). He is a director of the Macular Disease Foundation Australia.

A message from the Chairman

"We believe we have the right strategy, operating structure and leadership in place to deliver UGL's long term vision; returning the company to strong and consistent earnings growth."

As a company, we delivered the second stage of our strategic roadmap in FY2016 with strong momentum achieved across the base business.

Revenue of $2.3 billion was generated in FY2016 with net profit after tax of $33.5 million; excluding the after tax impact of the Ichthys CCPP and SMP project provision.

Progress has been made with the delivery of the complex Ichthys projects over the course of the year however, with delivery continuing to be impacted by significant client delays and disruption, the Board has determined to raise a $200 million provision against the projects. While we recognise that this outcome is disappointing for our shareholders, we assure you that we are very focused on pursuing our claims position and expect that all or a portion of this provision may be recoverable from the client.

UGL's base business is strong generating revenue of $2.0 billion and an improved EBIT margin of 3.3 per cent; an encouraging result against a challenging and competitive market back drop. The business achieved $2.4 billion in contract wins throughout the year and is well positioned to deliver increased revenue and earnings in FY2017.

UGL's balance sheet is robust, supported by strong cash generation across our operating divisions and effective working capital management disciplines. The refinance and extension of debt facilities are now well advanced and will ensure the company maintains comfortable headroom to support peak debt requirements associated with the Ichthys projects in FY2017.

Due to the cashflow obligations of the Ichthys projects, the Board has elected not to pay dividends in FY2016. The future reinstatement of dividends will be considered by the Board as appropriate in the context of UGL's capital requirements and outlook.

Strong emphasis has been maintained on risk and governance this year with a continued focus on ensuring consistency, predictability and transparency across the company. Fundamental to this is the 'UGL *Way*' and we have been pleased to watch its delivery by management, with its roll-out to continue over the coming 12 months. The UGL *Way* provides a standardised and consistent operating methodology which should minimise risk and improve performance, particularly in the management and delivery of our projects. The implementation of this approach supports the strong governance framework already in place at UGL.

"Our 10,000 people make UGL's vision and strategy a reality."

In the delivery of UGL's vision, one of our strategic priorities is to build and retain a workforce of very talented people. We know that this is essential to UGL's success. We want our people to know that we value them and the contribution they make to the company; and that we are committed to their wellbeing. We want our people to feel appreciated, to be healthy in body and mind and to understand how what they do adds to the success of UGL.

Our safety team is introducing a comprehensive approach to wellbeing which includes focusing on the areas of health surveillance, fatigue management and drug and alcohol usage as well as making mental health a priority and ensuring healthy workplaces for our people.

We believe that a key part of company success involves promoting diversity and inclusion across our workforce. The quality of ideas and input, and the engagement and productivity of our people, are positively impacted by bringing people into the company from a wide range of backgrounds and experiences.

While we apply this to all our recruitment and retention initiatives, we have a particular focus on increasing the participation of women and Aboriginal and Torres Strait Islanders (ATSI).

During the year, key steps were taken towards achieving our gender equality goals. The participation of women in our business leadership group increased by six per cent and we have continued to focus on female talent through recruitment targets, talent development and succession processes.

Our active participation with the National Association of Women in Operations and the Diversity Council of Australia should assist women already working at UGL as well as help in recruitment. Improved arrangements have now been introduced around parental leave and flexible working arrangements for the benefit of both our male and female employees.

UGL's Reconciliation Action Plan (RAP) has been in place since 2013. Over the course of this year, we transitioned to our 2016-2018 plan with a shift in emphasis from reflection to innovation. Our 2016-18 RAP objectives focus on cultural learning, ATSI employment and the identification of and building relationships with ATSI businesses for the supply of goods and services. Our approach to reconciliation enables our businesses to implement actions that suit the environment in which they operate, to better reflect community needs and really make a difference. Over the course of the year, significant emphasis was also given to increasing ATSI cultural awareness across the company.

"Transforming UGL's service offering through innovation and world-leading technology is critical to building an enduring company."

The Board and management's vision is for UGL to be a company which challenges accepted practices by applying world leading technology and execution capabilities across all of the services it offers. We believe that we already do this in many ways from the integration of sophisticated technology systems in road and rail infrastructure; to partnering with global metro rail operators in delivering best practice passenger rail solutions in Sydney and Melbourne; to applying the knowledge of our Centre of Excellence in delivering LNG maintenance at world class standards.

Chevron Australia Pty Ltd. Gorgon Project
©Images supplied courtesy of Chevron Australia Pty Ltd

UGL Board Members visit UGLKaefer Longford site

Over the course of the year, key senior executives have engaged in specific opportunities to assess new world leading technologies in the US, China and Europe. Management also continues to explore potential partnerships with original equipment manufacturers (OEMs) with leading intellectual property which could be integrated into UGL's service offering.

The Board is highly supportive of the innovative solutions being developed across the company including interactive mobility apps and tools and the application of predictive data algorithms which have the potential to transform the way in which we deliver services to our customers.

We are excited by the steps being taken by UGL management and staff to support our customers' needs. We can see this happening throughout the company, at all levels and from small to large scale innovative ideas. We know how important this is for customers which will ultimately ensure UGL's success.

"With a committed and engaged board, we continued to improve our risk and governance framework, rotated some committee memberships and also made some new committee appointments, and planned for future succession."

A number of our Board meetings in FY2016 were held at UGL offices and project sites across Australia, helping us to get to know our people and the projects they are working on. We have been able to inspect some of the projects and this has been very informative and rewarding for the Board. We have also been able to see firsthand the safety practices on site and discuss these with staff. The visits to offices and sites are an important part of connecting with the business and people at UGL, as well as helping the Board to provide sound oversight.

Following the appointment of three new non-executive directors last year, we have varied the membership of the Board's sub-committees to ensure the range of capabilities of our individual directors are most effectively utilised. With long-serving non-executive director, Richard Humphry retiring from the Board at the 2016 Annual General Meeting (AGM), we are also mindful of ensuring a smooth transition in the succession of his sub-committee roles.

Richard Humphry joined the UGL Board in 2004 and has made a significant contribution to UGL over his twelve years as a director. Along with extensive experience in financial reporting, auditing and risk management, Richard has provided stability to the Board over a period of significant change in the last few years. On behalf of the directors, I would like to thank Richard for his wise counsel, his diligence and reliability and for his enthusiasm for UGL and all its people and projects over his time on the Board. We sincerely appreciate his contribution and wish him very well.

Jane Harvey assumed the role of Chair of UGL's Risk and Audit Committee in February this year. She has worked closely with Richard throughout the year ensuring an orderly transition of this important role. Jane joined the Board in August 2015 and has brought significant experience in chairing risk and audit committees across a number of businesses. Jane is currently the audit committee chair for IOOF Holdings and audit and risk committee chair for DUET Finance; both ASX 100 listed companies.

Following the 2016 AGM, Robert Kaye who also joined the Board at the same time as Jane, will take up the role of Chair of the Remuneration and People Committee. Robert has considerable experience with remuneration and people matters as the Chair of Remuneration and Appointments for Magnotec Limited and a member of the remuneration committees for Spicer Limited and Collins Foods Limited.

It has been a great privilege to be a director of UGL since 2010 and Chairman for the past two years. When I assumed the role of Chairman in October 2014, one of my clear commitments was to bring new directors to the Board; ensuring we have the right capabilities, mix of skills and experience to lead the strategic direction of UGL. I believe the Board we have today is strong, diverse and collegiate, with Board members who are engaged and committed to UGL's success.

I propose to stand for re-election at the AGM this year and I hope I have your support at the meeting to continue in the role of Chairman.

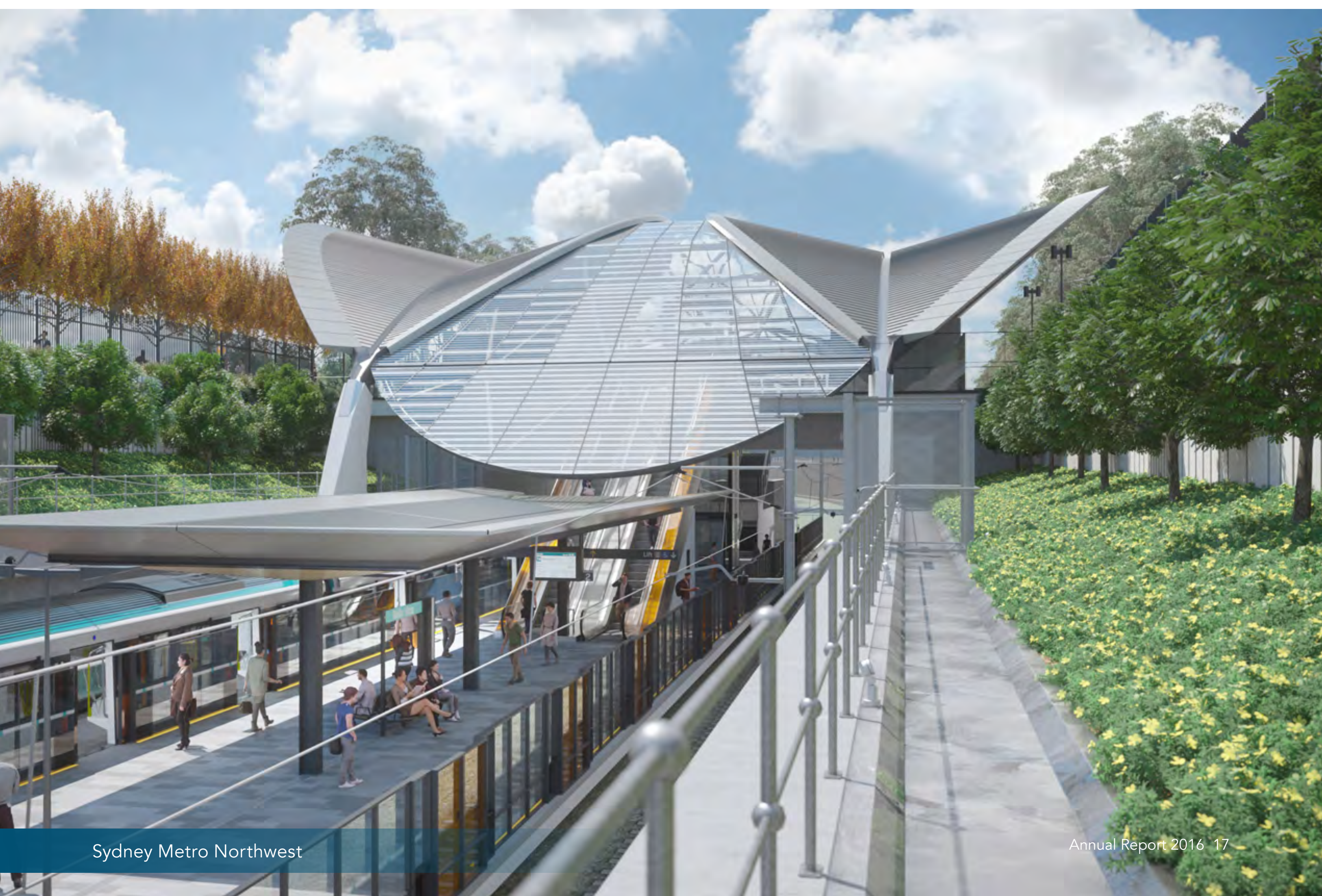
"The hard work and commitment of our people is delivering results. We are well set-up for strong growth from FY2017 with the base business generating solid momentum."

On behalf of the Board, I would like to thank Ross Taylor, his leadership team and our 10,000 people for their dedication and hard work throughout the year. We are continuing to deliver against the goals we have set for the base business.

With solid momentum across our operations, we remain confident that UGL is on track for growth in FY2017 and beyond. I look forward to working with the Board, Ross and the leadership team to deliver this outcome, safely and sustainably, on behalf of our shareholders over the coming year.

K Spargo

Kate Spargo
Chairman



Sydney Metro Northwest

CEO's report

"We have delivered against the objectives we set out for FY2016; achieving a strategic turnaround in the base business and setting up well for growth in the coming financial year."

Our revenue was stable at $2.3 billion, supported by the diversity in our operating model as the impact of reduced resources sector capital expenditure was offset by growth in our maintenance services business.

EBIT increased to $65.5 million with an improved margin of 3.3 per cent, excluding the impact of provisions recognised against our Ichthys CCPP and SMP projects. As targeted, we realised the full run-rate of cost reduction initiatives undertaken in the previous year.

Our Rail & Defence business delivered significantly improved profitability with a strong year of sales including a $594 million agreement with Pacific National for the supply and maintenance of locomotives and a contract extension for the long term sustainment of the ANZAC Class Ships with the Commonwealth of Australia.

In Asset Services, we consolidated our position as the leading provider of LNG maintenance services securing a new two year contract to provide maintenance services at Woodside's Karratha Gas Plant Life Extension Program. The business also increased profitability by more than doubling earnings over the year. We expect further strong earnings growth in FY2017 with the commencement of turnaround and shutdown programs across a number of sectors, including the first LNG shutdown cycle under previously secured contracts.

Technology Systems performed well with profit recognition commencing on Sydney Metro Northwest and the award of a $476 million alliance agreement with the Lend Lease Bouygues Joint Venture on the NorthConnex Project. As Sydney Metro Northwest and NorthConnex move from the design phase to delivery in FY2017, these contracts are expected to contribute significantly to our growth next year.

Our Engineering & Construction business has developed momentum in the renewable energy market, completing the Darwin Airport Solar project and with a further three solar projects currently under construction. In New Zealand, we secured a contract to maintain Mighty River Power's hydro and geothermal stations over a three year initial term, establishing an important footprint in the New Zealand energy sector.

Revenue increased substantially in Asia with the commencement of the Choa Chu Kang water upgrade project in Singapore. Key sales in the year, including the design and construction of a new module assembly building for First Solar in Malaysia and the installation and pre-commissioning of subsea pipelines for Hess in the North Malay Basin, position the business for profitable performance in FY2017.

With a continued focus on cash and working capital, the base business generated strong cash flow of $128 million; a conversion of more than 140 per cent of the base business EBITDA.

You can read about the performance of each of our businesses in more detail on pages 22 to 31.

"Client driven delays and disruption have impacted the timely delivery of our two projects at the Ichthys LNG facility resulting in a $200 million provision raised against these projects in FY2016."

Over the course of the year, we have progressed with the delivery of the Darwin-based Ichthys CCPP and SMP projects with the projects now 81 per cent and 42 per cent complete, respectively. Unfortunately, the projects continued to be impacted by significant client delays and disruption resulting in additional costs incurred.

Together with our joint venture partners, we have submitted substantial claims to the client in relation to these costs. Pleasingly, we have made good progress with a commercial settlement of the historical claims on the SMP project expected by the end of August 2016.

We have however, determined to raise a $200 million provision against the projects which reflects the need under accounting standards to forecast the costs to complete the projects now with limited ability to recognise revenue associated with future claims settlement. While we believe this provision is appropriate, all or a portion of this may be recoverable from the client.

To provide greater transparency of earnings and better reflect the performance of the base business going forward, the Ichthys projects will be reported separately from the remaining UGL businesses. This is also reflected in our operating model with our Engineering & Construction business and the Ichthys projects being run as separate divisions with dedicated management focus.

"Our balance sheet is supported by healthy cashflows generated from the base business and adequate funding facilities."

Net debt at 30 June 2016 was $65 million with gearing at 17 per cent. At year end we had $283 million in available cash and undrawn debt facilities.

UGL's balance sheet is supported by healthy cashflow conversion across the base business and adequate funding facilities which will support peak debt requirements associated with the Ichthys projects in FY2017.

"Across UGL we put safety ahead of everything we do and in FY2016, we achieved a material improvement in our safety metrics."

Our safety performance improved significantly over the year with a 30 per cent improvement in our safety metrics. We are now achieving a Lost Time Injury Frequency Rate of 0.6 per million hours worked.

Our strong performance this year has been supported by a greater emphasis on proactive reporting measures and structured reviews of high potential incidents as we work hard to prevent injuries before they happen. While these results are very encouraging, improving our safety performance is a constant focus for us with the ultimate goal of achieving zero harm to the people who work for us, and with us.

"Building a strong, diverse talent base and investing in the capabilities of our people is critical to achieving the goals we have set for UGL."

Over the last twelve months, we have strengthened and grown the talent base across the leadership team, divisional management teams and at a project level. Ensuring we have the right team in place at different levels of the organisation is critical to delivering a sustained turnaround in performance and growing UGL into the future.

We commenced a comprehensive project management training program this year investing in the development of our project delivery leaders. By participating in this formal program, our project managers have the opportunity to build on their existing skills and adopt a common set of industry proven tools to ensure consistency across our project teams in the delivery of risk projects.

In our Asset Services business, we have invested in a Centre of Excellence with the objective of providing our people with the training and tools to deliver industry-leading LNG maintenance services, including best practice turnaround and shutdowns.

"Consistency and predictability in the delivery of our projects and services remains critical to UGL's success. As a business better able to anticipate and manage risk, we will deliver improved outcomes for our clients and shareholders."

A key priority for FY2016 was the implementation of the UGL *Way*. The UGL *Way* is a standardised operating methodology, with simple guidelines for risk management processes accessible by all employees in all locations, that will ensure core and supporting business processes are consistently performed and controlled to minimise risk and improve performance. Our first modules went live in April 2016 focusing on the area of project management.

Training and further module releases continue according to plans established last year. Participation from operational management and engagement from our people has been very strong and we are progressing well to complete implementation during FY2017.

"Differentiating our service offering through innovative solutions is critical to maintain UGL's competitive advantage."

In the current market environment, our customers continue to look for greater capital and operational efficiencies to reduce their cost bases. To remain competitive, we are focused on developing better solutions at a lower cost through innovation and technology. Some examples of the innovative solutions we are developing include:

- the roll-out of a turnaround app; an interactive mobility tool providing key data and planning for turnaround events
- investigating the use of predictive data algorithms to transform asset management and maintenance field services
- developing mobility tools that facilitate standardised lean execution of maintenance tasks
- assessing world leading technologies and partnerships with OEMs with leading IP for integration into our service offerings.

"A high level of customer retention continues to support the strong recurring revenue base within our order book."

Our businesses delivered a strong sales result this year, securing $2.4 billion in contract wins and extensions and increasing our order book to $4.8 billion. Of these wins, over 70 per cent represented contracts which were extended or renewed with existing customers.

Our longstanding relationships with our customers are reflected in a number of our key wins this year including the three year extension for multi-disciplinary services at the BP Kwinana Refinery in Western Australia. UGL has provided services to BP Kwinana for over 25 years.

Similarly, the recent renewal and extension of existing maintenance contracts with Pacific National means that we will continue to work together over the next 10 years. The contract extension secured for the sustainment of the ANZAC Class Ships is an evergreen arrangement with the Commonwealth of Australia which extends over the ANZACs' remaining service life of at least 15 years.

UGL has partnered with the NSW Government for over 20 years, and is now delivering the $131 million technology upgrade of the Tangara passenger rail fleet secured in August last year.

"We are well positioned as we commence FY2017 to deliver strong revenue growth and return to industry-normal EBIT margins."

As we commence the next financial year, UGL is strongly positioned with 80 per cent of FY2017 revenue sold in our order book. Our base business is well on track to deliver revenue growth of around $300 million and an EBIT margin of approximately 4 per cent in FY2017.

FY2016 was a year of substantial progress with our teams focused on running UGL well and securing our future growth by successfully converting pipeline opportunities. My sincere thanks to our people for their commitment and hard work, and to our clients, partners and shareholders for their ongoing support over the last twelve months.

I look forward to updating you on our continued progress next year.

Ross Taylor
CEO

Crawfords Freightlines Pty Ltd took delivery of two brand new C44ACi locomotives 'Carrot' (pictured) and 'Spud' in March 2016

Rail & Defence

"We have delivered improved financial performance across all lines of business and achieved sales of $1.2 billion during the year, with the recent award of the New Intercity Fleet contract further enhancing our future revenue base."

Alan Beacham, EGM Rail & Defence

Financial Performance

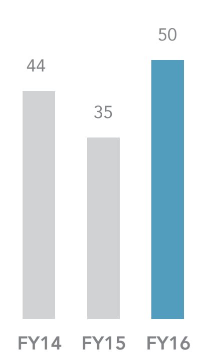
Revenue across Rail & Defence of $942 million was stable despite reduced sales volume for freight locomotives.

EBIT increased by 44% to $49.9 million driven by improved performance across the freight and passenger businesses and continued solid contribution from the MTM Melbourne Trains and Sydney Trains contracts. EBIT margin improvement was further enhanced by the strong performance of the Defence Naval Ship Maintenance (NSM) contract.

A $594 million agreement with Pacific National for the supply and maintenance of locomotives was secured during the year, extending the existing relationship with Pacific National for a further 10 years through to 2026. The NSM joint venture entered into an evergreen agreement with the Commonwealth of Australia to provide continued long term support services for the ANZAC Class Ships and is expected to generate revenue in excess of $250 million over the initial six year period. Both contracts are long term extensions of existing relationships reflecting of UGL's focus on delivering solutions which support the long term performance of customers' critical assets.

Revenue[1] ($m)

Underlying EBIT[2] ($m)



Outlook

Revenue for FY2017 is expected to be relatively flat as the market for freight locomotive sales remains subdued with continued strength across freight and passenger maintenance and upgrade projects.

The Rail & Defence order book was $2.7 billion at 30 June 2016 with 92 per cent of revenue recurring in nature, supporting a stable future revenue base. This is further enhanced by the award of the New InterCity Fleet Contract in August 2016 which contributes a further $570 million to secured revenue.

Order Book Highlights

UGL Unipart Rail

Passenger car heavy maintenance and logistics management

Pacific National

Maintenance of various locomotive fleets

Warship Asset Management Agreement

Long term maintenance support for ANZAC Class fleet

Sydney Metro Northwest

Operation of a new rapid transit rail services

Metro Trains Melbourne

Operations and maintenance of passenger rail franchise

Tangara Technology Upgrade

Technology upgrade of the Tangara fleet in Sydney

Footnotes:

1. Includes UGL's share of joint ventures
2. Comparative periods adjusted for restructuring costs, impairments associated with the resources slow down, settlement of project claims, change in tender capitalisation policy and goodwill impairment

UGL Unipart Rail

Client: Sydney Trains

Location: Auburn, Sydney, NSW

Capitalising on the combined expertise of UGL, Unipart and MTR, the UGL Unipart Joint Venture was established to manage the Level 3 maintenance contract to provide heavy maintenance and supply chain services to 1,050 passenger cars for Sydney's metropolitan fleet. The JV combines UGL's asset management, maintenance capability and intimate knowledge of Sydney's passenger rolling stock, Unipart Rail's international expertise in inventory purchasing and logistics management, along with MTR Corporation's knowledge on maximising assets, to increase the customer's fleet availability, reliability and safety.

BP Australia

Client: BP Australia

Location: 17 fuel terminals around Australia

Through an incorporated joint venture with BP Australia, UGL performs all engineering, maintenance and project works for BP's Australian fuel terminal network. Terminal operations are also managed by the joint venture with responsibility for blending, loading and unloading fuels to BP customers. The contract extends UGL's longstanding relationship with BP in place since 1990 and provides a role in supporting BP's investment plans as it significantly expands its retail fuel network across Australia over the next three years.

Asset Services

"Having delivered improved performance in FY2016 our business looks forward to continued growth in FY2017 through new contracts secured during the year and the delivery of increased shutdown and turnaround services across the assets we maintain."

Shane Kimpton, EGM Asset Services

Financial Performance

Revenue in Asset Services increased by 20% to $557 million due to revenue secured in the prior year across APLNG, GLNG and BP, ramp up of the Chevron maintenance contract and increased shutdown and turnaround projects at Stanwell.

EBIT grew to $24.1 million with significant margin improvement driven by consistent delivery across the division's portfolio of contracts.

The business continued to secure significant revenue during the year including a two year contract to provide a range of services to the Karratha Gas Plant Life Extension Program and a $45 million three year contract to supply multi-disciplinary asset maintenance services to Alcoa's Pinjarra alumina refinery. In August, the award of a $30 million contract to provide maintenance services to the Alcoa's Wagerup refinery further extended this relationship.

UGL has operated as the prime contractor on the BP Kwinana Refinery for over 25 years and will continue to deliver maintenance and turnaround services following a three year extension of this contract during FY2016.

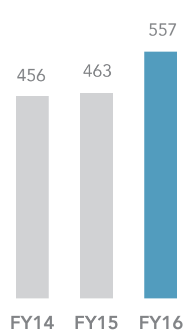
Outlook

Revenue is expected to grow strongly in FY2017 driven by contracts secured in FY2016 and increased shutdown and turnaround activity across a number of contracts, including the first shutdown cycle of the LNG plants maintained by UGL.

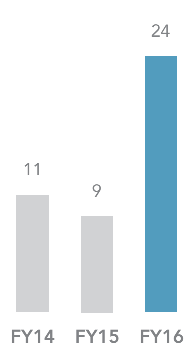
The divisional order book refilled well during the year and was stable at $1.0 billion at 30 June 2016. The business secured extensions to existing key contracts with Stanwell and Quadrant in the early months of FY2017, further strengthening the existing base of recurring revenue.

The business retains a dominant position across a number of market sectors and is the largest LNG maintenance services provider in Australia, where scale enables the retention of a national shut down crew providing a distinct competitive advantage.

Revenue[1] ($m)



Underlying EBIT[2] ($m)



Order Book Highlights

Stanwell

Maintenance and other works across Stanwell's coal, gas and hydro energy assets

BP

Operation and maintenance of BP's 17 fuel terminals across Australia in joint venture with BP

Chevron

Maintenance of Chevron's Western Australian assets

Alcoa

Maintenance services to Alcoa's Pinjarra and Wagerup alumina refineries

APLNG

Maintenance and shutdowns for APLNG's Curtis Island LNG facility

Santos GLNG

Maintenance and shutdowns for Santos GLNG's Curtis Island LNG facility

Footnotes:

1. Includes UGL's share of joint ventures
2. Comparative periods adjusted for restructuring costs, impairments associated with the resources slow down, settlement of project claims and change in tender capitalisation policy

Technology Systems

"Revenue growth in FY2017 will be driven by the delivery of the Sydney Metro Northwest and NorthConnex projects. We are also well positioned to benefit from strong public infrastructure investment given our market-leading position in road tunnel systems and rail infrastructure."

David MacKenzie, EGM Technology Systems

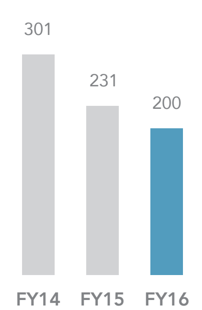
Financial Performance

Technology Systems generated revenue of $200 million down 14% on the prior year. Being a project based business the revenue in the division is driven by the timing of completion and commencement of large contracts. The Regional Rail Link project was completed in FY2015 and Digital Train Radio System during the first half of FY2016. During FY2016, work commenced on the design phase of the Sydney Metro Northwest and NorthConnex projects.

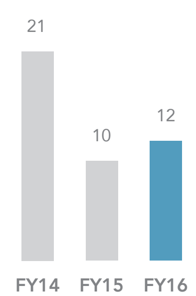
EBIT increased to $11.7 million up 14% on the prior year with the Sydney Metro Northwest project commencing recognition of profit during the year.

During the year, UGL entered into a $476 million four year alliance agreement with the Lend Lease Bouygues Joint Venture for the design, procurement, construction and commissioning of the mechanical, electrical, control, fire and communication systems for the NorthConnex motorway. Further, a $55 million contract was secured for the design and installation of a radio communications system in the passenger rail sector.

Revenue[1] ($m)



Underlying EBIT[2] ($m)



Outlook

Revenue in FY2017 is expected to increase significantly as Sydney Metro Northwest and NorthConnex move from the design to delivery phase.

The order book for Technology Systems is stable at $600 million with the business well positioned to benefit from the large number of opportunities across the transport infrastructure market driven by Government expenditure particularly in New South Wales and Victoria.

Order Book Highlights

Sydney Metro Northwest

Design and deliver the tunnel systems, rolling stock, rail signalling and overall control systems

NorthConnex

Mechanical, electrical, control, fire and communication systems for the NorthConnex motorway

Communications System

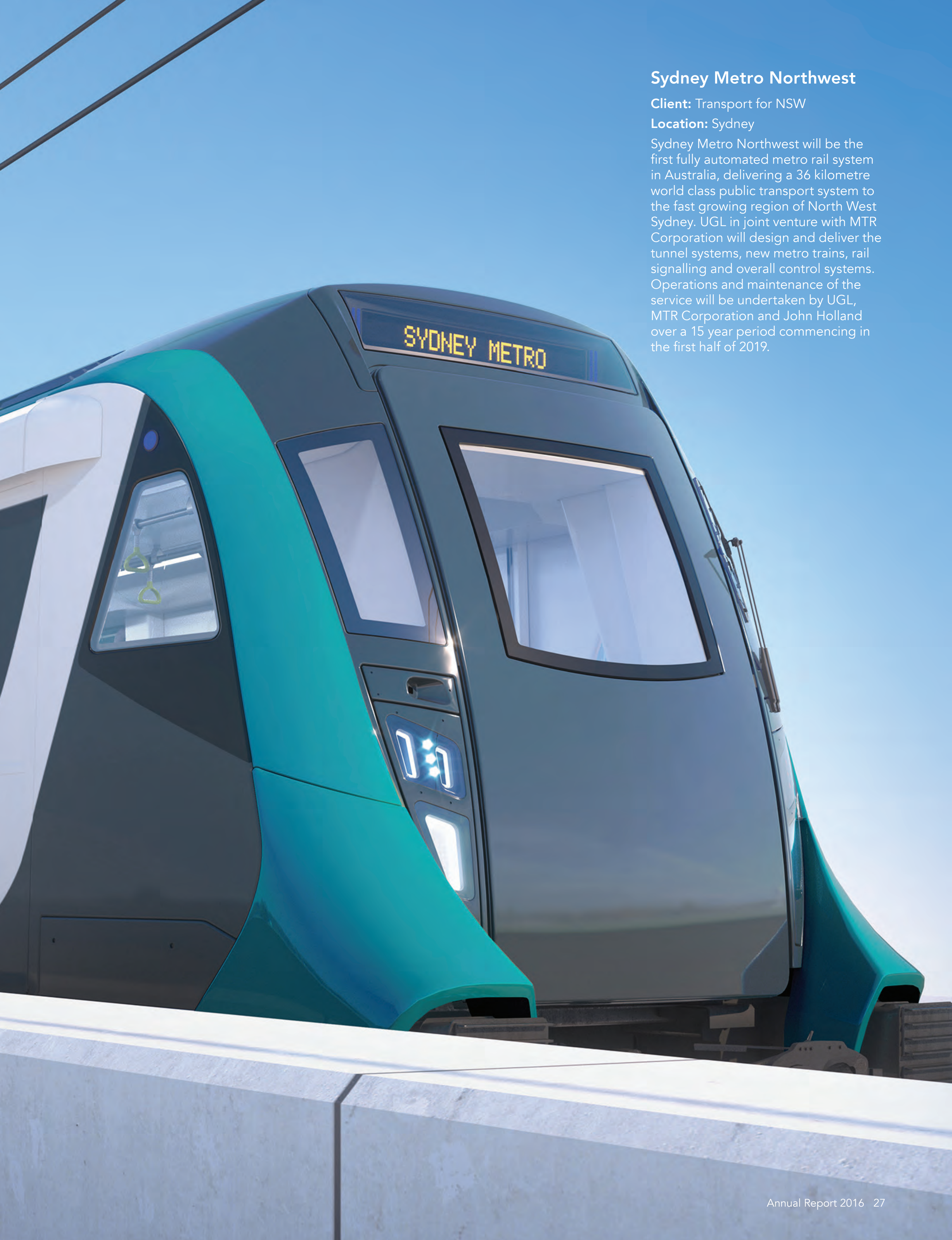
Design and installation of a radio communications system in the passenger rail sector

Digital Train Radio System

Maintenance and support of digital train radio system across electrified rail network

Footnotes:

1. Includes UGL's share of joint ventures
2. Comparative periods adjusted for restructuring costs, impairments associated with the resources slow down, settlement of project claims, change in tender capitalisation policy and goodwill impairment



Sydney Metro Northwest

Client: Transport for NSW

Location: Sydney

Sydney Metro Northwest will be the first fully automated metro rail system in Australia, delivering a 36 kilometre world class public transport system to the fast growing region of North West Sydney. UGL in joint venture with MTR Corporation will design and deliver the tunnel systems, new metro trains, rail signalling and overall control systems. Operations and maintenance of the service will be undertaken by UGL, MTR Corporation and John Holland over a 15 year period commencing in the first half of 2019.

Wagga Wagga Water Treatment Plant

Client: Riverina Water County Council

Location: Wagga Wagga, NSW

UGL is currently undertaking the design and construction of Wagga Wagga Water Treatment Plant. Wagga Wagga is a large town in the regional area of central New South Wales with water supply sourced from ground water and the Murrumbidgee River. The plant will support future population grown in the region, treating 55 megalitres of river and ground water a day. Once operational the plant will provide increased capacity and improved water quality, particularly during periods of poor river water quality such as flooding.

Engineering & Construction

"With the business resized for the current market and good momentum occurring across the water, waste water and renewable sectors, we are well placed for improved performance in FY2017."

John Greaves, EGM Engineering & Construction

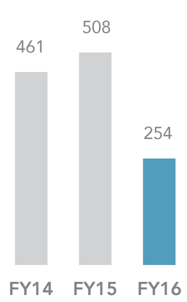
Financial Performance

Revenue for Engineering & Construction declined to $254 million impacted by the ongoing contraction in capital expenditure across the resources sector and reduced projects in the utilities sector. EBIT decreased to $13.9 million with margins impacted by restructuring costs incurred during the year to align overhead costs with the current size of market opportunity for the business.

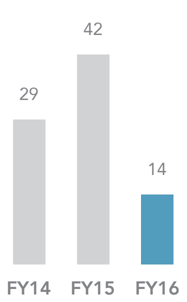
During the year, UGL secured a contract to maintain Mighty River Power's hydro and geothermal stations in New Zealand over a three year initial term, establishing an important footprint in the New Zealand energy sector. Work also commenced on the Wagga Wagga Water Treatment Plant in FY2016, following the award of a $32 million contract in July 2015.

Good momentum was achieved in the water and waste water sectors and the business gained traction in the renewable energy market this year, completing the design, installation and commissioning of the Darwin Airport Solar project. A further three solar projects are currently under construction. UGL has also been selected as the preferred contractor for Genex Power's Kidston Solar Project in North Queensland with construction expected to commence in the later part of the 2016 calendar year.

Revenue[1] ($m)



Underlying EBIT[2] ($m)



Outlook

Revenue in FY2017 is expected to increase through the delivery of work already secured, however, market conditions remain tight across the sectors in which the business operates.

At 30 June 2016, Engineering & Construction's order book was $198 million. Since year end, this has been significantly enhanced following the award of a $100 million contract by Shoalhaven City Council in August 2016 for the upgrade of the Bomaderry and Nowra Waste Water Treatment Plants.

Order Book Highlights

Shoalhaven City Council

Upgrade of two water treatment plants and construction of interconnecting pipeline

Sydney Olympic Park Authority

Long term operations and maintenance of urban water reclamation scheme

Green Square Stormwater Drain Project

Construction of 2.4km storm water drain to address flooding issues within Green Square urban renewal area

Mighty River Power

Maintenance of hydro and geothermal stations in New Zealand

Wagga Wagga Water Treatment Plant

Design and construction of 55 Megalitre per day plant

Mugga Lane Solar Park

Engineering, procurement and construction of 15MW photovoltaic solar park

Footnotes:

1. Includes UGL's share of joint ventures
2. Comparative periods adjusted for restructuring costs, impairments associated with the resources slow down, settlement of project claims and change in tender capitalisation policy

Asia

"Our international experience combined with local knowledge has allowed us to secure strong sales in the later part of the year underpinning growth in FY2017."

Edgar Ramani, CEO Asia

Financial Performance

Revenue increased in Asia to $38 million following the commencement of the Choa Chu Kang water upgrade project and First Solar building expansion.

In FY2016, UGL's Hong Kong operations were closed due to ongoing underperformance, with the Asia business now efficiently focussed on South East Asia growth opportunities. Earnings include restructuring costs associated with this further consolidation.

A number of key wins were secured during FY2016 including the upgrade of the Choa Chu Kang waterworks in Singapore, the design and construction of new module assembly building for First Solar in Kulim, Malaysia and the installation and pre-commissioning of subsea pipelines for Hess in the North Malay Basin.

Outlook

Revenue growth and a return to profitability is expected in FY2017 underpinned by projects secured in the later part of FY2016.

Asia's order book increased to $124 million at 30 June 2016 with strong prospects in the region across water and sewerage, oil and gas and specialised mechanical and electrical projects as the business leverages its strong capabilities in Singapore and Australia.

Order Book Highlights

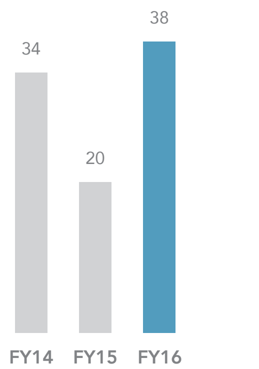
First Solar
Design and construction of new module assembly building

Klang Valley Mass Rapid Transit Line
Mechanical and electrical packages for new MRT line

Choa Chu Kang Water Works
Upgrade of existing water works featuring advanced water treatment technology

Hess Exploration & Production Malaysia
Installation and pre-commissioning of subsea pipelines in the North Malay Basin

Revenue[1] ($m)



Underlying EBIT[2] ($m)

Footnotes:
1. Includes UGL's share of joint ventures
2. Comparative periods adjusted for restructuring costs and change in tender capitalisation policy

First Solar Module Assembly Building

Client: First Solar

Location: Kulim, Malaysia

First Solar is one of the world's leading solar cell manufacturers with their main global manufacturing facilities located in Malaysia. As part of the expansion of First Solar's production facility, UGL is undertaking the design and construction of a new module assembly building with a built up area of approximately 52,000 square metres. This project is driven by First Solar's ongoing commitment to offer advanced thin film photovoltaic solutions to the renewable energy market. This project establishes UGL's presence in the industrial EPC sector which is seeing good growth in the South East Asia region as multinational companies continue to be attracted by a low cost manufacturing base.

Corporate responsibility

Shaped By Our Values, Driven By Our People

UGL is committed to corporate responsibility and to playing a role where our influence and support can help deliver benefits to the communities and environments in which we operate.

Shaped by our values, our focus on diversity and inclusion, and supporting business activity, our Corporate Responsibility framework directs the way we do business, connecting what we do with the ethical, social and environmental context; reflecting the standards of an industry-leading organisation.

UGL's Corporate Responsibility framework is our commitment to managing all of our activities in a way which delivers a positive impact socially, environmentally and across our extended communities.

1. Values

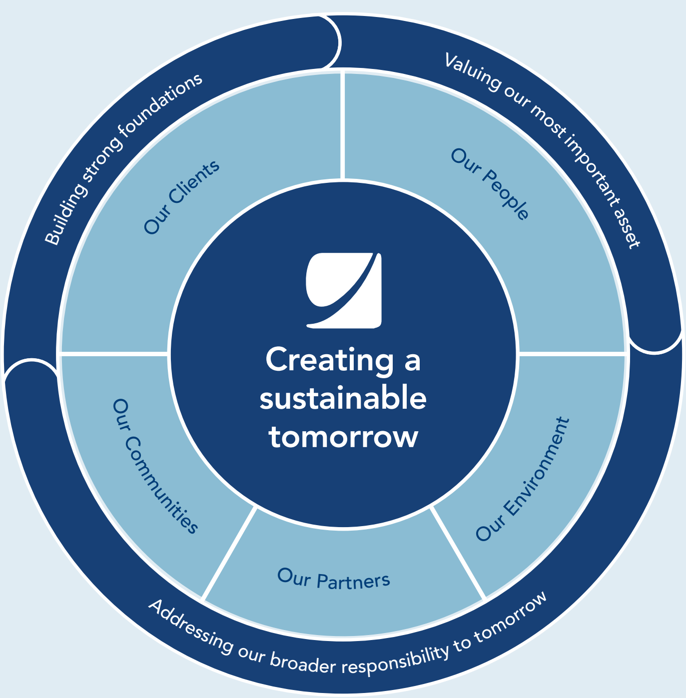
- Safety & Sustainability
- Integrity & Courage
- Client Focus
- Collaboration
- Innovation

2. Diversity & Inclusion

- Gender
- Aboriginal & Torres Strait Islanders

3. Supporting Business Activity

- Industry and market, location, project and community specific initiatives
- Returns to shareholders.



Our Commitment To Our Stakeholders

Active across Australia, New Zealand and Asia, UGL's Corporate Responsibility framework extends across our stakeholders, encompassing our Clients and our People, our Partners, our Communities and our Environment.

Our Clients

We strive to deliver exceptional service to our clients with an approach which embraces our values and the highest levels of corporate governance and ethical standards.

Our People

We value our people, their commitment to our company and their contribution to achieving our goals. Focused on safety and collaboration, integrity and courage we are increasing our investment in capability development, diversity and inclusion.

Our Partners

We partner with world-leading companies and collaborate to develop innovative and sustainable solutions, delivering the best outcomes for our clients.

Our Communities

We actively support the communities in which we operate, using local suppliers and investing in local talent wherever possible.

Our Environment

We are conscious and considerate of our environment, continually seeking to reduce the impact of our activities and operations on the land and waterways, flora and fauna.

Tarong Power Station, Stanwell Corporation

UGL's corporate responsibility is visible and valuable at the grassroots

UGL's approach to Corporate Responsibility is driven by our people, engaging with our stakeholders, working together with our communities and reducing our impact on our environments. Here is a spotlight on some of UGL's grassroots Corporate Responsibility in action in FY2016.

Our Clients in FY2016

UGL works with our clients to meet their business and operational requirements and challenges. We play a key role in looking to improve the performance, reliability and availability of key assets, reducing the costs associated with maintenance and operations, delivering key services, solutions and technologies. With safety front of mind, our people act with integrity and are focused on exceeding our clients' expectations throughout the entire lifecycle of the project.

Stanwell Corporation Ltd

Stanwell and UGL are partners in a long term relationship aimed at delivering the safest and lowest cost energy sector operations and maintenance in Australia. Stanwell and UGL collaborate, challenge the status quo and embrace innovation, resulting in strong overall business results which have led to a positive step change in safety and commercial outcomes. The Stanwell/UGL relationship is a showcase project in the energy industry for UGL due to its scale and opportunities for innovation and organic growth. Approximately 180 employees work across asset and facilities maintenance with an additional 250 people employed during outages. UGL has successfully delivered six turnaround projects and continues to work collaboratively to improve safety performance across all areas.

Corporate responsibility

Our People in FY2016

We celebrate our people by promoting their commitment to safety, recognising their years of service and how they live our values, as well as promoting diversity and inclusion.

Safety, Teamwork & Wellbeing

USafe Safety Selfie Competition

Keeping our people safe and personally involving our people in safety is critical to UGL. To understand and reflect how our people engage with our safety brand USafe, its message and associated actions and behaviours, we ran the "USafe Safety Selfie" competition - asking our people to take a Selfie and tell us "What Does USafe Mean to You?". The results demonstrate a clear understanding of the importance of USafe to our people, highlighting how UGL and our people are focused on safety and putting the welfare of themselves, their teammates and their worksites first.

UGL Kaefer (UGLK) Awarded ExxonMobil Chairman's HSE Award

Every day UGLK's team works on high risk onshore sites and offshore platforms and every year the team has continued to improve its HSE performance and results. Winning the ExxonMobil Chairman's HSE award is a demonstration of how we focus on and continuously improve HSE across UGL.

RUOK Rail Day

UGL's rail businesses and sites marked RUOK Rail Day, running a range of events and activities to support and promote the importance of mental health in the rail industry. In promoting RUOK Rail Day, Alan Beacham, Executive General Manager Rail & Defence said; "Safety, the physical and mental wellbeing of our people and people working across the rail industry is UGL's number one priority". Led by the TrackSafe Foundation, RUOK Rail Day is an important industry wide initiative focused on encouraging rail staff to talk about their emotional status. UGL is a founding member and long term partner of TrackSafe and proudly supports and promotes RUOK Rail Day.

RUOK Rail Day at UGL-Unipart Auburn

"We strongly believe in USafe and use it in our everyday lives, not only in the workplace. We gladly share our safety values with anyone and everyone."

Safety Selfie UGL-CH2M Joint Venture, Ichthys Onshore LNG Facilities CCPP Project

Recognising the Commitment and Years of Service of our People

Service awards winners celebrating 30 and 25 years with UGL in Mackay

UGL Service Awards

Through the second half of FY2016, UGL has been recognising the ongoing loyalty and commitment of employees through its Service Awards. These awards provide UGL with the opportunity to give special thanks to those employees who have contributed to the success of UGL for longer periods of time. This includes a special category for employees with over 25 years of service.

UGL Value Awards

During FY2016, UGL introduced the Value Awards, a peer recognition program that celebrates UGL values and recognises those who demonstrate those values in their day to day work. You can read more about the finalists in each value category and the overall winner of our Values Awards on pages 8 and 9.

Diversity and Equal Opportunity

International Women's Day

UGL celebrated and raised awareness around its diversity programs and initiatives on International Women's Day. Activities across our main offices and sites included inspiring guest presenters and donations to key charities and community groups.

National Reconciliation Week 2016

UGL employees across Australia took part in a range of activities to celebrate National Reconciliation Week. Building on the respectful relationships shared by Aboriginal and Torres Strait Islander people and other Australians, the activities represented an important part of UGL's ongoing reconciliation journey.

Corporate responsibility

Our Partners in FY2016

UGL partners to support a range of community and industry related initiatives aligned to our Values, our focus on Diversity and Inclusion, and supporting our projects and areas of business activity.

Partnering to Deliver

UGL and Powerlink Queensland provided funding to restore Roma's Country Women's Association (CWA)

The old building was in a state of disrepair and needed refurbishment. Working together with the CWA, UGL and Powerlink provided funding to remove the old asbestos building, upgrade the carpark and install shade structures within the grounds. The project demonstrates UGL's partnership approach, working with its customers to help deliver tangible benefits to the whole community. UGL is contracted to Powerlink to deliver a range of engineering and construction services throughout Queensland.

Partnering to Support our Industries

UGL partners with Mates in Construction

Mates in Construction (MIC) is a suicide prevention organisation focused on raising awareness, providing help, and research into this complex area. A key aspect of MIC is actively engaging industry in sustainable programs to build self-reliance and resilience within the industry. Everyone's safety and physical wellbeing is, and always should be, at the forefront of everything we do. It is an integral part of the UGL culture.

Our Communities in FY2016

UGL is active in the communities in which we operate and has a proud heritage of supporting community initiatives and programs, from hands-on help and assistance through to financial assistance and sponsorships.

Teams offering support and a helping hand

During the RUOK Rail Day sessions at UGL's Ballarat site two team members who had suffered personal illness spoke about their experiences and the impact on their families. This mobilised UGL's tightknit Ballarat team to get together to help out one of the families with repairs to their home. Over the following weekends the team provided their skills and time to repair their teammate's home and tidy their garden, including a new play area for their children. With some tools and materials, PPE and waste removal provided by UGL, this combined effort has made a real difference to the family and to the Ballarat team. UGL is a long term employer in Ballarat, with over half the workforce celebrating over 25 years with the organisation. In January 2017, one employee will celebrate his 50 year anniversary, a lifetime of service.

UGL New Zealand Signs up to Auckland Council's Youth Employment Pledge Scheme

UGL New Zealand signed up to Auckland Council's Youth Employment Pledge Scheme. UGL's approach to focus on diversity is fully aligned with the purpose of the Youth Employer Pledge. It is widely recognised across UGL that fostering a culture of diversity and inclusion is not only good for our people but also good for our business, our shareholders and the communities in which we operate.

UGL New Zealand Auckland Council Youth Employment Pledge Scheme

Light-Up UGL-Unipart

A lighting upgrade project at UGL-Unipart's Auburn facility is expected to reduce the energy used for lighting by more than 2,000MWh or about 60%, plus a reduction in annual maintenance costs. The new lighting will provide enhanced lighting quality and uniformity across the site, which is expected to boost productivity and improve worker safety. Greenhouse gas emissions will be reduced by around 1,700 tonnes per year. UGL-Unipart provides heavy maintenance and supply chain services to Sydney's 1,050 plus metro passenger carriages.

Our Environment in FY2016

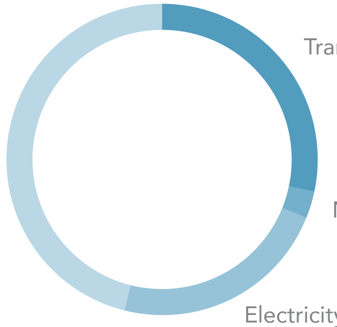
UGL recognises the importance of environmental management, conducting our operations and delivering our products and services with high standards of environmental care. Across our operations we are committed to minimising and reducing the impact of our activities on the environment and contributing to a sustainable future.

During FY2016, UGL continued to measure and monitor environmental performance indicators. Overall the results show stable performance relative to previous years. Material issues include consumption of materials, consumption of energy (and resulting greenhouse gas emissions) and environmental compliance (see Corporate Governance Statement for more details).

Energy Consumption

UGL's overall direct and indirect energy consumption remained steady in FY2016. Reduction in transport fuel consumption was offset by an increase in fuel use for project activities, primarily related to the commencement of construction on the Ichthys projects.

Energy by Source (GJ)

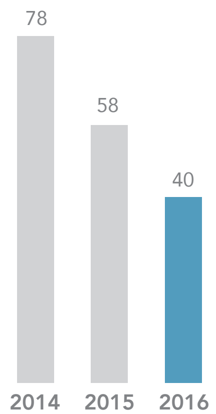


Corporate responsibility

Water

Water consumption decreased further in FY2016 primarily due to the use of less water across our maintenance activities.

Office and Facility Water Consumption (ML)



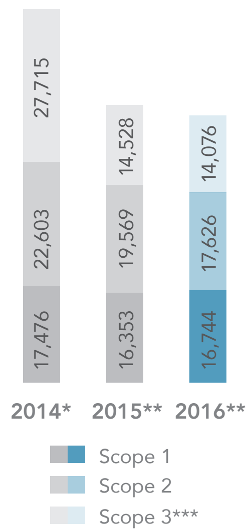
Greenhouse Gas Emissions

UGL's Scope 1 greenhouse gas emissions increased slightly in FY2016, due primarily to fuel use related to the commencement of construction on the Ichthys projects. Scope 2 emissions (derived from electricity consumption), reduced by 9 per cent. This can be attributed to a continued focus on energy efficiency and the related consolidation of some of UGL's facilities.

Overall Scope 1 and 2 greenhouse gas emissions fell slightly, since the reduction in Scope 2 emissions offset the slight increase in Scope 1 emissions. Scope 3 emissions also reduced in FY2016 to 14,076.

UGL is committed to publicly reporting our emissions under programs such as CDP (formerly the Carbon Disclosure Project - www.cdp.net). The CDP is an independent not-for-profit organisation that uses the power of measurement and information disclosure to improve the management of environmental risk.

Greenhouse Gas Emissions (t CO_2-e)



*2014 emissions include DTZ

**2015 and 2016 emissions reported regardless of operational control

***Scope 3 emissions include business travel, hotel stays, electricity, gas and other indirect emissions

ICT Server Rationalisation and Virtualisation

Throughout FY2016 UGL undertook a project to decommission a range of large legacy ICT systems located at its North Sydney headquarters. This project involved consolidating and virtualising key systems and ICT infrastructure, relocating them to externally hosted UGL Data Centres and running multiple workloads on one physical host server. With one watt-hour of energy savings at the server level generating approximately 1.9 watt-hours of facility-level energy savings, this project has produced a number of efficiencies and energy savings, reducing the number of servers required, decreasing electricity consumption and waste heat. Specific reductions and savings include:

- Reducing the energy usage at the North Sydney corporate office by over 50%; saving approximately 525,000 kWh per year. This equates to about 2.5% of UGL's overall electricity usage.
- Reducing energy usage at the externally hosted data centre by about 50%, saving about 290,000 kWh per year (this is not included in UGL's overall energy usage figure).
- Increasing performance of the retained systems which were virtualised.
- Reducing systems administration.
- Eliminating dependency on the single source power supply to the main office.

Environmental Compliance – Spills

Spills of fuel, oils and other substances demand a high level of environmental event reporting, over 85 per cent of these spills were less than 5L and could be immediately resolved with negligible impacts to the environment. Overall the practice of identifying small spills as part of regular inspections is positive and demonstrates a duty of care from our workforce related to the recognition of the importance of environmental hazard and impact reporting. The number of significant spills (>100L or 100kg) has remained steady at less than five for the last three years. UGL continues to implement strong environmental controls to reduce the total number and impact of spills, with a particular focus on eliminating significant spills.

SPILL TYPE	NUMBER OF SPILLS REPORTED
<5L	192
5 to 50L	19
51 to 100L	3
>100L (Significant Spills)	3 i. 200L lubrication oil spill into ocean after hose detached and fell overboard ii. 200-300L oil spill onto soil from leak in Intermediate Bulk Container that was draining locomotive oil iii. 150L cleaning fluid spill from drum into pallet bund after being punctured by forklift

Environmental Compliance – Performance

In FY2016, UGL did not cause any material breach of environmental legislation. UGL continually reviews and monitors its operations ensuring systems and processes are in place, aligned to client and legislated environmental requirements. Where failures are identified, detailed investigations are undertaken and potential system (or behavioural) improvements are made to prevent recurrence.

Environmental Management

UGL's management system was re-certified against ISO AS/NZ ISO 14001:2004 in FY2016. We have maintained this certification since 2004 recognising the importance of good environmental management and demonstrating a strong record of responsibility and continuous improvement.

Sustainability Reporting

UGL continued reporting to the Dow Jones Sustainability Index (www.sustainability-indices.com) and CDP in FY2016 as a means of benchmarking to assist the company in understanding and focusing on its sustainability risks and opportunities. UGL has participated in these reporting initiatives since 2012, demonstrating a track record of openness and transparency.

Image from Darwin Airport Solar Farm

Directors' report for the year ended 30 June 2016

The directors of UGL Limited (the Company or UGL) present their report on UGL and its subsidiaries (the Group), together with the consolidated financial statements of the Group for the financial year ended 30 June 2016 and the auditor's report thereon.

1. DIRECTORS

The names of the persons who have held office as a director, or have been appointed as a director, during the period since 1 July 2015 and up to the date of this report are:

NAME OF DIRECTOR	TERM IN OFFICE	QUALIFICATIONS	INDEPENDENT STATUS
Current			
Kathryn Spargo	Director since October 2010 Chairman since October 2014	LLB (Honours), BA, FAICD	Independent
Ross Taylor	Director since November 2014	B.Eng, Civil Engineering, (1st Class Honours)	Executive
John Cooper	Director since April 2015	BSc (Building) (Hons), FIE Aust, FAICD, FAIM	Independent
Guy Cowan	Director since February 2009	BSc (Hons), FCA (UK), MAICD	Independent
Jane Harvey	Director since 10 August 2015	B Com, MBA, FCA, FAICD	Independent
Richard Humphry AO	Director since October 2004	FCA, FCPA, S Fin	Independent
Robert Kaye SC	Director since 10 August 2015	LLB, LLM (Hons)	Independent
Former director			
Doug McTaggart	September 2012 – 7 August 2015	BEcon (Hons), MA, PhD, DUniv	Independent

Further detail on skills and experience is outlined on pages 12 and 13 of the annual report.

UGL Responsibilities
Current membership of Board Committees is outlined below.

REMUNERATION & PEOPLE COMMITTEE	RISK & AUDIT COMMITTEE	HEALTH, SAFETY, SECURITY & ENVIRONMENT COMMITTEE
Richard Humphry AO (Chairman)	Jane Harvey (Chairman)	Guy Cowan (Chairman)
Kathyrn Spargo	Guy Cowan	Kathryn Spargo
Robert Kaye SC	John Cooper	Ross Taylor
	Richard Humphry AO	John Cooper

Directorships of other listed companies
The following table provides all directorships of other listed companies held by each director (at the date of this report) at any time in the 3 years immediately before the end of the financial year and the period for which each directorship has been held.

	CURRENT	FORMER
K Spargo	Sonic Healthcare Limited (July 2010) Fletcher Building Limited (March 2012) Adairs Limited (May 2015) Sigma Pharmaceuticals Limited (December 2015)	Nil
R Taylor	Nil	Nil
J Cooper	Aurizon Holdings Limited (April 2012)	Southern Cross Electrical Engineering Limited (October 2007 to May 2015) NRW Holdings Limited (March 2011 to November 2015)
G Cowan	Santos Limited (May 2016)	Coffey International Ltd (February 2012 to January 2016)
J Harvey	DUET Finance Limited (August 2013) IOOF Holdings Limited (October 2005)	David Jones Limited (October 2012 to August 2014) Medibank Private Limited (September 2007 to March 2014, pre ASX listing)
R Humphry AO	Nil	Nil
R Kaye SC	Collins Food Limited (October 2014 Spicers Limited (September 2012) Magontec Limited (July 2013)	Nil

2. COMPANY SECRETARIES

The following persons hold office as Company Secretary.

Lyn Nikolopoulos was Company Secretary from October 2006 to December 2010 and was re-appointed on 29 July 2011. She has a Bachelor of Business from UTS and holds a Graduate Diploma in Applied Corporate Governance from the Governance Institute of Australia. She is a fellow of the GIA and has over 16 years' experience in a company secretary role.

Pryce Dale, General Counsel, was appointed joint Company Secretary from September 2014. He has a Bachelor of Economics and Bachelor of Law from Charles Darwin University and over 16 years' experience in both private and in-house legal practice in Australia and the UK.

3. BOARD AND COMMITTEE MEETINGS

The number of meetings of the Board of Directors and of Board Committees during the financial year and attendances for each of these meetings were:

	BOARD SCHEDULED		RISK & AUDIT COMMITTEE		REMUNERATION & PEOPLE COMMITTEE		HEALTH, SAFETY, SECURITY & ENVIRONMENT COMMITTEE	
Current Directors								
K Spargo	15	15	–	–	6	6	5	5
R Taylor	15	15	–	–	–	–	5	5
J Cooper	15	15	4	4	–	–	3	3
G Cowan	15	15	4	4	–	–	5	5
J Harvey	13	13	2	2	–	–	–	–
R Humphry AO	15	15	4	4	6	6	–	–
R Kaye SC	13	12	–	–	3	3	–	–
Former Director								
D McTaggart	2	2	–	–	–	–	–	–

Shaded column: Meetings held while a director or member, and required to attend.
Unshaded column: Meetings attended.
* Directors are invited to attend committee meetings subject to availability. The table records attendance at committee meetings as members.

4. PRINCIPAL ACTIVITIES

UGL is a leading provider of engineering, construction and maintenance services with a diversified end-market exposure across the core sectors of rail, transport & communications, technology systems, oil & gas, power, water, resources and defence.

With statutory revenue of $1.9 billion UGL employs over 10,000 people, including subcontractors, across its operations in Australia, New Zealand and South East Asia and has a customer base of large blue-chip companies, government agencies, private enterprise, and public institutions.

5. OPERATING AND FINANCIAL REVIEW

GROUP FINANCIAL PERFORMANCE

For the year ended 30 June 2016, UGL reported a loss of $106.3 million, after tax and non-controlling interests, which includes a provision for contract losses on the Ichthys CCPP and SMP projects (Ichthys) of $140 million (after tax).

Excluding Ichthys, the Group generated a reportable segment EBIT result of $65.5 million, up 37.8% on prior year excluding DTZ. Total operating revenue of $2.3 billion was in line with prior year revenues excluding DTZ (refer note A1: Operating segments).

	$'000
Divisional EBIT (excl. Ichthys)	92,231
Corporate costs	(26,737)
Group EBIT – Base business	65,494
Ichthys EBIT	(200,000)
	(134,506)
Interest expense (net)	(8,233)
Income tax benefit (net)	39,615
	(103,124)
Non-controlling interests	(3,148)
Loss for the year	(106,272)

The business converted its sales opportunities well throughout the year and achieved new contract wins and extensions of $2.4 billion resulting in a strong closing year end order book of $4.8 billion up 2%. The Group delivered planned cost reductions lifting segment EBIT margins above 3% (excluding Ichthys). UGL is on track to deliver 4% EBIT margins in FY2017, excluding Ichthys, on strong revenue growth of at least $300 million based on contracts secured in LNG maintenance and transport infrastructure.

Further details in relation to the FY2017 outlook and the performance of each division are provided in the Operational & Financial Review on pages 22 to 31. The vision and strategy for the Group as well as additional information on our operating divisions are included on pages 4 to 7.

RISKS

Managing risk plays an active and visible role within the Group supported by processes and structures to effectively manage opportunities and adverse effects within its operating environment. By effectively managing risk, the Group aims to increase the certainty of business outcomes and understanding the company's obligations to shareholders and key stakeholders, which ultimately leads to the sustainable growth for shareholders. A key priority for FY2016 was the implementation of *UGL Way*, a standardised operating methodology that will ensure core and supporting business processes are consistently performed and controlled to minimise risk and improve performance. The *UGL Way* supports the strong governance framework already in place at UGL, enabling the business to better anticipate and manage risk, and deliver improved outcomes for both customers and shareholders.

Further information on risk management, including discussion of environmental and social sustainability risks, can be found in the Corporate Governance Statement available on the company's website at www.ugllimited.com. The following outlines the material financial risks as they relate to the future financial performance of the Group.

Construction activity risk

The Group's ability to achieve sustainable shareholder returns is influenced by its ability to deliver significant and/or strategically important projects to its customers' satisfaction. Regularly scheduled project reviews are carried out on all projects within the portfolio to mitigate this risk. As discussed above, *UGL Way* has created standard and consistent operating procedures which address all phases and aspects of construction operations.

Demand risk

The markets for the Group's services are exposed to both unpredictable and cyclical commodity prices, affecting customers' ability to fund capital and operational expenditure; and Governments' capacity to invest in infrastructure and other projects. The Group mitigates this risk by maintaining a diversified business portfolio and implementing its strategy. Discussion of the UGL's four stage business plan is discussed on page 5 of the annual report.

Reputation risk

The Group relies on the strength of its reputation to help win and retain work, attract and retain employees, secure lines of credit and gain access to capital. The Group uses a range of strategies and actions to mitigate this risk linked to the Group's policies including, the Code of Ethics and Code of Conduct, anti-bribery and corruption, and whistleblowing.

LIQUIDITY AND FINANCIAL RESOURCES

Funding, liquidity and capital are managed at Group level with the divisions focused on working capital and operating cash flow management within their responsibilities. Closing cash held at year end has decreased $78.6 million due mainly to operating cash outflows of $183.0 million required to fund the Ichthys projects offset by positive cash flows generated by other divisions of $104.4 million.

The business continues to concentrate on working capital management and the benefits to operating cash flows are being achieved by working closely with customers to ensure payment terms are met and disputed claims are resolved. Focus also remains on commercial terms for new contracts providing where possible accelerated billing milestones and payments in advance.

At 30 June 2016, the Group has access to bank loan facilities totalling $347 million, with an average debt maturity of 1.7 years with undrawn capacity of $197 million. In addition the business has bank guarantee and bonding facilities of $537 million of which $341 million (63.5%) have been utilised at 30 June 2016. Net debt at 30 June 2016 is $64.6 million with a gearing ratio 16.6%, compared to net cash of $33.7 million at 30 June 2015.

Net assets reduced from $435 million to $331 million broadly as a result of the impact of the Ichthys project write downs. Total contract loss provisions increased by $39 million to $132 million principally as a result of the increase in provisions raised against the Ichthys contracts less amounts utilised during the current year.

6. DIVIDENDS PAID OR TO BE PAID

In order to conserve capital to meet cash flow obligations associated with the Ichthys projects, the Board has elected not to pay a final dividend this year. Reinstatement of dividends will be considered when underlying earnings have normalised and it is considered appropriate in the context of UGL's capital requirements and outlook.

7. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group during this financial year.

8. EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, the results of these operations or state of affairs of the Group in subsequent financial years.

9. ENVIRONMENTAL REGULATION PERFORMANCE

UGL understands the importance of governance and environmental management, to provide protection of the environment and a precautionary approach towards environmental challenges. Minimising impacts on the environment and ensuring compliance to legal and other obligations are a key priority for the Board and Management, with environmental responsibilities allocated throughout all levels of the Company. Systems and procedures are in place to ensure operations, products and services align with the Company's environmental policy and deliver on commitments to our stakeholders.

Environmental obligations are monitored by the Health, Safety, Security & Environment (HSSE) Committee and are subjected to internal and external audit in accordance with UGL's system certification to AS/NZS ISO14001, AS/NZS 4801, OHSA 18001 and AS/NZS 9001.

Based on the results of enquiries made, the directors are not aware of any material breaches of environmental legislation during the reporting period.

10. DIRECTORS' AND OFFICERS' INDEMNITY AND INSURANCE

Under its Constitution which was adopted on 30 October 2014, the Company must indemnify each Officer (as defined in the Constitution) on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses (Liabilities) incurred by the Officer as an officer of the Company or of a related body corporate.

The indemnity:

- Is enforceable without the officer having to first incur any expense or make any payment
- Is a continuing obligation and is enforceable by the Officer even though the Officer may have ceased to be an officer of the Company or of a related body corporate
- Applies to Liabilities incurred both before and after the adoption of the Constitution on 30 October 2014
- Operates only to the extent that the loss or liability is not covered by insurance.

During the financial period, the Company or a related body corporate paid an insurance premium in respect of a contract insuring directors and officers against liabilities (including costs and expenses) arising from the performance of their duties.

The directors have not included the details of the nature of the liabilities covered or the amount of the premium paid in respect of these insurance contracts, as such disclosure is prohibited under the terms of the contract.

11. REMUNERATION REPORT

COMMITTEE CHAIRMAN'S INTRODUCTORY LETTER TO SHAREHOLDERS

To drive value for shareholders in FY2016, objectives were set to achieve UGL's strategic turnaround. The objectives were:

- Increasing profitability delivered by improved project execution and right-sizing the cost base
- Converting pipeline opportunities to drive revenue growth
- Improving operating cash flow conversion to align with earnings
- Continuing to evolve the business strategy and the leadership team that drives it.

Remuneration structures were closely aligned with these objectives as well as our continued focus on safety performance. Improvements in our FY2016 remuneration structures included:

- The earnings per share (EPS) hurdle was enhanced in the FY2016 long term incentive (LTI) plan, requiring 24% compound annual growth to meet the 'threshold' hurdle and 37% to meet the 'stretch' hurdle, relative to underlying FY2015 earnings
- Statutory EPS was adopted to measure performance at vesting, for FY2016 LTI grants onwards
- A three year performance period was re-introduced for FY2016 LTI grants, aligning to UGL's annual reporting period
- A positive total shareholder return (TSR) gateway was introduced from FY2016 onwards, whereby LTIs subject to the relative TSR measure will not vest unless absolute TSR is positive
- The short term incentive (STI) scorecard approach was extended to all STI participants.

Significant progress was made against UGL's objectives, with the Company achieving a strategic turnaround in the base business. EBIT margins improved to 3.3% in the base business, excluding the Ichthys projects. Cash conversion was in excess of 100% of base business EBITDA. Importantly, safety performance as measured by Lost Time Injury Frequency Rate (LTIFR) improved by 38%.

UGL's strategic turnaround is challenging and complex. While strong performance was achieved against strategic objectives, FY2016 earnings were below target due to the Ichthys projects. This earnings result materially impacted remuneration outcomes, with the CEO Ross Taylor receiving 50% of his potential STI opportunity (100% in FY2015), and the CFO Ray Church receiving 42% of his potential STI opportunity (59% in FY2015).

The FY2016 remuneration structures delivered the right balance of recognising the significant progress made in FY2016 to achieve the turnaround program, while reducing the remuneration outcomes where key earnings targets were not achieved.

With the turnaround of the base business on track, the Company is well positioned to deliver the next stage of its strategy in FY2017: delivering strong top and bottom line growth.

On behalf of all the Directors, we continue to value your feedback and look forward to welcoming you to our 2016 Annual General Meeting.

Yours sincerely

Richard Humphry

Richard G Humphry AO
Chairman, Remuneration & People Committee

REMUNERATION REPORT CONTENTS

11.1 KEY MANAGEMENT PERSONNEL

This report details the remuneration arrangements of UGL's Key Management Personnel (KMP) for the FY2016. KMP comprise the Non-executive directors of the Company, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). In this report, the CEO and CFO are also referred to as 'executive KMP'.

UGL changed the composition of its Board during the year as reflected in the table below. There were no changes to executive KMP.

Table 1: KMP for the 2016 financial year

NAME	POSITION	DATE INDIVIDUAL BECAME A KMP (IF PARTIAL YEAR)	DATE INDIVIDUAL CEASED AS A KMP
Non-executive directors			
K Spargo	Chairman		
J Cooper	Non-executive director		
G Cowan	Non-executive director		
J Harvey	Non-executive director	10 August 2015	
R Humphry AO	Non-executive director		
R Kaye SC	Non-executive director	10 August 2015	
D McTaggart	Non-executive director		7 August 2015
Executive director			
R Taylor	CEO		
Other executive KMP			
R Church	CFO		

11.2 REMUNERATION PHILOSOPHY AND THE SENIOR EXECUTIVE REMUNERATION FRAMEWORK

Remuneration at UGL is designed to attract, motivate and retain a high performing workforce in a commercially responsible way. The key components of UGL's senior executive remuneration framework are shown below in diagram 1. Note the term 'senior executives' includes employees who hold senior operational and functional roles across the business, including the CEO and CFO.

Diagram 1: Key components of UGL's senior executive remuneration framework

Remuneration Elements		
Fixed Remuneration	**Short Term Incentive (STI)**	**Long Term Incentive (LTI)**
• Includes base salary, non-monetary benefits and superannuation. • Reviewed annually with reference to market benchmarks and factoring individual performance.	'At risk' award opportunity for the achievement of one year performance objectives linked to relevant business strategy and annual goals: • Safety thresholds apply as an eligibility gateway. • STI is adjusted for safety outcomes. • Scorecard made up of: – Majority financial performance measures – Balance in non-financial performance measures **STI deferral** • 25% of any STI award of $50,000 and over is deferred into share rights for two years. Deferral into share rights provides medium term alignment with shareholder interests and supports clawback provisions (if exercised).	• 'At risk' award opportunity for the achievement of performance hurdles, with a measurement period of three years (senior executives including the CFO), or three and four years (CEO). • Performance hurdles equally weighted: – Relative TSR – Statutory EPS • For FY2016 LTI awards onwards, no vesting against TSR hurdle unless absolute TSR is positive. • Progressive vesting scales applied to the LTI performance conditions, rewarding incremental improvement in business performance once thresholds are met. • Grant of equity awards aligns shareholder and executive interests, enhances retention of key talent and focuses executives on long term, sustainable business performance.

The Board considers that a signification portion of senior executive remuneration should be 'at risk', linked to UGL's key strategic objectives and the creation of value for shareholders. These objectives are set with reference to UGL's vision and strategic roadmap as outlined in diagram 2.

Diagram 2: Strategic roadmap to UGL's vision

FY2015
STAGE 1
Reset

- Complete project reviews and implement new initiatives
- Complete restructure of divisional and corporate overheads to right size the business
- Focus on and reduce WIP balance
- Establish an effective risk and governance framework

FY2016
STAGE 2
Turnaround

- Improve project gross margin delivery
- Convert identified pipeline opportunities
- Realise full run-rate of cost reduction initiatives implemented in FY2015
- Deliver average cash flow conversion of 100% of EBITDA excluding Ichthys CCPP & SMP

FY2017
STAGE 3
Strong Top and Bottom Line Growth

- New revenue streams to come on line driven by exposure to transport infrastructure, LNG maintenance and SE Asia
- Commencement of major contracts within Technology Systems and Asset Services divisions
- Improvement in margin due to replacement of nil margin revenue with new profitable contracts

FY2018 & BEYOND
Stage 4
Consistent Growth

- Maintain minimum organic growth of 10% p.a.
- Sustainable enterprise and industry leader
- Continue to seek opportunities for growth and value enhancement

In FY2016, UGL made significant progress towards its strategic roadmap objectives: converting pipeline opportunities to create a strong order book; improving earnings through project execution; right-sizing costs; and improving cash flow conversion.

The relationship between UGL remuneration and the above objectives, as well as enduring objectives such as safety and sustainable economic returns, is outlined in diagram 3.

Diagram 3: Linking business outcomes to rewards

	Deliver Safely	Profitability ≥industry margins	Revenue Growth	Strong Operating Cash Flow	Delivering Sustainable Economic Returns
Long term incentive plan					
Relative TSR	✓	✓	✓	✓	✓
Earnings per share		✓	✓	✓	✓
Short-term incentive plan					
Net profit after tax		✓	✓	✓	✓
Margin on sales and contract variations		✓	✓	✓	✓
Working capital improvement[1]				✓	✓
Safety	✓		✓		✓
Non-financial measures	✓	✓	✓	✓	✓

1. Working capital improvement is used for STI participants in operational roles. This covers most STI plan participants, but excludes the CEO and CFO.

11.3 REMUNERATION GOVERNANCE

11.3.1 BOARD AND REMUNERATION AND PEOPLE COMMITTEE

The Board is responsible for ensuring UGL's remuneration strategy supports company performance, is aligned with shareholder interests, and allows UGL to attract, motivate and retain high-calibre individuals who contribute to UGL's long term success.

The Board's Remuneration & People Committee (Committee), comprising solely of Non-executive directors, assists the Board by reviewing, advising and making recommendations to the Board on matters relating to remuneration and other people policies and practices. Responsibility for Board nominations and board effectiveness activities reverted from the Committee to the Board in FY2016.

During the reporting period, Robert Kaye SC joined the Committee. Current members of the Committee are:

- Richard Humphry AO (Chair)
- Kate Spargo
- Robert Kaye SC.

The specific responsibilities of the Board and the Committee are detailed in their respective charters, which are available on the UGL website at www.ugllimited.com. In summary, the Committee is responsible for making recommendations to the Board in relation to director and executive remuneration, including:

- UGL's remuneration framework and the people and culture strategy
- Equity schemes applying to employees and directors
- Executive KMP remuneration packages and performance
- Remuneration for Non-executive directors of the Board
- The superannuation administration and management arrangements across UGL
- Succession plans for the CEO and monitoring succession plans for the CEO's direct reports
- Strategies and measures for achieving workforce diversity.

The Board and Committee review, monitor, and align UGL's remuneration framework to ensure it meets regulatory requirements. The Board and Committee's decisions are informed by market practice and investors' views, while taking into account UGL's overall business strategy and key drivers.

11.3.2 REMUNERATION AND RISK

The Board and the Committee have ultimate responsibility for, and oversight of, remuneration for UGL. To ensure that senior executive variable pay entitlements and outcomes remain aligned with sustainable, long term Company performance to the benefit of shareholders, UGL's remuneration framework has various protections in place, which include:

- Directly linking STI targets to annual business plan targets
- Mandated deferral of 25% of STI awards of $50,000 and over, into equity over two years
- Clawback provisions applicable to deferred STI equity and unvested LTI grants in the event a senior executive acts fraudulently or dishonestly
- LTI performance hurdles, balanced between relative TSR and EPS, which reflect the long term performance of the business and align to shareholder wealth interests over time.

11.3.3 EXTERNAL ADVISORS AND REMUNERATION CONSULTANTS

When necessary, the Committee engages remuneration consultants to provide advice and market-related information. The Committee independently appoints its remuneration consultants and engages with them in a manner in which any information provided is not subject to undue influence by KMP to whom the recommendation relates.

The information provided by external advisors is used as an input to the Committee's considerations and decision making only. The Board has ultimate decision making authority over matters of remuneration structure and outcomes.

The Committee did not receive any 'remuneration recommendations' (as defined in section 9B of the Corporations Act) from any remuneration consultant during the course of this year.

11.4 RESPONSE TO SHAREHOLDER VOTE AGAINST 2015 REMUNERATION REPORT

At our 2015 Annual General Meeting, 45% of shareholders voted against the 2015 Remuneration Report. The following is an outline of the key concerns raised by UGL stakeholders and an explanation of UGL's position on these issues.

11.4.1 DURATION OF THE LTI PERFORMANCE PERIOD

When UGL's LTI plan was re-established in FY2015, it was implemented part way through the year and after the plan's standard grant date. This was a result of a new CEO commencing on 24 November 2014 and the DTZ sale on 6 November 2014. This resulted in the FY2015 awards having performance periods of 2 ⅓ – 2 ½ years for most participants. For FY2016 LTI awards, the performance period is 3 years.

11.4.2 USE OF TSR AS A LONG TERM PERFORMANCE MEASURE

The Board acknowledges relative TSR is affected by many factors, including industry and broader market influences. Relative TSR remains the most common performance hurdle for ASX listed companies however; adopted by 80% of ASX 100 companies and 69% of the ASX 100-300 companies.

The Board considers relative TSR to be an appropriate performance measure for UGL and has retained it in the FY2016 LTI plan. UGL's TSR hurdle ensures that a proportion of the remuneration paid to LTI plan participants is linked to shareholder value, focusing them on long term business performance, and providing alignment with shareholder interests. It provides a relative, external market performance measure, having regard to those companies with which UGL competes for capital, customers and talent.

For the TSR performance hurdle, the Board added a new condition to FY2016 awards. If the relative TSR hurdle is satisfied, UGL's TSR result must now also be positive on an absolute basis for any vesting to occur.

11.4.3 LINKING PAY TO STRETCH PERFORMANCE OUTCOMES IN THE LTI PLAN

The LTI plan has performance hurdles intended to reward performance without encouraging inappropriate risk taking. In setting EPS targets for FY2016, the Board considered UGL's five year business plan, market guidance, and shareholder expectations. The Board then set EPS threshold and stretch targets which it considered to be appropriate, requiring 24% compound annual growth to meet the 'threshold' hurdle and 37% to meet the 'stretch' hurdle, relative to underlying FY2015 earnings.

Statutory EPS has been adopted to measure performance at vesting, with the Board approving this approach for FY2016 LTI grants onwards.

11.4.4 ENCOURAGING SHARE OWNERSHIP FOR EXECUTIVE KMP AND DIRECTORS

The Board advocates employee share ownership, particularly for executive KMP and directors. Recent changes to encourage equity holdings for both executive KMP and other senior executives include the re-introduction of an LTI plan in FY2015 and a mandatory STI deferral arrangement. The Board has since adopted minimum shareholding requirements for executive KMP, effective in FY2017.

Non-executive directors have material shareholdings in UGL, enabled in part through the Directors' Share Plan. Under the plan, all Non-executive directors have a portion of their gross total fees paid as shares, equivalent to 30% of their cash fees. Non-executive directors are not entitled to sell or transfer these shares while they remain in office in order to maintain alignment with shareholder interests.

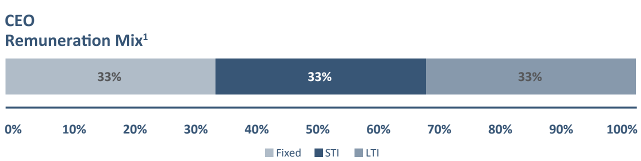
11.5 FY2016 REMUNERATION FRAMEWORK IN DETAIL

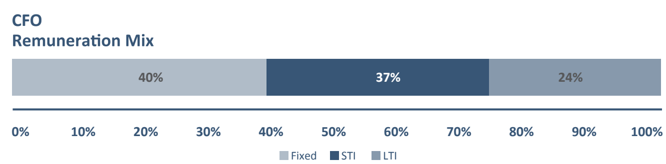
Our incentive arrangements directly link sustained Company performance and employee remuneration by requiring achievement against a number of performance related goals, many of which directly impact shareholder value over the long term.

11.5.1 REMUNERATION MIX

The ratio between fixed and variable pay incentivises senior executives to focus on UGL's short, medium and long term performance. Diagram 4 shows the CEO and CFO's remuneration mix for FY2016 i.e. the level of remuneration the CEO and CFO could expect to receive for achievement of at-risk performance measures.

Diagram 4: CEO and CFO remuneration mix based on maximum entitlements





1. The LTI component of the remuneration mix for the CEO has been pro-rated to illustrate the annualised value.

11.5.2 FIXED REMUNERATION

Senior executives receive a fixed component of remuneration. Fixed remuneration is base salary, non-monetary benefits and superannuation (where applicable). Senior executives may sacrifice part of their base salary for alternative benefits including additional superannuation contributions and motor vehicles.

Senior executives' fixed remuneration is reviewed annually based on role, individual and business performance, consideration of the relativities between senior executives, and market positioning. Market comparisons are based on independent benchmarking, analysing companies with a similar market capitalisation to UGL or companies based in similar industries.

11.5.3 SHORT TERM INCENTIVE (STI)

UGL's STI plans are 'at risk' incentive schemes linked to the achievement of specific annual financial and non-financial targets. This annual focus is balanced by the deferral of 25% of any STI award of $50,000 and over into equity for two years. This deferral aligns senior executives' interests with those of UGL shareholders over the medium term and ensures that short term performance achieved is sustainable.

In FY2016, the CEO's STI framework was aligned to the structure for other senior executive roles, whilst maintaining the same maximum STI opportunity as the current contractual arrangement (100% of fixed remuneration). Key features of the STI plan as it applies to the CEO and CFO are outlined in table 2.

Table 2: Key features of the CEO and CFO STI plan for FY2016

Overview of the STI Plan		
How much can the CEO and CFO earn?	STI opportunity ranges from zero to 100% of fixed remuneration for the CEO, and zero to 92% of fixed remuneration for the CFO.	
Thresholds and performance conditions		
Is there a threshold level of performance required?	Yes. Safety gateways measured at the group level must be passed to be eligible for an STI payment. Achievement of the thresholds does not automatically entitle the CEO and CFO to an STI award. Financial and non-financial performance measures must also be met to earn an STI payment.	
Is there an adjustment factor?	Yes. STI outcomes are subject to an adjustment within a range of +10% to – 10%, based on performance against key relevant safety measures.	
What are the performance conditions?	**Performance category**	**Performance measures**
	Financial measures (≥70% of maximum STI)	Assessed against key financial measures, including budgeted: • Net Profit After Tax (NPAT); and • Margin on Sales and Contract Variations.
	Non-financial measures (≤30 of maximum STI)	Assessed against achievement of individualised key strategic initiatives linked to Stage 2 of the strategic roadmap outlined in diagram 2.
Why have the performance conditions been selected?	**Financial measures:** NPAT and Margin on Sales and Contract Variations are determined to be the most appropriate financial measures to align behaviours with the annual earnings performance targets as set out in UGL's annual budget and strategic roadmap. NPAT ensures the CEO and CFO focus on delivering targeted earnings aligned with the current year budget, while Margin on Sales and Contract Variations ensures the CEO and CFO focus on securing new work at appropriate margins which are aligned to future earnings targets. **Non-financial measures:** focus the CEO and CFO on achieving key strategic and management improvement initiatives in the annual business plan, thereby supporting progress towards the longer term strategic roadmap.	
Setting and assessing performance		
Who sets and assesses performance?	The Remuneration & People Committee assesses the CEO's and CFO's performance against set financial and non-financial measures and subsequently make a recommendation to the Board regarding their STI payments.	
How is the STI delivered?	75% of any STI award of $50,000 and over is paid in cash, and the other 25% is provided as share rights for a two year period. The share rights convert to ordinary shares on a one-for-one basis at the end of the two year period. Share rights do not have any voting rights or entitlements to dividends.	
Cessation of employment and change of control		
What happens in the event of a change of control?	Generally, in the event of a takeover or change of control of the Company, the Board may determine to vest some or all of the share rights under the STI deferral.	
What happens in the event of cessation of employment?	In general, unvested STI awards will remain in the plan until the original vesting date.	

11.5.3.1 FY2016 STI Outcomes for the CEO and CFO

In FY2016, significant progress was made against UGL's key strategic objectives with the Company delivering:

- Revenue of $2.3 billion
- An improved EBIT margin of 3.3% for the base business, excluding the Ichthys projects
- Cash conversion in excess of 100% of EBITDA
- New contract wins and extensions of $2.4 billion, resulting in an order book of $4.8 billion
- Safety performance improving by 38% as measured by LTIFR.

UGL's strategic turnaround is challenging and complex. While strong performance was achieved against the strategic objectives, FY2016 earnings were below target due to the Ichthys projects. This earnings result materially impacted remuneration outcomes of both the CEO and CFO. The table below provides an overview of STI performance for the year for the CEO and CFO.

Table 3: CEO and CFO FY2016 performance

			Achieved	
	Measures	Results	CEO	CFO
Threshold	• Lost time injury frequency rate (LTIFR) • Personal delivery of safety conversations	• 0.6 LTIFR • Safety conversations: 13 (CEO); 10 (CFO)	✓ ✓	✓ ✓
Modifier	Safety performance: LTIFR and Total Recordable Injury Frequency Rate (TRIFR)	• 0.6 LTIFR • 4.5 TRIFR	partial	partial
Scorecard: Financial measures	Group NPAT relative to budget	($103.1m)	✗	✗
	Group Margin on Sales and Contract Variations compared to budget	$225.3m	✓	✓
	CFO overhead cost thresholds	Achieved	N/A	✓
Scorecard: Non-financial measures	Key strategic and management initiatives	• CEO: achieved • CFO: partially achieved	✓	partial

On the basis of the performance above, the Board determined that the CEO's STI award was $753,693, being 50% of his maximum opportunity (100% in FY2015). The CFO's award was $284,358, being 42% of his maximum opportunity (59% in FY2015).

11.5.4 LONG TERM INCENTIVE (LTI)

UGL's LTI plans are designed to align senior executives' long term interests with those of shareholders by providing an allocation of equity-based incentive awards which vest subject to achievement of long term performance conditions. They also encourage retention of key talent over the performance period.

The key features of the LTI plans for senior executives are detailed in the table below. LTI awards are made to senior executives, other than the CEO, on an annual basis. No award was given to the CEO in FY2016, who's last LTI award was made in FY2015 and covers the period up to 30 June 2018.

Table 4: Key features of the LTI plan

Overview of the LTI	
Who participates in the LTI plan?	Senior executives who hold senior operational and functional roles across the business, including the CFO, participate in the LTI plan on an annual basis. The CEO participates in the LTI plan but did not receive an LTI award in FY2016. Per the terms of his contract, the CEO was awarded an LTI in FY2015 for the period up to 30 June 2018.
What was awarded under the LTI plan in FY2016?	Participants received an LTI award of performance rights, the vesting of which is subject to the performance conditions outlined below. The number of rights awarded was calculated by dividing the remuneration value of the award by the volume weighted average price of UGL shares for the five-day trading period starting 1 September 2015, being $1.8992 (face value calculation).
Performance conditions	
What are the performance conditions?	LTI awards are earned only upon achievement against two financial performance measures: • Relative TSR: 50% of the LTI grant; and • EPS: 50% of the LTI grant.
Over what period is performance measured?	The LTI is subject to performance conditions over a three year period. For FY2016 awards, the performance period is from 1 July 2015 to 30 June 2018 for both the EPS and TSR measures. As previously reported, FY2015 LTI awards to the CEO have a performance period commencing on 2 March 2015 for the TSR measure and 1 July 2014 for the EPS measure. The performance period ends in two equal tranches on 30 June 2017 and 30 June 2018. FY2015 LTI awards to the CFO have a performance period commencing on 2 March 2015 for the TSR measure and 1 January 2015 for the EPS measure, ending on 30 June 2017. These awards were granted part way through the year, after the commencement of a new CEO and completion of the DTZ sale.

How are the performance conditions assessed?	*Relative TSR:* UGL's TSR is compared to the TSR of companies in the S&P/ASX 200 Industrials (Sector) accumulation index. *EPS:* UGL's EPS result measured at the end of the performance period.

▶ Relative TSR performance condition

UGL's TSR relative to the TSR performance of the comparator group over the performance period. The comparator group consists of the companies in the S&P/ASX 200 Industrials Accumulation index (ASX code XNJ) as at the start of the relevant performance period. The Board has the discretion to adjust the comparator group to take into account events including but not limited to takeovers, mergers or demergers that might occur during the performance period.

For senior executives the TSR vesting scale is:

TSR percentile	% of TSR tranche vesting
Below 50%	Nil
50%	50%
50% to 75%	Sliding scale
≥75%	100%

For FY2016 awards onwards, an additional condition was added so that no LTI will vest unless UGL's absolute TSR is positive, irrespective of the above result.

▶ EPS performance condition

The EPS vesting scale for FY2016 LTI awards is based on statutory EPS results as reported at the end of the performance period, measured on an absolute basis:

Absolute EPS	% of EPS tranche vesting
Below 35 cents per share	Nil
35 cents per share	50%
35 – 47 cents per share	Sliding scale
≥ 47 cents per share	100%

FY2015 LTI awards provided to senior executives are based on growth in underlying EPS measured at the end of the performance period as outlined below:

EPS Growth per annum	% of EPS tranche vesting
Below 5%	Nil
5%	50%
5% – 10%	Sliding scale
≥10%	100%

Why were the performance measures chosen?

Relative TSR and EPS were selected as the LTI performance measures because they provide a direct link between generation of economic returns for shareholders, UGL's business strategy and senior executives' rewards.

The Board considers these performance conditions to be appropriate because they ensure that a proportion of each senior executive's remuneration is linked to the generation of profits (expressed on a per share basis) and shareholder value through the combined application of absolute and relative performance criteria.

In particular, the use of a relative TSR based hurdle:

- Ensures alignment between comparative shareholder return and reward for the senior executive;
- Provides a relative, external market performance measure, having regard to those companies with which UGL competes for capital, customers and talent; and

For FY2016 awards onwards, vesting can only occur where absolute TSR is positive.

The EPS hurdle:

- Links senior executives' rewards to a fundamental indicator of financial performance; and
- Links directly to UGL's long term objectives of maintaining and improving earnings performance.

The use of dual performance measures combines an external market based focus through share price growth and dividends (TSR), and a non-market based internal measure aimed at driving improved Company earnings results (EPS).

Is performance subject to retesting?	No. Retesting of performance is not permitted.
Who assesses performance against targets?	The Remuneration & People Committee reviews performance against the LTI measures for the senior executives based on: independent external advice (relative TSR measure); and financial information (EPS measure). Seeking independent external advice for the TSR assessment provides objectivity and independence from management influence.
Do unvested awards receive dividends and voting rights?	No. There are no voting rights or entitlements to dividends on unvested awards under the LTI plan.

Cessation of employment and change of controls	
What happens in the event of a change of control?	Upon a change of control event, the Board may determine to vest some or all of the LTI awards. In making this determination, the Board will consider all relevant circumstances, including the performance against the TSR and EPS measures up to the date of the change of control event and the portion of the performance period that has expired.
What happens in the event of cessation of employment?	In general, unvested LTI awards are forfeited where the participant resigns. In limited circumstances, including death, serious injury, incapacity, and redundancy, the Board may allow for some or all of an individual's unvested performance rights to vest at the end of the performance period if the relevant performance conditions have been satisfied.

Key performance metrics for UGL are shown below and reflect the Company performance over the long term. Note that results prior to 2016 include contributions from DTZ, which was sold on 6 November 2014.

Table 5: Retrospective financial metrics linked to shareholder wealth

	2012	2013	2014	2015	2016
Underlying net profit after tax and non-controlling interests[1]	$168.3m	$92.1m	$111.7m	$30.3m[2]	$33.7m
Reported basic earnings per share	80.8c	21.6c	37.3c	(142.0)c	(65.0)c
Underlying earnings per share[1]	101.3c	55.4c	67.1c	18.2c	20.6c
Return on equity (annualised)	11.6%	3.7%	5.4%	3.0%	10.3%
Dividends per share	70.0c	39.0c	nil	nil	nil
Return of capital per share	nil	nil	nil	$3.00	nil
Increase/(decrease) in share price	($1.47)	($5.49)	($0.08)	($0.83)	$0.03

1. The Board believes that underlying NPAT and underlying EPS (unaudited and non-IFRS measures) provide a more accurate comparison of operating performance for shareholders as the adjustments reflect costs incurred by the Group which are associated with business acquisitions, restructuring costs and other non-recurring items.
   Underlying NPAT and non-controlling interests is adjusted for restructuring costs, DTZ separation costs, amortisation of acquired intangibles, gain on sale of property, DTZ pre-acquisition provision releases, and contract losses on the Ichthys CCPP and SMP projects.
2. Reflects partial year contribution from DTZ until date of sale on 6 November 2014.

11.6 SUMMARY OF SERVICE AGREEMENTS FOR THE CEO AND CFO

The CEO and CFO are employed under service contracts. Neither has a fixed-term contract. Termination provisions are summarised in the table below.

Table 6: Current CEO and CFO termination provisions

CURRENT EXECUTIVE KMP	PERIOD OF NOTICE FROM UGL	PERIOD OF NOTICE FROM THE EXECUTIVE KMP
R Taylor	Six months' notice (or payment in lieu)	Six months' notice
R Church	Six months' notice (or payment in lieu)	Six months' notice

The contracts for the CEO and CFO state that employment may be terminated without notice at any time for cause such as misconduct or fraud.

11.7 CEO AND CFO REMUNERATION TABLES

The table below details CEO and CFO remuneration in accordance with the Corporations Act and accounting standards.

Table 7: CEO and CFO remuneration

		SHORT TERM				POST-EMPLOYMENT	SHARE-BASED PAYMENTS	TOTAL	
	YEAR	SALARY	STI CASH BONUS[1]	NON-MONETARY BENEFITS[2]	SUB-TOTAL	SUPER-ANNUATION	VALUE OF RIGHTS[3]	$	PROPORTION OF REMUNERATION PERFORMANCE RELATED %
Executive director									
R Taylor									
CEO	2016	1,452,218	565,270	2,989	2,020,477	19,308	1,602,745	3,642,530	59.5
	2015[4]	864,043	675,000	762	1,539,805	10,957	1,071,276	2,622,038	66.6
Other executive KMP									
R Church									
CFO	2016	705,692	213,268	4,764	923,724	19,308	334,333	1,277,365	42.9
	2015[5]	209,148	82,805	199	292,152	5,563	65,310	363,025	40.8

Notes to the statutory executive KMP remuneration table
1. Bonuses relate to STIs. Bonuses disclosed for 2016 are the bonuses payable for FY2016, which will be paid 75% in cash and 25% deferred in share rights held for two years.
2. Non-monetary benefits include the cost to the Company of Fringe Benefits Tax (FBT), where applicable.
3. The fair value of performance rights is calculated at grant date using the fair value measured by reference to the vesting conditions specific to the grant, based on either the market price of the ordinary shares of UGL on the ASX at the grant date, or a binomial tree or 'Monte-Carlo' simulation option-pricing model, and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the performance rights and share rights allocated to this reporting period, adjusted for any revised fair value assessments for prior reporting periods.
4. The CEO became a KMP on 24 November 2014.
5. The CFO became a KMP on 16 March 2015.

The table below details 2016 STIs for the CEO and CFO in accordance with the Corporations Act and accounting standards.

Table 8: FY2016 short term incentives for the CEO and CFO[1]

	CASH STI BONUS	DEFERRED STI	TOTAL STI	TOTAL STI ACHIEVABLE	VESTED IN YEAR %	FORFEITED IN YEAR %
Executive director						
R Taylor						
CEO	565,270	188,423	753,693	1,500,000	50.2	49.8
Other executive KMP						
R Church						
CFO	213,268	71,090	284,358	669,900	42.4	57.6

1. Amounts included in remuneration for the financial year represent the amount related to the financial year based on achievement of specified performance criteria. Amounts forfeited are due to performance criteria not being met in relation to the current financial year. Share rights will be granted when Group bonuses are paid in October 2016 and convert to shares after two years.

11.8 NON-EXECUTIVE DIRECTOR FEES

Approach to setting Non-executive director fees

Non-executive director fees are provided for under UGL's Constitution and based on a fee for service. The Board determines Non-executive director fees based on its policy of fees being at a level to attract and retain directors of the appropriate calibre, having regard to the roles and responsibilities of Non-executive directors and external benchmarks. Fee arrangements are periodically reviewed by the Board to ensure continued alignment with the UGL's remuneration policy and external market practices. External benchmarks are based on board fee practices of companies with size and complexity similar to UGL.

The aggregate annual fees payable to Non-executive directors are limited to the maximum amount approved by shareholders. The maximum total annual amount is currently $2,300,000 as approved by shareholders at the 2011 Annual General Meeting, which includes superannuation contributions and the value of shares acquired under the Directors' Share Plan. The total fees actually paid to Non-executive directors was $1,149,822 for FY2016.

Non-executive director fee structure

Non-executive directors receive a base fee plus a fee for membership or Chairmanship of Board Committees. The Chairman, taking into account the greater time commitment required, receives a higher fee, but does not receive any additional fees for membership or Chairmanship of Board Committees. Non-executive directors receive compulsory superannuation contributions. Non-executive directors have participated in the Directors' Share Plan in FY2016, which is not linked to performance in any way. In order to maintain independence, Non-executive directors do not participate in any performance-related incentive arrangements or incentive awards made to employees.

The table below sets out the Non-executive director fee structure for the 2016 financial year. These fees include compulsory superannuation contributions and remained unchanged for the full year.

Table 9: Non-executive director Board and Committee fees for FY2016

	FEES	DIRECTORS' SHARE PLAN[2]	TOTAL FEES
Board			
Chairman[1]	288,750	86,625	375,375
Non-executive directors	105,000	31,500	136,500
Committee Chairman fees			
Risk & Audit Committee	19,845	5,954	25,799
Health, Safety, Security & Environment Committee	13,230	3,969	17,199
Remuneration & People Committee	13,230	3,969	17,199
Board Sub-Committee	N/A	N/A	N/A
Committee Membership fees			
Risk & Audit Committee	9,923	2,977	12,900
Health, Safety, Security & Environment Committee	8,820	2,646	11,466
Remuneration & People Committee	8,820	2,646	11,466
Board Sub-Committee	6,615	1,985	8,600

1. The Chairman does not receive additional fees for Committee participation.
2. Directors' Share Plan – each Non-executive director has a portion of their total fees paid as shares, equivalent to 30% of their cash fees, which are purchased on market. Non-executive directors are not entitled to sell or transfer these shares while they remain in office in order to maintain alignment with shareholder interests.

Total Non-executive director fees

The table below shows the non-executive director fees for the 2015 and 2016 financial years in accordance with the Corporations Act and accounting standards. Year on year changes in fees reflect periods of appointment and the different Board and Committee positions held including, for example, the Chairman's appointment to that role part way through FY2015.

Non-executive directors have a portion of their total fees paid as shares, equivalent to 30% of their cash fees and noted as "Other Deferred Benefits". Non-executive directors are not entitled to sell or transfer these shares while they remain in office in order to maintain alignment with shareholder interests.

Table 10: Non-executive director remuneration

		SHORT TERM			POST EMPLOYMENT			TOTAL
	YEAR	SALARY AND FEES	NON-MONETARY BENEFITS[1]	SUB-TOTAL	SUPER-ANNUATION	OTHER DEFERRED BENEFITS	SUB-TOTAL	$
Non-executive directors								
K Spargo – Chairman	2016	269,442	–	269,442	19,308	86,625	105,933	375,375
	2015	235,995	–	235,995	16,483	57,828	74,311	310,306
J Cooper	2016	109,268	157	109,425	10,380	35,907	46,287	155,712
	2015	21,055	–	21,055	2,000	6,873	8,873	29,928
G Cowan	2016	117,117	–	117,117	11,126	38,473	49,599	166,716
	2015	115,778	–	115,778	10,999	38,030	49,029	164,807
J Harvey[2]	2016	93,685	–	93,685	8,900	30,714	39,614	133,299
R Humphry AO	2016	122,628	157	122,785	11,650	40,281	51,931	174,716
	2015	118,813	2,565	121,378	11,287	39,034	50,321	171,699
R Kaye SC[2]	2016	90,125	–	90,125	8,562	29,543	38,105	128,230
Former Non-executive director								
D McTaggart[2]	2016	11,765	–	11,765	1,053	2,958	4,011	15,776
	2015	106,716	–	106,716	10,138	35,053	45,191	151,907

1. Non-monetary benefits include the cost to the Company of FBT, where applicable.
2. The remuneration for J Harvey, R Kaye SC and D McTaggart relate to the period of the financial year that the individuals were KMP.

11.9 HEDGING, MARGIN LENDING AND INSIDER TRADING POLICIES

The Board has adopted a Trading in Securities policy which outlines information relating to trading in UGL securities, including hedging, margin lending and prohibition on insider trading. The policy prohibits KMP from entering into a hedging arrangement in relation to remuneration that has not vested or has vested and is subject to a holding lock. Non-executive directors are also prohibited from hedging any vested remuneration, even where no holding lock applies. Further details of the policy are outlined in the corporate governance statement.

11.10 ADDITIONAL STATUTORY DISCLOSURES

Performance and share rights provide a right to receive a given number of shares in the Company, exercisable on a one-for-one basis, for nil consideration.

Performance rights

Vesting of performance rights is conditional on continuous employment and the achievement of performance hurdles. Should an employee terminate for a qualifying reason however, including death, serious injury, incapacity or redundancy, the Board may allow for some or all of the performance rights to remain in the plan subject to the original performance conditions.

All rights expire on the earlier of their expiry date or termination of the individual's employment, where that termination results in a forfeiture of their award.

Share rights

Share rights are issued for the 25% of STI deferred into equity subject to a two year holding lock. Share rights are converted to shares at the end of the two year holding period, and are not subject to continuous employment or the achievement of performance hurdles.

No performance or share rights have been granted since the end of the 2016 financial year.

Table 11: Analysis of rights holdings

The movement during the reporting period in the number of rights over ordinary shares in the Company held directly or indirectly by each KMP, including their related parties, is as follows:

	HELD AT 1 JULY 2015	VESTED AND/OR GRANTED AS COMPENSATION	EXERCISED[1]	OTHER CHANGES[2]	HELD AT 30 JUNE 2016	EXERCISABLE AT 30 JUNE 2016
Executive director						
R Taylor	2,575,872	118,470	–	–	2,694,342	–
Other executive KMP						
R Church	262,237	246,157	–	–	508,394	–

1. No rights were exercisable during the year.
2. Other changes represent rights that expired or were forfeited during the year.

Table 12: Analysis of rights granted as remuneration

Details of the vesting profile of the rights granted and held as at 30 June 2016 as remuneration to the CEO and CFO are presented in the table below. No rights were forfeited during the year:

		NUMBER	GRANT DATE	% VESTED IN YEAR	FINANCIAL YEAR ENDED IN WHICH GRANT MAY VEST
Executive director					
R Taylor					
Performance rights		1,287,936	11/05/2015	–	2018
Performance rights		1,287,936	11/05/2015	–	2019
Share rights[1]		118,470	24/11/2015	100%	–
	Total	2,694,342			
Other executive KMP					
R Church					
Performance rights		262,237	24/03/2015	–	2018
Performance rights		229,043	20/01/2016	–	2019
Share rights[1]		17,114	24/11/2015	100%	–
	Total	508,394			

1. Share rights convert to shares in the 2018 financial year.

Table 13: Rights granted as remuneration

Details of rights granted over ordinary shares in the Company that were granted as remuneration to the CEO and CFO during the reporting period are as follows:

	NUMBER GRANTED DURING THE YEAR	VESTING CONDITION	FAIR VALUE AT GRANT DATE $	GRANTED IN YEAR $	GRANT DATE	EXPIRY DATE	NUMBER LAPSED DURING THE YEAR
Executive director							
R Taylor							
Share rights	118,470	None	1.90	225,000	24/11/2015	1/09/2017	–
Total	**118,470**			**225,000**			
Other executive KMP							
R Church							
Performance rights	114,522	Relative TSR	1.33	152,314	20/01/2016	1/09/2018	–
Performance rights	114,521	EPS	2.13	243,930	20/01/2016	1/09/2018	–
Share rights	17,114	None	1.90	32,503	24/11/2015	1/09/2017	–
Total	**246,157**			**428,747**			
Total for executive KMP	**364,627**			**653,747**			

Table 14: Movement in shares

Movement during the reporting period in the number of ordinary shares held directly, indirectly or beneficially by each KMP, including their related parties:

	HELD AT 1 JULY 2015	RECEIVED ON EXERCISE OF OPTIONS	GRANTED AS COMPENSATION	OTHER CHANGES[1]	HELD AT 30 JUNE 2016[2]	INCLUDED AS HELD 30 JUNE 2016, HELD NOMINALLY
Directors						
K Spargo	63,521	–	–	127,407	190,928	–
J Cooper	1,562	–	–	15,220	16,782	–
G Cowan	40,082	–	–	16,486	56,568	–
J Harvey	–	–	–	25,924	25,924	–
R Humphry AO	207,531	–	–	27,325	234,856	–
R Kaye SC	–	–	–	19,084	19,084	–
R Taylor	–	–	–	–	–	–
Directors (former)						
D McTaggart	25,784	–	–	1,470	27,254	–
Other executive KMP						
R Church	–	–	–	–	–	–

1. Other changes include shares purchased for the Directors' Share Plan, and shares directors have purchased on market.
2. Where the KMP has left UGL or ceased to be classified as a KMP during the period, the balance held is the balance at the date they left the company or date ceased to be classified as a KMP.

Table 15: Unquoted rights over ordinary shares in the Company on issue as at date of this Report

EXPIRY DATE	EXERCISE PRICE	NO. OF RIGHTS
1 September 2017	$nil	3,491,158
1 September 2018	$nil	3,354,809
Total		6,845,967

Further information on rights can be found in Note C13 Share-Based Payments in the financial statements.

Table 16: Securities held by directors at the date of this Report

The directors have a relevant interest in the following number of shares and rights in the Company as at the date of this Report:

	NUMBER OF SHARES	NO. OF RIGHTS
Non-executive directors		
K Spargo – Chairman	196,046	–
J Cooper	20,873	–
G Cowan	59,438	–
J Harvey	28,718	–
R Humphry AO	237,723	–
R Kaye SC	21,631	–
Executive director		
R Taylor	–	2,694,342

12. NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with advice provided by the Risk & Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

(a) All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Risk & Audit Committee to ensure they do not impact the integrity and objectivity of the auditor

(b) The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below:

	2016 $
Amounts received or due and receivable by KPMG for:	
Audit or review of the financial statements	967,500
Other services:	
Taxation	210,000
Other	71,000
	281,000
	1,248,500

13. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 55 and forms part of the Directors' Report for the financial year ended 30 June 2016.

14. ROUNDING OF AMOUNTS

The Company is of the kind specified in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Rounding instrument) dated 1 April 2016. In accordance with this rounding instrument, amounts in the financial report and the Directors' Report have been rounded off to the nearest thousand dollars unless specifically stated to be otherwise.

Signed in accordance with a resolution of the directors.

Kathryn D Spargo
Chairman

Ross Taylor
Managing Director & CEO

19 August 2016

Lead auditor's independence declaration

Under section 307C of the *Corporations Act 2001*

To: the directors of UGL Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

S J Marshall
Lead Partner

Sydney

19 August 2016

Consolidated income statement

for the year ended 30 June 2016

	NOTE	2016 $'000	2015 $'000
Continuing operations			
Revenue	A2	1,939,479	2,011,156
Other income		6,700	–
Raw materials and consumables		(653,294)	(729,797)
Employment costs		(993,696	(973,029)
Depreciation and amortisation		(27,007)	(34,049)
Sub-contractor expenses		(90,938)	(160,807)
Rental and occupancy expenses		(33,427)	(51,963)
Communication expenses		(8,222)	(9,587)
Insurance		(10,922)	(10,598)
Plant and equipment expenses		(18,757)	(28,244)
Motor vehicle expenses		(13,642)	(17,416)
Travel		(27,203)	(24,403)
Other expenses	A3	(221,242)	(362,599)
Share of profits of equity accounted investees (net of tax)	B6	14,869	15,068
Operating loss		(137,302)	(376,268)
Finance income	A4	2,768	2,747
Finance costs	A4	(14,409)	(24,842)
Net finance costs		(11,641)	(22,095)
Loss before tax		(148,943)	(398,363)
Income tax benefit	A7	45,819	99,600
Loss from continuing operations		(103,124)	(298,763)
Discontinued operation			
Profit from discontinued operation, net of tax	E3	–	66,390
Loss for the year		(103,124)	(232,373)
Profit attributable to:			
Owners of the Company		(106,272)	(236,396)
Non-controlling interests		3,148	4,023
Loss for the year		(103,124)	(232,373)
Profit attributable to discontinued operations:			
Owners of the Company		–	66,294
Non-controlling interests		–	96
Profit for the year		–	66,390
Earnings per share			
Earnings per share from continuing and discontinued operations		CENTS	CENTS
Basic earnings per share (cents per share)	A5	(65.0)	(142.0)
Diluted earnings per share (cents per share)	A5	(65.0)	(140.0)
Earnings per share from continuing operations			
Basic earnings per share (cents per share)	A5	(65.0)	(181.8)
Diluted earnings per share (cents per share)	A5	(65.0)	(179.3)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 30 June 2016

	2016 $'000	2015 $'000
Loss for the year	(103,124)	(232,373)
Other comprehensive income from continuing operations:		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences – foreign operations	704	(24,065)
Cash flow hedges	(3,945)	2,447
Tax on items that may be reclassified subsequently to profit or loss	–	–
Total items that may be reclassified subsequently to profit or loss	(3,241)	(21,618)
Other comprehensive income from continuing operations for the year (net of tax)	(3,241)	(21,618)
Other comprehensive income from discontinued operations:		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences – foreign operations	–	28,999
Tax on items that may be reclassified subsequently to profit or loss	–	–
Total items that may be reclassified subsequently to profit or loss	–	28,999
Other comprehensive income from discontinued operations for the year (net of tax)	–	28,999
Total comprehensive income from continuing operations	(106,365)	(320,381)
Total comprehensive income from discontinued operations	–	95,389
Total comprehensive income for the year	(106,365)	(224,992)
Total comprehensive income from continuing operations attributable to:		
Owners of the Company	(109,513)	(324,308)
Non-controlling interests	3,148	3,927
Total comprehensive income for the year	(106,365)	(320,381)
Total comprehensive income from discontinued operations attributable to:		
Owners of the Company	–	95,304
Non-controlling interests	–	85
Total comprehensive income for the year	–	95,389

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 30 June 2016

	NOTE	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	C3	85,840	164,597
Trade and other receivables	B1	195,762	231,062
Inventories	B2	252,102	245,089
Income tax receivable		10,886	21,283
Other financial assets	C6	–	4,589
Total current assets		544,590	666,620
Non-current assets			
Trade and other receivables	B1	816	1,234
Other financial assets	C6	9,850	9,750
Investments accounted for using the equity method	B6	16,557	17,000
Property, plant and equipment	B4	79,255	51,749
Intangible assets	B5	325,638	338,861
Deferred tax assets	A8	206,468	154,019
Total non-current assets		638,584	572,613
Total assets		1,183,174	1,239,233
Current liabilities			
Trade and other payables	B3	413,412	415,891
Loans and borrowings	C5	20,662	13,331
Employee benefits	B7	99,355	91,056
Other financial liabilities	C7	3,940	5,114
Income tax payable		–	952
Provisions	B8	146,437	125,272
Total current liabilities		683,806	651,616
Non-current liabilities			
Loans and borrowings	C5	129,813	117,572
Employee benefits	B7	4,525	5,043
Other financial liabilities	C7	3,279	286
Deferred tax liabilities	A8	1,421	–
Provisions	B8	29,565	29,304
Total non-current liabilities		168,603	152,205
Total liabilities		852,409	803,821
Net assets		330,765	435,412
Equity			
Share capital	C8	422,656	421,293
Reserves		(26,047)	(27,109)
Retained earnings		(71,402)	34,870
Total equity attributable to owners of the Company		325,207	429,054
Non-controlling interests		5,558	6,358
Total equity		330,765	435,412

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2016

YEAR ENDED 30 JUNE 2016 $'000	ATTRIBUTABLE TO OWNERS OF THE COMPANY									
	TRANSLATION RESERVE	HEDGING RESERVE	EMPLOYEE EQUITY BENEFIT RESERVE	RESERVE FOR TREASURY SHARES	TOTAL RESERVES	SHARE CAPITAL	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at 1 July 2015	(22,733)	(172)	13,996	(18,200)	(27,109)	421,293	34,870	429,054	6,358	435,412
(Loss)/profit for the year	–	–	–	–	–	–	(106,272)	(106,272)	3,148	(103,124)
Foreign currency translation differences	704	–	–	–	704	–	–	704	–	704
Changes in cash flow hedges taken to equity	–	(2,151)	–	–	(2,151)	–	–	(2,151)	–	(2,151)
Net change in fair value of cash flow hedges transferred to the initial carrying amount of the hedged item	–	3,904	–	–	3,904	–	–	3,904	–	3,904
Hedge close out transfer to income statement	–	(5,698)	–	–	(5,698)	–	–	(5,698)	–	(5,698)
Income tax	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	704	(3,945)	–	–	(3,241)	–	(106,272)	(109,513)	3,148	(106,365)
Transactions with owners in their capacity as owners:										
Share-based payments	–	–	4,039	–	4,039	–	–	4,039	–	4,039
Treasury shares transferred	–	–	–	264	264	–	–	264	–	264
Sale of unexercised options	–	–	–	–	–	1,363	–	1,363	–	1,363
Dividends to owners	–	–	–	–	–	–	–	–	(3,948)	(3,948)
Total transactions with owners	–	–	4,039	264	4,303	1,363	–	5,666	(3,948)	1,718
Balance at 30 June 2016	(22,029)	(4,117)	18,035	(17,936)	(26,047)	422,656	(71,402)	325,207	5,558	330,765

YEAR ENDED 30 JUNE 2015 $'000	TRANSLATION RESERVE	HEDGING RESERVE	EMPLOYEE EQUITY BENEFIT RESERVE	RESERVE FOR TREASURY SHARES	TOTAL RESERVES	SHARE CAPITAL	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at 1 July 2014	(11,936)	(2,956)	23,538	(28,465)	(19,819)	910,836	281,257	1,172,274	12,818	1,185,092
(Loss)/profit for the year	–	–	–	–	–	–	(236,396)	(236,396)	4,023	(232,373)
Foreign currency translation differences	4,945	–	–	–	4,945	–	–	4,945	(11)	4,934
Gains on cash flow hedges taken to equity	–	18,493	–	–	18,493	–	–	18,493	–	18,493
Net change in fair value of cash flow hedges transferred to the initial carrying amount of the hedged item	–	(16,046)	–	–	(16,046)	–	–	(16,046)	–	(16,046)
Total comprehensive income for the year	4,945	2,447	–	–	7,392	–	(236,396)	(229,004)	4,012	(224,992)
Transactions with owners in their capacity as owners:										
Share-based payments	–	–	523	–	523	–	–	523	–	523
Treasury shares transferred	–	–	–	200	200	–	–	200	–	200
Transfer of vested shares	–	–	(10,065)	10,065	–	–	–	–	–	–
Transfer to profit on sale of subsidiaries	(15,742)	337	–	–	(15,405)	–	–	(15,405)	(5,735)	(21,140)
Return of capital	–	–	–	–	–	(489,543)	–	(489,543)	–	(489,543)
Dividends to owners	–	–	–	–	–	–	(9,991)	(9,991)	(4,737)	(14,728)
Total transactions with owners	(15,742)	337	(9,542)	10,265	(14,682)	(489,543)	(9,991)	(514,216)	(10,472)	(524,688)
Balance at 30 June 2015	(22,733)	(172)	13,996	(18,200)	(27,109)	421,293	34,870	429,054	6,358	435,412

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 30 June 2016

	NOTE	2016 $'000	2015 $'000
Cash flows from operating activities			
Cash receipts from customers		2,171,656	2,862,711
Cash payments to suppliers and employees		(2,259,710)	(2,781,114)
Interest received		2,737	3,818
Interest and other costs of finance paid		(11,689)	(31,314)
Distributions from equity accounted investees		15,362	16,938
Income taxes refunded/(paid)		4,584	(6,054)
Net cash (used in)/from operating activities	C4	(77,060)	64,985
Cash flows from investing activities			
Payments for plant and equipment		(11,082)	(17,556)
Proceeds from sale of property, plant and equipment		1,462	5,343
Payments for intangibles		(6,374)	(12,679)
Proceeds from sale of discontinued operation	E3	–	1,087,227
Investment in unlisted company		(100)	–
Investments in associates and joint ventures		(50)	(106)
Net cash (used in)/from investing activities		(16,144)	1,062,229
Cash flows from financing activities			
Return of capital	C8	–	(489,543)
Proceeds from borrowings		165,400	227,472
Repayment of borrowings		(145,593)	(867,839)
Payment of finance lease liabilities		(224)	(1,643)
Proceeds from sale of expired options		1,363	–
Dividends paid to owners	A6	–	(9,991)
Dividends paid to non-controlling interests		(6,377)	(944)
Net cash from/(used in) financing activities		14,569	(1,142,488)
Net decrease in cash and cash equivalents		(78,635)	(15,274)
Cash and cash equivalents at 1 July		164,597	179,230
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(122)	641
Cash and cash equivalents at 30 June	C3	85,840	164,597

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated cash flows for 2015 refer to the results of the UGL Limited consolidated group, including the DTZ businesses sold classified as a discontinued operation (See Note E3: Assets held for sale and discontinued operations).

Notes to the financial statements

for the year ended 30 June 2016

Notes to the financial statements – basis of preparation

for the year ended 30 June 2016

BASIS OF PREPARATION

UGL Limited (the Company or the parent entity or UGL) is a company incorporated and domiciled in Australia. The consolidated financial statements of the Company for the year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the Group or the consolidated entity) and the Group's interest in associates and jointly controlled entities.

The Group is a for-profit entity and is a leading provider of end-to-end outsourced engineering, asset management and maintenance services with a diversified end-market exposure across core sectors of rail, transport & technology systems, power, resources, water and defence.

The consolidated financial statements were authorised for issue by the directors on 19 August 2016.

The consolidated financial report is a general purpose financial report which:

- has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*;
- complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB);
- is presented in Australian dollars, which is the Company's functional currency, with all values rounded off to the nearest thousand dollars, unless otherwise stated; and
- has been prepared in accordance with the historical cost convention and except for derivative financial instruments, which are stated at fair value, does not take into account changing money values or fair values of assets.

Significant accounting policies have been:

- included in the relevant note to which each policy relates, other than the accounting policy for foreign currency, set out below; and
- consistently applied to all periods presented in these consolidated financial statements.

Accounting policy: Foreign currency

Transactions

Foreign currency transactions are initially translated to the respective functional currencies of Group companies at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the reporting date. Foreign exchange differences are generally recognised in the income statement, except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income and accumulated within equity in the hedging reserve.

Foreign operations

The assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated into Australian currency at rates of exchange current at the reporting date, while revenues and expenses are translated at approximately the exchange rates ruling at the date of the transaction. Exchange differences arising on translation are recognised in other comprehensive income and accumulated within equity in the translation reserve.

Judgements, estimates and assumptions

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions.

- This may affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
- Estimates and underlying assumptions are reviewed on an ongoing basis.
- Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.
- Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:
  - Note A2: Revenue – Construction contracts
  - Note A8: Deferred tax assets and liabilities – Recovery of deferred tax assets
  - Note B5: Intangibles assets – Goodwill and intangibles
  - Note D1: Subsidiaries – Control assessment

Liquidity

The consolidated financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group has total net assets of $330.8 million, but recorded a consolidated deficiency of net current assets of $139.2 million as at 30 June 2016, principally as the result of the recognition of construction contract losses on the Ichthys CCPP and SMP projects.

The directors consider that the going concern basis of preparation is appropriate based on forecast cash flows from the Group's diverse business divisions that have been, and continue to be, profit making and cash flow positive; and the anticipated receipt of a contract claim on the Ichthys SMP project, with good faith commercial negotiations with the client at an advanced stage.

The Group has continuing unutilised debt facilities available at year end, has complied with all covenants, and has the continued support of its financiers. Should there be a significant delay in the receipt of the above claim, which is considered unlikely, the Group may require additional funding beyond its existing financing arrangements, which the Group considers to be readily available.

Changes in significant accounting policies

The Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current accounting period. Their adoption has not had any material impact on the Group's assets, profits or earnings per share for the year ended 30 June 2016.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are relevant to the Group's operations but are not mandatory for the 30 June 2016 accounting period. The Group's assessment of the impact of these is set out below.

Accounting standard	Requirement	Impacts in future periods
AASB 9 *Financial Instruments*	AASB 9 will become mandatory for the Group's annual reporting period ending 30 June 2019. It addresses the classification, measurement and de-recognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model. The standard also introduces expanded disclosure requirements and changes in presentation.	As the new hedging rules align hedge accounting more closely with the Group's risk management practices it is expected that it will be easier to apply hedge accounting in the future. The new impairment model includes expected credit loss, which may result in earlier recognition of credit losses. The Group does not plan to adopt this standard early, and the full extent of the impact has not yet been determined.
AASB 15 *Revenue from Contracts with Customers*	AASB 15 will become mandatory for the Group's annual reporting period ending 30 June 2019. It replaces the existing revenue standard and interpretations and is based on the identification of performance obligations under a contract to determine revenue treatment.	Management is currently assessing the impact of the new rules, noting that application of the new standard to traditional construction contracts is expected to result in a revenue accounting outcome broadly similar to the present current stage of completion method. Management will review new and existing contracts to ensure that enforceable contractual rights and obligations satisfy the revenue recognition criteria. The Group does not expect to adopt the new standard before 1 July 2018.
AASB 16 *Leases*	AASB 16 will become mandatory for the Group's annual reporting period ending 30 June 2020, replacing the existing leases standard. The new standard removes the distinction between operating and finance leases, recognising all lease assets and liabilities on balance sheet, with limited exceptions for short-term leases and leases of low value assets.	The change will result in a more front-loaded expense pattern for operating leases as compared to current straight-lining, with lease expense allocated to interest and depreciation. The Group does not plan to adopt this standard early, and the full extent of the impact has not yet been determined.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods.

Notes to the financial statements – group performance for the year ended 30 June 2016

A. GROUP PERFORMANCE

This section explains the results and performance of the Group for the year, including segment information, earnings per share and taxation. The Group's key performance measures are segment revenue and segment results before interest and tax (Segment EBIT). Further information and analysis of performance can be found in the Operational and Financial Review, which forms part of the Directors' Report.

A1: Operating segments

From 6 June 2016 the Group is organised into six business divisions, based on their products and services. These business divisions are identified as operating segments based on the internal reporting provided to the Group's CEO to enable assessment of performance and informed decisions about the allocation of resources.

Operations of each reportable segment:

- Rail & Defence: operates extensively across both the passenger and freight rail markets in rolling stock supply and asset management. The business also provides naval ship maintenance.
- Asset Services: offers industry leading services in maintenance, shutdowns and turnarounds in the liquefied natural gas, minerals processing, petroleum, power, and water sectors. The business is Australia's largest LNG maintenance service provider.
- Technology Systems: an industry leader in road tunnel and rail infrastructure systems and provides signalling communications and telecommunications solutions across a range of sectors.
- Engineering & Construction: delivers complex projects from the initial design through to procurement, construction and final commissioning in the power, water and resources sectors.
- Asia: provides water infrastructure capabilities in Singapore and Malaysia; and transport systems and oil and gas pipeline services principally in South East Asia.
- Ichthys CCPP & SMP projects: Joint venture projects for the construction of a combined cycle power plant; and for structural, mechanical and piping construction on the Ichthys LNG Project in Darwin, Australia.

Management measures performance based on segment results before interest and income tax (Segment EBIT); and after adjusting for non-recurring expenditure.

Revenue from external customers is measured in a manner consistent with that in the income statement except for the proportional consolidation of the results of equity accounted associates and joint ventures for management reporting purposes.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items include head office expenses. Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Prior to 6 June 2016 the Group was organised into five business divisions, with the Ichthys CCPP & SMP projects included in the Engineering & Construction division.

Rail activities based in Hong Kong, previously reported in the Rail & Defence division have been transferred to the Asia division.

Comparative information for the year ended 30 June 2015 has been restated to reflect these changes.

The measurement basis for reportable segment results in both periods remains the same, except for the allocation of the contract loss provision of $175 million in the year ended 30 June 2015 to the Ichthys CCPP & SMP projects division, previously reported as a reconciling unallocated expense item.

$'000	RAIL & DEFENCE	ASSET SERVICES	TECHNOLOGY SYSTEMS	ENGINEERING & CONSTRUCTION	ASIA	SUB TOTAL	ICHTHYS CCPP & SMP PROJECTS	REPORTABLE SEGMENTS	CORPORATE/UNALLOCATED	ELIMINATIONS	TOTAL
2016											
External revenues	941,539	555,336	198,567	253,109	37,857	1,986,408	295,281	2,281,689	–	–	2,281,689
Inter-segment revenue	213	2,026	966	747	112	4,064	–	4,064	–	(4,064)	–
Total reportable segment revenue	**941,752**	**557,362**	**199,533**	**253,856**	**37,969**	**1,990,472**	**295,281**	**2,285,753**	**–**	**(4,064)**	**2,281,689**
Reconciliation:											
Revenue – joint ventures and associates										(342,210)	(342,210)
Consolidated revenue											**1,939,479**
Reportable segment results (Segment EBIT)	**49,871**	**24,074**	**11,733**	**13,856**	**(7,303)**	**92,231**	**(200,000)**	**(107,769)**	**(26,737)**	**–**	**(134,506)**
Reconciliation:											
Interest income	706	5	1,235	1	34	1,981	408	2,389	379	–	2,768
Interest expense									(10,650)	–	(10,650)
Interest expense in equity accounted results										(351)	(351)
Tax on equity accounted income										(6,204)	(6,204)
Consolidated loss before income tax from continuing operations											**(148,943)**

$'000	RAIL & DEFENCE	ASSET SERVICES	TECHNOLOGY SYSTEMS	ENGINEERING & CONSTRUCTION	ASIA	SUB TOTAL	ICHTHYS CCPP & SMP PROJECTS	TOTAL
2015								
UGL Engineering – continuing								
External revenues	977,670	461,615	225,876	507,033	19,717	2,191,911	128,558	2,320,469
Inter-segment revenue	254	1,590	5,439	711	22	8,016	–	8,016
Total reportable segment revenue	977,924	463,205	231,315	507,744	19,739	2,199,927	128,558	2,328,485
Reportable segment results (Segment EBIT)	34,461	8,522	10,304	41,952	(7,882)	87,357	(175,000)	(87,643)
Interest income	710	–	447	15	40	1,212	–	1,212

$'000	UGL ENGINEERING – CONTINUING	DTZ PROPERTY – DISCONTINUED	REPORTABLE SEGMENTS	CORPORATE/UNALLOCATED	ELIMINATIONS	TOTAL
2015						
Reportable segment revenue						
External revenues	2,320,469	728,138	3,048,607	–	–	3,048,607
Inter-segment revenue	8,016	1,010	9,026	–	(9,026)	–
Total reportable segment revenue	2,328,485	729,148	3,057,633	–	(9,026)	3,048,607
Reconciliation:						
Revenue – joint ventures and associates					(319,947)	(319,947)
Elimination of discontinued operation					(717,504)	(717,504)
Consolidated revenue						2,011,156
Reportable segment results (Segment EBIT)	(87,643)	27,797	(59,846)	(39,826)	–	(99,672)
Reconciliation:						
Claims resolution and settlement				(39,777)	–	(39,777)
Goodwill impairment				(62,970)	–	(62,970)
Asset impairment and provisions				(79,443)	–	(79,443)
Redundancy and restructure costs				(43,606)	–	(43,606)
Tender costs written off				(18,927)	–	(18,927)
Interest income	1,212	1,008	2,220	1,535	–	3,755
Interest expense				(29,302)	–	(29,302)
Tax on equity accounted income					(6,888)	(6,888)
Elimination of discontinued operation					(21,533)	(21,533)
Consolidated loss before income tax from continuing operations						(398,363)

Notes to the financial statements – group performance

for the year ended 30 June 2016

A1: Operating segments – (continued)

$'000	DEPRECIATION & AMORTISATION	SHARE OF PROFIT – EQUITY ACCOUNTED INVESTEES	ASSETS	EQUITY ACCOUNTED INVESTMENTS	CAPITAL EXPENDITURE
Other segment information					
2016					
Continuing operations:					
Rail & Defence	4,678	14,477	446,551	16,115	34,876
Asset services	4,049	392	183,476	442	5,326
Technology systems	1,249	–	143,342	–	44
Engineering & Construction	4,445	–	93,898	–	1,274
Asia	217	–	32,254	–	73
Ichthys CCPP & SMP projects	3,116	–	165,341	–	3,116
Reportable segments	17,754	14,869	1,064,862	16,557	44,709
Corporate/unallocated	9,253	–	118,312	–	5,375
Total	27,007	14,869	1,183,174	16,557	50,084
2015					
Continuing operations:					
Rail & Defence	3,910	15,068	547,908	17,000	5,176
Asset services	2,529	–	156,942	–	2,457
Technology systems	2,028	–	118,106	–	2,405
Engineering & Construction	9,083	–	78,528	–	4,638
Asia	57	–	12,922	–	213
Ichthys CCPP & SMP projects	101	–	44,399	–	1,794
Reportable segments	17,708	15,068	958,805	17,000	16,683
Corporate/unallocated	16,341	–	280,428	–	4,748
Total	34,049	15,068	1,239,233	17,000	21,431

	2016 $'000	2015 $'000
Other material items, included in segment results:		
Ichthys CCPP & SMP projects		
Provisions for contract losses	200,000	175,000
Geographical information (continuing operations):		
Revenues from external customers based on the location of the customer:		
Australia	1,884,444	1,977,689
Other countries	55,035	33,467
	1,939,479	2,011,156
Non-current assets based on geographical location of assets (continuing operations):		
Australia	404,202	389,968
Other countries	691	642
	404,893	390,610

Revenue from one customer in the Ichthys CCPP & SMP projects segment represents approximately $295 million (2015: $129 million) of the Group's total revenue from continuing operations.

A2: Revenue

	2016 $'000	2015 $'000
Construction contracts	937,757	1,027,442
Services	959,406	917,329
Sale of goods	42,316	66,385
	1,939,479	2,011,156

Recognition and measurement

Construction contracts

Contract revenue results from construction projects in the power, water and resources sector, and construction of locomotives and rolling stock for the passenger and freight rail markets.

Contract revenue is recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, costs to date can be clearly identified and total contract revenue and costs to complete can be reliably estimated. Two or more contracts are treated as a single contract where the contracts are negotiated as a single package, are closely interrelated and are performed concurrently or in a continuous sequence.

Profit recognition for lump sum fixed price contracts does not commence until cost to completion can be reliably measured. This is generally at 20% complete.

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred. An expected loss is recognised immediately as an expense.

Services

Service revenue arises from maintenance and other services supplied to oil, gas, power and water facilities; and maintenance of rail systems, locomotives and wagons.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at reporting date. The stage of completion is assessed by reference to work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or if the costs incurred or to be incurred cannot be measured reliably.

Sale of goods

Sale of goods revenue arises from the supply of spare parts to the passenger and freight rail markets.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue from sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Key estimates and judgements
Construction contracts
Revenue from construction contracts is recognised using the percentage of completion method. Stage of contract completion is generally measured by reference to physical completion. An assessment of total labour hours and other costs incurred to date as a percentage of estimated total costs for each contract is used if it is an appropriate proxy for physical completion. Task lists, milestones, etc. are also used to calculate or confirm the percentage of completion if appropriate.

Judgement is exercised in determining the stage of completion of the contract, and in reliably estimating the total contract revenue and contract costs to completion, including assessment of the recoverability of claims and variations under the contract.

A3: Expenses

	2016 $'000	2015 $'000
Profit before income tax from continuing operations includes the following:		
Specific expenses:		
Rental expenses – operating leases	30,701	47,839
Defined contribution superannuation plans contributions	62,612	53,161
Equity-settled share-based payments	3,301	699
Net realised foreign exchange losses	1,062	1,436
Significant expenses:		
Included in Raw materials and consumables, Employment costs, and Rental and occupancy expenses:		
Restructuring and redundancy costs	–	43,606
Claims resolution and settlement	–	39,777
Write down of inventory	–	5,261
Provision for onerous leases	–	11,588
Included in other expenses:		
Provision for contract losses	200,000	175,000
Impairment of goodwill	–	62,970
Impairment of development costs	–	51,305
Impairment of joint venture investment	–	9,796
Write down of tender costs	–	18,927

A4: Finance costs/income

	2016 $'000	2015 $'000
Finance costs:		
Interest expense	10,650	22,046
Other borrowing costs	3,759	2,796
	14,409	24,842
Finance income:		
Interest revenue	(2,768)	(2,747)
	(2,768)	(2,747)

Recognition and measurement
Finance costs comprise interest expense on borrowings, unwinding of discount, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss.

Interest revenue is recognised as it accrues, using the effective interest method.

A5: Earnings per share

The calculation of earnings per share is based on the following profit/(loss) attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

	2016 $'000	2015 $'000
Net loss attributable to ordinary shareholders of the Company – continuing operations	(106,272)	(302,690)
Net profit attributable to ordinary shareholders of the Company – discontinued operations	–	66,294
	(106,272)	(236,396)

	2016 NO.	2015 NO.
Weighted average number of ordinary shares used in calculating basic earnings per share	163,509,945	166,511,240
Effect of dilutive securities:		
– options and rights	132,825	2,276,638
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	163,642,770	168,787,878

	2016 CENTS	2015 CENTS
Continuing operations:		
Basic earnings per share (cents per share)	(65.0)	(181.8)
Diluted earnings per share (cents per share)	(65.0)	(179.3)
Discontinued operations:		
Basic earnings per share (cents per share)	–	39.8
Diluted earnings per share (cents per share)	–	39.3
From continuing and discontinued operations:		
Basic earnings per share (cents per share)	(65.0)	(142.0)
Diluted earnings per share (cents per share)	(65.0)	(140.0)

Basic earnings per share
Basic earnings per share is determined by dividing net profit after income tax attributable to ordinary shareholders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

A6: Dividends

No interim or final dividends were paid in the 2016 financial year (2015: $nil). The directors have not declared a final dividend for the 2016 financial year.

An unfranked dividend of $9,991,000 (6 cents per share) was paid in November 2014, as a component of the $3.00 per share distribution ($2.94 per share: capital return) made from proceeds arising on the sale of the DTZ business, and approved by shareholders at the Company's Annual General Meeting held on 30 October 2014 (Refer Note C8: Share capital).

Dividend franking account – Company
Franking credits at a tax rate of 30% (2015: 30%) available to shareholders of UGL for subsequent financial years amount to $3,183,000 (2015: $3,400,000).

The above amounts represent the balance of the dividend franking account at year end adjusted for:

A6: Dividends – (continued)

(i) franking credits that will arise from the payment of the current tax liability;

(ii) franking debits that will arise from the payment of dividends recognised as a liability at the year-end; and

(iii) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has assumed the benefit of all franking credits.

Recognition and measurement
Dividends are recognised as a liability in the period in which they are declared.

	2016 $'000	2015 $'000
A7: Income tax benefit		
Income tax recognised in profit or loss		
Current year expense/(benefit)	5,202	(13,011)
Deferred tax benefit – origination and reversal of temporary differences	(51,028)	(87,452)
Adjustments for prior years	7	863
	(45,819)	(99,600)
Deferred income tax benefit included in tax expense comprises:		
Increase in deferred tax assets	(44,874)	(76,760)
Decrease in deferred tax liabilities	(6,154)	(10,692)
	(51,028)	(87,452)
Reconciliation of effective tax rate		
Loss before income tax expense – continuing operations	(148,943)	(398,363)
Tax at the Australian tax rate of 30% (2015: 30%)	(44,683)	(119,509)
Adjusted for:		
– equity-settled share-based payments	990	365
– impairment of intangibles	–	18,891
– other non-deductible/assessable items	129	(101)
– finance costs	–	(1,226)
– equity accounted investee income	(4,344)	(4,291)
– capital gains tax	–	3,063
– overseas tax rate differential	–	272
– tax losses recouped	2,082	2,073
Over provision in prior years	7	863
Income tax benefit – continuing operations	(45,819)	(99,600)

	2016 $'000	2015 $'000
A8: Deferred tax assets and liabilities		
(a) Recognised deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Gross deferred tax assets		
Provisions	56,230	54,402
Employee benefits	33,303	30,053
Property, plant and equipment	4,792	6,912
Inventories	3,884	4,141
Income recognition	2,064	–
Deferred expenditure	88	223
Tax losses/credits	108,931	68,687
	209,292	164,418
Amount netted against deferred tax liabilities	(2,824)	(10,399)
Net deferred tax assets	206,468	154,019
Gross deferred tax liabilities		
Property, plant and equipment	(2,650)	(4,216)
Income recognition	–	(2,944)
Deferred expenditure	(1,590)	(2,765)
Other	(5)	(474)
	(4,245)	(10,399)
Amount netted against deferred tax assets	2,824	10,399
Net deferred tax liabilities	(1,421)	–

	DEFERRED TAX ASSETS $'000	DEFERRED TAX LIABILITIES $'000
(b) Deferred tax movements		
At 1 July 2014	87,658	(21,091)
Credited:		
– to profit or loss	76,760	10,692
At 30 June 2015	164,418	(10,399)
Credited:		
– to profit or loss	44,874	6,154
At 30 June 2016	209,292	(4,245)
Set off of deferred tax within the same tax jurisdiction	(2,824)	2,824
Net deferred tax	206,468	(1,421)

	2016 $'000	2015 $'000
(c) Unrecognised deferred tax balances		
Deferred tax assets		
Tax losses – revenue	4,309	2,941
Tax losses – capital	–	–
	4,309	2,941
The deferred tax assets arising from tax losses of subsidiaries have not been recognised as an asset because it is not probable that future tax profit will be available against which the Group can utilise this benefit.	4,309	2,941

Recognition and measurement

Income tax on the profit or loss for the financial year comprises current and deferred tax. It is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is:

- Recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
- Not recognised for the following temporary differences arising from:
  - the initial recognition of assets or liabilities that affects neither accounting nor taxable profit or loss;
  - investments in subsidiaries and joint arrangements to the extent that the Group is able to control the reversal and it is probable that they will not reverse in the foreseeable future; and
  - the initial recognition of goodwill.
- Measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is UGL Limited.

Key estimates and judgements

Recoverability of deferred tax assets

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used.

Judgement is required when deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that future taxable profits will be available.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows.

Changes in expectations for the future performance of the business may impact the amount of deferred tax assets recoverable and recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised.

B. OPERATING ASSETS AND LIABILITIES

This section provides details of the Group's operating assets, and liabilities incurred as a result of trading activities, used to generate the Group's performance.

B1: Trade and other receivables

	2016 $'000	2015 $'000
Current		
Trade and other receivables	191,590	225,832
Allowance for impairment of trade receivables	(203)	(30)
	191,387	225,802
Prepayments	3,664	5,002
Retentions withheld on contracts in progress	711	258
	195,762	231,062
Non-current		
Prepayments	816	1,234
	816	1,234

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in Note C2: Financial risk management.

Recognition and measurement
Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method, less any impairment losses.

Retentions withheld on contracts in progress represents amounts held until obligations specified in a contract are satisfied.

B2: Inventories

	2016 $'000	2015 $'000
Current		
Raw materials and stores	73,455	81,624
Construction work in progress (refer below)	178,647	163,465
	252,102	245,089
Net construction work in progress comprises:		
Amounts due from customers – work in progress	178,647	163,465
Amounts due to customers – included in trade and other payables as billings in advance under construction contracts	(115,170)	(161,334)
	63,477	2,131

Write-down of inventories to net realisable value amounted to $nil (2015: $9,821,000), recognised as an expense and included in 'Raw materials and consumables' in the income statement.

Recognition and measurement
Raw materials
Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is assigned on a standard cost basis except for contracts where an average cost basis is specified.

Construction work in progress
Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

If progress billings exceed costs incurred plus recognised profits, then the difference is presented as billings in advance under construction contracts in trade and other payables.

B3: Trade and other payables

	2016 $'000	2015 $'000
Current		
Unsecured:		
– trade payables and accruals	253,909	216,098
– work in progress accruals	44,333	38,459
– billings in advance under construction contracts	115,170	161,334
	413,412	415,891

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note C2: Financial risk management.

Recognition and measurement
Trade and other payables are recognised, initially at fair value, when the Group becomes obligated to make future payments resulting from the purchase of goods and services.

B4: Property, plant and equipment

$'000	FREEHOLD LAND & BUILDINGS	PLANT & EQUIPMENT	LEASEHOLD IMPROVEMENTS	TOTAL
2016				
Carrying amount as at 1 July 2015	705	45,444	5,600	51,749
Additions	85	34,127	543	34,755
Transfers and reclassifications	786	8,838	(384)	9,240
Disposals at net book value	–	(1,933)	(104)	(2,037)
Depreciation	(528)	(12,792)	(1,148)	(14,468)
Effect of movements in exchange rates	5	9	2	16
Carrying amount as at 30 June 2016	1,053	73,693	4,509	79,255
Cost	2,370	190,769	11,145	204,284
Accumulated depreciation and impairment	(1,317)	(117,076)	(6,636)	(125,029)
Carrying amount	1,053	73,693	4,509	79,255
2015				
Carrying amount as at 1 July 2014	743	49,037	9,224	59,004
Additions	–	11,625	927	12,552
Transfers and reclassifications	2	3,289	77	3,368
Disposals at net book value	–	(532)	(731)	(1,263)
Impairment	–	(2,594)	–	(2,594)
Depreciation	(36)	(15,397)	(3,902)	(19,335)
Effect of movements in exchange rates	(4)	16	5	17
Carrying amount as at 30 June 2015	705	45,444	5,600	51,749
Cost	1,091	171,174	25,935	198,200
Accumulated depreciation and impairment	(386)	(125,730)	(20,335)	(146,451)
Carrying amount	705	45,444	5,600	51,749

Trade and other payables are recognised, initially at fair value, when the Group becomes obligated to make future payments resulting from the purchase of goods and services.

Recognition and measurement
Initial recognition
Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Sale of non-current assets
The net gain or loss on disposal is included in the income statement at the date control of the asset passes to the buyer, usually when an unconditional contract for sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Depreciation
The depreciable amount of fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated over their useful lives on a straight line basis commencing from the time the asset is ready for use.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings – 40 years
- Plant and equipment – 3 to 20 years
- Leasehold improvements – remaining term of lease

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Impairment
The carrying amounts of items of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Impairment losses are included in 'Other expenses' in the income statement.

Notes to the financial statements – operating assets and liabilities for the year ended 30 June 2016

B5: Intangible assets

$'000	GOODWILL	TENDER COSTS	SOFTWARE	DEVELOPMENT COSTS	OTHER IDENTIFIED INTANGIBLE ASSETS	TOTAL
2016						
Carrying amount as at 1 July 2015	295,822	9,810	20,214	12,529	486	338,861
Additions	–	–	3,525	982	–	4,507
Costs capitalised	–	1,867	–	–	–	1,867
Transfers and reclassifications	–	–	–	(5,005)	–	(5,005)
Disposals at net book value	–	(1,988)	(62)	–	–	(2,050)
Amortisation	–	(3,973)	(7,344)	(1,101)	(121)	(12,539)
Effect of movements in exchange rates	–	–	(3)	–	–	(3)
Carrying amount as at 30 June 2016	295,822	5,716	16,330	7,405	365	325,638
Cost	358,792	11,872	77,617	73,863	1,208	523,352
Accumulated amortisation and impairment	(62,970)	(6,156)	(61,287)	(66,458)	(843)	(197,714)
Carrying amount	295,822	5,716	16,330	7,405	365	325,638
2015						
Carrying amount as at 1 July 2014	358,792	29,256	28,712	63,832	607	481,199
Additions	–	–	2,043	–	–	2,043
Costs capitalised	–	5,899	–	2,478	–	8,377
Transfers and reclassifications	–	343	101	–	–	444
Disposals at net book value	–	(21,285)	(460)	(2,461)	–	(24,206)
Impairment	(62,970)	–	–	(51,305)	–	(114,275)
Amortisation	–	(4,395)	(10,183)	(15)	(121)	(14,714)
Effect of movements in exchange rates	–	(8)	1	–	–	(7)
Carrying amount as at 30 June 2015	295,822	9,810	20,214	12,529	486	338,861
Cost	358,792	14,356	82,030	77,886	1,208	534,272
Accumulated amortisation and impairment	(62,970)	(4,546)	(61,816)	(65,357)	(722)	(195,411)
Carrying amount	295,822	9,810	20,214	12,529	486	338,861

Transfers and reclassifications refer to transfers and adjustments between asset categories and inclusion of Joint Operations' assets in the 2015 financial year.

Recognition and measurement
Goodwill
Goodwill is recognised upon the acquisition of business combinations, and is stated at cost less any accumulated impairment losses.

Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment or more frequently if indicators of impairment exist. See Impairment testing for non-financial assets, below.

Tender costs
Expenditure incurred in tendering to secure contracts for construction or maintenance or other services under specific contracts is capitalised when it is probable that the contract will be obtained, based on UGL being the preferred bidder, and amortised over the initial term of the contract.

Software
Software acquired by the Group is stated at cost less accumulated amortisation and impairment losses. Internally developed software is capitalised once the project is assessed to be feasible. Costs incurred in determining project feasibility are expensed as incurred. The costs capitalised include consulting, licensing and direct labour costs.

Development costs
Expenditure on development projects is capitalised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it can be available for use or sale, the potential for the asset to generate future economic benefits on completion, and the ability to measure reliably the expenditure attributable to the asset during its development.

Subsequent expenditure
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation
Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with indefinite useful lives are systematically tested for impairment annually. Software and other intangible assets are amortised from the date that they are available for use.

The estimated useful lives in the current and comparative periods are as follows:

- Tender costs – Initial contract term
- Software – 1 to 10 years
- Development costs – 2 to 5 years
- Other intangible assets – 5 to 15 years

Impairment
The carrying amounts of intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Impairment losses are included in 'Other expenses' in the income statement.

Key estimates and judgements
Goodwill and intangibles
Judgements are made with respect to identifying and valuing intangible assets on acquisitions of new businesses.

The Group assesses whether goodwill and intangibles with indefinite useful lives are impaired at least annually. These calculations involve judgements to estimate the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

Impairment tests for cash-generating units (CGUs) containing goodwill
Goodwill allocation
For the purpose of impairment testing, goodwill is allocated to the Group's CGUs which represent the lowest level within the Group at which goodwill is monitored for internal management purposes as follows:

	2016 $'000	2015 $'000
Rail	134,535	134,535
Technology Systems	35,339	35,339
Engineering and Construction	70,713	70,713
Asset Services	55,235	55,235
Total goodwill	295,822	295,822

Recognition and measurement
Impairment testing of non-financial assets
Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment losses are recognised in the income statement. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal at each reporting date. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment testing of CGUs
The Group uses value in use calculations to determine the recoverable amount of CGUs. The calculations use cash flow projections based on the following year's budget and plan, extended over a period of five years. Cash flows into perpetuity are extrapolated using a growth factor relevant to the sector and business plan. A post-tax discount rate is applied adjusted for the risk of the industry in which each unit operates.

Key assumptions used for value in use calculations
A terminal growth rate of 2.5% (2015: 3%) has been applied to extrapolate cash flows. The growth rate does not exceed the long-term average growth rate for the business in which the cash-generating units operate. FY2017 budgets form the basis of year one growth, with a rate of 3% (2015: 4%) applied for the short term (years two to four).

A post-tax discount rate of 10.2% (2015: 10.2%) has been applied to discount the forecast future attributable post-tax cash flows.

Sensitivity to changes in assumptions
The estimation of the recoverable amount of CGUs was tested for sensitivity using reasonable possible changes in key assumptions; being a decrease of 0.5 of a percentage point in the terminal growth rate, or an increase in the post tax discount rate of 1 percentage point, with all other assumptions remaining constant.

For all CGUs neither of these tests resulted in a possible impairment loss at 30 June 2016 (2015: $nil impairment for both tests).

Notes to the financial statements – operating assets and liabilities

for the year ended 30 June 2016

B6: Investments accounted for using the equity method

Details of interests in associates and joint venture entities are as follows:

			INTERESTS HELD		INVESTMENT CARRYING AMOUNT	
NAME	PRINCIPAL PLACE OF BUSINESS	PRINCIPAL ACTIVITIES	2016 %	2015 %	2016 $'000	2015 $'000
Associates:						
Metro Trains Melbourne Pty Ltd	Australia	Operation and maintenance of Melbourne passenger train network	20	20	13,701	15,366
Metro Trains Sydney Pty Ltd	Australia	Operation and maintenance of North West Rail link	20	20	28	10
					13,729	15,376
Joint ventures:						
Naval Ship Management (Australia) Pty Ltd	Australia	Defence fleet maintenance	50	50	2,386	1,624
Australian Terminal Operations Management Pty Ltd	Australia	Oil Terminals maintenance	50	–	442	–
					2,828	1,624
Equity accounted investments					16,557	17,000

	2016 $'000	2015 $'000
Results of individually immaterial interests in equity accounted investees		
Continuing operations:		
Associates		
Post tax profit	10,215	12,486
Total comprehensive income	10,215	12,486
Joint ventures		
Post tax profit	4,654	2,582
Total comprehensive income	4,654	2,582
Total post tax profit	14,869	15,068

Recognition and measurement

The Group's interests in equity accounted investees comprise interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

When the Group's share of losses, including losses in other comprehensive income exceeds its interest in the equity accounted investee, the carrying amount of the interest is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

B7: Employee benefits

	2016 $'000	2015 $'000
Current		
Salaries and wages accrued	315	370
Liability for long service leave	24,100	24,657
Liability for annual leave	42,112	36,772
Other employee benefits	32,828	29,257
	99,355	91,056
Non-current		
Liability for long service leave	4,525	5,043
	4,525	5,043

Recognition and measurement

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's net obligation for long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

B8: Provisions

Movement in provisions

	CONTRACT LOSSES $'000	WARRANTY $'000	WORKERS' COMP & PUBLIC LIABILITY $'000	RESTRUCTURE $'000	MAKE GOOD & ONEROUS LEASES $'000	OTHER $'000	TOTAL $'000
Balance at 1 July 2015	91,796	10,993	6,295	22,220	21,878	1,394	154,576
Provisions made during the year	210,268	5,176	5,464	4,194	876	3,861	229,839
Provisions used during the year	(174,759)	(4,339)	(2,513)	(17,459)	(4,330)	(3,097)	(206,497)
Provisions reversed during the year	(310)	(4,361)	(308)	(816)	(1,040)	(188)	(7,023)
Reclassification	4,724	–	–	–	–	–	4,724
Foreign exchange movement	15	3	5	–	–	–	23
Unwinding of discount	–	–	–	–	360	–	360
Balance at 30 June 2016	131,734	7,472	8,943	8,139	17,744	1,970	176,002
Current	120,643	7,445	5,442	8,139	2,798	1,970	146,437
Non-current	11,091	27	3,501	–	14,946	–	29,565
	131,734	7,472	8,943	8,139	17,744	1,970	176,002

Contract losses
Provisions are made for known claims and losses arising under service and construction contracts. The provisions are estimated having regard to previous claims experience, and to the costs expected to be incurred to complete construction contracts.

Contract loss provisions made during the year include $200 million for potential contract losses arising on the Ichthys CCPP and SMP projects. This provision is in addition to the $175 million provision raised in the previous year against the CCPP project.

The construction of the Ichthys CCPP and SMP projects is being undertaken by UGL, in joint venture with CH2M Hill and Kentz, respectively (the JVs).

These projects continue 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).

The provision was raised after a detailed review by UGL of the costs to complete, resulting in the recognition by UGL of the provisions of $200 million.

In determining the cost to complete, the reviews considered all key components of the complex design and construction schedules, based on significant judgements, to arrive at estimates of forward scheduling and procurement, production and contingencies. Although management consider the current estimated costs to complete the projects are valid and reliably measured, there is still a significant amount of work that needs to be performed on the projects before achieving completion and additional cost growth is possible.

Engagement with JKC continues as management pursues ongoing commercial negotiations for the recovery of costs, claims and project acceleration arising from client driven delays and disruption in association with the CCPP project.

As at 30 June 2016 the provision balance carried forward related to the Ichthys projects amounts to $128,729,000. (30 June 2015: $91,486,000).

As at 30 June 2016 the total contract value of the JV's share of the CCPP project was approximately $0.7 billion, after settlement of claims to 30 August 2015 (30 June 2015: $0.6 billion). The project is approximately 71% complete.

The contract value of the JV's share of the SMP project at 30 June 2016 was approximately $1.0 billion, which includes the anticipated settlement of a contract claim with good faith commercial negotiations with JKC at an advanced stage for delay and disruption up to 31 May 2016, with the project approximately 42% complete.

Warranty
Provisions are made for the estimated liability on all products still under warranty at balance date, estimated having regard to previous claims experience.

Workers' compensation and public liability insurance
The Group self-insures for various risks, including workers' compensation in some states. Provision is made for the Group's obligations for incurred and incurred but not reported (IBNR) insurance claims, based on assessment using prior claims history.

The workers' compensation provision includes $3,120,000 (2015: $2,726,000) for New South Wales workers' compensation.

Restructure
Restructuring costs arise from continuing cost reduction initiatives to more closely match expenses to ongoing revenues. Provision is made for employee termination benefits, and contract terminations.

Liability for employee termination benefits is recognised when a detailed plan for the termination has been developed and a valid expectation has been raised in those employees affected that the termination will be carried out.

Make good and onerous leases
Provision is made for rectification and maintenance obligations; and for onerous leases being the unavoidable costs of meeting contractual obligations, where the costs of those obligations exceed the economic benefits expected to be received from the lease contracts.

Recognition and measurement
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the financial statements – capital and financial risk management

for the year ended 30 June 2016

C. CAPITAL AND FINANCIAL RISK MANAGEMENT

This section outlines how the Group manages its capital structure and its exposure to financial risk, and provides details of its balance sheet liquidity and access to financing facilities.

C1: Capital risk management

The Board's objective when managing capital is to safeguard the ability of the Group to continue as a going concern whilst providing adequate returns to shareholders and maintaining an optimal capital structure to reduce the cost of capital.

The Board monitors the return on capital, which is defined as net operating income divided by total shareholders' equity, excluding non-controlling interests. The Board also establishes the dividend payout policy. For the 2016 and 2015 financial years, the Board's policy is that no interim or final dividend will be paid, and that reinstatement of dividends will be considered when underlying earnings have normalised and payment is considered appropriate in the context of UGL's capital requirements and outlook.

During the 2015 financial year a distribution of $3.00 per share was made from the proceeds of the sale of the DTZ business, comprising a capital return of $2.94 and a special unfranked dividend of $0.06 per share.

Capital is monitored on the basis of the gearing ratio. The strategy is to maintain a gearing ratio of net debt/(net debt + equity) for the Group of up to 40%. The gearing ratios as at 30 June 2016 and 30 June 2015 were as follows:

	NOTE	2016 $'000	2015 $'000
Total borrowings	C5	150,475	130,903
Less: cash and cash equivalents	C3	(85,840)	(164,597)
Net debt/(cash)		64,635	(33,694)
Total equity		325,207	429,054
Total capital		389,842	395,360
Gearing ratio		16.6%	(8.5%)

As disclosed in Note C5: Loans and borrowings, the Group is required to maintain specified financial ratios.

There were no changes in the Group's approach to capital management during the year.

C2: Financial risk management

Overview

The Group's activities expose it to a variety of financial risks: credit risk; liquidity risk; and market risk (including currency risk and interest rate risk).

The Group's overall financial risk management processes and procedures seek to minimise potential adverse effects on the financial performance of the Group that may arise from the unpredictability of financial markets.

Liquidity and market risk management is carried out by a central treasury department (Group Treasury) in accordance with risk management policies. Financial risk management policies are reviewed periodically to reflect changes in market conditions and the Group's activities. Group Treasury identifies, evaluates and hedges these financial risks in close cooperation and with input from the Group's business units.

The Group uses derivative financial instruments such as foreign exchange contracts, interest rate swaps, as well as rise and fall clauses in contracts, to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group uses various methods to measure different types of risk exposures. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks, and ageing analysis for credit risk.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or the counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The maximum exposure to credit risk is the carrying amount of the financial assets.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's customer base consists mainly of government, semi-government and major public company customers. The demographics of the Group's customer base, including the default risk of the industry and country in which the customers operate, has less of an influence on credit risk.

New customers are analysed individually for creditworthiness, taking into account credit ratings where available, financial position, previous trading experience and other factors. This includes all major contracts and tenders approved by the Group Tender Committee.

In monitoring customer credit risk, customers are assessed individually by their debtor ageing profile. Monitoring of receivable balances on an ongoing basis minimises the exposure to bad debts. There are no significant concentrations of credit risk within the Group.

A provision for impairment is recognised when there is a clear indication that an individual trade receivable is impaired.

	NOTE	2016 $'000	2015 $'000
Exposure to credit risk			
The carrying amount of financial assets represents the maximum credit exposure			
Maximum exposure at the reporting date was:			
Trade receivables		167,477	190,893
Other receivables		24,824	35,197
Trade and other receivables (excluding prepayments)	B1	192,301	226,090
Bank balances and call deposits	C3	85,820	164,560
Other assets	C6	9,850	9,750
Foreign exchange contracts	C6	–	4,589
		287,971	404,989

	GROSS 2016 $'000	IMPAIRMENT 2016 $'000	GROSS 2015 $'000	IMPAIRMENT 2015 $'000
The ageing of trade receivables at the reporting date was:				
Not past due	127,765	–	154,152	–
Past due up to 30 days	29,350	(176)	30,079	–
Past due 31 to 120 days	10,067	(27)	3,412	–
Past due 121 days to one year	295	–	2,958	–
More than one year	–	–	292	(30)
	167,477	(203)	190,893	(30)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2016 $'000	2015 $'000
Balance at 1 July	(30)	(799)
Provisions made during the year	(203)	–
Impairment loss utilised	–	712
Provisions reversed during the year	31	60
Foreign exchange movement	(1)	(3)
Balance at 30 June	(203)	(30)

The creation and release of the allowance for impaired receivables is included in "other expenses" in the income statement.

None of the Group's other receivables and other assets are past due (2015: $nil).

Impairment allowance
The impairment allowance relates to specific customers, identified as being in trading difficulties, or where specific debts are in dispute. The impairment allowance does not include debts past due relating to customers with a good credit history, or where payments of amounts due under a contract for such customers are delayed due to works in dispute and previous experience indicates that the amount will be paid in due course.

When the Group is satisfied that no recovery of the amount owing is possible, the amounts considered irrecoverable are written off against the financial asset directly.

Counterparty credit risk
Counterparties to derivative financial instruments are principally large banks and recognised financial intermediaries with which the Group has loans and borrowings outstanding and which have acceptable credit ratings determined by a recognised rating agency.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity is managed to ensure, as far as possible, that sufficient funds are available to meet liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash and excess committed credit facilities to meet expected operational expenses, including the servicing of financial obligations. Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Refer Note C5: Loans and borrowings for details of lines of credit available.

Surplus funds are deposited only with banks with which the Group has an existing relationship.

C2: Financial risk management – (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements.

	CARRYING AMOUNT $'000	CONTRACTUAL CASH FLOWS TOTAL $'000	6 MONTHS OR LESS $'000	6 TO 12 MONTHS $'000	1 TO 2 YEARS $'000	2 TO 5 YEARS $'000	MORE THAN 5 YEARS $'000
2016							
Non-derivative financial liabilities							
Unsecured bank loans	116,672	(126,119)	(1,958)	(1,958)	(5,495)	(116,708)	–
Unsecured US notes	33,666	(36,503)	(19,901)	(471)	(3,634)	(12,497)	–
Finance lease liabilities	137	(144)	(74)	(70)	–	–	–
Trade and other payables – excluding billings in advance	298,242	(298,242)	(298,242)	–	–	–	–
Derivative financial liabilities							
Forward exchange contracts							
used for hedging:							
Carrying amount at fair value:							
Liabilities	4,118						
Outflow		(73,907)	(44,978)	(8,341)	(7,021)	(13,567)	–
Inflow		69,212	42,196	7,976	6,543	12,497	–
	452,835	(465,703)	(322,957)	(2,864)	(9,607)	(130,275)	–
2015							
Non-derivative financial liabilities							
Unsecured bank loans	85,000	(95,221)	(1,588)	(1,588)	(3,177)	(88,868)	–
Unsecured US notes	45,573	(50,672)	(14,824)	(1,014)	(19,419)	(15,415)	–
Finance lease liabilities	330	(361)	(178)	(158)	(25)	–	–
Trade and other payables – excluding billings in advance	254,557	(254,557)	(254,557)	–	–	–	–
Derivative financial liabilities							
Forward exchange contracts							
used for hedging:							
Carrying amount at fair value:							
Liabilities	4,828						
Assets	(4,589)						
Outflow		(100,180)	(83,059)	(9,859)	(7,262)	–	–
Inflow		100,271	81,235	11,567	7,469	–	–
	385,699	(400,720)	(272,971)	(1,052)	(22,414)	(104,283)	–

Refer to Note C5: Loans and borrowings for details of the maturities of bank loans and US notes.

Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments. The Group's activities expose it primarily to the financial risks of changes in foreign currency rates and interest rates which are discussed further below. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group aims to minimise the effects of these risks by the use of financial derivatives. All such transactions are carried out in accordance with Group policy. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The Group operates primarily in Australia and is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily with respect to the US dollar, Euro and British pound.

The Group's major foreign currency exposure relates to purchases of raw materials and consumables, and equipment. Its hedging policy applies to exposures arising from these specific transactions.

Group entities are required to manage their foreign exchange risk against their local functional currency, and are required to hedge their foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities in accordance with Group policies, using forward contracts transacted on their behalf by Group Treasury.

Forward contracts are also entered into to hedge currency risk arising from interest and principal payments on US borrowings. These contracts are designated as cash flow hedges.

On entering into a hedging relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Cash flow hedges – recognition and measurement
Changes in the fair value of derivatives that are designated and qualify as cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction are recognised directly in other comprehensive income and accumulated in the hedging reserve. The ineffective portion is recognised in profit or loss within other income or other expenses.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Exposure to currency risk
The Group's exposure to foreign currency risk at balance date, reflected in the foreign exchange contracts taken out to manage that risk, was as follows, based on notional amounts:

		NOTIONAL AMOUNTS AUD		AVERAGE EXCHANGE RATE AUD	
		2016 $'000	2015 $'000	2016 $	2015 $
US dollars					
Buy US dollars/sell Australian dollars	One year or less	40,686	61,095	0.6987	0.8376
	One year to three years	19,982	–	0.6867	–
Buy Australian dollars/sell US dollars	One year or less	6,427	25,727	0.7875	0.9313
	One year to three years	–	6,427	–	0.7875
Euros					
Buy euros/sell Australian dollars	One year or less	5,365	879	0.6309	0.6521
	One year to three years	606	–	0.6215	–
British pounds					
Buy British pounds/sell Australian dollars	One year or less	451	512	0.5073	0.5299

The forward currency contracts are considered to be highly effective hedges as they are matched against forward inventory, contract costs, equipment purchases and borrowing payment terms. Any gains or losses on the forward contracts attributable to the hedged risk are taken directly to equity. When goods and services are delivered the amount recognised in equity is adjusted to the inventory account, or property, plant and equipment in the statement of financial position.

There was no significant cash flow hedge ineffectiveness in the current or prior year.

Exchange rates
The following significant exchange rates applied during the year:

	AVERAGE RATE		REPORTING DATE SPOT RATE	
	2016	2015	2016	2015
US dollar	0.7283	0.8369	0.7426	0.7680
Euro	0.6561	0.6963	0.6699	0.6866
British pound	0.4916	0.5305	0.5549	0.4885

Sensitivity analysis
At 30 June 2016, had the Australian dollar weakened/strengthened by 10% against the respective foreign currencies, with all other variables held constant, the Group post-tax profit would have been materially unchanged mainly as a result of the effectiveness of the hedging in place, and Group equity would have been $3,809,000 higher/$4,656,000 lower (2015: $1,786,000 higher/$1,786,000 lower) had the Australian dollar weakened/strengthened against the respective currencies.

The analysis is performed consistently from year to year.

Notes to the financial statements – capital and financial risk management

for the year ended 30 June 2016

C2: Financial risk management – (continued)

Interest rate risk
The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

Borrowings are primarily from Australian banks, in Australian dollars, at Australian market variable rates. The Group also has fixed rate borrowings denominated in US dollars.

The Group may use interest rate swaps from time to time to manage interest rate exposure.

Fixed and variable rate exposure:

	2016 $'000	2015 $'000
Fixed rate instruments		
Financial assets	9,750	9,750
Financial liabilities	(33,803)	(45,903)
	(24,053)	(36,153)
Variable rate instruments		
Financial assets	85,820	164,560
Financial liabilities	(116,672)	(85,000)
	(30,852)	79,560

At reporting date the Group had the following variable rate borrowings outstanding.

	30 JUNE 2016		30 JUNE 2015	
	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000
Bank and other loans	3.50	(116,672)	3.68	(85,000)
Net exposure to cash flow interest rate risk		(116,672)		(85,000)

Interest rate swaps – cash flow hedges

At 30 June 2016, the Group had no interest rate swaps outstanding (2015: $nil).

Fair value sensitivity analysis for fixed rate instruments
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss for the Group.

Cash flow sensitivity analysis for variable rate instruments
A change of 100 basis points in interest rates during the year would have increased (decreased) equity and profit or loss before tax by $11,000 for the Group (2015: $1,188,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed consistently from year to year.

Fair values

Fair value hierarchy
Financial instruments carried at fair value are classified by valuation method based on the following hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivate financial instruments (forward exchange contracts) are the only financial instruments carried by the Group at fair value, with a Level 2 valuation method applied consistently in the current and prior year. A Level 2 valuation method was also applied consistently in the current and prior year to assets and liabilities not recognised in the statement of financial position at fair value.

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

		2016		2015	
	FAIR VALUE HIERARCHY LEVEL	CARRYING AMOUNT $'000	FAIR VALUE $'000	CARRYING AMOUNT $'000	FAIR VALUE $'000
Trade and other receivables		192,098	192,098	226,060	226,060
Other financial assets		9,850	9,850	9,750	9,750
Cash and cash equivalents		85,840	85,840	164,597	164,597
Forward exchange contracts net – at fair value	2	(4,118)	(4,118)	(239)	(239)
Finance lease liabilities	2	(137)	(125)	(330)	(298)
Unsecured bank facilities	2	(116,672)	(116,672)	(85,000)	(85,000)
US notes	2	(33,666)	(35,090)	(45,573)	(48,775)
Trade and other payables		(413,412)	(413,412)	(415,891)	(415,891)
		(280,217)	(281,629)	(146,626)	(149,796)

The following methods and assumptions are used in estimating the fair values of financial instruments:

- forward exchange contracts – bank valuations adjusted as necessary to reflect the credit risk of the various counterparties;
- loans and borrowings, and finance leases – present value of future principal and interest cash flow, discounted at the market rate of interest at the reporting date; and
- trade and other receivables and payables – carrying amount equals fair value.

C3: Cash and cash equivalents

	2016 $'000	2015 $'000
Bank balances	50,368	164,560
Call deposits	35,452	–
Cash on hand	20	37
	85,840	164,597

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note C2: Financial risk management.

Recognition and measurement
Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

C4: Cash flow information

(a) For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and deposits at call, net of overdrafts, and investments in money market instruments with less than 90 days to maturity.

	2016 $'000	2015 $'000
(b) Reconciliation of loss after tax to cash flow from operations		
Loss after tax	(103,124)	(232,373)
Adjustment for:		
Depreciation and amortisation	27,007	34,049
Impairment of goodwill	–	62,970
Impairment of development costs	–	51,305
Impairment of equity accounted investment	–	9,796
Impairment of property, plant and equipment	–	2,594
Write down of project establishment costs	–	18,927
Equity-settled share-based payments	3,301	699
(Profit)/loss on sale of property, plant and equipment	(670)	259
Loss on disposal of intangibles	64	–
Gain on sale of discontinued operation	–	(66,102)
Transfer of reserves and non-controlling interests on sale of discontinued operation	–	21,140
Unrealised foreign exchange loss (gain)	256	1,515
Share of equity accounted investees net profit/distribution	493	1,031
Interest discount unwind	129	88
Movement in income taxes payable	(33,160)	(54,700)
Movement in deferred taxes	(8,075)	(47,079)
Changes in assets and liabilities:		
Trade and other receivables	41,748	(25)
Inventories	(28,243)	71,576
Other financial assets	2,529	(3,487)
Trade and other payables	(9,123)	68,825
Provisions and employee benefits	29,808	123,977
Cash flow (used in)/from operations	(77,060)	64,985

Non-cash transaction
During the year an entity within the Group, by way of a non-cash swap of assets at fair value, entered into a contract with a customer for the supply of six locomotives for $28.2 million, and the purchase of locomotive spares inventory and rotable spares from the customer for $28.2 million, with rotable spares recognised as property and equipment for $23.4 million.

Notes to the financial statements – capital and financial risk management

for the year ended 30 June 2016

C5: Loans and borrowings

	2016 $'000	2015 $'000
Current		
Unsecured:		
– bank loan	1,672	–
– US notes	18,853	13,021
Secured:		
– finance lease liabilities	137	310
	20,662	13,331
Non-current		
Unsecured:		
– bank loans	115,000	85,000
– US notes	14,813	32,552
Secured:		
– finance lease liabilities	–	20
	129,813	117,572

Interest rates on bank loans are floating and the average interest rate applicable at 30 June 2016 was 3.50% (2015: 3.68%).

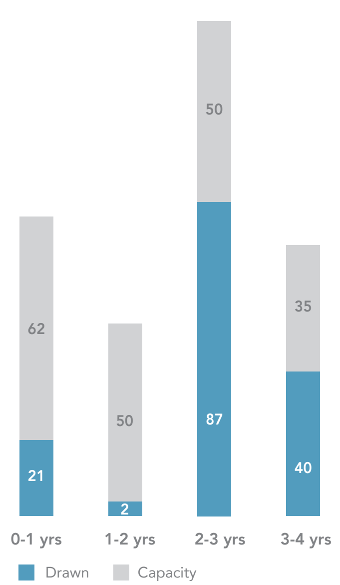
US notes are US$25 million of debt (2015: US$35 million) raised in the US private placement note market in three tranches at fixed interest rates at a weighted average of 6.23% (2015: 6.20%) over the three tranches.

In accordance with the deed of covenant and note agreements entered into by the Company with its providers of finance facilities and the US note holders, the Company has agreed to be guarantor, together with a number of wholly owned subsidiaries of the Company, for the principal and interest payments. The Group has agreed, among other things, not to grant any security over its assets (subject to certain exceptions) and to maintain specified financial ratios.

All borrowing covenant ratios and limits have been complied with during the financial year.

Debt maturities and amounts utilised
The Group has total debt facilities available of $347 million (2015: $381 million), of which $150 million (2015: $131 million) was drawn as at 30 June 2016, with the maturity profile as set out below:

Debt maturity profile by years – $m



	2016 $'000	2015 $'000
Other finance facilities:		
(a) Unsecured bank guarantee and/or letter of credit facilities provided by several financial institutions:		
Guarantee and/or letter of credit	470,703	464,494
Amount utilised	273,549	256,903
Unused guarantee facilities	197,154	207,591
(b) Unsecured bond facilities provided by surety entities:		
Bonds in aggregate	67,425	78,041
Amount utilised	67,425	78,041
Unused bond facilities	–	–

C6: Other financial assets

	2016 $'000	2015 $'000
Current		
Foreign currency forward contracts	–	4,589
Non-current		
Loan to associate	9,750	9,750
Equity securities at cost	100	–
	9,850	9,750

C7: Other financial liabilities

	2016 $'000	2015 $'000
Current		
Foreign currency forward contracts	3,017	4,542
Lease liabilities and incentives	923	572
	3,940	5,114
Non-current		
Foreign currency forward contracts	1,101	286
Lease liabilities and incentives	2,178	–
	3,279	286

Recognition and measurement
Foreign currency forward contracts are stated at fair value, calculated by reference to current forward exchange rates for contracts with similar maturity profiles, adjusted to reflect the credit risk of the various counterparties.

C8: Share capital

	2016		2015	
	NUMBER OF ORDINARY SHARES	$'000	NUMBER OF ORDINARY SHARES	$'000
Movements in contributed equity				
Opening balance	165,761,240	421,293	165,761,240	910,836
Return of capital	–	–	–	(489,543)
Unexercised options sold on market	750,000	1,363	–	–
Closing balance	166,511,240	422,656	165,761,240	421,293

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

Total ordinary shares at 30 June 2015 excluded 750,000 issued and paid-up shares, treated for accounting purposes as options. These options expired unexercised in the 2015 financial year. The 750,000 shares were subsequently sold on market, with a resultant increase in paid-up capital of $1,363,000.

A distribution of $3.00 per share was approved by shareholders at the Company's Annual General Meeting held in October 2014, and paid in November 2014. The distribution was made from proceeds arising on the sale of the DTZ businesses (refer Note E3). The Australian Taxation Office ruled that the distribution would comprise a capital return of $2.94 per share ($489,543,046), and an unfranked dividend of $0.06 per share ($9,990,674).

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

Recognition and measurement
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of ordinary shares are accounted for as a deduction from equity, net of any tax effects.

C9: Reserves

Translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions where settlement has not yet occurred.

Employee equity benefit reserve
The employee equity benefit reserve represents the cumulative expense associated with equity-settled compensation, under employee share plans.

Treasury shares
The reserve for treasury shares comprises the cost, net of any tax effects, of the Company's shares purchased and held by the trustee of the UGL Limited Employee Share Plan Trust to be available for UGL employee share plans. When treasury shares subsequently vest to employees under UGL Employee share plans, the carrying value of the vested shares is transferred to the employee equity benefit reserve.

As at 30 June 2016 the Trust held 3,614,001 of the Company's shares (2015: 1,421,628 shares).

C10: Capital and other commitments

	2016 $'000	2015 $'000
Capital expenditure commitments		
Contracted but not yet provided for and payable:		
– Plant and equipment purchases	1,284	572
– Software purchases	–	71
	1,284	643
Other commitments	–	–

C11: Contingent liabilities

The directors are of the opinion that provisions are not required in respect of the matters noted below, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement:

(i) Under the provisions of certain joint venture agreements undertaken by entities controlled by UGL, the controlled entities are jointly and severally liable for all liabilities incurred by these joint ventures/joint operations. As at 30 June 2016, with the exception of the CH2 – UGL and UGL Kentz joint operations, where provisions have been made for contract losses (Refer Note B8: Provisions), the assets of the joint ventures exceed such liabilities.

(ii) In the normal course of business, entities within the Group may incur contractors' and product liability, or be subject to threatened or pending legal actions arising from their activities. Such liabilities include the potential costs to carry out further works and/or costs of litigation by or against those Group entities. The business carries professional indemnity insurance and no separate disclosure is made of the costs of claims covered by insurance as to do so could seriously prejudice the position of the Group.

Where such costs are not covered by professional indemnity insurance, provision is made for the potential costs of carrying out further works based on known claims and previous claims history, and for legal costs and claims where litigation has been commenced, or it is probable that litigation will commence.

Based on previous experience, amounts specifically provided, and the circumstances of specific claims outstanding, no additional costs are anticipated. However, as the ultimate outcome of these claims cannot be reliably determined at the date of this report, contingent liabilities may exist for any amounts that ultimately become payable in excess of current provisioning levels.

(iii) The Company is a defendant in a shareholder class action commenced by Melbourne City Investments Pty Ltd (MCI) in the Supreme Court of Victoria. The Writ claims loss and damage arising from UGL's alleged misleading and deceptive conduct and failure to disclose material information to the market prior to 8 August 2014 at the latest regarding the Combined Cycle Power Plant for the Ichthys LNG Project. (Refer Note B8: Provisions). The Company is vigorously defending these proceedings and, to date, has been successful in having the majority of MCI's claims struck out. The Company is now seeking to have the proceedings permanently stayed as an abuse of process.

Notes to the financial statements – capital and financial risk management

C12: Operating leases

	2016 $'000	2015 $'000
Non-cancellable operating leases are payable as follows:		
– not later than one year	26,370	24,256
– later than one year but not later than five years	68,412	51,627
– later than five years	20,480	28,308
	115,262	104,191

The Group has entered into commercial leases on certain motor vehicles, and office and industrial premises. These leases have average terms of between one and ten years. There are no financial restrictions placed upon the lessee by entering into these leases.

Recognition and measurement
Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are offset against the total lease expense and spread over the lease term on a straight line basis.

C13: Share-based payments

Employee share plans and share-based payments
Deferred short-term incentive scheme (DSTI)
The short-term incentive scheme for certain key senior executives includes a deferred component whereby 25% of cash bonuses due are converted into share rights. Share rights will convert to shares after two years, regardless of whether the executive remains employed by the Company. No dividends are received over the two year period and no amount is payable upon conversion to shares.

389,155 share rights were issued in November 2015 in respect of bonuses paid for the 2015 financial year. Share rights will be issued in relation to bonuses payable for the 2016 financial year when bonus entitlements for that year are paid in October 2016.

Long-term incentive schemes (LTI)
During the year 2,321,323 performance rights were issued to senior employees.

The awards vest subject to TSR and EPS hurdles over a three year performance period, and continuing employment. Each award of performance rights is split into two equal tranches, with one tranche being measured against the TSR hurdle and the other tranche against the EPS hurdle. No amount is payable upon vesting of the rights and conversion to shares. Refer to the Remuneration Report section in the Directors' Report for performance conditions.

Other UGL share schemes
The Non-executive Directors' Share Plan continued in the 2016 financial year. Refer to the Remuneration Report section in the Directors' Report for further information.

Share-based payments
Rights

During the year 2,321,323 performance rights were granted to employees under the LTI scheme, and 389,155 share rights under the DSTI scheme. All rights granted provide a right to receive a given number of shares in the Company, on a one-for-one basis, for nil consideration. Vesting of the LTI is dependent on achieving certain performance hurdles consistent with the objective of aligning the interest of employees with shareholders. No dividends are paid on rights.

The number of rights is as follows:

	NUMBER OF RIGHTS 2016	NUMBER OF RIGHTS 2015
Outstanding at the beginning of the period	4,821,145	578,966
Forfeited during the period	(488,775)	(578,966)
Granted during the period	2,710,478	4,821,145
Vested/converted to shares during the period	–	–
Outstanding at the end of the period	7,042,848	4,821,145

The weighted average remaining contractual life of rights is 1.7 years (2015: 2.4 years).

The fair value of services received in return for performance rights granted to employees is measured by reference to the fair value of the performance rights granted. The estimate of the fair value of the services received is measured by reference to the vesting conditions specific to the grant based on either binomial tree or Monte-Carlo simulation option-pricing models.

	2016	2015
Fair value of rights granted during the year and assumptions		
Fair value at measurement date	\$1.33 – \$2.13	\$0.83 – \$1.91
Share price at grant date	\$1.90 – \$2.35	\$1.60 – \$2.09
Performance rights life	2.6 years	2.3 to 3.3 years
Expected dividend yield	3.8%	3.8% – 4.9%
Risk-free interest rate	1.87%	1.73% – 2.12%

Performance rights issued in the year under the LTI scheme are granted under a service condition and vesting is also dependent on achieving certain performance hurdles.

Recognition and measurement
The grant date fair value of share-based payment awards made to employees is recognised as an employee expense with a corresponding increase in the employee equity benefit reserve, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted over the period to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, but is not adjusted when market performance conditions are not met.

Notes to the financial statements – group structure

for the year ended 30 June 2016

D. GROUP STRUCTURE

This section provides details of UGL's group structure and the entities included in the consolidated financial statements.

D1: Subsidiaries

The financial statements at 30 June 2016 include the following subsidiaries:

	PARTIES TO DEED OF CROSS GUARANTEE – NOTE D4	COUNTRY OF INCORPORATION AND OPERATION	OWNED 2016 %	OWNED 2015 %
Parent entity:				
UGL Limited	✓	Australia		
Subsidiaries – continuing operations:				
Olympic Dam Maintenance Pty Ltd	✓	Australia	100	100
UGL Engineering Pty Ltd	✓	Australia	100	100
UGL Operations and Maintenance (Services) Pty Limited	✓	Australia	100	100
UGL Operations and Maintenance Pty Limited	✓	Australia	100	100
UGL Rail (North Queensland) Pty Ltd	✓	Australia	100	100
UGL Rail Fleet Services Pty Limited	✓	Australia	100	100
UGL Rail Pty Ltd	✓	Australia	100	100
UGL Rail Services Pty Limited	✓	Australia	100	100
MTCT Services Pty Ltd (formerly United Group Pty Ltd)	✓	Australia	100	100
United KG (No. 1) Ltd	✓	Australia	100	100
United KG (No. 2) Pty Ltd	✓	Australia	100	100
United KG Construction Pty Ltd	✓	Australia	100	100
United KG Engineering Services Pty Ltd	✓	Australia	100	100
United KG Maintenance Pty Ltd	✓	Australia	100	100
UGL (NZ) Limited	✓	New Zealand	100	100
United Group Infrastructure (NZ) Limited	✓	New Zealand	100	100
Newcastle Engineering Pty Ltd	–	Australia	100	100
Railfleet Maintenance Services Pty Ltd	–	Australia	100	100
UGL Resources (Contracting) Pty Ltd	–	Australia	100	100
Inspection Testing & Certification Pty Ltd	–	Australia	100	100
United Group Infrastructure (Services) Pty Ltd	–	Australia	100	100
United Group International Pty Ltd	–	Australia	100	100
United Goninan Construction Pty Ltd	–	Australia	100	100
United Group Melbourne Transport Limited	–	Australia	100	100
United Group Water Projects (Victoria) Pty Ltd	–	Australia	100	100
United Group Water Projects Pty Ltd	–	Australia	100	100
UGL Canada Inc	–	Canada	100	100
UGL Engineering Private Limited	–	India	100	100
UGL (Malaysia) SDN BHD	–	Malaysia	100	100
Arus Tenang SDN BHD	–	Malaysia	100	100
UGL Resources (Malaysia) SDN BHD	–	Malaysia	100	100
UGL (Singapore) Pte Ltd	–	Singapore	100	100
BKP Electrical Limited (In liquidation)	–	Fiji	90	90
Mainco Melbourne Pty Ltd (Liquidated in 2016)	–	Australia	–	70
UGL Unipart Rail Services Pty Ltd	–	Australia	70	70
United Group Investment Partnership	–	USA	100	100

Recognition and measurement

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its powers over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with policies adopted by the Group.

Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Key estimates and judgements

Control assessment

The Group applies judgement in determining whether an investee is a subsidiary, where the Group has power over an investee, exposure or right to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

Judgement is also required in classifying the Group's interests in joint arrangements, depending on the group's right to the assets, and obligations for the liabilities of the arrangements.

Notes to the financial statements – group structure

for the year ended 30 June 2016

D2: Joint operations

The consolidated entity has interests in the following joint operations which are proportionately consolidated:

NAME	PRINCIPAL PLACE OF BUSINESS	PRINCIPAL ACTIVITIES	INTERESTS HELD 2016 %	2015 %
UGL KAEFER	Australia	General maintenance services and field managed modifications	50	50
CH2 – UGL	Australia	Power plant construction	50	50
UGL Kentz	Australia	Structural, mechanical and piping construction	50	50
NRT Systems	Australia	Delivery of rail systems, rolling stock, tunnel services and depot equipment	40	40
UGL Cape	Australia	Services for gas plant construction and commissioning	50	–

Recognition and measurement

A joint operation is carried on by each venturer using its own assets in pursuit of the joint operation. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

D3: Parent entity disclosures

For the financial years ended 30 June 2016 and 2015, the parent entity of the Group was UGL Limited.

	2016 $'000	2015 $'000
Results of the parent entity		
(Loss)/profit for the year	(21,997)	58,400
Other comprehensive income	–	18,245
Total comprehensive income for the year	(21,997)	76,645
Financial position of the parent entity at year end		
Current assets	134,088	129,506
Total assets	928,757	778,665
Current liabilities	82,704	89,314
Total liabilities	367,199	195,971
Total equity of the parent entity comprises:		
Share capital	422,656	421,293
Employee equity benefit reserve	18,035	13,996
Hedging reserve	–	4,541
Retained earnings	120,867	142,864
Total equity	561,558	582,694
Parent entity capital commitments for acquisition of property, plant and equipment contracted but not yet provided for and payable	205	–

Parent entity guarantees in respect of debts of its subsidiaries

The Company has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries, and the subsidiaries may provide financial assistance to the Company.

The directors of subsidiaries who are parties to the Deed of Cross Guarantee detailed in Note D4: Deed of Cross Guarantee have given an undertaking that they will provide financial assistance to the Company and that they guarantee each creditor payment in full. The effect of this undertaking is to ensure sufficient financial assistance is provided to the Company as and when it is needed to enable the Company to continue its operations and fulfil all of its financial obligations now and in the future.

The parent entity has no contingent liabilities, other than being a defendant in the proceedings referred to in Note C11 (iii) Contingent liabilities.

D4: Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiaries listed in Note D1 as parties to the Deed of Cross Guarantee are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports and directors' reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

No entities were added to or released from the Deed of Cross Guarantee in the period.

A consolidated statement of comprehensive income and statement of financial position, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2016 are set out as follows:

STATEMENT OF COMPREHENSIVE INCOME AND RETAINED EARNINGS	2016 $'000	2015 $'000
Revenue	1,655,952	1,558,916
Expenses	(1,818,410)	(2,104,629)
Finance costs (net)	(6,330)	(18,038)
Share of profit of equity accounted investees	14,869	15,068
Loss before tax	(153,919)	(548,683)
Income tax benefit	51,830	106,522
Loss after tax	(102,089)	(442,161)
Other comprehensive income	21,084	(3,767)
Total comprehensive income for the year	(81,005)	(445,928)
Profit from sale of discontinued operation	–	229,596
Retained earnings at beginning of year	(43,117)	183,232
Transfers to and from reserves	(21,084)	3,767
Dividends recognised during the year	–	(13,784)
Retained earnings at the end of the year	(145,206)	(43,117)

Adjustment to prior period results

Prior period loss after tax is increased from $316,191,000 to $442,161,000 by expenses of $125,970,000, arising from goodwill impairment overstated in the period of $49,030,000 (Intangibles increase from $282,458,000 to $331,488,000); and provisions understated by $175,000,000 (Current provisions increase from $30,852,000 to $205,852,000).

STATEMENT OF FINANCIAL POSITION	2016 $'000	2015 $'000
Current assets		
Cash and cash equivalents	72,508	48,757
Trade and other receivables	178,560	187,306
Inventories	225,444	215,659
Income tax receivable	10,793	21,283
Other financial assets	–	4,589
Total current assets	487,305	477,594
Non-current assets		
Trade and other receivables	816	99,346
Investments accounted for using the equity method	16,557	17,000
Other financial assets	37,655	37,110
Property, plant and equipment	78,826	43,624
Intangible assets	322,601	331,488
Deferred tax assets	207,498	152,432
Total non-current assets	663,953	681,000
Total assets	1,151,258	1,158,594
Current liabilities		
Trade and other payables	363,573	364,802
Loans and borrowings	137	92
Employee benefits	99,208	89,603
Other financial liabilities	2,774	5,050
Provisions	142,962	205,852
Total current liabilities	608,654	665,399
Non-current liabilities		
Trade and other payables	97,288	–
Loans and borrowings	115,000	85,020
Employee benefits	4,526	5,043
Other financial liabilities	2,325	286
Provisions	29,539	29,277
Total non-current liabilities	248,678	119,626
Total liabilities	857,332	785,025
Net assets	293,926	373,569
Equity		
Share capital	422,656	421,293
Reserves	16,476	(4,607)
Retained earnings	(145,206)	(43,117)
Total equity	293,926	373,569

Notes to the financial statements – other disclosures

for the year ended 30 June 2016

E. OTHER DISCLOSURES

E1: Related parties

Key management personnel compensation

	2016 $	2015 $
Short-term employee benefits	3,758,545	6,452,471
Post-employment benefits	374,094	299,491
Termination benefits	–	202,321
Share-based payments	1,937,079	352,386
	6,069,718	7,306,669

Individual directors and executives compensation disclosures
Information regarding individual directors and executive compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interest existing at year end.

Loans to key management personnel and their related parties
No loans were outstanding or made to key management personnel and their related parties at any time during the 2016 and 2015 financial years.

Key management personnel transactions
From time-to-time key management personnel (KMP), or their related parties, may hold positions or interests in other entities that the Group transacts with. The nature of these positions is such that neither party has control or significant influence over the trading terms, which are on normal arms-length bases.

Non-key management personnel transactions
Contributions to superannuation funds on behalf of employees are disclosed in Note A3: Expenses.

Transactions with equity accounted investees
Details of equity accounted investees are set out in Note B6: Investments accounted for using the equity method.

Aggregate amounts included in the determination of profit before income tax that resulted from transactions with equity accounted investees were as follows:

	2016 $	2015 $
Sale of goods and services	27,527,524	29,281,461
Interest received	733,253	731,250
Purchase of goods and services	–	3,125,863
Aggregate amounts receivable from or payable to equity accounted investees at balance sheet date were as follows:		
Loan to associate	9,750,000	9,750,000
Receivable from equity accounted investees	561,474	1,608,160
Payable to equity accounted investees	–	360,496

Terms and conditions
Outstanding balances are unsecured and repayable in cash.

Loans to equity accounted investees are made on normal commercial terms and repayable at the end of the initial franchise term. The average interest rate on loans during the year was 7.5% (2015: 7.5%).

E2: Auditor remuneration

	2016 $	2015 $
Amounts received or due and receivable by KPMG for:		
Audit or review of the financial statements	967,500	2,295,000
Other services		
Taxation	210,000	182,000
DTZ sale – vendor due diligence, tax and other assurance	–	2,965,841
Other	71,000	64,000
	281,000	3,211,841
	1,248,500	5,506,841

E3: Discontinued operations

Year ended 30 June 2015
The Company sold the DTZ businesses in November 2014, receiving net proceeds on sale of $1.087 billion. The after tax profit from the discontinued operation for the period, including the trading profit for the period July to November 2014 and gain on sale, was $66.390 million.

The results of the DTZ business for the period to 5 November 2014 are presented in the DTZ Property segment in Note A1: Operating segments.

E4: After balance date events

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, the results of these operations or state of affairs of the Group in subsequent financial years.

Directors' declaration

1. In the opinion of the directors of UGL Limited (the Company):
   (a) the consolidated financial statements and notes that are set out on pages 56 to 88 and the Remuneration Report set out in pages 42 to 54 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note D4 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2016.
4. The directors draw attention to the Basis of Preparation note to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

K Spargo

Kathryn D Spargo
Chairman

19 August 2016

Ross Taylor
Managing Director & CEO

Independent audit report

to members of UGL Limited

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of UGL Limited ("the Company"), which comprises the consolidated statement of financial position as at 30 June 2016, and consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, the basis of preparation note and notes A1 to E4 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In the basis of preparation note, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENCE

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

AUDITOR'S OPINION

In our opinion:

(a) the financial report of UGL Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in the basis of preparation note.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 42 to 54 of the directors' report for the year ended 30 June 2016. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

AUDITOR'S OPINION

In our opinion, the remuneration report of UGL Limited for the year ended 30 June 2016 complies with Section 300A of the *Corporations Act 2001*.

KPMG

S J Marshall
Lead Partner

Sydney

19 August 2016

Additional information for listed companies
as at
16 August 2016

The following additional information is provided in accordance with the ASX listing rules.

SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders disclosed in substantial holding notices given to the Company are:

SHAREHOLDERS	NUMBER OF ORDINARY SHARES	%
Allan Gray Investment Management	32,428,472	19.48%
AXA Group (Alliance Bernstein)	13,081,730	7.86%
INVESCO Asset Management	13,774,383	8.27%
Ubique Asset Management	12,103,876	7.27%
Legg Mason Asset Management Limited	8,392,604	5.04%

DISTRIBUTION OF ORDINARY SHAREHOLDINGS

RANGE OF HOLDINGS	NUMBER OF SHAREHOLDERS	NUMBER OF ORDINARY SHARES	%
1 – 1,000	9,438	4,355,179	2.62%
1,001 – 5,000	6,224	14,681,026	8.82%
5,001 – 10,000	997	7,274,541	4.37%
10,001 – 100,000	571	12,496,055	7.50%
100,001 and over	32	127,704,439	76.69%
Total	17,262	166,511,240	100.00%

The number of shareholders with less than a marketable parcel of 200 securities ($2.49 on 16 August 2016) is 2,625, holding in total 283,333 shares.

RIGHTS

The Company has on issue 6,845,967 rights over unissued ordinary shares in the Company held by 60 rights holders.

VOTING RIGHTS

The voting rights attached to ordinary shares are that each member present in person or by proxy, attorney or representative at a general meeting has one vote on a vote taken by a show of hands, and one vote for each fully paid share held on a vote taken on a poll. There are no voting rights attached to rights.

Additional information for listed companies

as at 16 August 2016

TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest shareholders of the ordinary shares of the Company are:

NAME	NUMBER OF ORDINARY SHARES HELD	% HELD OF ISSUED ORDINARY CAPITAL
J P Morgan Nominees Australia Limited	36,832,760	22.12%
HSBC Custody Nominees (Australia) Limited	29,780,461	17.88%
National Nominees Limited	22,147,185	13.30%
Citicorp Nominees Pty Limited	22,010,750	13.22%
Pacific Custodians Pty Limited	3,595,037	2.16%
BNP Paribas Noms Pty Ltd	2,861,408	1.72%
Pacific Custodians Pty Limited	1,552,514	0.93%
Milton Corporation Limited	1,451,191	0.87%
Sandhurst Trustees Ltd	935,607	0.56%
Warbont Nominees Pty Ltd	772,299	0.46%
UBS Nominees Pty Ltd	716,389	0.43%
Pershing Australia Nominees Pty Ltd	500,000	0.30%
RBC Investor Services Australia Nominees Pty Ltd	420,129	0.25%
ABN Amro Clearing Sydney Nominees Pty Ltd	343,511	0.21%
Mr D J Irvine	319,529	0.19%
HSBC Custody Nominees (Australia) Limited – A/C 3	302,815	0.18%
Nulis Nominees (Australia) Limited	291,014	0.17%
Citicorp Nominees Pty Limited	280,961	0.17%
Cyncoed Holdings Pty Ltd	270,000	0.16%
Mr L W Ramsay & Mrs M E Ramsay	241,500	0.15%
Total	125,625,060	75.45%

ON-MARKET BUY-BACK

There is no current on-market buy-back.

STOCK EXCHANGE LISTINGS

The Company's ordinary shares are quoted on the Australian Securities Exchange (ASX code: UGL)

Corporate directory

DIRECTORS

Kathryn D Spargo
Non-executive Chairman

Ross Taylor
Chief Executive Officer

Richard G Humphry AO
Non-executive Director

Guy M Cowan
Non-executive Director

John D Cooper
Non-executive Director

Jane Harvey
Non-executive Director

Robert Kaye SC
Non-executive Director

CHIEF FINANCIAL OFFICER

Ray Church

COMPANY SECRETARIES

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Pryce Dale

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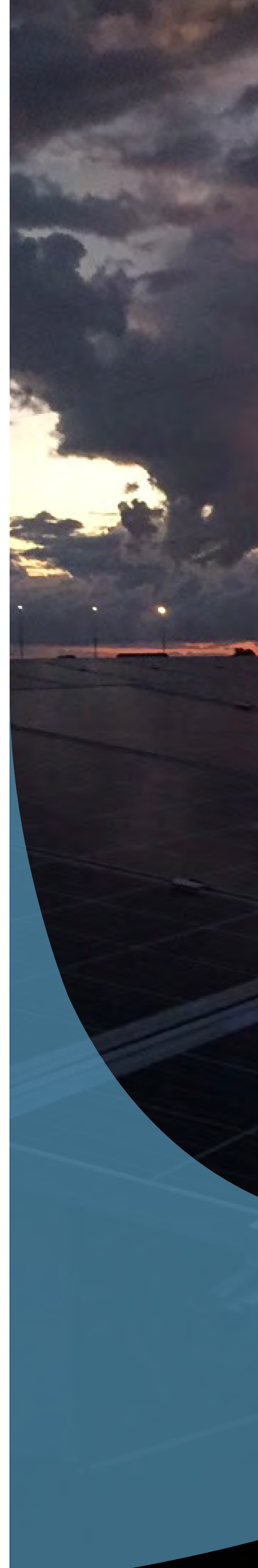
Sustainable printing

Support us in our environmental commitment to reduce printing by registering with Link Market Services to receive electronic copies of UGL's Annual Report.

linkmarketservices.com.au

This report is printed on Titan Satin and Grange Offset which is produced in an ISO 14001 certified mill. The ink used is soy/vegetable based which is totally recyclable. Titan Satin is ECF (Elemental Chlorine Free) which means the pulp is bleached without the use of chlorine gas and Carbon Neutral. Grange Offset is Australian made and PEFC Certified (Programme for the Endorsement of Forest Certification - the world's largest forest certification system). The printer is also ISO 9001 and ISO 14001 accredited. These certifications specify the requirements for a quality and environmental management system.

UGL's Corporate Governance Statement can be found at ugllimited.com/corporate-governance



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