Ausenco

**Ausenco Limited**
ABN 31 114 541 114

144 Montague Road
South Brisbane
Queensland 4101
Australia

**T** +61 7 3169 7000
**F** +61 7 3169 7001
**W** www.ausenco.com

21 August 2013

**ASX Media Release**

## Ausenco reports half-year underlying earnings of $6.9 million

Ausenco Limited (ASX: AAX) today reported an underlying half-year net profit after tax of $6.9 million, in line with the guidance provided to the market on 25 July 2013.

**Financial summary:**

- Revenue from operations of $258.9 million
- Underlying EBITDA of $15.9 million; Underlying EBITDA margin 6.2%
- Solid cash conversion of 123% of underlying EBITDA; Operating cash inflow of $19.6 million
- Strong balance sheet with net gearing of 5.8%
- Interim dividend of 2.0 cents per share – unfranked
- Pursuing acquisition opportunities to drive long term sustainable earnings
- Optimise phase revenues remain a strategic focus, now 12% of annual revenues, up from 6%
- Full year 2013 revenue guidance $490 to $520 million
- Full year 2013 underlying earnings guidance $14 to $16 million

**Operational summary:**

- 88% of revenues and 70% of work on hand from non-Australian based projects
- Focus on expanding service offering and market share in APAC/Africa already delivering new work
- Americas based businesses' performance stable with significant opportunities
- Focused on growing as a global business with a local presence
- Lower Australian dollar improves market competitiveness and future translated earnings
- 'Right-sizing' overhead cost reduction finalised; will improve future earnings and margins
- Acquired Projex in July – expected to significantly increase Oil & Gas, Power revenues in 2014
- Established structure for cross-selling of value-add services from lower cost, high value centres
- Personnel numbers now 3,000

| Six months ended 30 June $m | 2013 | 2012 | |
|---|---|---|---|
| Revenue from operations | 258.9 | 313.3 | ↓ |
| Underlying EBITDA | 15.9 | 34.4 | ↓ |
| Underlying EBITDA margin (%) | 6.2% | 11.0% | ↓ |
| Net profit before tax | 4.7 | 27.7 | ↓ |
| Attributable profit after tax | 3.5 | 20.3 | ↓ |
| Underlying earnings | 6.9 | 20.3 | ↓ |
| Basic earnings per share (cents) | 2.8 | 16.5 | ↓ |
| Net operating cash flow | 19.6 | 37.5 | ↓ |
| Underlying EBITDA interest coverage | 9.1 | 17.1 | ↓ |
| Dividend per share (cents) | 2.0 | 10.0 | ↓ |

*Attributable earnings and underlying earnings relate to profit attributable to shareholders of Ausenco.*
*Underlying EBITDA is defined and reconciled to reported earnings on page 4*
*EBITDA represents profit before tax, net finance items, depreciation and amortisation.*
*Underlying earnings excludes the same items, in after-tax terms, as are excluded from underlying EBITDA.*
*The 2012 numbers have been restated to reflect the application of AASB 11. Joint arrangements.*

Ausenco CEO Zimi Meka said the company's first half result was impacted by a below trend level of new assignments in the second quarter of 2013. A number of strategic steps have been taken to ensure ongoing competitiveness and create a solid platform for growth.

"Market conditions during the period were challenging, particularly in the APAC/Africa region, leading to lower margins and significantly reduced scopes of work and revenues on some contracts. Margins were also impacted by a small number of underperforming contracts, accounting for $6 million of additional costs incurred during the period," Mr Meka said.

"Ausenco's response to the market conditions included right-sizing the business for the current environment, reducing our cost base and advancing our diversification strategy. We remain confident of our ability to continue growing the global business.

"The implementation of common business systems, as well as specific initiatives to save corporate and overhead costs, are expected to save $20 to $25 million annually from 2014. As a result of these initiatives, our first half profit included $4.8 million in one-off redundancy costs.

"Our businesses in the Americas continue to perform to expectation given the current environment and, while the Process Infrastructure business line has been affected by the general slowdown in Brazil and Chile, we have seen a notable turnaround in Environment & Sustainability's performance while the Minerals & Metals business remains stable.

"We continue to win work across all our business lines and have been awarded more than $230 million in new work so far this year. Our underlying work on hand into 2014 is stable at $308 million and comprises over 200 assignments. The work on hand includes a number of Evaluate and Innovate phase assignments which we expect to convert into Create phase development work for 2014 and beyond.

"We are already working on $11.7 billion of new development projects that we expect to convert into new work throughout 2014. Over 80% of that work is in the Americas. Combined with encouraging levels of new enquiries in recent months, we believe this is a positive sign that client project deferrals have stabilised and that project activity will increase into 2014.

"Our recent acquisition of the Projex business in Calgary represented a significant step in our strategy to grow our Oil & Gas, Power business and will result in at least 8% of 2014 group revenues being generated in the growing North American oil and gas market.

"With our expanded base in the Canadian oil sands market, our local office presence throughout North and South America and our global expertise across the resource, infrastructure and energy sectors, we expect increased demand for our services and subsequent earnings growth.

"Increasing recurring revenues across the business remains an important focus. Sustaining brownfield project expansions and optimisation and debottlenecking projects represent over 76% of our work on hand. Optimise phase recurring revenue assignments now represent 12% of annual revenue, up from 6% this time last year, and we expect further growth in this area globally as a result of our strengthened focus on recurring revenue and our enhanced service offering.

"With over 80% of our revenue outside Australia, the lower Australian dollar has assisted in improving the competitiveness of our Australian based business and will also improve our translated non-Australian dollar earnings.

"The completion of the restructure of the APAC/Africa business line has expanded our service offering in this region where we are focused on increasing our market share. This is already paying dividends with the business being awarded a number of projects in the infrastructure, ports and terminals, and environment and sustainability sectors.

“We are continuing our program to relocate some APAC/Africa services to lower cost, high value centres by year end. This is expected to improve our competitiveness and result in additional material cost savings, as well as improved margins, from 2014.

“We successfully completed the second phase implementation of a common ERP (Oracle) business system in July. The overall ERP program remains on schedule, with the final phase to be completed by year-end.

“Ausenco’s strategic diversification and full lifecycle offering across regions, sectors and services continues to be our strength and will underpin our future growth.”

## OUTLOOK

Mr Meka said business activity levels were expected to remain relatively stable at current levels for the year ahead.

“Ausenco’s strong balance sheet and low gearing puts us in a favourable position to address short term market challenges and continue to pursue attractive acquisition opportunities that support our global diversification strategy, particularly in the Oil & Gas, Power and Environment & Sustainability businesses,” he said.

“We believe we have the right strategy to deliver growth and drive long term sustainable earnings by focusing on diversification of our services and revenues, particularly into the oil & gas, power, infrastructure, chemical and environmental sectors.

“Minerals & Metals opportunities remain solid but, with a number of our current and potential clients focused on cash and productivity management initiatives, we do not anticipate many material awards in this sector until early 2014.

“Lower corporate and overhead costs, along with the relocation of some services to lower cost, high value centres by year end, are expected to result in additional material cost savings and improved margins across the business into 2014.

“On this basis, and excluding any material decline in market conditions, we expect the 2013 full year revenue to be between $490 million and $520 million and the underlying net profit after tax to be between $14 million and $16 million.”

## BUSINESS SUMMARY

### Safety performance

The safety of our people remains Ausenco’s highest priority and our safety performance continued to improve during the period.

Ausenco’s Lost Time Injury Frequency Rate for the 12 months to 30 June 2013 was 0.27 (2012: 0.80) and the Total Recordable Injury Frequency Rate (TRIFR) was 3.17 (2012: 2.84). These results represent a 44% improvement in lost time injuries since 2012 and demonstrate that recent safety initiatives, such as the Golden Rules of Safety, are having a positive impact as Ausenco strives to achieve its goal of zero harm.

### Capital management

Net operating cash flow for the first half was an inflow of $19.6 million (1H12: $37.5 million), with a strong underlying EBITDA to cash conversion of 123%, up from 109% in the prior corresponding period.

Capital expenditure was $5.8 million (1H12: $9.6 million), the majority of which related to the successful second phase implementation of Ausenco's global ERP business system. The final phase of ERP implementation, in Chile and Peru, is expected to be completed by year-end with no major capital expenditure planned for 2014.

Ausenco's gross cash position at 30 June 2013 was $45.9 million. The net cash position declined, by $3.9 million during the period, largely reflecting the revaluation of non-Australian dollar borrowing components. The net debt position of $16.8 million, and the resulting net gearing ratio of 5.8% (1H12: 4.5%), continue to provide Ausenco with a strong balance sheet to pursue strategic acquisitions. The Projex acquisition was funded through surplus cash reserves post 30 June 2013.

During the period the Group successfully refinanced its US dollar debt component for a further three years. No bullet payments on borrowings are due within the next 12 months.

### Corporate Governance

Ms Mary Shafer-Malicki was appointed Chairperson of Audit and Risk Management Committee and Ausenco looks forward to her leadership and strong guidance of this Board sub-committee.

### Dividend

Ausenco has declared an interim dividend of 2 cents per share. The dividend will be unfranked and will be payable on 18 September 2013 to shareholders registered at 4 September 2013.

## OPERATIONAL REVIEW

Results for the 2013 half year reflect below trend market conditions that have prevailed across our global business.

Ausenco reported an underlying EBITDA of $15.9 million for the period, a decrease of $18.5 million on the previous corresponding period. In response to the softer economic conditions, the company has now right-sized its overhead and corporate cost base to optimise forward earnings and margins.

In order to present the results in a transparent manner, enabling comparison with 2012 performance, Ausenco has reported underlying EBITDA and earnings. The differences between underlying EBITDA and earnings and reported EBITDA and earnings are set out in the table below.

| | EBITDA | | Net Profit After Tax (Earnings) | |
|---|---|---|---|---|
| **$m** | **H1 2013** | **H1 2012** | **H1 2013** | **H1 2012** |
| Underlying result | **15.9** | 34.4 | **6.9** | 20.3 |
| Less: Redundancy costs | **(4.8)** | - | **(3.4)** | - |
| Reported result | **11.1** | 34.4 | **3.5** | 20.3 |

Overviews of each business line's results are presented on the following pages.

### APAC/Africa

| | Revenue | | Underlying EBITDA | | EBITDA Margin |
|---|---|---|---|---|---|
| | $m | Change (%) | $m | Change (%) | % |
| 2013 | 109.5 | (31.4) | 3.9 | (82.6) | 3.5 |
| 2012 | 159.6 | - | 22.4 | - | 14.0 |

**The APAC/Africa business comprises all client solution sectors in the Asia-Pacific/Africa region.**

APAC/Africa's operating revenue was down 31.4% to $109.5 million for the half-year (1HY12: $159.6 million). Underlying EBITDA was down $18.5 million to $3.9 million (1HY12: $22.4 million) while the underlying EBITDA margin decreased to 3.5% (1HY12: 14.0%).

Performance was impacted by increased market competition due to reduced business activity. This resulted in contracts being renegotiated with some clients, leading to lower margins, reduced scopes of work and lower revenues.

Deferred work from the second quarter and changes made to right-size the business to match anticipated work levels are anticipated to deliver improved earnings on a comparatively lower second half revenue base.

Gaining increased market share through targeting work across the broader infrastructure, environmental and oil, gas and power sectors will be a greater focus of APAC/Africa's revenue into 2014.

### Minerals & Metals

| | Revenue | | Underlying EBITDA | | EBITDA Margin |
|---|---|---|---|---|---|
| | $m | Change (%) | $m | Change (%) | % |
| 2013 | 60.8 | 1.9 | 7.8 | 2.8 | 12.8 |
| 2012 | 59.6 | - | 8.0 | - | 13.5 |

**The Minerals & Metals business focuses on the delivery of minerals processing projects, across all service phases, outside APAC/Africa.**

Minerals & Metals results remained relatively stable during the first half, with operating revenue and underlying EBITDA largely in line with the prior corresponding period. Business performance was modestly impacted by current market conditions, with revenue up marginally to $60.8 million for the half-year (1HY12: $59.6 million), and underlying EBITDA down $0.2 million to $7.8 million (1HY12: $8.0 million). The underlying EBITDA margin declined to 12.8% (1HY12: 13.5%).

Canada's and Peru's mineral sectors remained relatively stable, with recent indications of new project activity in each of these markets. Chile's and Brazil's mineral sectors remain infrastructure constrained, moderating activity in the near term.

The business continued to work successfully on HudBay's Constancia copper project in Peru, with 90% of the detailed engineering now complete.

### Process Infrastructure

| | Revenue | | Underlying EBITDA | | EBITDA Margin |
|---|---|---|---|---|---|
| | $m | Change (%) | $m | Change (%) | % |
| 2013 | 66.6 | (7.2) | 10.7 | (17.5) | 16.1 |
| 2012 | 71.7 | - | 13.0 | - | 18.1 |

**The Process Infrastructure business focuses on the delivery across all service phases to the global port, pipelines, marine and transport infrastructure sectors, outside APAC/Africa.**

Process Infrastructure's underlying EBITDA margins declined marginally during the half-year to 16.1% (1HY12: 18.1%). Operating revenue and underlying EBITDA were lower due to a lower level of Create phase development projects.

Revenue was down 7.2% to $66.6 million (1HY12: $71.7 million) and underlying EBITDA was down $2.3 million to $10.7 million (1HY12: $13.0 million).

Infrastructure constraints in Brazil resulted in lower than anticipated new project and engineering activity. The Canada and USA offices experienced record high proposal activity in the period, which is expected to underpin a stable forward revenue base.

The business continued to deliver major projects during the period, including work with Cytec Industries in Canada, Mineral Deposits in Senegal and Teck in Chile. In addition, alliance agreements with Southwest Gas Corporation and BC Hydro provided baseline infrastructure work.

### Environment & Sustainability

| | Revenue | | Underlying EBITDA | | EBITDA Margin |
|---|---|---|---|---|---|
| | $m | Change (%) | $m | Change (%) | % |
| 2013 | 14.0 | 4.6 | 0.9 | - | 6.2 |
| 2012 | 13.4 | - | (0.1) | - | (0.7) |

**The Environment & Sustainability business focuses on providing environmental and sustainability services, outside APAC/Africa.**

Environment & Sustainability delivered a good result in the first half of 2013, achieving an underlying EBITDA increase of $1.0 million to $0.9 million (1H12: $0.1 million loss). Operating revenues also increased by 4.6% to $14.0 million (1H12: $13.4 million).

Notwithstanding the relatively small revenue increase, business performance improved materially due to increased levels of billed hours, a stronger focus on overhead cost management and greater early stage project assessment activities.

The political situation in Peru has stabilised, leading to increased business certainty and renewed investment activity. The business line is focused on growing market share in the Americas by diversifying across related industries within existing markets.

**Oil & Gas, Power**

| | Revenue | | Underlying EBITDA | | EBITDA Margin |
|---|---|---|---|---|---|
| | $m | Change (%) | $m | Change (%) | % |
| 2013 | 6.2 | 32.9 | - | (84.5) | - |
| 2012 | 4.7 | - | 0.3 | - | 5.9 |

**The Oil & Gas, Power business focuses on the delivery of projects across all solution phases to the oil, gas, renewable energy and power sectors.**

The Oil & Gas, Power business line saw an increase in operating revenue, up 32.9% to $6.2 million for the half-year (1HY12: $4.7 million). Underlying EBITDA was down $0.3 million to $nil million.

The Projex acquisition supports Ausenco's strategy to expand services in North America's high growth oil sands market and complements the 2012 acquisition of Reaction Consulting. The business line is now positioned to provide a complete range of services across the entire lifecycle of oil sands projects.

ENDS

Further information contact:


| | |
|---|---|
| Zimi Meka | Craig Allen |
| Chief Executive Officer | Chief Financial Officer |
| Ausenco Limited | Ausenco Limited |
| T: (07) 3169 7000 | T: (07) 3169 7000 |


**About Ausenco**

Ausenco is a global, diversified engineering, construction and project management company providing services in Minerals & Metals, Process Infrastructure, Program Management, Environment & Sustainability and Oil & Gas, Power. We deliver new and better ways to add value to our clients' projects no matter how demanding and we deliver results in some of the world's most challenging environments. Listed on the ASX in 2006, our growth strategy is focused on sector, solution and geographic expansion.  We operate from 31 offices in 19 countries.