

ASX ANNOUNCEMENT: 11 March 2010**H1 10 Results & Outlook**

Open Briefing with Executive Chairman Geoff Lord

UXC Limited
Level 3, 350 Collins Street
Melbourne, VIC 3000**In this Open Briefing[®], UXC Executive Chairman Geoff Lord discusses**

- outlook for H2 10 to yield normalised profit
- sustainability of earnings growth and margins in Business and Professional Solutions Group
- scope of strategic review

Open Briefing interview:**openbriefing.com**

UXC Limited (ASX: UXC) reported NPAT of \$3.2 million for the first half ended 31 December 2009 up from \$1.1 million in the previous corresponding period (pcp). EBITDAC was \$11.8 million, down 8 percent, on revenue of \$380.0 million, up 15 percent. After significant losses sustained by the environmental sectors of the Field Solutions Group (FSG) in the first half, you expect the second half to yield a normalised profit for UXC. How confident are you about this forecast?

Executive Chairman Geoff Lord

Our confidence is bolstered by the fact that we've taken the actions that were needed to ensure that there's no recurrence of the charges and losses we booked in the first half in the environmental sector of FSG, which totalled about \$16.8 million before tax, or \$12.9 million after tax.

We also expect the customary seasonality in our business to give us a better second half result as usual. In the Business Solutions Group (BSG), revenue was fairly flat in the first half and yet its margins improved dramatically. That's a result of the cost reduction and reorganisation we did in the prior year. We'll see that continuing into the second half.

In FSG, as I mentioned, we believe we've rectified the problems we had in the environmental area, so they won't recur. The actions we have taken include the discontinuance of affected operations, and as such the underlying performance should improve. Other parts of that group are performing quite well and should continue to do so into the second half.

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You expect revenue to approach \$750 million for the year ending June 2010, down from your previous guidance of \$800 million. What are the main reasons for reduced growth expectations?

Executive Chairman Geoff Lord

Our previous growth engine was environmental services, and we have reduced our activities in this area for the remainder of this financial year. That's why we won't get to our initial target of \$800 million. The \$750 million assumes some of the growth we experienced in the first half continues through into the second half. We're now working on developing new programs that won't have the same risk as environmental services but will allow us to use our expertise in the area.

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Underlying EBITDA from Business and Professional Solutions Groups (BPSG), excluding the gain on sale of PeoplePoint, was \$19.0 million up from \$6.2 million in the pcp. Underlying EBITDA margin was 8.6 percent, up from 2.8 percent. What has driven this strong increase in margins? Are BPSG's earnings growth and margins sustainable in the second half of FY10?

Executive Chairman Geoff Lord

As I said, the improvement in margins was a result of cost reductions and some consolidation of our back offices and systems. As such, we expect that earnings and margins should be sustainable.

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FSG made a net loss of \$11.9 million versus profit of \$7.1 million in the pcp. You noted this was due to business activities that have now been discontinued – Renewable Energy Certificates (REC) and home insulation programs. Excluding losses and charges of \$16.8 million due to these business activities, EBITDA was \$4.9 million for the first half. Is it a reasonable expectation that EBIT will be maintained at this level in the second half of FY10?

Executive Chairman Geoff Lord

We don't expect a recurrence of any of the losses or difficulties we had in the environmental area in the first half as a result of the reduced activity in this area. However, we may have some difficulty in recovering the fixed costs of our investment in environmental programs due to lower activity – this may lead to small operational losses until rectified through new business activity and/or divestment of infrastructure and associated costs. The unaffected businesses in FSG are going along smoothly, and we expect improvement from them in the second half.

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What was the rationale for going into the renewable energy space and home insulation program?

Executive Chairman Geoff Lord

As a business we have a commitment to the environmental activities we've been undertaking. We're Australia's largest player in the space of creating carbon abatement credits, and until recently RECs, so it was natural for us to expand our business into the new opportunities that were being created, partially as a result of government policy. The problem is when government policy changes abruptly or isn't administered well, as has happened, the business case doesn't hold up and you encounter the sort of difficulties we had. Therefore unfortunately we didn't get the outcomes we expected when we went into the space.

We recognised upfront that there was a high degree of risk that government policy might change, so we built our business to be nimble and able to move people in and out very quickly. However, we didn't anticipate that government policy would change simultaneously for all programs we were involved with; being solar, insulation and green loans, nor that it would change effectively overnight. This has made the situation more challenging, though we've been able to achieve staff reductions as planned. We have a bit more of a problem with some of the investments we had to make, for instance in call centres, where leased space and communications infrastructure is less easy to exit.

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You won two contracts in the first half of FY10, worth up to \$40 million each, for the roll-out of Advanced Metering Infrastructure (AMI) in Victoria: with PowerCor Network Services; and with SP AusNet. You incurred bid and start-up costs on these contracts in the first half, with earnings contributions expected to start in the second half. What will be the profile of the revenue from the contracts over their lives and when do you expect to reach pay-back of the start-up costs? What are the risks involved with the execution of the contracts?

Executive Chairman Geoff Lord

We should get payback in the second half of this year after covering the usual contract mobilisation costs we have to go through with contracts of this size. The profile of the revenue should be fairly stable over the life of the contract. Both of our customers have another contractor delivering the works as well, and the contracts are written in such a way that volumes can be directed to the party that performs the best. That's both an opportunity and a risk for us: if we execute the contracts well we can increase our volumes and increase our share. We're doing our best to be in a position to achieve that.

The risks involved with the execution of the contracts are not risks that are new to us, they're risks that our Skilltech business has been involved with from its beginning. Skilltech has core competencies in the management of the logistics of swapping meters: managing the labour resources required to remove old meters and install new ones.

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UXC booked first half operating cash outflow of \$8.1 million, versus outflow of \$8.0 million in the pcp. After capex of \$2.8 million, free cash flow was negative \$10.9 million versus negative \$17.9 million. With the exiting of the solar heating installation and RECs business activities, will you be requiring the levels of capex you did in the past?

Executive Chairman Geoff Lord

Our capex, which is typically similar to our depreciation and amortisation, is going to be lower this year than it has been in some time. That's a product of the maturity of our development cycle. We don't have any need to expand capacity in the capital intensive parts of our business, but we're actively expanding non-capital intensive activities, for example, entering into project management type mandates and subcontracting the work that requires investment in plant.

Also, we've just finished a large capital investment in Getronics to replace its systems and move other businesses onto the Getronics platform. We're now driving a better return out of that investment by putting more volume through.

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You did not pay any interim dividend in the first half. What is the outlook for final dividends?

Executive Chairman Geoff Lord

We always intend to pay dividends as our results allow us to pay them. That's what we did last year: in the first half we didn't pay a cash interim dividend but we were able to recover and pay a final dividend. It's our intention to do that again this year, if we can.

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You've commenced a strategic review to examine alternatives to unlock greater shareholder value for UXC. What is the scope of the review?

Executive Chairman Geoff Lord

The scope for the review is to find the best business structure to create the most shareholder wealth; our objective is as broad, simple and complex as is implied by that. All of the alternatives that would be available to us are under examination, from de-merger through to private equity. We'll look at how the strengths in this business can be recognised and how the uncertainties that pull us down can be restructured so that the underlying value can be unlocked.

We hope to have the review finished by the end of this financial year.

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Thank you Geoff.

For more information about UXC Limited, visit www.uxc.com.au or call Geoff Lord on +61 3 9941 3100 or Mark Hubbard on +61 3 9224 5777.

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