



WorleyParsons

resources & energy

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ASX Media Release

WORLEYPARSONS LIMITED (ASX: WOR) FULL YEAR 2017 RESULT

Professional services company WorleyParsons Limited today announced a statutory net profit after tax (NPAT) of \$33.5 million for the 12 months to 30 June 2017, up from \$23.5 million in the prior corresponding period.

Underlying NPAT was \$123.2 million, down 19.5% on the prior corresponding period. Aggregated revenue declined 23.6% to \$4,377.0 million in line with the company's customers' spending contraction. Aggregated revenue grew by 2.1% in the second half compared to the first half.

Chief Executive Officer Andrew Wood said, "We have reshaped the company during one of the largest resource industry transitions in 40 years. Demand for energy and resources continues to increase, while investment to meet that demand into the future has declined significantly in recent years. However, many of our customers are now indicating that they are returning to modest capital and operational expenditure growth albeit in an environment of uncertainty.

"While the contraction has impacted our revenues, we have been able to improve both our gross margin and EBIT margin. We have achieved this by reshaping and resizing our business, delivering significantly reduced overhead costs, improved customer delivery and an optimized portfolio of operations.

"We have exceeded the target for overhead reduction set in February 2016. By the end of June 2017, the program has delivered \$500 million in annualized savings against an initial target of \$300 million. Our overheads and staff numbers have now stabilized. These savings contributed to an underlying EBIT margin improvement to 5.9% from 5.3% in the prior corresponding period.

"We made significant progress on our initiative of strengthening the balance sheet during the second half of the year with our total net debt position improving by \$153.5 million in the period to \$766.7 million.

"Our operating cash flow for the year was a net inflow of \$78.9 million. Our day sales outstanding (DSO) improved across the business by four days in this half and our measures to improve cash collection are continuing to improve our working capital position. Collection from the four state-owned customers we highlighted at the time of the half year results has proceeded positively, with the outstanding balance reduced to approximately \$150 million. Collection of the remaining funds remains a priority going forward. We are now well on the way to meeting our targeted reduction in working capital of \$300 million over the medium term.

"Our backlog has increased to \$5.1 billion at 30 June 2017, up from \$4.2 billion at 30 June 2016. During the 12 months we secured 86 significant awards with a total contract value in excess of \$2.6 billion.

The Board has resolved not to declare a final dividend.

"Even while activity levels appear to be improving, conditions remain challenging for our customers. We are beginning to see the benefits of increased customer activity in some areas. Our process of reshaping and resizing the business has positioned us well to take advantage of more positive developments in market activity." Mr Wood said.

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* Refer to the table on page 5 under Key Financials for the reconciliation of statutory NPAT to underlying NPAT.

Financial Outcomes¹ (compared to the previous corresponding period, unless noted otherwise)

Statutory result

- **Statutory Revenue** was down 33.0% to \$5,220.6 million from \$7,790.1 million
- **Statutory NPAT** increased 42.6% to \$33.5 million from \$23.5 million

Underlying result

- **Aggregated revenue** was down 23.6% to \$4,377.0 million from \$5,725.9 million
- Underlying **EBIT** was down 14.8% to \$257.8 million from \$302.7 million
- Underlying **EBIT margin** improved to 5.9% from 5.3%
- Underlying **NPAT** down 19.5% to \$123.2 million from \$153.1 million
- Underlying basic earnings per share (**EPS**) of 49.7 cents from 61.8 cents

Other financial information

- **Operating cash flow** was a net inflow of \$78.9 million, after \$101.3 million in cash outlay for overhead reduction costs
- **Gearing** was 29.1%, down from 32.9% at 31 December 2016 on a net debt to net debt plus equity basis
- The average **cost of debt** in the half was lower at 4.8%, compared to 5.0% in the first half with **interest cover** at 4.3 times, down from 5.5 times at 31 December 2016
- **Net debt to EBITDA** (as defined under debt covenants) improved to 2.4 times, down from 2.6 times at 31 December 2016
- No final dividend.

Operating Outcomes

Safety Performance

The Total Recordable Case Frequency Rate for employees for the 12 months to 30 June 2017 was 0.08 (per 200,000 manhours) compared to 0.07 at 31 December 2016. The Company is committed to the goal of Zero Harm.

Backlog

Backlog at 30 June 2017 increased to \$5.1 billion from \$4.2 billion at 30 June 2016. During the 12 months to 30 June 2017 WorleyParsons secured 86 significant awards for a total contract value in excess of \$2.6 billion.

Operating Segment Performance

Services

Services reported a decline in aggregated revenue of 26.2% to \$2,681.1 million. Segment EBIT declined by 8.7% to \$242.8 million, with segment margin increasing to 9.1% from 7.3%.

Aggregated revenue was lower across all regions due to projects completing or moving into construction, reduced customer spending and project deferrals and cancellations. The Middle East operations continued to perform well, growing its contribution to the business. Segment margins increased due to overhead reductions and improved project performance.

Major Projects and Integrated Solutions

Major Projects and Integrated Solutions reported a decline in aggregated revenue of 15.4% to \$1,213.4 million. Segment EBIT declined by 6.3% to \$119.5 million with segment margin increasing to 9.8% from 8.9%.

Aggregated revenue declined as a result of project completions during financial year 2017, together with reduced customer spending. Segment margins increased due to overhead reductions and the improved performance of our largest projects and a strong performance from Cord.

Advisian

Advisian reported a decline in aggregated revenue of 27.0% to \$482.5 million. Segment EBIT declined by 72.6% to \$12.5 million with segment margin decreasing to 2.6% from 6.9%. The second half result was a significant improvement during the period, with margin recovering to 4.2%.

Aggregated revenue and margin decreases were primarily associated both with the decline in the Hydrocarbons consulting business in the Americas and also investment associated with development of business in the new energy sector and Digital Enterprise. The Company will continue to invest in these businesses to build a global consulting and advisory business.

Sector Performance (Customer sector groups in financial statements)

Hydrocarbons

The Hydrocarbons sector reported an aggregated revenue decline of 24.3% to \$3,105.6 million. Sector EBIT declined 8.3% to \$311.3 million with the sector margin increasing to 10.0% from 8.3%. Hydrocarbons' contribution to the Group's aggregated revenue was 71.0%, down slightly from last year.

Aggregated revenue declined due to projects reaching completion, combined with customers' reduced capital and operating expenditure.

Minerals, Metals & Chemicals

The Minerals, Metals & Chemicals sector reported an aggregated revenue decline of 31.3% to \$441.4 million. The sector EBIT declined 58.1% to \$16.7 million with sector margin decreasing to 3.8% from 6.2%. Minerals, Metals & Chemicals contribution to the Group's aggregated revenue was 10.1% down slightly from last year. Chemicals now represent more than 50% of this sector's contribution.

The Minerals & Metals contribution declined as project activity continued to decrease in line with sustained lower customer capital and operating expenditure. Chemicals also declined as the increased activity in the United States and the Middle East only partially offset lower in activity in China.

Infrastructure

The Infrastructure sector reported an aggregated revenue decline of 15.6% to \$830.0 million. Sector EBIT declined 21.9% to \$46.8 million while sector margin decreased to 5.6% from 6.1%.

The Infrastructure sector aggregated revenue contribution to Group revenue grew to 18.9% from 17.2%.

The Infrastructure sector aggregated revenue included growth in the Middle East somewhat offsetting declines in Australia. Margins declined primarily due to the tighter competition in the global markets.

Strategy Update

WorleyParsons has been reshaped and resized into four business lines. The company has significantly reduced overheads and the business is now operating more effectively and efficiently.

A new strategy architecture has been developed that allows the company to respond more dynamically to the changing world. It is a framework that integrates all the strategic processes at WorleyParsons.

The architecture is made up of three pillars. The first pillar focuses on operational excellence, ensuring that the company maintains a viable and competitive business. The second pillar supports growth in the business's core markets through the delivery of all of our value to all of our customers. The third pillar positions the business to grow as a key player in the new world.

The strategy process sets a clear set of strategic priorities for us to focus on, and a process to review these on a regular basis.

Update on FY2017 Priorities

Eighteen months ago the Company outlined the immediate priorities of reducing internal costs, improving customer delivery, optimizing the portfolio and strengthening the balance sheet. More recently we moved to enhance our global sales and marketing capability.

Reducing internal costs

The cost reduction program has delivered annualized overhead savings of \$500 million with overheads now approximately \$950 million per annum on a run rate basis. To achieve these savings a number of initiatives were undertaken including, focusing business development on strategic priority areas, implementing flexible work models, optimizing the property portfolio, simplification and standardization of IT and moving to a regional pooled resources model under a streamlined management structure.

The priority now is to ensure key overhead areas remain right sized for the business.

Improving customer delivery

Gross margins have continued to increase which is a key indicator of improved customer delivery. This has been confirmed through positive customer feedback, and repeat business. The Advisian brand is growing, with recognition of the value of combining management consulting with leading technical capability. Digital Enterprise continues to develop, with a number of products now in the market. Digital Enterprise is also developing the automation of our internal engineering and project delivery systems.

Optimizing the portfolio

The Company continued to review its geographical footprint in 2017, employing 22,900 people at 31 July 2017 and with a presence in 106 offices across 42 countries, compared with 24,300 people across 118 offices also in 42 countries at 31 July 2016. Businesses are continually reviewed for alignment with our strategy.

Strengthening the balance sheet

The Company reduced statutory net debt by \$153.5 million in the second half to maintain net debt at close to FY2016 levels. The gearing ratio at 30 June 2017 is 29.1%, in the middle of the target range of 25% to 35%. Days sales outstanding have improved in most parts of the business as the Company is working intensively to reduce debtor payment cycles. Capital expenditure has reduced, with some cash outflow in the half used to reshape the business.

Sales and Marketing

A Global Sales and Marketing team was established during the year and is taking the lead in coordinating major strategic pursuits as well as running intensive campaigns to take proven offerings to known customers who are likely to need those offerings. The aim is to take the best of WorleyParsons to all our customers. Early results have been encouraging with our win rate approximately doubling for new major contracts.

Group outlook

We are beginning to see increased activity from our energy and resources customers despite the constrained resource price environment. While increased backlog provides support for the near term, the medium term revenue outlook remains uncertain.

Our focus on costs will continue, while ensuring the sustainability of the cost savings already achieved. It is expected the benefits of the overhead savings achieved in FY2017 will be reflected in FY2018 earnings. We also expect our balance sheet metrics to continue to improve.

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About WorleyParsons: WorleyParsons delivers projects, provides expertise in engineering, procurement and construction and offers a wide range of consulting and advisory services. We cover the full lifecycle, from creating new assets to sustaining and enhancing operating assets, in the hydrocarbons, mineral, metals, chemicals and infrastructure sectors. Our resources and energy are focused on responding to and meeting the needs of our customers over the long term and thereby creating value for our shareholders.

WorleyParsons is listed on the Australian Securities Exchange [ASX:WOR]

KEY FINANCIALS	Consolidated		
	Change %	30 Jun 2017 \$'M	30 Jun 2016 \$'M
STATUTORY RESULT			
Revenue and other income	(33.0%)	5,220.6	7,790.1
Earnings before interest and income tax expense (EBIT)	0.5%	129.6	128.9
Profit before income tax expense	(11.8%)	60.8	68.9
Profit after income tax expense attributable to members of WorleyParsons Limited	42.6%	33.5	23.5
Basic earnings per share (cents)	-	13.5	9.5
Diluted earnings per share (cents)	-	13.4	9.5
UNDERLYING RESULT			
The underlying results are as follows:			
EBIT		257.8	302.7
EBIT margin on aggregated revenue		5.9%	5.3%
Profit after income tax expense attributable to members of WorleyParsons Limited		123.2	153.1
Basic earnings per share (cents)		49.7	61.8
Reconciliation of statutory profit after taxation to underlying profit after taxation is as follows:			
Profit after income tax expense attributable to members of WorleyParsons Limited		33.5	23.5
Add: Staff restructuring costs		59.2	76.8
Add: Onerous lease contracts		24.2	86.4
Add: Onerous engineering software licences		3.2	14.3
Add: Other restructuring costs		38.9	4.6
Add: Impairment of associates intangibles		2.3	-
Add: Net loss on sale of assets held for sale		0.4	12.1
Less: Certain functional currency related foreign exchange gains		-	(15.9)
Less: Net gain on revaluation of investments previously accounted for as joint operations		-	(4.5)
Less: Tax on expense on staff and other restructuring costs, onerous lease contracts, onerous engineering software licenses and certain functional currency related foreign exchange gains		(38.5)	(44.2)
Profit after income tax expense attributable to members of WorleyParsons Limited		123.2	153.1
AGGREGATED REVENUE RESULT			
Aggregated revenue is defined as statutory revenue and other income plus share of revenue from associates less procurement revenue at nil margin, pass-through revenue at nil margin, interest income and net gain on revaluation of investments previously accounted for as joint operations			
Revenue and other income		5,220.6	7,790.1
Less: Procurement revenue at nil margin (including share of revenue from associates)		(826.2)	(2,226.4)
Less: Pass-through revenue at nil-margin		(229.0)	(167.0)
Revenue excluding procurement revenue at nil margin		4,165.4	5,396.7
Add: Share of revenue from associates		218.7	342.5
Less: Interest income		(7.1)	(8.8)
Less: Net gain on revaluation of investments previously accounted for as joint operations		-	(4.5)
Aggregated revenue		4,377.0	5,725.9
CASH FLOW			
Operating cash flow		78.9	192.0
OTHER KEY FINANCIAL METRICS			
Gearing ratio % (net debt to net debt plus equity)		29.1%	32.9%
Leverage ratio (net debt to EBITDA)*		2.4 times	2.6 times
EBITDA interest cover*		4.3 times	5.5 times

*Debt covenant calculations

DISCLAIMER Important information

The information in this presentation about the WorleyParsons Group and its activities is current as at 23 August 20 February 2017 and should be read in conjunction with the Company's Appendix 4E and Annual Report for the full year ended 30 June 2017. It is in summary form and is not necessarily complete. The financial information contained in the Annual Report for the full year ended 30 June 2017 has been audited by the Group's external auditors.

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Note 1:

Restatement of comparatives

Effective 1 July 2016, WorleyParsons rationalised its business lines by aggregating the Major Projects and the Improve businesses into an expanded Major Projects & Integrated Solutions Segment. To remove duplication of engineering activities and to provide single points of contact to our customers, Improve engineering relationships and businesses moved into the Services Business Line. Integrated services relationships and opportunities are now part of the Integrated Solutions Business Line to retain a central focus on our large integrated opportunities i.e. O&M or full delivery EPC relationships. As a result, the Company's operations are managed and reported by the following business lines: Services, Major Projects, Integrated Solutions and Advisian. The Group has created a central Global Sales and Marketing function. Personnel conducting business development previously as part of the Major Projects business line are now included within Global Support.

In addition, the Group has redefined aggregated revenue to exclude pass-through revenue at nil margin. The previously reported segment results for the full year to 30 June 2016 have been restated to be comparable with the revised segmentation approach as required by AASB 8 Operating Segments.