

Operating and Financial Review

1. OPERATIONS

1.1 OVERVIEW

WorleyParsons is a professional services provider to the resources and energy sectors. We operate in four business lines of Advisian, Major Projects, Integrated Solutions and Services. Major Projects and Integrated Solutions are combined into a single segment providing coverage of all construction and fabrication yard activity, easy access to Global Delivery Center resources and a shared management team in one group. This strengthens our capability and reputation in integrated Engineering, Procurement and Construction (EPC) with the aim of extending this offering to existing and new customers. To strengthen our integrated EPC offering as well as ensuring coverage of all construction and fabrication activity, the Major Projects and Integrated Solutions business lines operate under a single management team.

We report along three segments of Advisian, Major Projects and Integrated Solutions, and Services and three customer sectors, each of which is focused on customers involved in the following activities:

Hydrocarbons – the extraction and processing of oil and gas;
Minerals, Metals & Chemicals – the extraction and processing of mineral resources and the manufacture of chemicals; and
Infrastructure – resource projects related to water, the environment, transport, ports and site remediation and decommissioning; and all forms of power generation, transmission and distribution.

Our customers include multi-national oil and gas, resources and chemicals companies as well as more regionally and locally focused companies, national oil companies and government owned utilities operating in the customer sectors described above. We offer a range of services from small studies to the delivery of major projects.

The diversity of our business in terms of geography, industry and service offering is a fundamental strength. We operate in 42 countries, with no country individually representing more than 17% of aggregated revenue. Our ten largest customers account for 43% of aggregated revenue.

1.2 BUSINESS MODEL

Our business is based on our people providing key services to our customers from within our business lines. We strive to empower our people to support our customers to be successful. We support our people with our business procedures and systems and generate earnings by charging their time spent performing professional services, to our customers.

Aggregated revenue and profit: Our sources of revenue and profit are diversified and revenue and profit are generated from a large number of customers. As a result, we are not dependent on any one of our customers for a significant portion of our revenue or profit. Aggregated revenue excludes revenue that has nil margin (this typically relates to procurement revenue where WorleyParsons undertakes procurement on our customers' behalf with no exposure to financing costs or warranty obligations). We believe the disclosure of revenue attributable to associates provides additional information in relation to the financial position of the Group and include this revenue within aggregated revenue.

Costs: Our two largest costs are: staff costs, and administration costs, which include office lease costs. We also have a significant amount of pass-through costs reimbursed by our customers.

Assets and liabilities: The significant items on our balance sheet are mainly project related, such as trade receivables, unbilled contract revenue, provisions and borrowings. We also hold a number of intangible assets generated through previous acquisitions. Our business is not capital intensive. Our customers pay us at longer intervals than our payments of expenses (e.g. staff salaries). This time differential, along with the time from incurring the costs, to invoicing the customer, makes up the majority of our working capital requirements.

1.3 REVIEW OF OPERATIONS

The statutory result for FY2018 was a net profit after tax (NPAT) of \$62.2 million, compared with \$33.5 million in FY2017. Underlying NPAT was \$171.4 million for FY2018, up 39.1% on the previous corresponding period. Aggregated revenue increased by 8.5%, driven by the contribution of the UK Integrated Solutions business acquired in October 2017. Revenue grew 5.6% from the first half to second half. Revenue in the underlying business remained relatively flat compared to FY2017, reflecting the markets within which we operate.

WorleyParsons undertook a major transformation program between FY2015 and FY2017 to better align with our customers and to resize following the major market reduction caused by a decline in capital expenditure of our resources and energy customers. This transformation included reorganizing into four business lines and reshaping how we support the business with a program that achieved \$500 million in overhead savings. In FY2018, we have seen the business maintain the cost out program while delivering improved financial and operating outcomes. In FY2018, there have been a number of charges related to consultant fees and onerous leases relating to the transformation program which are included in the statutory result.

We now employ 26,050 people and still maintain a presence in 116 offices across 42 countries, compared with 22,800 people across 106 offices at 30 June 2017.

We secured 94 significant awards this year compared with 86 in FY2017. Backlog at 30 June 2018 was \$6.4 billion, compared to \$5.1 billion at 30 June 2017.

Our financial position remains sound with the Company's gearing ratio of 23.0% at 30 June 2018, slightly below the target range of 25% to 35%.

The reconciliation of the underlying earnings before interest and tax (EBIT) and underlying NPAT results to the EBIT and NPAT attributable to members of WorleyParsons Limited is shown on the following page.

OPERATING AND FINANCIAL REVIEW CONTINUED

	FY2018 \$'M	FY2017 \$'M
EBIT	263.8	129.6
Staff restructuring costs	-	59.2
Onerous lease contracts	12.2	24.2
Other restructuring costs	14.2	38.9
Acquisition costs	5.9	-
Impairment of associate intangible assets	2.7	2.3
Onerous engineering software licenses	-	3.2
Net loss on sale of assets held for sale	-	0.4
Underlying EBIT	298.8	257.8
NPAT attributable to members of WorleyParsons Limited	62.2	33.5
Staff restructuring costs, post tax	-	41.4
Onerous lease costs, post tax	8.9	17.0
Other restructuring costs, post tax	10.0	27.2
Acquisition costs	5.9	-
Impairment of associate intangible assets	2.7	1.6
Onerous engineering software licenses, post tax	-	2.2
Net loss on sale of assets held for sale	-	0.3
Tax from changes in US tax legislation	81.7	-
Underlying NPAT	171.4	123.2

THERE ARE THREE MEASURES THAT ARE KEY TO UNDERSTANDING OUR RESULTS:

1. AGGREGATED REVENUE;
2. EBIT (EARNINGS BEFORE INTEREST AND TAX); AND
3. NPAT (NET PROFIT AFTER TAX) ATTRIBUTABLE TO MEMBERS OF WORLEYPARSONS LIMITED.

		FY2018 \$'M	FY2017 \$'M	Comments	Movement
1. Aggregated revenue		4,749.2	4,377.0	We define aggregated revenue as: <ul style="list-style-type: none"> • our revenue and income calculated in accordance with relevant accounting standards; • plus our share of revenue earned by our associates; and • less procurement revenue at nil margin, pass-through revenue at nil margin and interest income. 	Our aggregated revenue increased by 8.5% in FY2018 when compared with that for FY2017, driven by the acquisition of the UK Integrated Solutions business.
2. EBIT	(statutory)	263.8	129.6	EBIT means earnings before interest and tax.	Our statutory EBIT increased by 103.5% in FY2018 when compared with that for FY2017, due primarily to the benefit of increased volume, a reduction in overhead costs with increased margins and lower restructuring costs.
	(underlying)	298.8	257.8		Underlying EBIT increased by 15.9% when compared with that for FY2017. This increase is due to increased volume and decreased overheads.
3. NPAT	(statutory)	62.2	33.5	NPAT means net profit after tax.	Our statutory NPAT increased to \$62.2 million in FY2018 compared with \$33.5 million for FY2017, due primarily to the benefit of increased EBIT, and reduced restructuring costs being partially offset with charges relating to changes in US corporate tax law.
	(underlying)	171.4	123.2		Underlying NPAT increased by 39.1% when compared with that for FY2017, primarily due to increased volume and lower overheads during the year.

1.3.1 BUSINESS LINE PERFORMANCE

SERVICES

The Services business line effectively combines local service, knowledge, relationships and capability to deliver engineering services and projects of all sizes across the asset lifecycle. It is the local partner for companies and communities to deliver sustained economic and social progress. Working closely with WorleyParsons' other three business lines - Major Projects, Integrated Solutions and Advisian - Services brings together the local knowledge and global expertise to deliver all our value to all our customers.

The Services business line reported aggregated revenue of \$2,391.3 million and segment result of \$236.2 million (FY2017: aggregated revenue of \$2,681.1 million and segment result of \$242.8 million). The segment margin improved to 9.9% from 9.1%. Aggregated revenue was lower in the Middle East as some contracts moved to Major Projects for implementation and in the United States with some large projects completing during the period. Canada, Australia and New Zealand returned to growth.

	Aggregated revenue		Contribution to Group	Segment result		Segment margin
	\$'M	Variance %	aggregated revenue	\$'M	Variance %	%
FY2018	2,391.3	(11)	50	236.2	(3)	9.9
FY2017	2,681.1		61	242.8		9.1

MAJOR PROJECTS AND INTEGRATED SOLUTIONS

Major Projects specialize in the full project delivery of large, complex, strategically important projects wherever they are in the world. Integrated Solutions delivers maintenance, modification, operations, engineering, fabrication, construction, hook-up and commissioning services to, mainly, existing assets around the globe. The Major Projects and Integrated Solutions business lines reported aggregated revenue of \$1,837.9 million and segment result of \$172.2 million (FY2017: aggregated revenue of \$1,213.4 million and segment result of \$119.5 million). The segment margin declined to 9.4% from 9.8%.

Aggregated revenue increased with the acquisition of the UK Integrated Solutions business in the North Sea, as well as an upturn in the Norway business. Segment margin declined largely due to the lower margin Integrated Solutions business contributing a larger portion of revenue to the segment.

	Aggregated revenue		Contribution to Group	Segment result		Segment margin
	\$'M	Variance %	aggregated revenue	\$'M	Variance %	%
FY2018	1,837.9	51	39	172.2	44	9.4
FY2017	1,213.4		28	119.5		9.8

ADVISIAN

Advisian is a global consulting firm that provides strategic and front-end advice, integrated with deep technical expertise to clients in the hydrocarbons, resources and infrastructure sectors. Advisian reported aggregated revenue of \$520.0 million and segment result of \$17.7 million (FY2017: aggregated revenue of \$482.5 million and segment result of \$12.5 million). The segment margin improved to 3.4% from 2.6%.

Aggregated revenue increased across all three customer sectors with the largest increases coming from Hydrocarbons and Minerals, Metals and Chemicals customer sectors. The Minerals, Metals & Chemicals sector along with the Infrastructure sector improved their margin in FY2018.

The Company continues to invest in Advisian to shape this business to build a globally significant consulting and advisory business in the resources and energy markets. Advisian also contains the investment for the Company's strategic development in Digital and New Energy.

	Aggregated revenue		Contribution to Group	Segment result		Segment margin
	\$'M	Variance %	aggregated revenue	\$'M	Variance %	%
FY2018	520.0	8	11	17.7	42	3.4
FY2017	482.5		11	12.5		2.6

OPERATING AND FINANCIAL REVIEW CONTINUED

1.3.2 SECTOR PERFORMANCE

HYDROCARBONS

The Hydrocarbons sector reported aggregated revenue of \$3,588.0 million and segment result of \$347.7 million with a margin of 9.7% (FY2017: aggregated revenue of \$3,105.6 million, segment result of \$311.3 million and segment margin of 10.0%). Hydrocarbons' contribution to the Group's aggregated revenue was 76%, increasing from last year.

The increase in aggregated revenue was driven by the recent acquisition of our UK Integrated Solutions business operating in the North Sea, and a return to growth in Canada and Norway.

	Aggregated revenue		Contribution to Group aggregated revenue		Segment result		Segment margin
	\$'M	Variance %	%	\$'M	Variance %	%	
FY2018	3,588.0	16	76	347.7	12	9.7	
FY2017	3,105.6		71	311.3		10.0	

MINERALS, METALS & CHEMICALS

The Minerals, Metals & Chemicals sector reported aggregated revenue of \$427.4 million and segment result of \$23.7 million with a margin of 5.5% (FY2017: aggregated revenue of \$441.4 million, segment result of \$16.7 million and segment margin of 3.8%). Minerals, Metals & Chemicals contributed 9% to the Group's aggregated revenue. Chemicals now represents more than 55% of this sector's contribution.

The Minerals & Metals contribution declined with major project activity yet to materialize despite an increased level of study and front-end activity being seen in the market. Chemicals increased with a higher level of activity being seen in the United States and Europe, supported by our recent acquisition in Germany.

	Aggregated revenue		Contribution to Group aggregated revenue		Segment result		Segment margin
	\$'M	Variance %	%	\$'M	Variance %	%	
FY2018	427.4	(3)	9	23.7	42	5.5	
FY2017	441.4		10	16.7		3.8	

INFRASTRUCTURE

The Infrastructure sector reported aggregated revenue of \$733.8 million and segment result of \$54.7 million with a margin of 7.5% (FY2017: aggregated revenue of \$830.0 million, segment result of \$46.8 million and segment margin of 5.6%). Infrastructure's contribution to the Group's aggregated revenue declined to 15%.

The drop in aggregated revenue was driven by the conclusion of projects in Europe, Middle East and Africa. Growth was seen in our Integrated Solutions business in the operations of power facilities. Margins increased across both our Advisian and Major Projects and Integrated Solutions business due to improved project delivery performance and increased operational efficiency.

	Aggregated revenue		Contribution to Group aggregated revenue		Segment result		Segment margin
	\$'M	Variance %	%	\$'M	Variance %	%	
FY2018	733.8	(12)	15	54.7	17	7.5	
FY2017	830.0		19	46.8		5.6	

1.4 SIGNIFICANT CHANGES IN OPERATIONS

On 27 October 2017, the Group acquired 100% of the voting shares of AFW UK Oil & Gas Limited and its controlled entities (UK Integrated Solutions) for a total consideration of \$384.3 million. With operations in the UK North Sea, UK Integrated Solutions is the leading Maintenance, Modifications and Operations (MMO) service provider in the UK oil and gas sector. The acquisition provides the Group with a robust entry into the UK North Sea and supports our global MMO strategy.