

# Operating and Financial Review

## 1. Operations

### 1.1 Overview

WorleyParsons is a professional services provider to the resources, energy and industrial sectors. During the year ended 30 June 2015 (FY2015), we reported along three business lines of Services, Major Projects and *Improve* and three customer sectors, each of which 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 - projects related to water, the environment, transport, ports and site remediation and decommissioning; and all forms of power generation, transmission and distribution.

We also have a Development Group responsible for managing investment for the Group including nurturing innovation and new business ventures, and better management of internal investments and improvements within the business lines. Advisian, currently reported within the Development Group, will be a standalone business line in FY2016 incorporating transferred consulting personnel and their associated projects and the INTECSEA business from the Services business line.

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.

The diversity of our business in terms of geography, industry and service offering is a fundamental strength. We operate in 46 countries, with no country representing more than 30% 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 performance of the Group and include this revenue within aggregated revenue.

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

**Assets and liabilities:** The significant items on our balance sheet are mainly project related, such as trade receivables, unbilled receivables, provisions and borrowings. We also hold a number of intangible assets generated through previous acquisitions. Our business is not capital intensive. Our contract terms typically require our customers to pay us within 30 days of date of invoice, while, in a number of our locations, we must pay expenses (e.g. staff salaries) at shorter intervals. This time differential makes up the majority of our working capital requirements.

### 1.3 Review of operations

The statutory result for FY2015 was a loss of \$54.9 million, including the recognition of a non-cash impairment of goodwill of \$198.6 million (approximately 10% of total goodwill). Underlying net profit after tax (NPAT)<sup>1</sup> was \$198.6 million for the 12 months to 30 June 2015, down 24.6% on the previous corresponding period.

Aggregated revenue has only modestly declined by 1.8%, against a backdrop of significant declines in market activity. Sustained low commodity prices and the fall in oil prices have resulted in our customers reducing capital and operating expenditure.

We achieved increases in aggregated revenue in a number of our markets that partially offset the declines in our *Improve* business in Canada and our Services business in North America and Australia, demonstrating the benefits of our geographic diversity and the breadth of our service offerings.

We have been taking action since 2013 to reshape the business to align it with market activity. These actions in Financial Year 2015 resulted in redundancy and onerous lease charges being recognized. When combined with increased competition and concessions negotiated with customers, this has led to a reduction in our margin.

The further deterioration in our markets since May has resulted in us taking further action beyond those previously announced, the cost impact of which has been recorded in the Financial Year 2015 earnings. We now employ 31,400 people operating out of 148 offices across 46 countries, compared with 35,600 people across 157 offices at 30 June 2014.

We have secured 105 significant awards this year compared with 90 in Financial Year 2014, including a recent significant long term contract with a confidential customer in the power industry in North America.

Our financial position remains sound with the Company's gearing ratio at 30 June 2015 of 28.0%, near the middle of the target range of 25% to 35%.

The FY2014 segment result and segment margins shown in sections 1.3.1 and 1.3.2 have been restated to reflect the organization of the Group and changed reporting effective 1 July 2014.

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

<sup>1</sup> The Directors consider underlying profit information is important to understand the sustainable performance of the Company by excluding significant non-recurring items.

	FY2015 (\$'M)	FY2014 (\$'M)
<b>EBIT</b>	<b>87.1</b>	<b>428.2</b>
Add: impairment of goodwill	198.6	-
Add: Arkutun-Dagi settlement	70.0	-
Add: restructuring costs	-	35.4
Less: net gain on revaluation of investments previously accounted for as associates	-	(11.4)
<b>Underlying EBIT</b>	<b>355.7</b>	<b>452.2</b>
<b>NPAT attributable to members of WorleyParsons Limited</b>	<b>(54.9)</b>	<b>249.1</b>
Add: impairment of goodwill	198.6	-
Add: Arkutun-Dagi settlement, post tax	49.0	-
Add: tax arising on reorganization of business in China	5.9	-
Add: restructuring costs, post tax	-	25.7
Less: net gain on revaluation of investments previously accounted for as associates	-	(11.4)
<b>Underlying NPAT</b>	<b>198.6</b>	<b>263.4</b>

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

1. Aggregated revenue;
2. EBIT (earnings before interest and tax)
3. NPAT (net profit after tax) attributable to shareholders

	FY2015 \$'M	FY2014 \$'M	Comments	Movement
<b>1. Aggregated revenue</b>	7,227.5	7,363.7	<p>We define aggregated revenue as:</p> <ul style="list-style-type: none"> <li>• our revenue and income calculated in accordance with relevant accounting standards;</li> <li>• plus our share of revenue earned by our associates; and</li> <li>• less procurement at nil margin, and interest income.</li> </ul>	Our aggregated revenue decreased by 1.8% in FY2015 when compared with that for FY2014, due to the decline in market activity in APAC (Australia, Pacific, Asia, China) and North America regions which was partially offset by foreign exchange benefits and growth in our other markets.
<b>2. EBIT</b>	87.1	428.2	EBIT means earnings before interest and tax.	Our EBIT decreased by 80% in FY2015 when compared with that for FY2014, due primarily to the impact of the impairment charge, redundancy and onerous lease charges recognized in the second half and customer concessions.
<b>3. NPAT</b>	(54.9)	249.1	NPAT means net profit after tax.	Our NPAT decreased by 122% in FY2015 when compared with that for FY2014, due primarily to the impact of the impairment charge, redundancy and onerous lease charges recognized in the second half and customer concessions.

## OPERATING AND FINANCIAL REVIEW CONTINUED

### 1.3.1 Business line performance

#### Services

The Services business line delivers projects of all sizes across the full asset life cycle. It leverages our intimate understanding of our local markets and customers' expectations, combined with the best technical capability locally and globally.

The Services business line reported aggregated revenue of \$5,501 million and segment result<sup>2</sup> of \$439 million (FY2014: aggregated revenue of \$5,618 million and segment result of \$547 million). The segment margin declined to 8.0% from 9.7%.

Declines in earnings were experienced across all sectors. Declines in activity across our APAC and North American regions exceeded the improved performance in our other regions. WorleyParsonsCord delivered improved performance when compared with FY2014.

	Aggregated revenue		Contribution to Group aggregated revenue	Segment result		Segment margin
	\$'M	Variance %	%	\$'M	Variance %	%
FY2015	5,501.4	(2)	76	438.7	(20)	8.0
FY2014 (restated)	5,618.2		76	547.4		9.7

#### Major Projects

The Major Project business line was established to better manage the risks associated with major projects and provides our customers with specialization in the delivery of large complex projects.

The Major Projects business line reported aggregated revenue of \$923 million and segment result of \$46 million (FY2014: aggregated revenue of \$863 million and segment result of \$68 million). The segment margin declined to 5.0% from 7.8%.

Revenue increased due to the rise in low margin reimbursable expenses as several projects approached completion or transitioned to the field. Segment margin declined due to project cancellations and the effect of revenue mix as the proportion of low margin reimbursable expenses increased relative to higher margin engineering services.

	Aggregated revenue		Contribution to Group aggregated revenue	Segment result		Segment margin
	\$'M	Variance %	%	\$'M	Variance %	%
FY2015	922.7	7	13	46.3	(31)	5.0
FY2014 (restated)	862.9		12	67.5		7.8

#### Improve

The *Improve* business line was established to manage the risks associated with our major *Improve* contracts and provides our customers with global best practice solutions to optimize the performance of their operating assets.

The *Improve* business line reported aggregated revenue of \$649 million and segment result of \$37 million (FY2014: aggregated revenue of \$786 million and segment result of \$48 million). The segment margin declined to 5.7% from 6.1%.

The decline in revenue in *Improve* was primarily due to cuts to sustaining capital expenditure of oil sands customers. Segment margins declined as a result of the lower project activity and the impact of concessions negotiated with customers.

	Aggregated revenue		Contribution to Group aggregated revenue	Segment result		Segment margin
	\$'M	Variance %	%	\$'M	Variance %	%
FY2015	649.0	(17)	9	37.0	(23)	5.7
FY2014 (restated)	785.6		11	48.1		6.1

#### Development

The Development business line reported aggregated revenue of \$154 million and segment result of \$14.1 million (FY2014: aggregated revenue of \$97 million and segment result of \$1.4 million).

The business line result included eight months contribution from the acquisition of MTG Limited. MTG Limited is a US based management consulting firm in the oil and gas, petrochemicals and chemicals industries with operations in North America, the United Kingdom and Australia.

	Aggregated revenue		Contribution to Group aggregated revenue	Segment result		Segment margin
	\$'M	Variance %	%	\$'M	Variance %	%
FY2015	154.4	59	2	14.1	907	9.1
FY2014 (restated)	97.0		1	1.4		1.4

<sup>2</sup> Segment result is segment revenue less segment expenses excluding the items listed in Note 3 (G) to the financial statements on page 78.

### 1.3.2 Sector performance

#### Hydrocarbons

The Hydrocarbons sector reported aggregated revenue of \$5,332 million, and segment result of \$475 million, with a margin of 8.9% (FY2014: aggregated revenue \$5,372 million, segment result \$517 million, margin 9.6%). Hydrocarbons' contribution to the Group's aggregated revenue was 74%, essentially the same as last year.

This represents a strong outcome against a backdrop of lower market activity, competitive pressures, concessions negotiated with customers and the absorption of \$44.6 million in redundancy and onerous lease charges.

The increased contribution from the Major Projects business line and the Development Group (due primarily to the recent acquisition of MTG), partially offset the declines from the Services and *Improve* business lines.

The decline in Hydrocarbons earnings within the Services business line was primarily due to the APAC and North America regions. The APAC impact was due to the decline in LNG project activity in Australia as the various developments entered the latter stages of construction. In North America, the volume of new project opportunities has decreased with the sharp falls in oil price.

The *Improve* business line Hydrocarbon sector performance was impacted by customers in North America cutting back on sustaining capital expenditure.

	Aggregated revenue		Contribution to Group aggregated revenue		Segment result		Segment margin
	\$'M	Variance %	%	\$'M	Variance %	%	
FY2015	5,332.1	(1)	74	475.1	(8)	8.9	
FY2014 (restated)	5,371.5		73	517.2		9.6	

#### Minerals, Metals & Chemicals

The Minerals, Metals & Chemicals sector reported aggregated revenue of \$904 million and segment result of \$44 million with a margin of 4.9% (FY2014: aggregated revenue \$1,066 million, segment result \$108 million, margin 10.1%). Minerals, Metals & Chemicals contributed 12% to the Group's aggregated revenue.

The Minerals & Metals contribution came under pressure within the Services business line, as project activity in this market segment continued to decline in line with the sustained lower commodity prices. This is in contrast to the growing contribution made by our Chemicals division with increased opportunities in North America, Middle East and Asia.

Within the Major Projects business line the decline in the contribution from this sector was primarily due to the completion of the Fairway project and the cancellation of the Kami Iron Ore project.

	Aggregated revenue		Contribution to Group aggregated revenue		Segment result		Segment margin
	\$'M	Variance %	%	\$'M	Variance %	%	
FY2015	903.7	(15)	12	44.1	(59)	4.9%	
FY2014 (restated)	1,065.9		14	108.0		10.1%	

#### Infrastructure

The Infrastructure sector reported aggregated revenue of \$992 million and segment result of \$17 million with a margin of 1.7% (FY2014: aggregated revenue \$926 million, segment result \$39 million, margin 4.2%). Infrastructure's contribution to the Group's aggregated revenue was 14%.

Infrastructure revenue increased in the second half which combined with cost reduction initiatives undertaken improved the second half margin to 3.2% from the first half breakeven result.

	Aggregated revenue		Contribution to Group aggregated revenue		Segment result		Segment margin
	\$'M	Variance %	%	\$'M	Variance %	%	
FY2015	991.7	7	14	16.9	(57)	1.7	
FY2014 (restated)	926.3		13	39.2		4.2	

### 1.4 Significant changes in operations

On 24 October 2014, the Group acquired 100% of the voting shares of MTG Limited (MTG) and its controlled entities. MTG is a US based management consulting firm in the oil and gas, petrochemicals and chemicals industries with operations in North America, the United Kingdom and Australia. The acquisition was made as a building block in the growth of Advisian, the Group's advisory business. The Financial Report for FY2015 includes the results of MTG for the eight month period from the acquisition date. On 2 December 2014 the Group acquired 100% of the voting rights of Hadron Holdings Inc and its controlled entities comprising the Atlantic Nuclear business (ANI) which provides services to the Canadian nuclear industry and internationally where CANDU nuclear technology is used.