WorleyParsons

resources & energy

21 February 2018

ASX Media Release

WORLEYPARSONS LIMITED (ASX: WOR)
HALF YEAR 2018 RESULT

Our strategy is delivering results

- Return to revenue growth supported by UK acquisition
- Underlying EBIT margin improvement reflecting benefits of sustainable cost reduction program
- Operating cash flow of $44.3 million compared to a net outflow of $84.8 million in HY2017
- Contract backlog grows to $6 billion as new strategic architecture starts delivering results
- Merging of new UK Integrated Solutions business progressing well, with benefits ahead of expectations
- Gearing ratio improves to 26.1% from 29.1% and leverage ratio reduces to 2.1x from 2.4x
- Refinanced core USD700m debt facility
- Board declares interim dividend of 10.0 cents per share

WorleyParsons Limited, a leading global professional services company, today announced a statutory net profit after tax (NPAT) of $1.4 million for the six months to 31 December 2017 up from a loss of $2.4 million for the prior corresponding period. This result includes a charge against the Group's US tax assets of $58.2 million. Underlying net profit after tax (NPAT) was $78.2 million, up 37.0% on the prior corresponding period. Aggregated revenue improved 6.7% to $2,310.1 million, on steady market conditions and the inclusion of revenue from the AFW UK acquisition (now WorleyParsons UK Integrated Solutions).

Chief Executive Officer Andrew Wood said, "The strategy we implemented last year is now starting to deliver results. We have grown our aggregated revenue and have expanded our backlog. Our cost reductions have supported an improvement in our margins and cash flow generation and we continued to strengthen our balance sheet. We refinanced our core debt facility, providing liquidity for the medium term. In addition, the integration of our recently acquired UK Integrated Solutions business is proceeding ahead of expectations. Against this backdrop, we have reinstated an interim dividend.

"As we outlined with our full year results and the recent AGM, many of our customers indicated they were returning to capital and operational expenditure growth. Our improved aggregated revenue and backlog when compared to the prior corresponding period confirms the market has stabilized, with a return to customer spending growth in some areas. While commodity prices have strengthened over the period, providing our customers with greater confidence to pursue their investment opportunities, it has not yet translated to widespread activity increases," Mr Wood concluded.

Underlying EBIT margin improved, reflecting the benefit of the cost out program. Gross margin percentage has declined slightly when compared to the prior corresponding period as a result of the increased share of Integrated Solutions revenue which is typically longer term, stable but at lower margin.

Since 30 June 2017, the company's gearing ratio has improved to 26.1% from 29.1%, at the lower end of the target range, and its leverage ratio reduced to 2.1x from 2.4x, the lowest level in over two years. During the half the company completed a successful $322 million capital raise to fund the acquisition of the UK Integrated Solutions business.

* Refer to the table on page 6 under Key Financials for the reconciliation of statutory NPAT to underlying NPAT.

The company is well on the way to meeting its targeted reduction in working capital of $300 million over the medium term. The company has improved cash collection even with lower than expected payments in this period from the four state owned enterprises that we have mentioned in previous results. We are using all means available to collect the amounts owed. They remain a priority.

The contract backlog has increased 17.6% to $6.0 billion at 31 December 2017, which includes a $700 million contribution from UK Integrated Solutions.

Last year WorleyParsons introduced a new strategic architecture which is now delivering results across the three horizons. The company has made tangible progress against its strategic priorities in the first half.

With the improvement in business performance and outlook, the Board has resolved to pay an interim dividend of 10.0 cents per share, unfranked. The dividend will be paid on 26 March 2018 with a record date of 28 February 2018.

Market conditions have improved leading to stronger financial positions for resources and energy companies. This is anticipated to flow through to an increase in the company's activity levels in the medium term.

The company continues to focus on costs, while ensuring the sustainability of the cost savings already achieved. The benefits of the overhead savings achieved in FY2017 will be reflected in FY2018 earnings. Balance sheet metrics are expected to continue to improve.

With the financial results of the acquisition of UK Integrated Solutions coming through from November 2017, a higher than normal weighting of earnings is expected in the second half.

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Financial Outcomes (Includes contribution from UK Integrated Solutions. Compared to the previous corresponding period, unless noted otherwise)

Statutory result

- **Statutory Revenue** was down 11.5% to $2,409.4 million from $2,722.1 million
- **Statutory NPAT** increased to $1.4 million from a loss of $2.4 million

Underlying result

- **Aggregated revenue** was up 6.7% to $2,310.1 million from $2,165.7 million
- Underlying **EBIT** was up 12.7% to $132.9 million from $117.9 million
- Underlying **EBIT margin** up to 5.8% from 5.4%
- Underlying **NPAT** up 37.0% to $78.2 million from $57.1 million
- Underlying basic earnings per share (**EPS)** of 28.6 cents up from 23.0 cents

Other financial information

- **Operating cash flow** was a net inflow of $44.3 million, improved from a net outflow of $84.8 million.
- **Gearing** was 26.1%, down from 29.1% at 30 June 2017 on a net debt to net debt plus equity basis
- **Net debt to EBITDA** (as defined under debt covenants) improved to 2.1 times, down from 2.4 times at 30 June 2017
- The average **cost of debt** in the half was stable at 4.9%, compared to 4.8% in the second half of FY17 with **interest cover** at 4.9 times, up from 4.3 times at 30 June 2017.
- The Board resolved to pay an interim dividend of 10.0 cents per share, unfranked.

Operating Outcomes

Safety Performance

The Total Recordable Case Frequency Rate for employees for the 12 months to 31 December 2017 was 0.12 (per 200,000 manhours) compared to 0.08 at 30 June 2017. Whilst HSE performance remains industry leading, the target remains zero harm and all management and staff remain committed to that goal.

Backlog

Backlog at 31 December increased to $6.0 billion from $5.1 billion at 30 June 2017 with $0.7 billion of the increase from UK Integrated Solutions.

Operating Segment Performance

Services

Services reported a decline in aggregated revenue of 10.5% to $1,215.8 million. Segment EBIT declined by 4.7% to $114.4 million, with segment margin increasing to 9.4% from 8.8%.

Aggregated revenue was lower primarily in Africa, the United States and parts of the Middle East, as well as the nuclear business. Segment EBIT was supported by strong outcomes in the oil sands in Canada and across Hydrocarbons and Minerals & Metals in Western Australia.

Major Projects and Integrated Solutions

Major Projects and Integrated Solutions reported an increase in aggregated revenue of 46.6% to $828.0 million with growth attributable to the UK Integrated Solutions acquisition, Cord and Saudi Arabia. Segment EBIT improved by 36.9% to $75.0 million (UK Integrated Solutions: $10.9m) with segment margin decreasing to 9.1% from 9.7%.

Aggregated revenue increased across all parts of the business, with a strong contribution from Cord in completing a number of projects, the TCO project in Kazakhstan and Integrated Solutions as a result of the contribution from the UK.

Advisian

Advisian reported an increase in aggregated revenue of 10.0% to $266.3 million. Segment EBIT increased to $11.7 million with segment margin increasing to 4.4% from 0.9%.

Aggregated revenue increases were driven primarily from the contribution from the Energy Resourcing business. Margins improved in all geographies with higher chargeability, including improved performance from Digital Enterprise and New Energy.

Sector Performance (Customer sector groups in financial statements)

Hydrocarbons

The Hydrocarbons sector reported an aggregated revenue increase of 16.4% to $1,725.7 million. Sector EBIT increased 14.7% to $158.0 million with the sector margin decreasing to 9.2% from 9.3%. Hydrocarbons' contribution to the Group's aggregated revenue was 74.7%, up from 68.5% at H1FY17.

Aggregated revenue improved with the contribution from UK Integrated Solutions, as well as increases from Major Projects including Cord offsetting lower revenues in the US and parts of the Middle East.

Minerals, Metals & Chemicals

The Minerals, Metals & Chemicals sector reported an aggregated revenue decline of 5.6% to $214.1 million. The sector EBIT increased to $16.3 million from $3.2 million with sector margin increasing to 7.6% from 1.4%. Minerals, Metals & Chemicals contribution to the Group's aggregated revenue was 9.3% down from 10.5% at H1FY17.

The Minerals, Metals & Chemicals revenue contribution declined as chemical project activity decreased in the US. Margins improved with greater chargeability of core minerals processing capabilities in the Advisan business line as well as better project outcomes.

Infrastructure

The Infrastructure sector reported an aggregated revenue decline of 18.8% to $370.3 million. Sector EBIT declined 26.0% to $26.8 million while sector margin decreased to 7.2% from 7.9%.

The Infrastructure sector aggregated revenue contribution to Group revenue declined to 16.0% from 21.0 % at H1FY17.

The Infrastructure sector aggregated revenue declined in the power sector, as a result of winding down of a major project in the Middle East, and delays in project sanctions in the nuclear business.

Strategy Update

The new strategic architecture introduced in FY2017 focuses the business on a clear set of priorities. The company continues to address the key priority focus areas across three horizons of Core Growth, Growth Potential and Emerging Markets & Products. A step change has occurred in the company's capabilities and market position in the Maintenance, Modifications and Operations sector with the acquisition of the UK Integrated Solutions business in Aberdeen. In Canada, the heavy oil and oil sands business has returned to growth and Saudi Arabia continues to provide a pipeline of opportunities. New Energy and Digital continue to develop capabilities and improve market penetration.

Energy Market

While recent increases in commodity prices, particularly oil, are providing our customers with greater confidence, it has not yet translated to widespread expenditure. Global investment in both upstream and downstream hydrocabons continues to be weighted towards brownfields rather than new builds. There are signs of increasing downstream refining activity, particularly in Asia. The number of front-end assignments is increasing, with more and larger opportunities beginning to emerge on the mid-term horizon. The global maintenance, modifications and operations (MMO) market is forecast to grow from current levels which are well below historic peaks.

Investment in the Power market continues, driven by GDP growth in the developing world, the energy transition in the developed world, and the steady move to increased electrification of energy. The move away from coal fired power generation has accelerated during the period. Gas power will continue to grow as it plays an essential role in the retirement of coal power and as a bridge to the reliable use of renewables. There is renewed interest in nuclear power projects. The hydroelectric power market is improving both for generation and pumped storage. Distributed energy and system strengthening requirements will drive demand for power networks services. In New Energy there will continue to be strong growth in solar and wind, and increasing commercialisation of energy storage, energy management, and hybrid systems.

Resources Market

The global Minerals & Metals market is seeing increased investment off a low base. An increase in activity from early phase studies to delivery, in both brownfields and greenfields has commenced. There are growth opportunities across commodities, particularly in iron ore, fertilizers and base metals. Much of the immediate opportunity with customers is in providing innovative front end solutions. Many miners are focused on operational excellence projects and a transition to a greater reliance on a significantly higher level of digital automation.

Investment in the Chemicals sector remains buoyant. Global petrochemicals capacity continues to expand with significant capacity increases in the USA, Middle East and China. Investment in the Middle East is expected to remain strong, particularly in large integrated refinery and petrochemicals complexes. New investment will continue in the United States with several large scale petrochemical plants planned and an increasing number of polymer and specialty chemicals investments. An upturn in investment in Continental Europe is also expected with both upgrades to existing brownfield assets and a number of large scale petrochemicals and polymers plants planned.

The infrastructure and transport sectors remain strong globally. Investment will drive growth in South East Asia, Middle East, Africa and the Americas. China's Belt and Road Initiative will result in substantial investment in primary infrastructure particularly across Asia and Africa.

Group outlook

Market conditions have improved leading to stronger financial positions for resources and energy companies. This is anticipated to flow through to an increase in the company's activity levels in the medium term.

A focus on costs continues, while ensuring the sustainability of the cost savings already achieved. The benefits of the overhead savings achieved in FY2017 will be reflected in FY2018 earnings. Balance sheet metrics are also expected to continue to improve.

With the financial results of the acquisition of UK Integrated Solutions coming through from November 2017, a higher than normal weighting of earnings to the second half is expected.

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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

	Change %	Consolidated 31 Dec 2017 $'M	31 Dec 2016 $'M
STATUTORY RESULT			
Revenue and other income	(11.5%)	2,409.4	2,722.1
Earnings before interest and income tax expense (EBIT)	200.3%	109.3	36.4
Profit before income tax expense	n/m	79.8	6.6
Profit / (loss) after income tax expense attributable to members of WorleyParsons Limited	n/m	1.4	(2.4)
Basic earnings/ (loss) per share (cents)		0.5	(1.0)
Diluted earnings/ (loss) per share (cents)		0.5	(1.0)

UNDERLYING RESULT

The underlying results are as follows:

	31 Dec 2017 $'M	31 Dec 2016 $'M
EBIT	132.9	117.9
EBIT margin on aggregated revenue	5.8%	5.4%
Profit after income tax expense attributable to members of WorleyParsons Limited	78.2	57.1
Basic earnings per share (cents)	28.6	23.0

Reconciliation of statutory profit / (loss) after taxation to underlying profit after taxation is as follows:

	31 Dec 2017 $'M	31 Dec 2016 $'M
Profit/ (loss) after income tax expense attributable to members of WorleyParsons Limited	1.4	(2.4)
Add: Onerous lease contracts	12.2	22.6
Add: Other restructuring costs	5.5	23.4
Add: Acquisition costs	5.9	-
Add: Staff restructuring costs	-	32.8
Add: Impairment of associates intangibles	-	2.3
Add: Net loss on sale of assets held for sale	-	0.4
Less: Net tax expense on staff restructuring costs	(5.0)	(22.0)
Add: Impact on tax expense from changes in US tax legislation	58.2	-
Underlying profit after income tax expense attributable to members of WorleyParsons Limited	**78.2**	**57.1**

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

	31 Dec 2017 $'M	31 Dec 2016 $'M
Revenue and other income	2,409.4	2,722.1
Less: Procurement revenue at nil margin (including share of revenue from associates)	(43.7)	(572.2)
Less: Pass-through revenue at nil-margin	(138.8)	(100.3)
Revenue excluding procurement revenue at nil margin	2,226.9	2,049.6
Add: Share of revenue from associates	86.0	119.3
Less: Interest income	(2.8)	(3.2)
Aggregated revenue	**2,310.1**	**2,165.7**

CASH FLOW

	31 Dec 2017 $'M	31 Dec 2016 $'M
Operating cash inflow / (outflow)	44.3	(84.8)

OTHER KEY FINANCIAL METRICS	31 Dec 2017	30 Jun 2017
Gearing ratio % (net debt to net debt plus equity)	26.1%	29.1%
Leverage ratio (net debt to EBITDA)*	2.1 times	2.4 times
EBITDA interest cover*	4.9 times	4.3 times

*Debt covenant calculations
n/m: not meaningful

DISCLAIMER Important information

The information in this presentation about the WorleyParsons Group and its activities is current as at 21 February 2018 and should be read in conjunction with the Company's Appendix 4D and Interim Financial Report for the six months ended 31 December 2017. It is in summary form and is not necessarily complete. The financial information contained in the Interim Financial Report for the six months ended 31 December 2017 has been reviewed by the Group's external auditors.

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