WorleyParsons
resources & energy

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ASX Media Release

WORLEYPARSONS LIMITED (ASX: WOR)
FULL YEAR 2016 RESULT

Professional services company WorleyParsons Limited today announced a statutory net profit after tax (NPAT) of $23.5 million for the twelve months to 30 June 2016. The underlying NPAT was $153.1 million, down 37% on the prior corresponding period. The Board has resolved not to pay a final dividend.

CEO Andrew Wood said, "During the year we have made substantial progress on our priorities including reducing internal costs, improving customer productivity, optimizing the portfolio and strengthening the balance sheet.

"Our cost reduction program lowered overheads by $170 million when compared to the prior year. We have achieved annualized cost reductions of $200 million exceeding our expected run rate of $120 million by the end of June. These savings mitigated the impact of lower revenues on our underlying EBIT margins.

"We have more to do to reduce our costs. We have increased our overhead reduction program target to a total of $350 million in annualized savings by the end of financial year 2017, compared to the $300 million we outlined in February 2016.

"Progress was made on strengthening our balance sheet since December 2015, with an improvement in our gearing ratio. Operating cash flow for the full year was $192 million, after paying $87 million of cash restructuring costs.

"Our days sales outstanding was reduced by four days over the second half of financial year 2016 and we continue to target a reduction of 15 days. Cash outflows were reduced by approximately $255 million through the combination of lower capital expenditure, reduced spending on acquisitions and no interim dividend. We will continue to maintain our focus on strengthening the balance sheet.

"Our customers continued to face difficult market conditions as the ongoing weakness in commodity prices led to further declines in capital and operating expenditure across the resource and energy segments. Against this backdrop, we continue to win new project work with 85 significant awards secured during the financial year with a total contract value in excess of $2.8 billion, including in the strategic growth areas of Advisian and Project Management Consulting.

"We expect trading conditions to remain challenging, leading to continued pressure on aggregated revenue. We are focused on protecting revenue and gross margin, achieving further overhead reductions and strengthening the balance sheet. The benefit of the cost reductions in the first half are expected to be reflected in second half earnings," Mr Wood said.

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

Financial Outcomes (compared to the previous corresponding period)

Statutory result

- **Statutory Revenue** was down 11.0% to $7,790.1 million from $8,757.5 million
- **Statutory NPAT** rose to $23.5 million profit from a $54.9 million loss

Underlying result

- **Aggregated revenue** was down 18.5% to $5,892.9 million from $7,227.5 million
- Underlying **EBIT** was down 27.6% to $302.7 million from $418.0 million
- Underlying **EBIT margin** declined to 5.1% from 5.8%
- Underlying **NPAT** down 37.0% to $153.1 million from $243.1 million
- Underlying basic earnings per share (**EPS)** of 61.8 cents from 98.4 cents

Other financial information

- **Operating cash flow** of $192 million after $87 million in cash outlay for overhead reduction costs
- **Gearing** was 29.2% down from 32.4% at 31 December 2015 on a net debt to net debt plus equity basis
- The average **cost of debt** was higher at 4.8% compared to 4.7% with **interest cover** at 5.0 times down from 5.9 times at 31 December, 2015
- **Net debt to EBITDA** was 2.4 times down from 2.5 times at 31 December 2015
- No final dividend.

Operating Outcomes

Safety Performance

The Total Recordable Case Frequency Rate for employees for the 12 months to 30 June 2016 was 0.07 (0.12 at 30 June 2015). The Company is committed to the goal of Zero Harm.

Restatement of comparatives

Effective 1 July 2015, WorleyParsons established its advisory and consulting business, Advisian, as an additional business line. WorleyParsonsCord is now reported as part of Major Projects. In addition, selected information technology costs were reallocated from global support costs to each of the operating business lines and sectors, and restructuring costs are now excluded from the underlying results. The previously reported segment results for the full year to 30 June 2015 have been restated for comparison purposes and are shown in the Annual Report. Backlog has been redefined to take a more conservative approach. As a result the Backlog figures for 31 December 2015 and 31 March 2016 have been restated.

Backlog

During the 12 months to 30 June 2016 WorleyParsons secured 85 significant awards for a total contract value in excess of $2.8 billion compared with 105 significant awards for the prior corresponding period with a contract value in excess of $3.2 billion.

Backlog at 30 June 2016 is $4.2 billion, with $2.7 billion relating to financial year 2017. This compares to $4.6 billion as at 31 December 2015, and $4.5 billion as at 31 March 2016.

Backlog includes the total dollar value of the amount of revenues we expect to record for the next 36 months as a result of work performed under contracts or purchase/work orders awarded to WorleyParsons. With respect to long term agreements and framework agreements we include an amount for the work we expect to receive over the period under consideration. The view of backlog is sensitive to timing of awards and as such a conservative view of timing has been adopted.

Business Line Performance (Operating segments in financial statements)

Services

Services reported a decline in aggregated revenue of 20.7% to $3.4 billion. The segment result declined by 26.3% to $252.0 million with a decrease in segment margin to 7.3% from 7.9%.

Aggregated revenue was lower across all regions due to projects completing or moving into construction, and project deferrals and cancellations. The Middle East operations continued to perform well, growing its contribution to the business. Segment margins decreased as the overhead reduction did not keep pace with declining revenues.

Major Projects

Major Projects reported a decline in aggregated revenue of 20.4% to $1.3 billion. The segment result declined by 14.8% to $109.1 million with an increase in segment margin to 8.5% from 7.9%.

Aggregated revenue declined as a result of project completions and other projects moving into construction during financial year 2016.

Segment margins increased through the improved performance of our portfolio of major projects and the improved margins from WorleyParsonsCord.

Improve

The *Improve* business line reported a decline in aggregated revenue of 10.4% to $519.3 million with the result down 14.3% to $23.4 million. The segment margin declined to 4.5% from 4.7%.

Aggregated revenue declined primarily due to reductions in sustaining capital expenditure by oil sands customers. Segment margins declined modestly as overhead reductions partially offset the decline in project activity.

Advisian

The Advisian business line reported aggregated revenue down 6.5% to $655.7 million with the result declining by 16.0% to $44.3 million The segment margin decreased to 6.8% from 7.5%.

Aggregated revenue and margin decreases were primarily associated with the decline in the Hydrocarbons consulting business in the Americas and investment associated with development of business in the new energy sector and Digital Enterprise.

The Company will continue to invest in this business to build a globally significant consulting and advisory business.

Sector Performance (Customer sector groups in financial statements)

Hydrocarbons

The Hydrocarbons sector reported an aggregated revenue decline of 20.0% to $4,266.9 million, with the result down 32.1% to $329.0 million. The segment margin was 7.7% down from 9.1%. Hydrocarbons' contribution to the Group's aggregated revenue was 72%, down slightly from last year.

Aggregated revenue declined due to projects reaching completion combined with customers' reduced capital and operating expenditure. The refining sub sector revenues increased 2% year on year.

Minerals, Metals & Chemicals

The Minerals, Metals & Chemicals sector reported an aggregated revenue decline of 28.9% to $642.5 million with the result declining 14.2% to $39.9 million. The segment margin increased to 6.2% from 5.1%. Minerals, Metals & Chemicals contributed approximately 11% to the Group's aggregated revenue. Chemicals now represents more than 50% of this sector's contribution.

The Minerals & Metals contribution declined as project activity continued to decrease in line with sustained lower commodity prices. Chemicals also declined as the increased activity in the United States only partially offset lower in activity in China.

Infrastructure

The Infrastructure sector reported aggregated revenue of $983.5 million, with the result improving to $59.9 million from $19.1 million in the prior year. The segment margin increased to 6.1% from 1.9%.

The Infrastructure sector aggregated revenue was essentially flat year on year as growth in the Middle East offset declines in Australia.

Margins improved primarily due to the resurgence in the power business across renewables, fossil, and nuclear.

Strategy Update

Five strategic themes were introduced during financial year 2015 and remain at the core of the platform for transforming the business. Progress made during the year included:

- Establishment of the Advisian business line as a globally significant advisory business
- Standardization, simplification and automating of processes transitioned to the Global Delivery Centers (GDC)
- Integration of the Breakthrough Project Delivery model into the Project Management Consulting (PMC) offering
- Identification of partners in all regions to deliver integrated service offerings to our customers
- Focused on excellence in delivery to customers.

The Company continues to defend and strengthen its leadership position in the upstream oil and gas sectors. The Company continues to pursue attractive opportunities to expand into the growing sub sectors of chemicals, power and water. A key focus area will be the development of the Company's emerging digital and new energy capabilities. Geographically, Saudi Arabia and China's "One Belt, One Road" initiative continue to represent significant opportunities for the Company.

Priorities

In February, WorleyParsons outlined four immediate priorities of reducing internal costs, improving customer productivity, optimizing the portfolio and strengthening the balance sheet.

Reducing internal costs

The Company's cost reduction program lowered overheads by $170 million when compared to the prior year. Annualized cost reductions of $200 million were achieved exceeding the expected $120 million by the end of June. These savings reduced the impact of lower revenues on underlying EBIT margins. The cost reduction program target has been increased to a total of $350 million in annualized savings by the end of financial year 2017, compared to the $300 million outlined in February 2016.

Improving customer productivity

Specific offerings were initiated to deliver further value to WorleyParsons' customers including launching of the Advisian business line, the Breakthrough Project Delivery model for the PMC offering and accelerating work process transfers to the GDC.

Optimizing the portfolio

A total of 30 offices were closed during the year with an associated floor space reduction of 73,000 square meters. WorleyParsons maintains a presence in 42 countries. The Company has finalized the sale of Exmouth power station and identified non-core assets to be held for sale including the South African public infrastructure business and the Company's interest in the Cegertec WorleyParsons business in Quebec.

Strengthening the balance sheet

During the second half the Company's days sales outstanding reduced by four days. The net debt position improved over the same period resulting in a decrease of the net debt to EBITDA ratio to 2.4 times and the gearing ratio returning to below 30%. Cash outflows were reduced by approximately $255 million through the combination of lower capital expenditure, reduced spending on acquisitions and no interim dividend.

Group outlook

The Company expects trading conditions to remain challenging, leading to continued pressure on aggregated revenue. The Company is focused on protecting revenue and gross margin, achieving further overhead reductions and strengthening the balance sheet. The benefit of the cost reductions in the first half are expected to be reflected in second half earnings.

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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 30 Jun 2016 $'M	30 Jun 2015 $'M
STATUTORY RESULT			
Revenue and other income	(11.0%)	7,790.1	8,757.5
Earnings before interest and income tax expense (EBIT)	48.0%	128.9	87.1
Profit before income tax expense	117.3%	68.9	31.7
Profit after income tax expense attributable to members of WorleyParsons Limited	-	23.5	(54.9)
Basic earnings/(loss) per share (cents)	-	9.5	(22.2)
Diluted earnings/(loss) per share (cents)	-	9.5	(22.1)

UNDERLYING RESULT

The underlying results are as follows:

	30 Jun 2016 $'M	30 Jun 2015 $'M
EBIT	302.7	418.0
EBIT margin on aggregated revenue	5.1%	5.8%
Profit after income tax expense attributable to members of WorleyParsons Limited	153.1	243.1
Basic earnings per share (cents)	61.8	98.4
Diluted earnings per share (cents)	61.7	98.4

Reconciliation of underlying profit after taxation to statutory profit after taxation is as follows:

	30 Jun 2016 $'M	30 Jun 2015 $'M
Underlying profit after income tax expense attributable to members of WorleyParsons Limited	153.1	243.1
Add: Certain functional currency related foreign exchange gains	15.9	-
Add: Net gain on revaluation of investments previously accounted for as joint operations	4.5	-
Less: Impairment of goodwill	-	(198.6)
Less: Arkutun-Dagi project settlement costs	-	(70.0)
Less: Tax arising on re-organization of business in China	-	(5.9)
Less: Staff restructuring costs	(76.8)	(38.3)
Less: Onerous lease contracts	(86.4)	(20.2)
Less: Onerous engineering software licences	(14.3)	-
Less: Other restructuring costs	(4.6)	(3.8)
Less: Write-down of investment in equity accounted associates	(12.1)	-
Add: Tax on expense on staff and other restructuring costs, onerous lease contracts, onerous engineering software licenses and certain functional currency related foreign exchange gains	44.2	38.8
Profit/(loss) after income tax expense attributable to members of WorleyParsons Limited	**23.5**	**(54.9)**

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, interest income and net gain on revaluation of investments previously accounted for as joint operations

	30 Jun 2016 $'M	30 Jun 2015 $'M
Revenue and other income	7,790.1	8,757.5
Less: Procurement revenue at nil margin (including share of revenue from associates)	(2,226.4)	(2,038.0)
Revenue excluding procurement revenue at nil margin	**5,563.7**	**6,719.5**
Add: Share of revenue from associates	342.5	514.6
Less: Interest income	(8.8)	(6.6)
Less: Net gain on revaluation of investments previously accounted for as joint operations	(4.5)	-
Aggregated revenue	**5,892.9**	**7,227.5**

CASH FLOW

	30 Jun 2016 $'M	30 Jun 2015 $'M
Operating cash flow	192.0	251.3

OTHER KEY FINANCIAL METRICS

	30 Jun 2016	31 Dec 2015
Gearing ratio % (net debt to net debt plus equity)	29.2%	32.4%
Leverage ratio (net debt to EBITDA)*	2.4 times	2.5 times
EBITDA interest cover*	5.0 times	5.9 times

*Debt covenant calculations