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.

	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: • 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 aggregated revenue	Segment result		Segment margin
	$'M	Variance %	%	$'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 aggregated revenue	Segment result		Segment margin
	$'M	Variance %	%	$'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 aggregated revenue	Segment result		Segment margin
	$'M	Variance %	%	$'M	Variance %	%
FY2018	520.0	8	11	17.7	42	3.4
FY2017	482.5		11	12.5		2.6

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 $441.1 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.

2. FINANCIAL POSITION AND CASH FLOW

2.1 MATTERS RELEVANT TO UNDERSTANDING WORLEYPARSONS' FINANCIAL POSITION

OUR FINANCIAL CAPACITY REMAINS STRONG BASED ON CASH, GEARING AND DEBT POSITIONS.

	FY2018 $'M	FY2017 $'M	Comments	Movement
1. Operating cash flow	259.7	78.9	Our operating cash flow comprises the payments we receive from our customers less the amount we pay our suppliers plus related interest and tax paid. In our financial statements, operating cash flow is called net cash inflow from operating activities.	Our operating cash flow for FY2018 represents an increase from FY2017, due largely to increased volume and lower cash restructuring costs.
2. Gearing ratio	23.0%	29.1%	Our gearing ratio is our net debt divided by the sum of our net debt and our total equity, at the end of the financial year. Refer to note 12 to the financial statements for the calculation of the gearing ratio.	Our gearing ratio decreased by 6.1 percentage points in FY2018 when compared with that for FY2017. This ratio is now slightly below our gearing target of 25% to 35%.
3. Debt facility utilization	60%	60%	Our debt facility utilization is the percentage of our debt facilities that we were using at the end of the financial year.	Our debt facility utilization remained stable in FY2018 when compared with that for FY2017.
4. Loan, overdraft and lease facilities	1,677	1,835	Our loan, overdraft and lease facilities are the amount of our debt facilities at the end of the financial year.	The amount of our loan, overdraft and lease facilities continued to decrease during FY2018, due to the repayment of a US private placement note.

2.2 DIVIDENDS

Our directors resolved to pay a final dividend of 15.0 cents per fully paid ordinary share, including exchangeable shares, unfranked. This is in addition to the interim dividend of 10.0 cents per share. As a result, 39.9% of our full year underlying net profit after tax for FY2018 will be distributed to shareholders as a dividend.

2.3 SIGNIFICANT CHANGES IN WORLEYPARSONS' FINANCIAL POSITION

An assessment of asset carrying values was conducted as part of the normal process of finalizing the accounts.

During FY2018, we acquired the UK Integrated Solutions business, as well as a small acquisition in the chemicals sector in Germany. We also acquired the remaining 35% of WorleyParsons Oman.

2.4 FUTURE COMMITMENTS

There are two types of future commitments which do not appear on our balance sheet and are relevant to understanding our financial position:

- operating leases; and
- operating expenditure commitments.

These future commitments represent approximately 11.4% of our expenses.

In general, we lease the space in the various office buildings from which we operate, rather than owning those buildings. Operating leases refers to those leases.

In addition, we are generally licensed to use software and also lease various items of computer hardware that we use in operating our business, rather than owning the software or computer hardware ourselves. We refer to our commitments to pay software license and equipment lease fees as operating expenditure commitments.

3. BUSINESS STRATEGY, OUTLOOK AND RISKS

3.1 BUSINESS STRATEGY

WorleyParsons has a strategy architecture to allow us to respond dynamically to the changing world. The architecture is a framework that integrates all the strategic processes at WorleyParsons, describing how they interact over the course of the financial year and how they systematically allow us to improve our collective performance, accelerate our revenue growth and address the dramatic changes in our industry.

The architecture is built around the following three pillars:

1. Operational excellence ensuring we always maintain a viable and competitive business;
2. Grow the business in the near term by offering all of our value to all of our customers; and
3. Position the business to grow as a key player in the new world.

The three pillars combine to provide a holistic view of strategy and all three are needed for our strategy to stand.

3.2 OUTLOOK

Driven by continued improvement in market conditions, our resources and energy customers are increasing early phase activity for the next cycle of investment. This is reflected in the recent level of contract awards and our growing backlog. By maintaining our focus and growing our position in the resources and energy markets we expect to deliver improved earnings in FY2019.

Our focus on costs will continue so that operating leverage is delivered as the business grows. We expect to continue to improve our balance sheet metrics in FY2019.

3.3 RISKS

Achievement of our medium and long-term objectives could be impacted by a number of risks. Those risks could, individually or together, have an adverse effect on achievement of those objectives.

Set out below is an overview of a number of key risks that we face in seeking to achieve those objectives. The risks are not set out in any particular order and do not comprise every risk we encounter in conducting our business or every risk that may affect the achievement of those objectives. Rather, they are the most significant risks that we believe we should be monitoring and seeking to mitigate or otherwise manage at this point in time.

The risk management measures set out below are a sample of the steps we take to seek to mitigate the various risks. However, the risk exists that we may fail to implement or fully implement those steps or that they may be entirely or partly ineffective.

3.3.1 HEALTH, SAFETY AND ENVIRONMENT RISK

Our business sometimes requires our people and those people we manage to be in high risk geographies, travel long distances by road, be in close proximity to complex operating equipment and be engaged in construction and operating activities. There is the risk of injury to, or the loss of life of, our people and those people we manage.

The nature of our work may give rise to environmental risk. We identify environmental aspects of our work and their potential impact and put in place controls and monitoring to address them. We continue to implement emissions reduction strategies and to support our customers in their efforts.

To seek to mitigate this risk, we have a OneWay™ framework which includes the expectations that every one of our people and those people we manage must meet with respect to health, safety and environment. OneWay™ expectations are supported by our business processes and we use them in assessing our performance.

3.3.2 OPERATING RISKS

Contract management risk: Effective contract management seeks to ensure, among other things, appropriate project and customer selection and the effective management of customer expectations. There is a risk that we will fail to manage our contracts appropriately and, as a result, find ourselves in disputes with our customers regarding matters including payment of our fees and liability for costs and delays. Those disputes may be costly, result in liability and absorb significant amounts of management time.

We seek to mitigate this risk by implementing project delivery processes and procedures, providing training and development to our project staff and appropriate involvement of our legal staff in the contract process.

Demand risk: The markets for our services are exposed to volatile and cyclical commodity prices. Those prices impact demand for our customers' goods and services and, in particular, our customers' preparedness to fund capital and operating expenditure. This may markedly impact demand for our services such that, over relatively short periods, we experience rapid and/or sustained changes in that demand.

Responding to such changes may lead to reduced revenue and increased costs. Our overheads may also need to change such that they are efficient relative to our revenue and business size.

We have a number of strategies and processes in place to seek to mitigate this risk, including maintaining our diversified business portfolio, retaining a proportion of our people on short notice contracts, seeking contractual protection for project demobilization, sharing work across locations and undertaking ongoing overhead efficiency reviews and rationalizing overhead where necessary.

Project delivery risk: Our ability to achieve superior shareholder returns is substantially influenced by our ability to deliver significant and/or strategically important projects to our customers' satisfaction. Project delivery risk is the risk that we fail to do so. The consequences may include fewer awards of significant projects.

To seek to mitigate this risk, we use regularly-reviewed project delivery systems and processes and project peer reviews. We have established the WorleyParsons Academy to further enhance the capability of our people in project management and project delivery.

Cybersecurity risk: Our work relies on the effective processing and storing of information using information technology. With the use of IT systems, there is a risk of unauthorized access, disruption, loss of critical or sensitive data and other security incidents as a result of cyberattacks. We are mitigating this risk through strengthened security measures, continual threat monitoring, user education, and by implementing information security policies in line with international standards.

3.3.3 REPUTATION RISK

We rely on the strength of our reputation to help win and retain work, attract and retain employees, secure lines of credit and gain access to capital.

There is a risk that our reputation could be damaged including through unethical business practices, poor project outcomes, health and safety incidents and not meeting the market's expectations of our financial performance.

We use a range of strategies and actions to seek to mitigate this risk, including, requiring all of our people to undertake various training, including on the Code of Conduct. In addition, other mitigating steps, particularly those referred to in health, safety and environment risk, project delivery risk, and internal reporting risk, are relevant to seek to preserve our reputation.

3.3.4 FINANCIAL RISKS

Liquidity risk: Our ability to maintain an appropriate level of liquidity, particularly through timely conversion of unbilled contract revenue to cash, impacts returns to shareholders. There is a risk that given current market conditions, our customers delay paying us or are unwilling or unable to do so. We seek to mitigate this risk by focusing on effective working capital management and closely monitoring both cash collection targets and measures of debtor conversion.

Internal reporting risk: We operate a complex business which provides a wide range of services in a dynamic environment, while straddling multiple jurisdictions and regulatory frameworks. There is a risk that our internal reporting systems may not accurately reflect our business performance or objectives and may therefore result in us not meeting forecasts provided to the market, thereby adversely affecting investor confidence and the Company's share price. We seek to mitigate this risk by reviewing and enhancing those systems and seeking to adapt them to our dynamic business environment.

Taxation risk: WorleyParsons operates in a large number of countries. We are currently seeing an increasing trend for Governments in all parts of the world to change their approach to the regulation and collection of tax. Consequently, there is a risk that the level of taxation imposed on WorleyParsons could change materially as a result of a change in legislation or approach in the countries in which we operate. WorleyParsons has a process in place to monitor such changes and ensure that we continue to pay the appropriate amount of tax in all jurisdictions.

3.3.5 STRATEGIC RISKS

Strategy risk: We operate in a highly competitive and dynamic environment. As a result, our ability to develop and implement effective strategies will be a significant ongoing contributor to our success. Strategy risk is the risk of failing to develop and implement effective strategies. Such failure may, over time, lead to a loss of market share, and negatively impact our financial performance.

To seek to mitigate this risk, we have an annual strategy development process utilizing both internally and externally-supplied market data and business knowledge. The strategy involves three strategic pillars with a number of priority areas reviewed on a regular schedule and described in section 3.1 of this review.

Climate risk: Climate change will have both physical and transitional risk implications for the industries we serve. Regulatory and other changes may lead to increased cost, delays or cancellation associated with some projects. Conversely, the pace of other projects such as those associated with new energy may increase. We are committed to being part of the solution, to reducing our own emissions intensity and responding to our industry's and customers' climate change needs. To seek to mitigate this risk, we have embedded climate change considerations within core risk and strategy processes and are assessing climate-related risks and opportunities. In addition, we have established a climate change working group to review and design an implementation program for the Taskforce on Climate-related Financial Disclosure (TCFD).

3.4 UNREASONABLE PREJUDICE

We have omitted from the review, information regarding: (1) our internal budgets and internal forecasts; and (2) details of our business strategy, on the basis that if we had included that information, doing so would have been likely to result in unreasonable prejudice to us.

3.5 FORWARD LOOKING STATEMENTS

This review contains forward looking statements, including statements of current intention, opinion and expectation regarding the Company's present and future operations, possible future events and future financial prospects. While these statements reflect expectations at the date of this publication, they are, by their nature, not certain and are susceptible to change. WorleyParsons makes no representation, assurance or guarantee as to the accuracy of or likelihood of fulfilling any such forward looking statements (whether express or implied), and except as required by applicable law or the Australian Securities Exchange Listing Rules, disclaims any obligation or undertaking to publicly update such forward looking statements.