



WorleyParsons

resources & energy

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ASX Media Release

WORLEYPARSONS LIMITED

(ASX: WOR)

Earnings in line with guidance, strong cash flow

Overview

Professional services company WorleyParsons Limited today announced statutory net profit after tax (NPAT) of \$112.1 million and underlying* NPAT of \$100.7 million for the six months to 31 December 2013. This was in line with guidance issued in November 2013 and is down 35% on the previous corresponding period.

Key points from the results were:

- Statutory revenue and other income of \$4,823 million was up 9%, Aggregated revenue of \$3,793 million was down 2%;
- Underlying EBIT of \$178.2 million was down 29%;
- Underlying EBIT margin on aggregated revenue of 4.7% down from 6.5%;
- Operating cash flow of \$230 million; up 84%;
- Decline in earnings due primarily to contraction in the Australian market and additional project costs in WorleyParsonsCord (Cord);
- Hydrocarbons aggregated revenue flat;
- Growth in chemicals partially offset weakness in minerals and metals;
- Infrastructure down on lower demand in Australia and Europe;
- 40 significant project and long term contract awards during the period; and
- Interim dividend 34.0 cents per share, partially franked at 25%, compared with 41.5 cents per share in the corresponding period last year.

Commenting on the performance for the first half, the Chief Executive Officer of WorleyParsons, Andrew Wood, said:

“The Company today reports earnings for the six months to 31 December 2013 in line with guidance given in November 2013. On current indications the Company expects to report underlying NPAT for the full year in line with this guidance.”

* Underlying earnings excludes a net fair value gain on acquisition of associates of \$11.4 million



Financial Results

	Consolidated		
		31 December 2013	31 December 2012
	Change %	\$'M	\$'M
Revenue and other income	9.3	4,822.9	4,413.4
Earnings before interest and income tax expense (EBIT)	(24.7)	189.6	251.9
Profit before income tax expense	(30.7)	158.1	228.0
Profit after income tax expense attributable to members of WorleyParsons Limited	(27.7)	112.1	155.1
Basic earnings per share (cents)	(27.7)	45.5	63.0
Diluted earnings per share (cents)	(27.8)	45.1	62.5
Underlying profit after income tax expense attributable to members of WorleyParsons Limited¹	(35.1)	100.7	155.1
Underlying basic earnings per share (cents)¹	(35.2)	40.8	63.0
Underlying diluted earnings per share (cents)¹	(35.1)	40.6	62.5
Aggregated revenue²			
Revenue and other income		4,822.9	4,413.4
Less: procurement services revenue at nil margin (including share of revenue from associates)		(1,306.4)	(814.4)
Revenue excluding procurement services revenue at nil margin		3,516.5	3,599.0
Add: share of revenue from associates		289.5	283.9
Less: interest income		(2.0)	(4.2)
Less: net gain on revaluation of investments previously accounted for as equity accounted associates		(11.4)	-
Aggregated revenue²	(2.2)	3,792.6	3,878.7

¹ Underlying earnings excludes a net fair value gain on acquisition of associates of \$11.4 million

² 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 equity accounted associates. The Directors of WorleyParsons Limited believe the disclosure of the share of revenue from associates provides additional information in relation to the financial performance of the WorleyParsons Limited Group.



Company Performance

Revenue and EBIT were down across the Australian business due to reduced hydrocarbons activity, ongoing weakness in minerals and metals and the resulting contraction in resource related infrastructure projects. Cord experienced a decline in revenue and was impacted by additional costs on a project that was completed in the first quarter of FY2014.

The Company's decline in earnings was further impacted by restructuring costs of \$13.6 million. This was the result of a reduction in the number of people employed due to the downturn in the Australian market and the rigorous cost reduction program across the entire Company announced during the first half of FY2014. This included a reduction in excess of 500 people from overhead roles. The Company now employs approximately 37,500 people operating out of 166 offices across 43 countries.

Operating cash flow for the period increased to \$230 million, compared to \$125 million in the previous corresponding period due to the completion of a number of projects with lagging cash flow, and a continued focus on cash management.

The balance sheet remains strong. The Company's gearing ratio at 31 December 2013 was 25%, at the lower end of our target range, and cash interest cover remained high at 8.6 times. The Company had committed debt facilities of \$2,069 million (June 2013: \$1,912 million). During the period the Company refinanced a US\$520 million facility through a US Bank Syndication which led to an increase in the average maturity from 3.8 years as at 30 June 2013 to 4.2 years. Facility utilization at 31 December 2013 was 54% (June 2013: 55%).

The underlying effective tax rate for the half year was 26.1% compared to the tax rate for the previous corresponding period of 27.2%.

Exchange rate movements to 31 December 2013 compared to HY2013 had a favourable impact on NPAT of approximately \$13 million.

Andrew Wood said:

"We are undertaking an in-depth review to position WorleyParsons for future earnings growth by improving our delivery for our customers and offering a more competitive value proposition. This review is well underway, and we will advise more details once it is complete."

Dividend

The directors have resolved to pay an interim dividend of 34.0 cents per share, 25% franked. This equates to a payout ratio of 83% of underlying NPAT. The dividend will be paid on 31 March 2014 with a record date of 7 March 2014.

Safety Performance

WorleyParsons uses the United States Occupational Safety and Health Administration reporting protocol for our global operations, including the calculation of our Total Recordable Case Frequency Rate ("TRCFR") and Lost Workday Case Frequency Rate ("LWCFR").

The TRCFR for our personnel for HY2014 was 0.12 (0.14 in HY2013) and the LWCFR was 0.04 (0.03 in HY2013).



"We strive for zero harm in all that we do, both in field and office environments. A number of programs across the Company continued this half including the Board and Executive Committee structured health, safety and environment site visit program, road safety program and optimising our approach to safety in construction and contractor management," Andrew Wood, said.

Segment Performance

Hydrocarbons

Hydrocarbons reported aggregated revenue of \$2,731 million, in line with the previous corresponding period. Hydrocarbons' contribution to the Company's aggregated revenue was 72%.

Segment EBIT of \$267.0 million was down 13.6% from the previous corresponding period (HY2013: EBIT \$309.0 million). Excluding the impact of construction and fabrication, segment EBIT was down 3%. EBIT margin was 9.8% down from 11.2% in the prior corresponding period.

The Australian market continued to contract due to completion of projects. We saw a decline in segment EBIT from Canada due to softening activity in oil sands. However, Canadian oil sands expenditure is showing signs of recovery and we expect an increase in greenfield project expenditure in the medium term.

While the US business revenue declined, EBIT increased as a number of major projects reached completion and new secured work returned improved EBIT margins.

On a constant currency basis we saw a general decline in segment earnings from all regions except Europe.

During the period we secured 10 significant awards in Hydrocarbons, including a major global enterprise framework agreement in unconventional oil & gas, continuing a trend for our major customers to award umbrella style agreements rather than individual awards of discrete projects.

The outlook for global capital expenditure in Hydrocarbons remains positive. However, commitments by our customers to progressing major developments are highly dependent on where our customers are in the cycle of their current capital programs and capital reviews. While this environment provides us with opportunities it is making the market for major project starts difficult to predict.

We expect to continue to see opportunities in offshore ranging from deep water developments in the US and Africa, to hook up and commissioning projects such as the project recently awarded to Rosenberg WorleyParsons. The unconventional oil and gas business continues to develop as we pursue further global opportunities emerging in the US, Canada, China and Australia.

LNG developments and the associated upstream developments are expected to provide further growth opportunities in the medium term in Canada, Australia and Africa.

We expect a further contraction in activity in the Queensland business as major hydrocarbons developments complete and transition into their operating phase. These will however create opportunities for the *Improve* business.

The market for *Improve* is robust and remains a key strategic focus.



Minerals, Metals & Chemicals

Minerals, Metals & Chemicals reported aggregated revenue of \$571 million, a decrease of 2% from the previous corresponding period. Minerals, Metals & Chemicals contributed 15% to the Company's aggregated revenue.

Segment EBIT was \$69.2 million with a reported segment margin of 12.1% (HY2013: segment EBIT \$76.8 million; margin 13.2%).

Minerals, Metals & Chemicals was impacted by the decline in earnings from the Australian business. Growth in chemicals in Canada and the US was able to partially offset the weak result in Australia. While the TWP acquisition in South Africa has strengthened the Company's position in Sub Saharan Africa, the market in that region continues to be soft, due mainly to a decline in minerals and metals capital expenditure. Latin America was similarly impacted by the reduction in capital expenditure, particularly in copper related projects.

There were 13 significant awards this period including full project delivery awards in chemicals and feasibility and concept studies for potential new mine developments.

Minerals and metals customers remain focused on brownfields, sustaining capital work. In the short term the market for major projects remains flat. Immediate opportunities in new developments are largely in early phase development and studies.

Chemicals capital expenditure is expected to remain strong within the US. We expect fertilizer demand will continue to provide increasing opportunities globally.

Infrastructure

Infrastructure reported aggregated revenue of \$490 million, a decrease of 10% from the previous corresponding period. Infrastructure's contribution to the Company's aggregated revenue was 13%.

Segment EBIT was \$36.8 million with a reported segment margin of 7.5% (HY2013: segment EBIT \$62.3 million, including a one off gain from the sale of power contracts to Transfield Worley Power Services joint venture; margin 11.4%).

Infrastructure, incorporating the Company's former Power segment and Infrastructure & Environment segment was impacted by a decline in EBIT margins primarily due to the downturn in the Australian business. The solid result in Western Australia in urban infrastructure was not enough to match the decline in the resources related work. Government advisory work also contracted, affecting the Evans and Peck business.

The European business was affected by the cancellation of a nuclear project in Bulgaria. The Canadian infrastructure business experienced greater demand for its services.

There were 17 significant awards including environmental consulting in Canada and power *Improve* contracts in the US.

Related infrastructure for unconventional oil and gas developments in North America is expected to provide opportunities for our capabilities in environmental services, water and power transmission. Similarly, LNG developments in Western Canada and East Africa are expected to drive increased demand for our master planning, environmental services and geosciences services.

The outlook for the US fossil power market remains flat with little new build generation forecast. There are new build opportunities in certain emerging markets for power generation, reinforcing our strategy for geographic expansion in the developing world.



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Outlook for the WorleyParsons

Commenting on the outlook for the WorleyParsons, Andrew Wood said:

“On current indications the Company expects to report underlying NPAT for FY2014 in line with guidance given in November 2013. Notwithstanding the impacts weaker than expected market conditions are having on our performance, the cost reduction program we implemented together with the momentum from recent contract awards should position us for medium term growth. The diversity of our business in terms of its geography, industry and service offering remains a fundamental strength.”

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The IFRS financial information contained within this announcement has been derived from 31 December 2013 Interim Financial Report which has been reviewed by Ernst & Young. This announcement however has not been reviewed.