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 2014 (FY2014), we reported in three customer sector groups, 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.

On 1 May 2014, after an in-depth review of operations, we reorganized our business into three business lines of Major Projects, Services and *Improve* along with the new Development group and corporate functions. The review and the restructure were aimed at better positioning the Company for future earnings growth by improving delivery and offering a more competitive value proposition for our customers. From 1 July 2014, we will report in these three business lines.

Additional information on the business lines, Development group and corporate functions is provided in the Corporate Profile section of this Annual Report.

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 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.

In order to provide local delivery to our customers, we employed 35,600 people, in 157 offices located in 46 countries.

1.2 Business model

Our business is based on our people providing key services to our customers from within our three business lines. We strive to empower our people to support our customers in being 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 and profit. Aggregated revenue excludes revenue that has nil margin (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 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 receiving our 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 capital requirements.

1.3 Review of operations

The statutory net profit after tax (NPAT) for FY2014 was $249.1 million for the 12 months to 30 June 2014. Underlying NPAT was $263.4 million, down 18.2% on the previous corresponding period and was in line with guidance issued in November 2013.

Aggregated revenue and NPAT were down when compared to FY2013 primarily due to the downturn in the Australian business, previously the major contributor to the Company's earnings, and additional project costs in WorleyParsonsCord experienced in the first half. WorleyParsonsCord's performance in the second half improved significantly with these legacy project issues having no further impact on its results.

The reorganization we announced in April is essentially complete and we are significantly progressed in achieving the objectives we set ourselves – that is to simplify the corporate structure, reduce overhead costs and enable our staff to deliver greater customer satisfaction. We have refocused our strategy to more aggressively leverage our broad and deep technical capabilities and our diverse geographic presence.

Approximately 1,200 overhead roles were removed in the second half as part of the organizational restructure announced in April 2014. As foreshadowed, this resulted in a reorganisation charge of $35.4 million before tax. This does not include the impact of the previously announced reduction of 500 overhead roles in the first half.

The Company employed 35,600 people at the end of July 2014, down from 39,800 people at the same time last year.

Operating cash flow for the period increased to $550.1 million, compared to $443.5 million in the previous corresponding period. The Company's gearing ratio at 30 June 2014 was 19.5%.

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.

	FY2014 $'M	FY2013 $'M	Comments	Movement
1. Aggregated revenue	7,363.7	7,627.0	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 • Less procurement at nil margin, and interest income.	Our aggregated revenue decreased by 3.5% in FY2014 when compared with that for FY2013 due to completion of large projects in Australia and WorleyParsonsCord.
2. EBIT	428.2	527.0	EBIT means earnings before interest and tax.	Our EBIT decreased by 18.7% in FY2014 when compared with that for FY2013 due to the decline in the Australian operation, restructuring costs and additional costs on a project in WorleyParsonsCord.
3. NPAT attributable to members of WorleyParsons Limited	249.1	322.1	NPAT means net profit after tax.	Our NPAT decreased by 22.7% in FY2014 when compared with that for FY2013 due to the decline in the Australian operation, restructuring costs and additional costs on a project in WorleyParsonsCord.

Segment performance

Hydrocarbons

The Hydrocarbons sector reported aggregated revenue of $5,372 million and EBIT of $627 million, lower than the previous corresponding period (FY2013: aggregated revenue of $5,493 million and EBIT $654 million).

The Hydrocarbons sector delivered reduced earnings in all regions except for Europe, where earnings increased through the full year contribution from Rosenberg WorleyParsons in Norway and Sub-Saharan Africa due to a major project in that region. The Australian market continued to contract due to a reduction in project activity. Despite the improvement in performance of the WorleyParsonsCord business in the second half, full-year earnings declined compared with the prior year due to lower project activity and the poor commercial performance of a project in the first half.

Professional services EBIT margins were maintained but the construction and fabrication EBIT margin declined by 0.7%. The overall Hydrocarbons EBIT margin declined by 0.2%.

	Aggregated Revenue		Contribution to Group Aggregated Revenue	EBIT		EBIT Margin
	$'M	Variance	%	$'M	Variance	%
FY2014	5,371.5	(2.2)%	73	627.3	(4.1)%	11.7
FY2013	5,492.9		72	654.4		11.9

Minerals, Metals & Chemicals

The Minerals, Metals & Chemicals sector reported aggregated revenue of $1,066 million and EBIT of $131 million, lower than the previous corresponding period (FY2013: aggregated revenue $1,097 million, EBIT $143 million). The EBIT margin declined by 0.7%.

Minerals and metals customers continued to limit capital expenditure and focus on productivity improvements. Capital expenditure in this industry has reduced significantly (down nearly 30% from the 2012 peak) with the investment focus shifting largely to brownfield projects.

The result was particularly impacted by the decline in earnings from the Australian and Latin American businesses. The chemicals subsector continued to grow, as part of our diversification strategy in this sector.

	Aggregated Revenue		Contribution to Group Aggregated Revenue	EBIT		EBIT Margin
	$'M	Variance	%	$'M	Variance	%
FY2014	1,065.9	(2.8)%	14	131.2	(8.1)%	12.3
FY2013	1,096.5		14	142.8		13.0

Infrastructure

The Infrastructure sector reported aggregated revenue of $926 million and EBIT of $64 million, lower than the previous corresponding period (FY2013: aggregated revenue $1,038 million, EBIT $107 million, including a one off gain from the sale of power contracts to Transfield Worley Power Services joint venture). EBIT margins declined by 3.4%.

Infrastructure was impacted by the downturn in resource project activity in the Australian business. The European business suffered from a cancellation of a nuclear project in the first half. In addition, earnings declined in the European and Middle East Infrastructure businesses as projects that had a material contribution to the FY2013 reached completion.

	Aggregated Revenue		Contribution to Group Aggregated Revenue	EBIT		EBIT Margin
	$'M	Variance	%	$'M	Variance	%
FY2014	926.3	(10.7)%	13	64.0	(40.4)%	6.9
FY2013	1,037.6		14	107.3		10.3

1.4 Significant changes in operations during FY2014

In April 2014, the Company announced a reorganization of the business aimed at simplifying the corporate structure, reducing overhead costs and enabling our staff to deliver greater customer satisfaction.

On 1 May 2014, we reorganized into three business lines – Services, Major Projects and *Improve*. Each of our business lines has full accountability and responsibility for customer satisfaction, generating sustainable earnings and providing a satisfactory level of return on capital invested. In addition, each business line is responsible for providing and sourcing the optimal level of operation support.

We nurture new business ventures through our Development group. Two businesses are currently being supported; Advisian and Digital Enterprise.

Group functions at the corporate level were streamlined with our leaner corporate office responsible for strategy, improved capital allocation and corporate governance.