OPERATING AND FINANCIAL REVIEW

1. OPERATIONS

1.1 OVERVIEW

WorleyParsons is a professional services provider to the resources, energy and industrial sectors. During the financial year ended 30 June 2016 (FY2016), we reported along four business lines of Services, Major Projects, *Improve* and Advisian 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;
- Infrastructure – 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 mega 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 25% 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 FY2016 was a profit of $23.5 million, compared with a $54.9 million loss in FY2015 that included the recognition of a non-cash impairment of goodwill of $198.6 million (approximately 10% of total goodwill). Underlying net profit after tax (NPAT)[1] was $153.1 million for FY2016, down 37.0% on the previous corresponding period.

Aggregated revenue declined by 18.5%, against a backdrop of ongoing declines in market activity. Sustained low commodity prices and the fall in oil prices have resulted in our customers continuing to reduce capital and operating expenditure.

Aggregated revenue declined across all of our business lines and geographies. Our Infrastructure sector performed well with aggregated revenue essentially flat year on year.

We have been taking action since 2013 to reshape the business to align it with market activity. During FY2016, the low oil price and generally subdued commodity prices across the energy and resources sectors resulted in a further contraction of our customers' capital and operating budgets, project cancellations and deferrals. In that environment, during the financial year we announced a program to reduce our overhead costs by a further $300 million and to strengthen the balance sheet by $300 million. After having taken action to deliver $120 million of annualized savings by February 2016, we commenced the Realize our future transformation program to deliver on our objectives to improve our financial performance. Through this program we achieved a further $80 million of annualized savings taking the total by the end of FY2016 to $200 million of annualized savings.

The actions taken in FY2016 resulted in the recognition of a series of charges related to redundancy, onerous leases, onerous contracts and other restructuring costs in the statutory result.

We now employ 24,500 people and still maintain a presence across 42 countries, compared with 31,400 people across 148 offices at 30 June 2015.

We have secured 85 significant awards this year compared with 105 in FY2015. Backlog at 30 June 2016 is $4.2 billion including $300 million of soft backlog with $2.7 billion relating to FY2017.

Our financial position remains sound with the Company's gearing ratio at 30 June 2016 of 29.2%, in the middle of the target range of 25% to 35%.

The FY2015 segment result and segment margins shown in sections 1.3.1 and 1.3.2 of this review have been restated to reflect the organization of the Group into four business lines, a change to the allocation of information technology charges and treatment of restructuring expenses and associated changed reporting effective 1 July 2015.

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 in the following table.

[1] The directors consider underlying profit information is important to understand the sustainable performance of the Company by excluding selected significant items.

	FY2016 $'M	FY2015 $'M
EBIT	**128.9**	**87.1**
Add: impairment of goodwill	-	198.6
Add: Arkutun-Dagi project settlement costs	-	70.0
Add: staff restructuring costs	76.8	38.3
Add: onerous lease contracts	86.4	20.2
Add: onerous engineering software licenses	14.3	-
Add: other restructuring costs	4.6	3.8
Add: write-down of investments in equity accounted associates	12.1	-
Less: net gain on revaluation of investments previously accounted for as joint operations	(4.5)	-
Less: certain functional currency related foreign exchange gains	(15.9)	-
Underlying EBIT	**302.7**	**418.0**
NPAT attributable to members of WorleyParsons Limited	**23.5**	**(54.9)**
Add: impairment of goodwill	-	198.6
Add: Arkutun-Dagi project settlement costs, post tax	-	49.0
Add: tax arising on reorganization of business in China	-	5.9
Add: staff restructuring costs, post tax	56.3	27.7
Add: onerous lease costs, post tax	63.4	14.1
Add: onerous engineering software licenses, post tax	10.5	-
Add: other restructuring costs, post tax	3.4	2.7
Add: write-down of investments in equity accounted associates	12.1	-
Less: net gain on revaluation of investments previously accounted for as joint operations	(4.5)	-
Less: certain functional currency related foreign exchange gains, post tax	(11.6)	-
Underlying NPAT	**153.1**	**243.1**

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 MEMBERS OF WORLEYPARSONS LIMITED

		FY2016 $'M	FY2015 $'M	Comments	Movement
1.	**Aggregated revenue**	5,892.9	7,227.5	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 at nil margin, net gain on revaluation of investments previously reported as joint operations and interest income.	Our aggregated revenue decreased by 18.5% in FY2016 when compared with that for FY2015, due to several large projects progressing to completion, while potential new project work was cancelled or deferred.
2.	**EBIT**	128.9	87.1	EBIT means earnings before interest and tax.	Our EBIT increased by 48.0% in FY2016 when compared with that for FY2015, due primarily to the benefit of no impairment charge recurring, but offset by higher restructuring charges in FY2016.
3.	**NPAT**	23.5	(54.9)	NPAT means net profit after tax.	Our NPAT increased to $23.5 million in FY2016, compared with a loss of $54.9 million for FY2015, due primarily to the benefit of no impairment charge recurring but offset by higher restructuring charges in FY2016.

1.3.1 BUSINESS LINE PERFORMANCE

SERVICES

The Services business line reported aggregated revenue of $3,437 million and segment result of $252 million (FY2015 restated: aggregated revenue of $4,336 million and segment result of $342 million). The segment margin declined 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.

	Aggregated revenue		Contribution to Group aggregated revenue	Segment result		Segment margin
	$'M	Variance %	%	$'M	Variance %	%
FY2016	3,436.5	(21)	58	252.0	(26)	7.3
FY2015 (restated)	4,336.2		60	341.9		7.9

MAJOR PROJECTS

The Major Projects business line reported aggregated revenue of $1,281 million and segment result of $109 million (FY2015 restated: aggregated revenue of $1,610 million and segment result of $128 million). The segment margin improved 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 offset the decline and the improved margins from WorleyParsonsCord.

	Aggregated revenue		Contribution to Group aggregated revenue	Segment result		Segment margin
	$'M	Variance %	%	$'M	Variance %	%
FY2016	1,281.4	(20)	22	109.1	(15)	8.5
FY2015 (restated)	1,610.4		22	128.0		7.9

IMPROVE

The *Improve* business line reported aggregated revenue of $519 million and segment result of $23 million (FY2015 restated: aggregated revenue of $580 million and segment result of $27 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.

	Aggregated revenue		Contribution to Group aggregated revenue	Segment result		Segment margin
	$'M	Variance %	%	$'M	Variance %	%
FY2016	519.3	(10)	9	23.4	(14)	4.5
FY2015 (restated)	579.6		8	27.3		4.7

ADVISIAN

Advisian became a standalone business line in FY2016. It incorporates the heritage advisory businesses of Evans & Peck, MTG and Digital Enterprise, previously reported under the Development group in FY2015 and the INTECSEA business and consulting personnel and their associated projects transferred from the Services business line. Advisian reported aggregated revenue of $656 million and segment result of $44 million (FY2015 restated: aggregated revenue of $701 million and segment result of $53 million). The segment margin declined 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.

	Aggregated revenue		Contribution to Group aggregated revenue	Segment result		Segment margin
	$'M	Variance %	%	$'M	Variance %	%
FY2016	655.7	(7)	11	44.3	(16)	6.8
FY2015 (restated)	701.3		10	52.7		7.5

1.3.2 SECTOR PERFORMANCE

HYDROCARBONS

The Hydrocarbons sector reported aggregated revenue of $4,267 million, and segment result of $329 million with a margin of 7.7% (FY2015 restated: aggregated revenue of $5,332 million, segment result of $484 million and segment margin of 9.1%). Hydrocarbons' contribution to the Group's aggregated revenue was 72%, slightly down on 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.

	Aggregated revenue		Contribution to Group aggregated revenue	Segment result		Segment margin
	$'M	Variance %	%	$'M	Variance %	%
FY2016	4,266.9	(20)	72	329.0	(32)	7.7
FY2015 (restated)	5,332.1		74	484.3		9.1

MINERALS, METALS & CHEMICALS

The Minerals, Metals & Chemicals sector reported aggregated revenue of $643 million and segment result of $40 million with a margin of 6.2% (FY2015 restated: aggregated revenue of $904 million, segment result of $47 million and segment margin of 5.1%). Minerals, Metals & Chemicals contributed 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.

	Aggregated revenue		Contribution to Group aggregated revenue	Segment result		Segment margin
	$'M	Variance %	%	$'M	Variance %	%
FY2016	642.5	(29)	11	39.9	(14)	6.2
FY2015 (restated)	903.7		12	46.5		5.1

INFRASTRUCTURE

The Infrastructure sector reported aggregated revenue of $984 million and segment result of $60 million with a margin of 6.1% (FY2015 restated: aggregated revenue of $992 million, segment result of $19 million and segment margin of 1.9%). Infrastructure's contribution to the Group's aggregated revenue was 17%.

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.

	Aggregated revenue		Contribution to Group aggregated revenue	Segment result		Segment margin
	$'M	Variance %	%	$'M	Variance %	%
FY2016	983.5	(1)	17	59.9	214	6.1
FY2015 (restated)	991.7		14	19.1		1.9

1.4 SIGNIFICANT CHANGES IN OPERATIONS

From 1 July 2015, we established Advisian, the Group's advisory and consulting arm as a standalone business line after being previously reported under the Development group.

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.

	FY2016 $'M	FY2015 $'M	Comments	Movement
1. **Operating cash flow**	192.0	251.3	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 FY2016 represents a high cash conversion rate of 125% of underlying NPAT, an improvement over last year's 103%.
2. **Gearing ratio**	29.2%	28.0%	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 increased by 1.2 percentage points in FY2016 when compared with that for FY2015. This ratio is within our gearing target of 25% to 35%.
3. **Debt facility utilization**	57%	59%	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 decreased by 2 percentage points in FY2016 when compared with that for FY2015, due to improvements in cash collection.
4. **Loan, overdraft and lease facilities**	2,182	2,087	Our loan, overdraft 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 increased during FY2016, due to foreign exchange translation.

2.2 DIVIDENDS

Our directors resolved not to pay a final dividend. The total dividend with respect to FY2016 is nil cents per share.

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.

As a result of this assessment, an impairment of investments in associates of $12.1 million was recognized in the FY2016 accounts.

During FY2016, we transferred our South African public infrastructure business and our interest in Cegertec, in Quebec, to assets and liabilities held for sale. These items are not material and so are not reclassified in the Statement of Financial Position.

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
- operating expenditure commitments.

These future commitments represent approximately 8.9% of our expenses.

In general, we lease 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

We develop our business strategy using an iterative process at each of the key levels of our business such that we have:

- a Group strategy
- sector strategies
- business plans to guide the implementation of our sector strategies at a business line level.

Our Group strategy describes markets in which we intend to invest to create sustainable competitive advantage (leading to greater market share and/or higher margins) and deliver on our corporate vision. Our sub sector or regional level strategies are a detailed view of these markets. At the business line level, we translate our sub sector strategies into business plans to deliver on the intent of the sector strategies as applicable to each business line. Our business plans map specific current and near term opportunities or portfolios of opportunities to the strategic themes, to provide clear and tangible targets for the individual business leaders to pursue, win and execute. Overall, our key markets continue to present challenges, including increasing competition and customers delaying committing to new developments. We believe that we took appropriate steps during FY2016 to identify opportunities to realign and position the Group to address these challenging market conditions.

Strategically, our immediate focus is on five strategic themes which are to:

- build a world class consulting and advisory business and dominate the early project phases;
- be the global project management consultant or "PMC" provider of choice;
- build a leading major *Improve* business;
- be the smartest most agile local service provider;
- use the Global Delivery Centers to apply digital technology to revolutionize the delivery of future services.

Further details on the five strategic themes can be found on pages 10 and 11 of this Annual Report.

In the current market conditions, our priorities for the next 12 months are to:

- protect revenue by winning the right work;
- achieve the overhead reduction target;
- strengthen the balance sheet.

3.2 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.

3.3 RISKS

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

Set out below is an overview of a number of key risks that we face in seeking to achieve those prospects. 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 prospects. 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 AND SAFETY 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.

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 and safety. OneWay™ expectations are supported by our business processes and we use them in assessing our performance.

3.3.2 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 and safety risk, project delivery risk, and internal reporting risk are relevant to seek to preserve our reputation.

3.3.3 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.

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 prospects 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.

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 five strategic themes executed as projects and described in section 3.1 of this Operating and Financial Review.

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 review, 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.