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Wood Group Half Year 2022 Results

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Overview

Ken Gilmartin

CEO, Wood Group

Welcome

Good morning, everyone. Thank you for joining our half year results presentation. I'm Ken Gilmartin, CEO of Wood. And I'm delighted to host you today for the first time since taking on this role on 1st July.

Agenda

Our usual disclaimer here before I move on. So let me provide an overview of what we are going to cover this morning. I'll start with the summary of our first half performance, including some colour on the operational momentum we can see across the business. David will then cover the half year results in more detail. I'll then share some of my observations since joining Wood and since taking over as CEO.

I have lots to say on our strengths and excited about the growth opportunities ahead of us. But also I want to talk through some of the areas where we need to improve. While we are working on our strategy ahead of the Capital Markets Day in November, I will set out our near-term priorities for now.

Overview of H1 performance

So to start with a brief overview of the first half. The results were in line with our July trading update, and there are five areas I'd like to highlight. Firstly, it's very encouraging to see the strong momentum in activity levels and order book growth. At the midpoint of this year, our order book was \$6.4 billion, which is up 5% year-on-year. This momentum is particularly strong in our projects business. The order book is up 24% year-on-year and crucially, it's a higher quality one with growth led by engineering design work and EPCm scopes.

Our first half revenue was flat at \$2.6 billion with EBITDA down 5%. Looking into the second half, we expect improved performance across our business, and David will cover our financial guidance in detail shortly. The main area of focus for us remains our cash performance. The cash outflow in the first half is typical for our business, but nonetheless this is our absolute priority, to return the Group to positive cash flow generation.

The sale of our Built Environment business is progressing really well. We expect to complete around the end of Q3. The sale will transform our balance sheet, restore the Group's financial flexibility, and we believe, deliver value to shareholders.

Building a higher quality contract portfolio

Turning now to our contract portfolio and our progress in de-risking moving away from large lump sum work and focusing on a people-centred model. Across the Group, the proportion of our revenue that comes from cost reimbursable work increased from 75% to 80%. Now this means only 20% of our revenue is now from fixed price work, and in our order book, 85% is reimbursable work.

Of that figure, around 5% is related to fixed price consultancy work, around 12% to limited scope lump sum projects, and only 3% came from lump sum turnkey contracts. We continue to have some loss-making contracts in our portfolio. However, they are at a mature stage.

The most notable one is Aegis Poland, which we expect to conclude in the second half as previously guided, although final settlement will take longer to close out. At the heart of this improvement has been a greater discipline about the markets and geographies we enter and the work we take on. Moving forward, this will remain a focus of our business, work that matches our skill set and our risk appetite. This does not mean we will turn away from all lump sum work, but we will be disciplined and highly selective. This is especially true for lump sum turnkey work, which we expect to do very little of in the medium term.

This shift to a people-centric model and largely reimbursable work also minimizes our exposure to inflationary risks. On our other contracts, we proactively build in protection. And so far this year, inflation has not had a material impact on us.

Unlocking solutions to critical challenges

Since joining, I've been asked many times on how I view Wood and where I see our competitive edge. Simple terms, I see Wood as an engineering and consultancy business that provide solutions to clients across the full lifecycle of their portfolio. This ranges from the very outset when clients are looking to test the feasibility of their plans, all the way through to the detailed engineering design, project delivery, and then into the long-term operations of assets to maximise the value they deliver.

We have an outstanding track record across energy, and this experience is highly relevant in many other adjacent sectors. This includes the chemicals, minerals and life sciences markets, and we group these under the banner of materials, as these sectors all ultimately produce materials that help deliver a more sustainable future.

The final point that strikes me is that we deliver some seriously complex work in a range of critical sectors. This is a differentiator. There are very few of our peers who can match the breadth of our offer in this range of markets.

Well positioned for significant market growth

This focus on two end markets is important, as it puts us in a position to capitalise on a range of growth opportunities. Within the energy market, we see three significant growth drivers. The war in Ukraine has brought energy security to the forefront once again, and this is already translating into increased spend across regions. At the same time, we need to reduce carbon intensity associated with energy and industrial activity. The shift to a low carbon supply base as part of the energy transition supports both of these goals.

Within the material space, we see three significant growth drivers. Across the globe, demand for key chemicals remain strong; delivering a net zero future will require accelerated investment in sourcing and processing minerals like copper and lithium. And these are key to meeting the growing demand for electrical vehicles, batteries and solar panels.

And in life sciences, we continue to see strong investment in both new facilities and upgrading existing assets. Wood already has a strong but small offering in this space and we've brought in some senior level hires over the past few months to drive this further. We're doing a lot of work on our end markets and the growth opportunities ahead.

Jennifer Richmond, who joins us today, also – joined the ELT as Executive President of Strategy and Development in April from Jacobs and is leading this work and we will say more in November.

Winning work across markets

This slide showcases a selection of the work we have won so far this year and I'll touch on a few examples. In energy security, we secured a ten-year master service agreement with Chevron to produce engineering and project delivery solutions across their portfolio of onshore and offshore assets. We also secured major contract extensions with IOCs including Equinor, BP and Shell.

On the energy front, we – on the energy transition front, we secured a project with Total Eren to develop a large scale green hydrogen production facility in Chile. With the chemicals market, we were selected by INEOS to deliver one of the – of Europe's most innovative and sustainable olefins complex. In mineral processing, we recently secured a new contract in Uzbekistan with Enter Engineering to deliver the world's largest copper concentrator plant.

And finally, in life sciences, we booked a range of projects in the US, including a contract to modernize and expand a large scale biologic and drug substance plant.

I'll look at each business unit and provide a snapshot of how I see them. We will, of course, come back with more detail at our Capital Markets Day with my management team talking to what they do.

Our Consulting business

Starting with Consulting, we provide strategic planning and advisory services. We help optimise and enhance clients' assets through combining our data, digital, and asset knowledge. We work across a range of markets, including energy, downstream and chemicals, minerals and life sciences. And with the sale of Built Environment, our Consulting business is smaller, but it's still a major player with over 3,700 employees and great growth prospects ahead.

A significant portion of our energy transition and decarbonisation expertise sits within our Consulting business, including in growth areas like hydrogen, carbon capture and storage, and renewable gas production from biomass. The drive towards digitalisation and intelligent connected assets will also support the growth agenda for our Consulting business.

Azad Hessamodini, who joined the ELT this year from within the business to run Consulting, is excited about the opportunities ahead for his team and rightly so.

Our Projects business

In Projects, we deliver and design capital investment solutions. We provide complex engineering and project management services. This is reflected in some of the project examples referenced on the slide, including one of the largest offshore developments in the world, work on the world's largest copper mine, and on one of Europe's biggest biotech facilities.

We have a highly efficient global delivery model with end market focus centres of excellence that allow us to bring deep asset and sector-specific expertise to a client's project. Many of the growth drivers that I referenced earlier are directly relevant for Projects. Energy security

concerns are already prompting clients to reactivate their capital investment programmes, while the markets within minerals, chemicals and life sciences are buoyant as well.

Mike Collins who heads our Projects and his team deserve credit for the work they have done over the last 18 months to help reset projects, and this is something we'll cover in more detail in November as well.

Our Operations business

And finally, Operations, the largest part of the Group in revenue terms. Here, we operate and optimise critical infrastructure. We maintain assets, we modify them, and we repurpose them. A key offering we have is the ability to increase efficiency, extend asset life and reduce carbon intensity. Our work here is primarily in the energy sector with blue chip clients who have – who we have worked with for many decades.

We're also active in markets like chemicals and power. And as you can see, some of the examples on this slide, both energy security and decarbonisation are driving significant opportunities for our operations team. Increasingly, this is part of the same scope of work where we're helping to maintain access to secure and affordable energy, while at the same time minimising emissions.

Greater levels of digitalisation and the shift towards remote operations are also opening up exciting opportunities for Craig Shanaghey's team across the globe. Craig joined the ELT last month, another internal appointment.

Focused on sustainability

And finally, I would like to highlight the progress we have made in several aspects of our sustainability strategy. The transition to a low carbon future is both an environmental imperative and an enduring business opportunity. So far this year, we have secured over \$500 million worth of work linked to the energy transition and decarbonisation. Within our own business, we've delivered a 56% reduction in our Scope 1 and 2 carbon emissions, and maintained our AA rating from MSCI for a seventh consecutive year.

We also embedded the Building Responsibly principles into our supply chain pre-qualification stages. From a people perspective, I'm proud to be leading a business that has increasing female representation at the senior leadership level. We've also made progress on pay equity both on gender, and more recently, launching pilots on ethnicity.

So as I mentioned at the outset, there's a strong operational momentum in a range of areas, and this stands us in good stead as we move into the second half of the year.

With that, I'll pass over to David to cover our H1 results in more detail. David?

Financial Review

David Kemp

CFO, Wood Group

Underlying financial results overview

Thank you, Ken. Good morning, everyone. Before we get into the detail, a quick note on accounting first. The Built Environment consulting business is now treated as held for sale and its results are shown as discontinued operations.

We've adjusted our underlying results to reflect this, and that includes restating all the comparatives. As such, there is no contribution from Built Environment included in revenue, adjusted EBITDA, or in order book and that's for all periods. There is no change to EPS or total cash flow.

So looking at our results. Encouragingly, our order book was up a further 5% to \$6.4 billion with significant growth in Projects and Consulting and a small fall in Operations. The movement in operations reflects the multiyear award phasing rather than any underlying trend. So I'll come back to this and momentum shortly.

Revenue of \$2.6 billion was flat on last year. We saw growth in Operations and Consulting, but a decline in our Projects business. We delivered EBITDA of \$185 million, but margin was lower, with an expected reduction in Operations and slightly lower margins in Consulting in part due to exiting Russian work. Our margin in Projects increased in the period, as we continue to improve our contract performance, which obviously was very pleasing.

There was a free cash outflow of \$363 million, including a significant working capital outflow and high exceptional cash costs, including the scheduled 2022 payment for our SFO settlement. I'll come back to cash shortly. And as Ken said, returning the Group to positive free cash flow is our absolute priority.

Revenue bridge

So looking at revenue in detail. The operational momentum that we saw in H2 2021 has continued, with growth in Consulting and a very strong performance in Operations, which was up 18%. In Consulting, the main drivers of the growth have been in energy with our specialist engineering performing strongly and we've seen encouraging growth in energy transition.

In Operations, we saw strong growth in Europe, Middle East and Asia Pacific. In Projects, the decline in revenue reflects the de-risking of our portfolio and a subdued '21 order intake. Looking forward, our expectation is for a stronger second half, especially for Projects, and that's underpinned by our order book.

Adjusted EBITDA bridge

Now on to adjusted EBITDA. Consulting was flat year-on-year and Projects are small decline with the revenue decline offset in part by good margin performance. Operations saw a decline from a weaker margin. Two reasons of note, a lower level of contract closeouts and a smaller contribution from our Turbine joint ventures.

In addition to this, around half of the revenue growth came from parts of our business with pass-through procurement revenue. And we saw higher EBITDA in investment services partly

due to the re-categorisation of Aegis losses and partly due to improve profitability across our portfolio.

Exceptional items

Exceptional items. Before tax, exceptional items were a small charge in the half and included a credit from asbestos due to the movement and discount rates. As usual, we take all asbestos movements through exceptions as they don't relate to our ongoing trading. The other significant number here is restructuring cost.

During the first half, we incurred \$36 million of restructuring cost from reducing our central cost mindful of the new size of the Group, post the sale of the Built Environment, closing out Future Fit programme and some additional cost of exiting businesses that we announced in 2021. We had a significant tax credit relating to the - related to recognising deferred tax assets associated with our pension surplus.

Finally, I just want to point out that the cost of selling Built Environment consulting are not shown here as they're included in discontinued operations, along with the accelerated recognition of off-balance sheet losses related to the sale.

Order book up 5%

Our order book was up 5% on last year to \$6.4 billion. You can see the revenue in the period been more than replaced by wins across all business units, most notably, in Projects and Operations in absolute size, although Consulting was up 16%. And remember, they typically have a smaller order book as much of the work is shorter in time scale.

The growth in our order book was supported by an improving backdrop across our end markets. Activity levels are high across conventional energy, and customer investment has started to recover from the low points of COVID-19, while demand for chemicals and minerals has also been strong.

The recovery in our Project's order book is particularly pleasing with the growth coming across the business and in engineering and EPCm scopes, and these are typically reimbursable. We've continued to win since June. For example, the Inter Engineering Awards for over \$200 million announced just last week. Our Project's order book is now significantly higher and with a lower risk level.

We continue to see increased demand across our business for solutions that address energy transition. In fact, in the first half with client wins of over \$500 million for energy transition and decarbonisation related work. As Ken said, our order book is now 85% reimbursable. As well as reducing risk, this reduces our exposure to inflation. And the remaining 15%, a significant proportion is short cycle consulting, whilst in the longer duration scopes we seek to protect ourselves through contract provisions and/or matching risk.

To-date, we've had no material impact from inflation to our profitability. This strong order book and momentum underpins our guidance for a stronger second half this year.

Current year revenue visibility up 9% YoY

Our June revenue in our order for the second half of 2022 was \$2.5 billion, and that's an increase of 9% compared to the prior year equivalent figure of \$2.3 billion.

BU performance: Consulting

So, now looking at the business units in a bit more detail, starting with Consulting. So in Consulting, we had a robust half, with EBITDA growth – with revenue growth and flat EBITDA.

Revenue was up 2% to \$303 million, helped by demand for our Energy Consulting Solutions, both in conventional and across energy transition. EBITDA was flat, given a slightly lower margin, which reflected an exit from work in Russia and a weaker performance in Applied Intelligence.

The order book growth of 16% is a particular highlight here. As with revenue, this growth was led by a range of energy solutions, an area where our margins were robust in the period. Our order book for delivery in the second half of '22 was \$305 million, and that's up 25% on the prior year. We expect strong revenue growth for the year, so continued strength into the second half.

BU performance: Projects

Moving on to Projects. In Projects, we had an improved half, with a higher margin limiting the EBITDA fall from the lower revenue. And this lower revenue reflects our diminished appetite for lump sum EPC and lump sum turnkey activity and low customer investment in 2021. We expanded our margin from 7.5% to 8.2%, with an improved performance across the board. And this includes the gradual roll-off of some of our North American lump sum turnkey contracts.

Most encouragingly, as we have said, is the order book growth of 24%. And this growth was across all our end markets, and most notably, in conventional energy and chemicals. The growth also reflects our lower risk profile and the focus on services rather than EPC or lump sum turnkey.

Our order book for delivery in the second half of '22 was \$1.15 billion and that's up 19% compared to the prior year. This position us for stronger second half and we expect our return to revenue growth in Projects in the second half.

BU performance: Operations

Onto Operations. In Operations, we had a very strong revenue growth supported by higher activity across conventional energy but lower EBITDA. This was partly expected with a lower level of contract closeouts and higher pass-through revenue but we also had a lower contribution from our Turbine joint ventures.

In our Turbine JVs, we experience some supply chain challenges in the first half, which we expect to recover in the second half. The order book is down 6%, but this mainly reflects the phasing of multiyear awards. Our order book for delivery in the second half of '22 was \$960 million, down 4% on the prior year. For the year as a whole, we expect strong revenue growth and a stronger second half for EBITDA, especially given the expected recovery in Turbines.

Free cash flow

Turning to cash flow. Our definition of free cash flow includes all cash flows before M&A and dividends. There was a free cash outflow of \$363 million. And you can see all of the moving parts on this table.

So picking out the main items. We had the provisions outflow of \$74 million, reflecting provision utilisation across asbestos, loss-making contracts and insurance. Working capital was an outflow of \$208 million. We typically see an outflow in the first half of our business in line with the shape of our trading. The further reduction in lump sum EPC activity being replaced by services also has a negative working capital impact.

CapEx and intangibles was higher at \$57 million returning from COVID-related reduced levels last year. Interest paid increased to \$51 million and that reflected the higher net debt in the period, and an increase in average interest rate. Exceptional costs of \$102 million includes a \$38 million SFO payment and an outflow of \$40 million for Aegis. The rest is sale related costs and restructuring costs.

Net debt movement

Our net debt of \$1.75 billion at 30th June reflects that free cash outflow. Our net debt to EBITDA was 4.2 times, below our covenants of 4.5 times, which we had temporarily extended earlier this year.

Lease liabilities of \$400 million reduced by \$100 million as we continue to consolidate our property footprint. As you know, the net sale proceeds from built environment of \$1.6 billion will transform our debt position.

Update on expected cash outflows

So this slide provides an update on the cash outflows we have in the business. Starting with Aegis, this will be operationally complete in the second half of this year and we expect a total outflow of around \$45 million in the year. In asbestos, this is a long-term liability with the annual cash outflow currently around \$40 million and gradually reducing over time.

The SFO settlement, we paid the 22 instalments of \$38 million in the half and we have two more to go, one in 2023 and one in 2024. We had around \$25 million of restructuring cost in the half, partly related to the cost of closing businesses that we announced last year. In onerous leases, we had \$13 million in the half and that drag will reduce to nil by 2024.

On the enterprise litigation, the court case has finished and we expect a conclusion by the end of this year. This may or may not lead to a cash outflow depending on the outcomes and whether either party seeks an appeal or seeks a retrial.

Addressing our legacy issues

So moving on to the next slide to consider how we can get on top of some of these cash drags. So this is a really important slide and links in to what Ken will talk about shortly. As you saw on the previous slide, we have legacy issues that really limit our cash generation.

The sale of Built Environment with net proceeds of around \$1.6 billion will help us address some of these issues. Clearly, and most importantly, it will address our debt levels. And going forward, our target net debt to EBITDA range is 0.5 times to 1.5 times. We then have an option to address liabilities such as SFO settlement and asbestos. And these are options we'll consider and will balance against other capital allocation requirements, including investment in the business and shareholder returns such as restoration of our dividend.

Clearly, we'll have to prioritise and we'll see more here at our Capital Markets Day in November after the completion of the deal, which we expect to be around the end of Q3.

The Aegis Poland contract should complete this year. And we're seeing a reduced level of losses in our lump sum turnkey portfolio. As Ken set out, we've made some real progress in de-risking the business.

Finally, the nature of our business means we're exposed to claims, the most notable of which is our enterprise claim that I discussed earlier. So lots to address and Ken will come back to that shortly.

FY22 outlook

So finally turning to outlook. As we've said before, we expect higher revenue across our business this year, and that's helped by our higher order book. We also expect an improved performance in the second half, helped in part by increased profitability in our Turbine joint ventures.

We've given out financial guidance of revenue between \$5.2 billion and \$5.5 billion; an adjusted EBITDA between \$370 million and \$400 million. Finally, of course, the completion of the sale of the Built Environment business will transform our debt completely.

And with that, I'll now hand back to Ken.

Observations and Look Ahead

Ken Gilmartin

CEO, Wood Group

Strong platform to build on

Thanks, David. So having gone through our first half performance in detail, I will now close out this morning's presentation by sharing some of my reflections since joining Wood. And I'll start with the positives and the elements that give me real optimism.

There's no doubt we're at an important point in the Wood story. The sale of the Built Environment business will start a new chapter and there's a strong platform to build on.

Firstly, we have outstanding talent. The breadth and depth of technical expertise we have in Wood compares favourably with our very best in our industry. The world is evolving fast, but we have a highly relevant mix of skills that will be key to delivering a more sustainable future.

Secondly, as I alluded to earlier, we have an enviable track record of delivering complex work in critical industries. This is a key differentiator, especially when we are selective in the markets in which we play.

Thirdly, the long-term client relationships we hold is an unquestionable strength. Often these relationships span several decades. Many of these clients will play a driving role in the transition to a net zero future. Importantly, we're already well-positioned in good growth markets. The opportunities within energy and materials are there for us to capitalise on.

And finally, through diligent work over the last 12 months, our pipeline has been significantly de-risked. We've improved our risk governance and selectivity, which will allow us to secure better quality growth in the future. We are not perfect yet, but we are in a stronger position than we were.

Our priorities in the near term

So what is a lot that gives me optimism? I'm also clear that there are areas where a marked improvement is needed. Over the past few years, we have not delivered value for our shareholders, and this is clear.

The main causes of this were: insufficient discipline and focus on project selection, meaning we took on work where the scope, the challenges or contract terms all led to losses. Inconsistent delivery with surprises and outcomes linked to the lack of discipline because we spread ourselves too thin and took on work outside of our core capability. We had instances of not delivering and surprises in outcomes. High levels of restructuring with significant costs incurred. Legacy issues, which led to high exceptional costs. These included a large asbestos liability, a large SFO fine. The Aegis contract a more recently losses we had in our North American renewables EPC business.

Regardless of the cause, we have to put these behind us. All of these have led to a lack of cash generation, stretched balance sheet and a failure to meet our financial expectations. We are focused on addressing these issues. Some will take time and some can be addressed more quickly.

I'm pleased we're resetting ourselves against the positive market backdrop and growth drivers I discussed before. In the near term, we have some immediate priorities: completing the sale of the Built Environment consulting which we expect to finalise this transaction around the end of Q3, so very close.

Strengthening our balance sheet and restoring financial flexibility. The net cash proceeds of the sale will do this. We will consider the best use of capital over the medium term with the particular focus on steps that enable us to once again deliver sustainable free cash flow.

Focusing on our culture and energising our people. Like many companies, the pandemic and remote working has had an impact on our people. So big focus for me since joining has been getting out to meet our teams and reconnecting. I am aware the last few years for Wood has been tough on our shareholders and on our people and we have a duty to improve things for both.

Define a priority markets and growth areas. A big part of the strategy we are developing is defining where to play and to deliver sustainable growth and returns. We will focus on the very best opportunities that utilize our skilled people, and engineering expertise and where we have a differentiated offering.

We have a strong track record in energy, but as I mentioned earlier, this life cycle offer is highly relevant in other sectors as well including chemicals, minerals, and life sciences.

Improved operational delivery and consistency. We implemented a new operating model in late 2020 that saw us move to three global business units: Consulting, Projects and Operations. We will be keeping the structure, and our focus is now twofold: firstly, continuing to be selective on the work that we take on; and secondly, being increasingly disciplined in our execution.

Address our legacy issues. The disposal of Built Environment Consulting will allow us to address our most significant issue, persistently high net debt.

Our vision for a stronger Wood

In our Capital Markets Day at the end of November, we will share more on our strategy. But by way of conclusion, I'll offer this slide as a summary of how I want the business to evolve in the future.

I strongly believe we're well-placed to deliver end market growth. The strength of our long-term client partnerships and the calibre of our people mean we can capitalise on the opportunities ahead. By being selective on projects and having greater discipline around operational delivery, we can return to growth and generate sustainable free cash flow. There is a lot to do, but it's a tremendous opportunity and my leadership team is hungry to succeed.

So with that, I'll close and I'll now invite any questions that you may have for David and myself. So thank you. Who would like to start? James?

Q&A

James Thompson (JP Morgan): Morning. It's James Thompson from JP Morgan. Hi, Ken and David. Thank you very much for the presentation. I guess first is just in terms of the kind of margin outlook guidance for the second half. The Operations margin was a little bit lower than it's been for the last few periods, I would say. Could you maybe talk about the outlook from a margin perspective for Operations? Should we expect it to be back sort of double-digit with a tailwind from Turbines in the second half? Thanks. That's my first question.

David Kemp: Yeah. James, I think, as you noted, the margin had come down in the first half and we'd set out the reasons for that in the release. As we look forward to the second half, we expect the higher margin in operations and that will be driven by the improved performance in Turbine joint ventures.

In the first half, in Turbine joint ventures, we had some supply chain challenges, but equally our performance is usually weighted towards H2 in Turbines. Because of the way we account for the Turbine joint ventures, they're equity accountant – accounted, and so they have a disproportionate impact on our margins. So the guidance has higher margin than the second half, James.

James Thompson: Okay. Thanks. And Ken, maybe one for you just in terms of how you think, and obviously we're going to the Capital Markets Day in November. We'll see some more on the strategy there. But the last few years has been one of low commodity prices, cost discipline amongst many of your clients. And now we're obviously in a much, much better place from a sort of commodity backdrop. Inflationary risks and things like that are now, I guess, all pervading. How do you think Wood sort of fits into that cycle now you know with – in terms of your strategy, your ability to grow all of your businesses against that backdrop?

Ken Gilmartin: Yeah. Look, I think a great question, James. I go back, first of all, to the kind of end markets that we are exposed to and where we have got the areas and the expertise that provide the differentiated solutions.

When you look in energy transition, you look at energy security, you look at our ability to grow in chemicals as well as in the mineral processing and life sciences portion of the business. We're well-positioned with really good client relationships.

I think for us, as we're moving forward, it's not about the market. It's about the discipline to make sure we're selective on where we play so that we can win as a company, and we can also provide those differentiated offerings that are better than our competitors for those clients. So I think our confidence in where we are, our confidence born from where we've seen in the order book, and our confidence in the people that we have the relationships, as well as our ability to deliver and deliver well.

James Thompson: Okay. Thanks. Last one for me. Maybe a bit of a multipart one, but the business is now 80% reimbursable. Is that a figure which can't go any sort of higher? I mean, or should we expect that to continue to trend that way? And I guess related to that, obviously, the order book continues to grow some colour about kind of July, August, if you have that on the order book, would be great. And I guess associated with that, you've added a lot of people actually in the first half. I just wondered in that context, could you maybe talk a little bit about your – how easy it's been to hire people, where are you bringing people into the business from? Just give us a little bit more understanding about that. And you know what is clearly a pretty competitive market from a sort of labour standpoint?

Ken Gilmartin: Yeah. Look, I'll start and kind of go to the reimbursable piece. I mean, I think the one thing I would say, James, to that as well, if you look at our order book from reimbursable standpoint. I mean, it is 85%. So looking at where the path goes on that, I mean, there is scope. And again, as we move into a kind of a Capital Markets Day and as we start to flesh out a little bit more visibility on where those growth areas and growth sectors are, I think, you will see that.

I think from a attract – there is no doubt and I would say this as an industry comment, it's a hot marketplace out there. I think what differentiates and what helps to attract talent is the excitement of working on great projects. And if you can kind of really set out to the people where we're working and how we're changing the world and the projects that we do, the vision that that is from whether that's a journey to net zero or whether that's some of the complex stuff that we're doing, that's always been a great attraction for us. So hot marketplace, but we've been performing really well and we'll continue to perform well.

David Kemp: Maybe just add a little bit just on the order book. Again, it's important to remember, what makes up the lump some portion. As Ken said, 80% of our revenue is reimbursable and 85% of our order book is reimbursable, but in that lump sum portion is a significant amount of Consulting, so a short-cycle lump sum. And that's a portion we're more than happy to grow. So our focus has been dialling down the risk on EPC and lump sum turnkey. So that's the portion that we've been successively over the last 18 months driving down, and it's really the feature of our reduced risk appetite.

Rachel Fletcher (Morgan Stanley): Thank you. Rachel Fletcher from Morgan Stanley. Thanks very much both for the presentation. My first question is on inflation and supply chain pressures. So you mentioned you've not seen any impact from inflation yet. I was wondering what your outlook for the remainder of the year and into 2023 is. And you also mentioned some supply chain issues in the Turbine JVs. Are you seeing similar pressures or

do you anticipate seeing similar pressures elsewhere across your business areas? And I guess related to that, what do you see as the key risks for the next 18 months, two years? That's my first few questions. Maybe not just one question there.

Ken Gilmartin: Yeah. Thanks, Rachel. Maybe – okay, we'll start first with maybe the inflation question, and there's a little bit in the in the commentary that we went through where we said, H1, we haven't seen any material kind of changes to that.

I think, the bit that I point out here is also the work mix that we have, and that de-risking that David talked about and that change to more reimbursable type work gives us that opportunity to work with our clients, to look at that kind of inflationary pressure and have the ability to be able to recoup some of that. So I think that's – I think that's been good for us.

I think on the supply chain front, there are certain areas from a supply chain standpoint, where delivery times have extended, right? And I think there's a realisation for that. I think, however, on the flip side, the markets that we work in and the criticality of the markets that we work in mean that there is – and there can be some prioritisation of working through those with some of our clients as well. So medium term put some pressure right there, but we are working through that. David maybe add to?

David Kemp: No, I'd probably just reiterate most of what you said there, Ken. Our business model gives us a lot of protection. Is the 80% reimbursable? Our Consulting scoops that are lump sum, they're short cycle sleeve if the opportunity to rebase it. And across the rest of the business, we've dialled down EPC. So we've not actually – we've not got as much procurement – lump sum procurement in our business.

And the extent we do have it, we've been quite successful in matching either with contract provisions or back-to-back procurement. So in the first half, we haven't seen any material issue from that, the supply chain pressures that we had was in our Turbine joint venture business, which was parts-related. That has eased but it's probably the only part of our business where we have seen that sort of challenge to any great extent.

As we look forward, the business model, if anything, is becoming more reimbursable. So that gives us more protection as we look forward to inflation. I think the one that clearly is a factor is wage inflation. Again, the business model helps us there.

Rachel Fletcher: Very clear. Thank you. And then a very quick one just to finish on the Built Environment sale, which is – completion is guided for end 3Q. How many approvals, if any, remain outstanding at this point?

David Kemp: Yeah, let me take that. So we've given out the guidance of around Q3. The sale is going really well. We had a number of regulatory approvals to get, and that was a big part of the conditions precedent. We have one outstanding, as we sit here, and we believe that that will come shortly. So we feel we're in good shape for the closing but we need to get that final approval.

Rachel Fletcher: Great. Thank you.

David Kemp: Any other question?

Ken Gilmartin: No more questions? James?

James Thompson: It's James again, and then I'll hand it back to Rachel probably. But just on the – you obviously spent a long time already talking about the cash dynamics in the business. Clearly, that's something you got to address at the Capital Markets Day. I guess the first question really is around the working capital piece. Obviously, the seasonal outflows have been a little bigger in the last couple of years than we've had previously, and also, the changing makeup, if you like, of the projects business. So, I guess, going forward, when we think about that, should we see a bit of a tailwind from this lack of de-risking that's needed anymore in project, should I say? And what can you tell us about the kind of seasonality heading into the second half and just generally around the kind of T's and C's and payment conditions that may well help that working capital piece?

David Kemp: Let me pick that one up, James. There's two big themes in our working capital as there has been for the last 18 months. So we have a normal seasonality. Our peak revenue months are typically spring, summer. Our lowest revenue months are as we get towards the end of the year. And so, we typically – in a normal year, we would typically build working capital into the first half and then release as we go to December, and you've seen a bit of that in our first half results.

The other theme, which is the bigger theme that's dominated over the last 18 months, is the transition in our business away from EPC lump sum turnkey. And so that is for lots of good reasons, de-risking the business, the predictability of our results going forward, but it does give us a short-term working capital challenge, and that's both from advances, but also in terms of payables, and in terms of our ability to manage working capital. And so that was the bigger impact in our first half results.

As I look forward, we do see that lessening, but our backlog is 85% reimbursable, and our revenue in the first half was 80% reimbursable. So it still will be a feature in the second half. I think as I look forward beyond that transition, our cash flow will become much more straightforward. EPC and lump sum turnkey activity, as you'll see, from some of our wider peer groups, does make it more difficult to understand working capital movement.

Going forward, ours will be much more straightforward. It will be DSO and payables terms. Typically, our DSO is about 30 days. Some of our clients are 60 days. Some of them pay slightly later than that. On average, our cycle is about 70 days, and our payables terms are 60 days.

James Thompson: And just in terms of the sort of cash exceptional piece, so it's going to be running at about \$175 million or so for the full year 2022. I guess you'll say the key details for the Capital Markets Day, but kind of any expectations in terms of or any guidance at all about how much you think you can reduce that by?

David Kemp: Yeah. Let me run through it. We had a very good slide there. I think it's a very good slide on the expected cash outflows which largely cover the exceptional items. Maybe I'll try and give you a bit more colour around that.

So first is Aegis and Aegis has been a difficult contract for us. It's coming to an end. The progress has been very good during the year. We're just about finished the Wood scopes. There's then a security sub contract scope that falls after that, which will take us up to operational completion.

And so that will be the end of the significant cash outflow; then there will be a period where either we'll be negotiating with the client around claims and that might incur some legal costs, some commercial costs, but at a completely different level.

Asbestos, as we flagged, is something that's on our balance sheet. It's a liability. Together with SFO; both asbestos, unless we do something with our proceeds, will continue. It will gradually tail off, but in the medium term, it will stay about \$40 million.

The SFO is just under \$40 million for the next two years with both of these, these are options we're considering in terms of is there an opportunity to accelerate the payment of those liabilities that allows us to get a cleaner free cash flow point forward. And so, as Ken has touched on, getting to sustainable free cash flow point forward is our absolute top priority. And so that's how we're looking at some of these options.

If I go down through the other ones, restructuring costs, we're doing a lot of work in terms of our central functions just now to prepare us for the sale of the Built Environment cost. We don't see that persisting. Ken has set out that the organisational structure that we have, we're going to be continuing with. So we're not flagging any change in structure there.

And I touched on enterprise. Again, to give you some of the colour around that, enterprise is a legacy item that goes back to 2016. We've given disclosure in the accounts since that point. The court case has just recently concluded. We expect there to be a judgment before the end of the year. Clearly, dependent on that judgment, will depend whether there's a cash outflow or not.

Clearly, both parties have the opportunity to seek a retrial or to appeal it. So there will be a small range where the overlapping circles meet between ourselves and Enterprise.

James Thompson: Thank you.

Ken Gilmartin: Any more questions? No, that's it. Okay. Well, look, with that, I'd like to thank you all for attending. And for those of you that are watching as well this morning, we are looking forward to the opportunity to meeting with some of you in person on the road. And David and myself and my leadership team, we're all really looking forward to the Capital Markets Day in London on 29th November. So thank you all.

David Kemp: Thank you.

[END OF TRANSCRIPT]