2. FINANCIAL POSITION AND CASH FLOW

2.1 MATTERS RELEVANT TO UNDERSTANDING WORLEYPARSONS' FINANCIAL POSITION

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

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

2.2 DIVIDENDS

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

2.3 SIGNIFICANT CHANGES IN WORLEYPARSONS' FINANCIAL POSITION

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

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

2.4 FUTURE COMMITMENTS

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

- operating leases; and
- operating expenditure commitments.

These future commitments represent approximately 11.4% of our expenses.

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

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

3. BUSINESS STRATEGY, OUTLOOK AND RISKS

3.1 BUSINESS STRATEGY

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

The architecture is built around the following three pillars:

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

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

3.2 OUTLOOK

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

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

3.3 RISKS

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

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

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

3.3.1 HEALTH, SAFETY AND ENVIRONMENT RISK

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

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

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

3.3.2 OPERATING RISKS

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

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

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

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

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

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

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

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

3.3.3 REPUTATION RISK

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

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

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

3.3.4 FINANCIAL RISKS

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

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

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

3.3.5 STRATEGIC RISKS

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

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

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

3.4 UNREASONABLE PREJUDICE

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

3.5 FORWARD LOOKING STATEMENTS

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