2 FINANCIAL POSITION AND CASH FLOW

2.1 Matters relevant to understanding WorleyParsons' financial position

THERE ARE FOUR ITEMS THAT ARE KEY TO UNDERSTANDING OUR FINANCIAL POSITION:

1. Operating cash flow
2. Gearing ratio
3. Debt facility utilization
4. Loan and overdraft facilities.

	FY2014 $'M	FY2013 $'M	Comments	Movement
1. Operating cash flow	550.1	443.5	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 increased by 24% in FY2014 when compared to FY2013 due to our continued focus on cash collection.
2. Gearing ratio	19.5%	25.3%	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.	Our gearing ratio decreased by 5.8% percentage points in FY2014 when compared to FY2013 due to the repayment of US$140.5 million of US Private Placement (USPP) debt. This ratio is below the lower end of our gearing target of 25% to 35%.
3. Debt facility utilization	50.3%	55.5%	Our loan, finance lease and overdraft facilities utilization is the amount of our debt facilities utilized at the end of the financial year.	Our debt facility utilization decreased by 5.2 percentage points in FY2014 when compared to FY2013 due to our improved cash flow performance.
4. Loan, finance lease and overdraft facilities	1,782.6	1,912.4	Our loan, finance lease and overdraft facilities are the amount of our debt facilities at the end of the financial year.	The amount of our loan, finance lease and overdraft facilities decreased during FY2014 due to the repayment of a tranche of USPP debt.

2.2 Dividends

Our practice has been that approximately 60% to 70% of WorleyParsons' full year net profit after tax will be available for distribution as dividends, with the balance being retained for funding ongoing growth. Dividends are franked to the extent franking credits are available. Our directors have resolved to pay a final dividend of 51.0 cents per fully paid ordinary share franked to 20.5%. As a result, 79.6% of our full year undelying net profit after tax for FY2014 will be distributed to shareholders as a dividend. This compares with distributing 70.8% of our full year underlying net profit after tax for FY2013.

2.3 Significant changes in WorleyParsons' Financial Position during FY2014

Significant changes in WorleyParsons' Financial Position during FY2014 include:

- Refinancing of US$520 million through a US Bank Syndication which led to an increase in the average maturity from 3.8 years as at 30 June 2013 to 4.2 years as at 30 June 2014 (no funds were drawn under these facilities on 30 June 2014); and
- Transfer of Exmouth Power Station to assets and liabilities held for sale.

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.

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.

These future commitments represent approximately 8.9% of our expenses.

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 sector level strategies are a detailed view of these markets and are typically broken down by Hydrocarbons, Minerals, Metals & Chemicals and Infrastructure sectors and their corresponding major sub sectors (e.g. LNG, iron ore).

At the business line level, we translate our sector strategies into business plans to deliver on the intent of the sector strategies as applicable to them. Our business plans map specific near and medium 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 the making of commitments to new developments. We believe we have taken appropriate steps during FY2014 to realign and position the Group to address these challenging market conditions.

Strategically, our immediate focus is on getting better at what we do and prudently managing costs. We are more aggressively pursuing growth from our core, both into new geographies and new service offerings. In addition we are developing new ventures aligned with and complementary to our existing business. Two new ventures are being developed - our advisory business, Advisian, and Digital Enterprise. We will invest to accelerate the growth of these new ventures and are progressing acquisition opportunities.

3.2 Outlook

We expect global capital expenditure levels in Hydrocarbons for FY2015 to be flat compared with FY2014, with capital largely being directed to completing projects already underway.
We believe our customers will need to initiate new projects in the medium term to maintain production, providing growth opportunities for WorleyParsons. We have recently been awarded three significant contracts that underpin our confidence in our outlook, and which for confidentiality reasons we are not yet able to announce.

We expect the trend of decreasing Minerals and Metals capital expenditure to continue for the next 12 months, but expect a recovery in the medium term. Chemicals industry capital expenditure is expected to remain strong within the US and we expect fertilizer demand will continue to provide increasing opportunities globally.

The outlook for resource-related infrastructure capital expenditure is linked to the outlook for the Hydrocarbons and Minerals, Metals & Chemicals sectors. Capital investment in non resource infrastructure has a stronger outlook where WorleyParsons' expertise, particularly in environmental services, water and power generation and transmission, is being deployed to capture the opportunities in this market.

We have taken decisive action to improve margins and ensure the business is responding to market conditions and our customers' needs. We are focused on realizing our objective of providing our shareholders a satisfactory return on their investments. We are confident in our prospects based on our competitive position, our diversified operations and our strong financial capacity.

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 our medium and long term prospects. The risks are not set out in any particular order and do not comprise of every risk we face in conducting our business or every risk that may affect the achievement of those prospects. Rather, they are the most significant of the risks that we believe we should be monitoring and seeking to mitigate or otherwise manage at this point in time.

Health and safety risk: Our business sometimes requires our people 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. To seek to mitigate this risk, we have a OneWay™ framework which includes the expectations that every one of our people must meet with respect to health and safety. OneWay™ expectations are supported by our business processes and we use them in assessing our performance; however, the risk exists that the failure to comply with such processes, customer health and safety requirements and applicable regulations could expose us to losses and liability.