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, which for confidentiality reasons we are not yet able to announce, that underpin our confidence in our outlook.

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.

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. Reputation can be damaged in a number of ways including through unethical business practices, poor project outcomes, negative media and not meeting the market's expectation of our financial performance. We use a range of strategies and actions to seek to mitigate this risk including training in our Code of Conduct for our people globally, an ethics helpline and our enterprise management systems.

Strategy risk: Strategy risk is the risk of failing to develop and implement an effective business strategy. Failure to do so may over time lead to a loss of market share, damage to our reputation and negatively impact our financial performance. To seek to mitigate this risk, we have a strategy development process which includes the development of multi-horizon, multi-year strategic plans. We develop and implement strategic initiatives and review our strategy during each year, making adjustments to it where appropriate.

Project delivery risk: Our execution of projects and assignments involves professional judgment regarding the planning, design, development, construction and operation of often complex operating facilities. While our customers generally retain liability for consequential damages and while we have adopted a range of insurance, risk management and mitigation programs designed to seek to reduce potential liabilities, a catastrophic event resulting from the services we have provided could result in professional or product liability, warranty or other claims against us, as well as reputational damage.

Competition risk: Our markets are competitive and this competition can place downward pressure on prices and margins. If we are unable to compete effectively in our markets, we run the risk of losing market share. We seek to mitigate this risk by seeking to target the projects where we have a competitive advantage, manage our costs and margins and use low cost delivery centers to execute certain aspects of our work.

Demand risk: The volatile and cyclical nature of commodity prices and demand for our customers' goods and services means that the demand for our services can likewise be cyclical. In addition, the preparedness of our customers to spend capital can sometimes vary markedly over relatively short periods, resulting in quite rapid and/or sustained changes in demand for our services. We have a number of strategies and processes in place to seek to mitigate this risk including retaining a proportion of personnel on short notice contracts, seeking contractual protection for project demobilization, particularly for projects that require a significant in-country mobilization of our people, and sharing work across locations.

Legal and contractual risk: We are, from time to time, engaged in disputes with third parties, some of which involve litigation and disputes over contractual terms. The outcomes of these disputes can be difficult to predict and may cause a material negative impact on any one year's financial performance. We seek to manage this risk through our contract review and risk screening processes and active dispute management.

Organizational change risk: This is the risk that our organization will not achieve its aims of simplifying our corporate structure, reducing overhead costs and enabling our staff to deliver greater customer satisfaction. To seek to mitigate this risk, we are implementing a comprehensive change program to improve the way we do business and to enable our staff to support customers.

Business interruption risk: As a global company, we are heavily reliant on computer, information and communications technology and related systems to operate efficiently and securely. We also operate at times in locations subject to natural disasters, civil unrest and military conflict. We seek to manage this risk through business continuity and disaster recovery systems and planning using a Ready, Response and Recovery (R3) methodology.

Partner risk: We operate through a number of joint ventures and partnering arrangements. The success of these businesses depends on the satisfactory performance of our partnership including meeting obligations. The failure of our partnerships could impact our reputation and financial results. We seek to mitigate this risk by conducting due diligence in relation to potential partners, using appropriate setup, clear responsibilities and operating principles, utilizing steering committees to maintain the health of the relationship throughout the life of the arrangement, responding to issues as they arise or are identified, conducting compliance reviews and regularly monitoring the performance of these partnerships.

3.4 Unreasonable prejudice

We have omitted 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 report 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 report, 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 Securites Exchange Listing Rules, disclaims any obligation or undertaking to publicly update such forward looking statements.