

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