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 each business line. 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 committing to new developments. We believe we have taken appropriate steps during FY2015 to realign and position the Group to address these challenging market conditions.

Strategically, our immediate focus is on five strategic themes which are:

- to build a world class consulting business and dominate the early project phases
- to be the global project management consultant or "PMC" provider of choice
- to build a leading major *Improve* business
- to be the smartest most agile local service provider
- to be the company that leapfrogs the competition in the use of our global delivery center and applies digital technology to revolutionize the delivery of our services.

Further details on the five strategic themes can be found on pages 16 to 25 of this Annual Report.

3.2 Outlook

The recent fall in oil price has caused Hydrocarbons customers to maintain a cautious position with regard to investment plans in the near term. The Company anticipates the benefits of the restructuring actions already taken, and its continuing program of overhead reductions, will temper the effect of this on earnings.

Conditions in the Minerals and Metals sector remain depressed, with customers constraining capital expenditure on new developments, whilst focusing on operational improvements within existing mines and processing facilities. However, given the long term market remains underpinned by growth in the emerging economies and the associated trend of urbanisation, we remain confident in the medium to long term prospects for this sector.

The short to medium term investment plans of customers in the Chemicals sector remain sound. Outside the US, volatility in oil and gas prices will continue to defer investment decisions within the petrochemicals segment as feedstock supply and price implications are evaluated by our customers.

Trading conditions are expected to remain difficult in the resource Infrastructure market as both the Hydrocarbons and Minerals & Metals sectors re-evaluate new project viability in an era of low commodity prices. This decline in market activity will be partially offset as opportunities are secured in the non-resource or economic Infrastructure sector within the chosen markets of power generation, ports, passenger rail and water.

Aggregated revenue has proven to be resilient through the Company's strategy of sector and geographic diversification and its broad range of services. The Company remains focused on continuing to improve the delivery of services to its customers, taking costs out of the business and improving returns to shareholders as it adjusts the business for the subdued market activity expected in Financial Year 2016.

The Company will continue to balance the long term sustainability of the business with the need to align the business to market conditions in the short term as it deploys the recently announced strategy. WorleyParsons is well positioned to deliver its strategy through Financial Year 2016 and beyond so it can realize its future.

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 those prospects. 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 prospects. 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 mitigating steps 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 and safety 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.

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 and safety. OneWay™ expectations are supported by our business processes and we use them in assessing our performance.

3.3.2 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 and safety risk, project delivery risk, and internal reporting risk, are relevant to seeking to preserve our reputation.

3.3.3 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 operational 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.

3.3.4 Financial risks

Working capital and cash risk: Our ability to maintain an appropriate level of working capital, 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 more efficient billing cycles, 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 prospects 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.

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 five strategic themes executed as projects and described in section 3.1 of this Operating and Financial Review.

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 Securities Exchange Listing Rules, disclaims any obligation or undertaking to publicly update such forward looking statements.