WorleyParsons
resources & energy

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ASX / Media Release

WORLEYPARSONS LIMITED
(ASX: WOR)

WORLEYPARSONS ANNOUNCES RECORD PROFIT

Highlights:

- Record annual net profit of $57.7 million, an increase of 87.7%
- EBIT growth of 120.7% to $89.2 million
- Normalized earnings per share up 64.2% to 37.6 cents per share
- Improved safety performance
- Final dividend up 92.3% to 12.5 cents per share
- Positive outlook for 2006

Leading professional services company WorleyParsons today announced a record annual net profit for the year to 30 June 2005 of $57.7m, an increase of 87.7% on the prior year.

Aggregated revenue was $1,379.5m, an increase of 168.0% from the prior year and a record result for the group. EBIT of $89.2m was up 120.7% from the prior year result of $40.4m. As expected the EBIT margin for the group declined to 6.5% from 7.9% reported in 2004. Net Margin for the group was 4.3% (2004 6.0%).

Normalised earnings per share (before amortisation) were 37.6 cents per share, an increase of 64.2% from the prior year result of 22.9 cents per share.

Return on equity for the year was 22.0% (2004 23.7%).

The full year result includes a charge to earnings of $4.6m associated with the reorganization of the company's joint venture operations in Saudi Arabia.

The company also announces today the acquisition of the remaining 50% of its Canadian joint venture company WorleyParsons MEG Ltd.

Chief Executive Officer Comment:

The chief executive officer of WorleyParsons, Mr John Grill, said the company had delivered another excellent performance in 2005 reflecting strong conditions in all key markets, good operational performance and a significant contribution from the Parsons E&C acquisition.

"Bringing Worley and Parsons E&C together has expanded WorleyParsons' ability to execute its core strategy and generate new opportunities that would have been out of the reach of either company working alone. The integration of the two businesses is on track and our people and clients have reacted positively to the combination of these strong businesses.

Operating activity across the business is at historically high levels with our operations performing strongly in meeting this demand. It is pleasing in this context to be able to report an improved safety performance reflecting our commitment to continually improve this aspect of our operations. We have also been successful in a number of material contract wins and extensions during the year which demonstrate our enhanced capabilities across the business. We expect this to continue," he said.

Health, Safety & Environment:

WorleyParsons' primary corporate objective in health, safety and environment (HSE) is the concept of zero harm. In 2005 several new initiatives were established to assist in achieving this target including the introduction of a management safety leadership program. The corporate HSE management system continues to be reviewed and developed as a key component of the integration of Parsons E&C.

WorleyParsons measures safety performance in terms of the frequency of Lost Time Injuries (LTIFR) and Total Recordable Injuries (TRIFR) per million man hours worked. Both these statistical indicators have improved year-on-year. The performance of WorleyParsons in the calendar year 2005 to date has resulted in an LTIFR of 0.2 (0.47 in 2004) and a TRIFR of 2.0 (2.82 in 2004).

Final Dividend:

The directors have declared a fully franked final dividend of 12.5 cents per share (last year 6.5 cents per share). The dividend will be payable on 30 September 2005 for shareholders on the register as at 21 September 2005. The full year dividend is 20.0 cents per share (last year 12.0 cents per share) and represents a payout ratio of 71.1% of net profit after tax.

As a result of the group deriving an increased amount of its income in international jurisdictions, it is expected that future dividends will be partially franked.

Based on the current earnings mix and tax profile of the group, dividends relating to 2006 financial year income are likely to be approximately 25% franked based on a 70% payout of net profit.

Finance:

Net cash flow from operating activities for the year was $91.1m (2004 $13.2m) reflecting strong trading conditions and an improved working capital position in the Australian operations.

In pursuing its international growth strategy in 2005 the company invested $338.0m in the acquisition of Parsons E&C and a payment of $34.8m for commitments associated with the acquisition. The acquisition was funded by the issue of equity of $227.9m and debt funding of $110.1m.

As a result of the strong operating cash flow across the group net debt at 30 June 2005 was $7.7m. Dividends paid in the year totalled $25.1m.

The tax rate for the Worley Group in 2005 was 29.9 % (2004 24.8%) reflecting the increased earnings contribution from international operations with higher rates of corporate tax than Australia.

Parsons E&C Integration:

The integration of the Parsons E&C operations is progressing well and the company is encouraged by the early results in both revenue and cost synergies. A number of the items identified during the due diligence process have been resolved largely with favourable outcomes. As anticipated there are a number of items identified in due diligence that are still outstanding. The company believes it has adequately provided for these items.

As part of the integration of operations subsequent to the acquisition it has been necessary to restructure the operating arrangements with overlapping joint ventures for the combined WorleyParsons operations in three countries; Canada, United Arab Emirates (UAE) and Saudi Arabia.

The Canadian and UAE reorganisations have had limited financial impact. The operations have integrated well and are focused on meeting ongoing client expectations and pursuing new opportunities.

The restructure of the joint venture arrangement in Saudi Arabia has seen the company buy out the Parsons E&C joint venture partner in the Kingdom. The buy out payment has resulted in a charge to earnings of $4.6m in the year.

Sector Highlights:

Hydrocarbons

Aggregated revenue for the hydrocarbons group was $988.4m (72% of company total) up 177% from the $356.9m recorded in 2004. EBIT for hydrocarbons was $102.8m with an EBIT margin of 10.4% (10.1% 2004).

Parsons E&C's hydrocarbons business performed ahead of expectations over the nine month period following its acquisition by Worley reflecting high levels of project activity underway in Kazakhstan and Sakhalin and increasing activity in the Houston and Arcadia offices.

Operational highlights include continued strong performance from the Australasian and South East Asian hydrocarbons businesses, and a strong result in the Middle East. A number of material contracts in the hydrocarbons sector were announced during the year. In December 2004 a joint venture between WorleyParsons (50%) and KBR (50%) was selected by Esso Highlands Ltd to conduct Front End Engineering Design (FEED) studies for the Papua New Guinea gas project. The joint venture was also awarded the FEED contract for the Angel gas development, offshore Western Australia, for Woodside Energy Ltd.

A joint venture between WorleyParsons (27.5%), Transfield Services (27.5%) and TRAGS a local Qatari contracting company (45%), was selected to carry out a consolidated maintenance contract for the LNG facilities of RasGas Company Limited in Qatar, valued at $110 million over five years.

In June 2005, Woodside Energy Ltd confirmed that the joint venture between WorleyParsons (25%) and Foster Wheeler (75%) had been awarded a major Engineering Procurement and Construction Management (EPCM) contract for its proposed Phase V LNG expansion project at its North West Shelf gas plant. This is a significant contract which greatly enhances our position in the rapidly growing global LNG business.

Following the acquisition of Parsons E&C, the company's interest in the Parsons Iraq joint venture – the entity executing the contract to restore Iraqi oil infrastructure – has increased to 85%. Work on this contract continues as the client releases new task orders.

Outlook

The outlook for the hydrocarbons business remains positive. Historically high oil prices, increasing demand for gas, the expected continued development of major FEED and EPCM projects and the ongoing capital expenditure associated with maintaining and upgrading major hydrocarbon facilities provide a strong basis for continued growth.

Power

The power sector experienced significant growth due to the nine month contribution from the Parsons E&C power business, the return of positive market conditions in key international markets and an initial contribution from the recently acquired power services business in Singapore, Development Resources Pte Ltd (DRPL).

Aggregated revenue in the power sector was $172.4m, a 513% increase from the $28.1m recorded in 2004 with a contribution to EBIT of $26.9m (2004 $3.1m). Reported margin was 15.6% (11% 2004).

The power business was awarded a number of material contracts through 2005 including a contract for the provision of services as owner's engineer to the Belene nuclear power plant for NEK Bulgaria, and a second material contract in Bulgaria as owner's engineer for Maritza East 2 thermal power plant.

The contract held by a WorleyParsons joint venture (34%) to support the Tennessee Valley Authority (TVA) for work on various TVA coal fired and hydroelectric facilities was extended for four years.

Progress Energy of North Carolina awarded WorleyParsons a US$50 million services contract for its clean smokestacks program at its Roxboro plant, which includes project management, engineering, procurement and site support services.

WorleyParsons' 50% owned joint venture company, Burns & Roe Worley, secured a number of significant contracts during the year in the power sector in Australia and New Zealand.

The Exmouth Energy Project, WorleyParsons' second power development, reached financial close in the year. The development of the Exmouth Energy project, to be undertaken by Burns & Roe Worley, is expected to take approximately 13 months from July 2005. WorleyParsons will provide 100% of the expected $6.0m equity.

The performance of the Esperance Energy Project was in line with expectations with the completion of the first year of operations. The company continues to evaluate opportunities in the developments area for additional projects that will generate acceptable returns for shareholders.

Outlook

The outlook for the power business in 2006 is positive. The capability acquired as a result of the Parsons E&C and DRPL acquisitions gives the company a strong position in a number of key markets. Increased demand for flue gas desulphurization on existing coal plants, greenfield gas, coal and nuclear power station development and an increase in demand for transmission and distribution services should ensure this sector continues its strong contribution to WorleyParsons' performance.

Minerals & Metals

WorleyParsons' minerals & metals business continues to grow with aggregated revenue of $159.8m, an increase of 67.6% over 2004 ($95.4m). Contribution to EBIT was $24.0m with a margin of 15.0% (15.8% 2004).

Major projects undertaken by the minerals & metals group in 2005 included the expansion of the Worsley alumina facility in Bunbury Western Australia for BHP Billiton and the finalisation of the expansion of the Aughinish Alumina Limited refinery in the Republic of Ireland.

Other projects include upgrading the Orica Yarwun 3 ammonium nitrate facility in Gladstone and the project management of a new mineral sands processing facility for Bemax in the Murray Basin. A number of pre feasibility and feasibility studies are being undertaken for clients in the alumina, aluminium and base metals industries.

Long term alliance revenue continues to grow in the minerals & metals sector with the expansion of services on existing alliances.

Outlook

The outlook for the minerals & metals sector remains positive. However, after a number of years of rapid growth in this sector we are expecting more modest growth in 2006. A key factor will be the conversion of major projects from feasibility to FEED and EPCM in the year.

Our focus in 2006 will be on the continued development of our EPCM contracting capability, alliance development and the evaluation of options for sustainable growth outside of the Australian market.

Infrastructure

WorleyParsons' infrastructure revenue grew 56.4% to $59.2m in 2005 with a contribution to EBIT of $7.1m (2004 $2.4m). EBIT Margin in 2005 was 12.0% (6.5% 2004). The company's extensive capability in feasibility and siting studies for major industrial projects was in high demand across a range of industries in 2005.

WorleyParsons secured significant contracts in the transport and water sectors during the year, including engineering services for a major desalination plant in Perth, Western Australia and a three year contract to assist the Singapore Land Transport Authority.

While a small contributor to overall group revenue the infrastructure group continues to be an important component of the company's ability to deliver a full range of capabilities to clients.

Outlook

Expected continued growth in non-residential construction in Australia, growth in key infrastructure sectors of water and transport and expanding international markets provide a positive outlook for the infrastructure group for 2006.

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Subsequent event:

Acquisition of remaining 50% interest in WorleyParsons MEG Ltd

WorleyParsons is also pleased to announce today that it has signed an agreement to purchase the remaining 50% of the shares in the company's Canadian joint venture partner WorleyParsons MEG Ltd.

The acquisition price is approximately A$13.4m comprising a fixed component and a deferred incentive based component. The fixed component will be satisfied by an initial payment of A$9.8m.

Calgary based WorleyParsons MEG Ltd reported revenues of approximately A$45m in 2005 and provides a range of multi-disciplinary EPCM services to clients in the Canadian and international hydrocarbons markets with recognised capability in design of heavy oil production facilities.

Commenting on the acquisition of the remaining 50% interest in WorleyParsons MEG Ltd, Mr John Grill said:

"The Canadian market offers prospects for significant growth and we believe this acquisition will enhance our capability to expand in this important market."

Outlook for WorleyParsons:

We expect the markets for WorleyParsons' services will continue to be strong. Our key markets and sectors continue to experience positive conditions, in particular hydrocarbons and power. As a result of the integration and exploitation of the synergies with Parsons E&C we are well positioned throughout the business to respond to these opportunities.

2006 earnings will be enhanced by an increased contribution from the existing operations and an additional three months contribution from the Parsons E&C operations.

The company will continue to evaluate opportunities for new business growth that will add to our existing capabilities and provide value for our shareholders.

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