WorleyParsons
resources & energy

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ASX/Media Release

WORLEYPARSONS LIMITED

(ASX: WOR)

WorleyParsons confirms reduced first half profit – expects stronger second half

Overview

- Net profit after tax of $138.0 million (decrease of 30.1%)
- EBITDA of $252.2 million (decrease of 28.9%)
- Variable market conditions experienced through first half
- Middle Eastern operations performed strongly
- LNG capability continues to develop
- 100% renewal on all expiring major long term contracts
- Australian infrastructure capability strengthened with acquisition of Evans & Peck
- Market entry into Brazil with CNEC Engenharia acquisition
- Interim dividend of 35.5 cents per share, fully franked
- Indications of improved conditions in the second half and beyond

Professional services company WorleyParsons Limited (the company) today announced a net profit after tax for the 6 months to 31 December 2009 of $138.0 million, a decrease of 30.1% on the $197.5 million net profit reported for the previous corresponding period. The stronger Australian dollar had a negative translation impact of $10.9 million on the result compared to the previous corresponding period. As highlighted in earlier guidance, diminished demand for services in the oil sands market in Canada and in the Minerals & Metals sector had a significant effect on results as compared to the previous corresponding period. As announced on 13 January 2010, Power operations in the US have been adversely affected by decreased demand and increased legislative uncertainty concerning the treatment of carbon, and the market for our services in the US domestic refining and petrochemicals industries has weakened.

The result was earned on aggregated revenue of $2,548.1 million and EBITDA of $252.2 million. The EBITDA margin for the group was 9.9%, down from 10.9% in the previous corresponding period. The effective corporate tax rate reduced to 25.2% as a result of an increased weighting of earnings from lower taxed jurisdictions, contributing to a net margin result of 5.4% compared to 6.1% in the previous corresponding period.

Basic earnings per share (EPS) were 56.8 cents, a decrease of 30.4% from the 81.6 cents per share reported in the previous corresponding period.

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Dividend declaration

The Directors have declared an interim dividend of 35.5 cents per share; fully franked (Interim dividend 2009: 38.0 cents per share, franked at 76.0%). The dividend will be paid on 25 March 2010 for shareholders on the register at the record date of the 2 March 2010.

Results

		CONSOLIDATED	
	CHANGE%	2009 $'M	2008 $'M
Revenue	(20.1)	2,496.6	3,125.5
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	(28.9)	252.2	354.5
Earnings before interest and income tax expense (EBIT)	(33.3)	209.8	314.6
Profit before income tax expense	(34.5)	192.4	293.8
Profit attributable to members of WorleyParsons Limited	(30.1)	138.0	197.5
Basic earnings per share (cents)	(30.4)	56.8	81.6
Diluted earnings per share (cents)	(30.3)	56.3	80.8

Aggregated revenue			
Revenue		2,496.6	3,125.5
Procurement services revenue		(286.8)	(173.4)
Net revenue from associates		340.1	307.5
Interest		(1.8)	(3.5)
Aggregated revenue[1]	(21.7)	2,548.1	3,256.1

[1] Aggregated revenue is defined as statutory revenue and other income excluding interest income plus share of revenue from associates less procurement services revenue at nil margin. The directors of WorleyParsons Limited believe the disclosure of revenue attributable to associates provides additional information in relation to the financial performance of the WorleyParsons Limited Group.

Finance

Operating cash flow for the period was $147.5 million compared to $234.5 million in the previous corresponding period. This cash flow result included a $32.3 million increase in tax paid compared to the previous corresponding period and a $5.2 million reduction in borrowing costs.

The $88.5 million acquisition of Australian based Evans & Peck was funded by a cash payment of $37.5 million and the issue of new shares to the value of $51.0 million. Net debt at 31 December 2009 was $566.4 million, with the company's gearing ratio (calculated on a net debt to net debt + equity basis) at

24.5%. The acquisition of Brazilian entity CNEC Engenharia for a cash consideration of BRL170.0 million (approximately $A110.0 million), will be funded from existing debt facilities.

The average cost of debt for the period was 5.0%. Twelve months cash interest cover (EBITDA to total interest expense) was 13.4 times (June 2009: 14.1 times). The company's cash position at 31 December 2009 was $159.9 million (June 2009: $173.8 million).

The company's available committed debt facilities reduced during the half year from $1,376.1 million to $1,260.9 million. The reduction is attributable to a consolidation of facilities and the effect of the stronger Australian dollar on the translation of facility limits.

The committed debt facilities have an average maturity of 3.9 years (June 2009: 4.1 years), with $328.4 million (26%) maturing within one year, $393.5 million (31%) between one and four years and $539.0 million (43%) beyond four years. Facility utilization at 31 December 2009 was 58.0%. In addition, the company maintained bank guarantees and letter of credit facilities of $433.0 million with utilization of these facilities at 31 December 2009 of 57.3%.

Chief Executive's Comments

Commenting on the performance for the 6 months to 31 December 2009, the Chief Executive Officer of WorleyParsons, Mr John Grill, said:

"The variable conditions we experienced in a number of markets in the second half of the last financial year continued into the first half of this financial year and are reflected in the reduced earnings for the period. While this has been a challenging period for the company, I believe the result was reasonable in the circumstances. We are expecting a stronger second half and continue to be optimistic about the medium and long term prospects for our business.

"Our Power business, particularly in the US, and our business servicing the US hydrocarbons downstream sector were affected by a reduction in the scope of many existing projects and delays in the commencement of projects that had been awarded. The performance of these businesses had an adverse impact on our half year result, as did the appreciation of the Australian dollar through the period.

"However, in some parts of our business, in particular the Middle East, we have continued to experience very good operating conditions and our performance has been ahead of expectations. Our business in Canadian oil sands is performing better than it did in the second half of the last financial year and we are starting to see more encouraging signs. Our Infrastructure operations also performed well in the period.

"Over the last few years we have focused on the development of capability to support new LNG projects for our clients across the globe. When combined with our existing strong track record on established facilities, we now have an increasing capability across all facets of the LNG market.

"WorleyParsons' performance continues to be supported by our extensive and resilient long-term contracting base which we refer to as *Improve*. We were successful in renewing all major long term contracts which expired during the period including 5 year contract extensions for Syncrude and Imperial Oil in Canada and the Tennessee Valley Authority in the US. We have had a continuous relationship with these customers for 19 years. The existing 15 year relationship held by the TransfieldWorley joint venture with Woodside Petroleum, as operator of the North West Shelf assets, in Australia was also renewed for an additional 4 years.

"Our investment in all areas of sustainability continues to be well received by customers, leading to numerous projects and opportunities with a significant EcoNomics™ component. During the period we released a comprehensive report on the status of carbon capture and storage projects for the Global Carbon Capture and Storage Institute.

"In the Minerals & Metals market, we are seeing some encouraging signs that will provide support for stronger performance in the second half of this year and into the next financial year.

"We also announced the acquisition of Australian infrastructure advisory firm Evans & Peck and Brazilian services group CNEC Engenharia. Evans & Peck provides high level advisory services across the infrastructure market and will assist us to better position WorleyParsons in the early phases of major infrastructure developments. The CNEC Engenharia acquisition provides us with a strong operating base in what we believe will be a key market for WorleyParsons in future years.

"Our current headcount is approximately 28,400 (29,100 including CNEC) with the trend and indications positive for additional growth in key markets through the second half of the financial year." he said.

Safety Performance

WorleyParsons applies the US OSHA (United States Occupational Safety and Health Administration) reporting requirements for Total Recordable Case Frequency Rate (TRCFR) and Lost Workday Case Frequency Rate (LWCFR).

WorleyParsons' safety performance for our personnel as reported under OSHA was a TRCFR of 0.15 for the first half of the financial year, an increased number recorded against the 0.11 reported for the 2009 financial year. Our LWCFR rate was 0.02, which is in line with the performance for the previous year.

The ongoing challenge in our safety performance remains the performance of contractors and sub contractors on projects executed in the field. In particular, the performance on projects in Australia remains a concern and increased attention is being given to this issue.

Segment Performance

Hydrocarbons

The Hydrocarbons business reported aggregated revenue of $1,869.1 million for the 6 months to 31 December 2009, representing 73% of the group revenue result. Segment EBIT was $194.4 million with a reported segment margin of 10.4%.

Reported EBIT in the segment, when compared to the second half of the 2009 financial year, was lower by $63.8 million.

Our operations in Asia, the Middle East, Australia and New Zealand performed in accordance with, or ahead of, the results they produced in the second half of the last financial year by $6.2 million (in constant currency terms). As anticipated in previous guidance, the Canadian result was well below that recorded in the previous corresponding period; however it shows growth of $9.2 million when compared to the second half of last financial year.

The most significant drop in performance in the segment was from the US operations of $39.1 million with the major factors being the reduction in opportunities in the domestic downstream market and the financial impact of delays and scope changes experienced on other projects. Our operations in Europe also reported a reduced result of $16.8 million compared to the second half of 2009 for similar reasons.

Major projects undertaken in the period include:

- Agip Project, Kazakhstan
- Devon Energy Jack Fish 2 Modules, Canada
- ExxonMobil Artukun Dagi, Russia
- ExxonMobil MIPS Contract, Nigeria
- GASCO Integrated Gas Development Projects, United Arab Emirates
- Shell Kashagan Full Field Development, Kazakhstan
- SAMREF Clean Fuels Project, Saudi Arabia
- Shell Albian Sands Expansion 1, Canada
- Shell Alliance Contract, Canada
- ExxonMobil Singapore Parallel Train, Singapore
- Woodside Pluto LNG, Australia
- Woodside North Rankin 2, Australia

We have also secured and renewed a number of long-term contracts including:

- Esso Exploration Angola (New)
- Woodside North West Shelf Operations (Renewal)
- Shell Malampaya, Philippines (New)
- Brunei LNG (Renewal)
- Syncrude CoSyn, Canada (Renewal)
- Imperial Oil, Canada (Renewal)
- BP Engineering Supply Agreement, Canada (Renewal)
- Chevron Global Terminals (New)

Early indications point to the capital budgets for our major clients increasing in the 2010 calendar year. This, along with the stabilization of crude oil pricing and an improving world economy gives us increased confidence for the second half of the financial year and for 2011. LNG markets continue to expand with many significant developments underway.

The Middle East continues to play an important role in supporting other regions through an extensive program of workshare and multi-office project execution. Brazil, Russia, Iraq and Western Africa continue to offer significant new opportunities.

The cost effective development of shale gas has the potential to transform the gas market in North America and markets in other parts of the world. The trend for National Oil Companies to develop their own refinery and petrochemical industries continues. Both of these trends present potential opportunities for the company.

It is also pleasing to see the restart, albeit slow, of Canadian oil sands projects.

A key component of our Hydrocarbons operations are the long term asset services contracts (*Improve*) and we remain focused on the continued development of this business segment.

Power

The Power business reported aggregated revenue of $247.3 million for the 6 months to 31 December 2009, representing 10% of the group revenue result. Segment EBIT was $18.8 million with a reported segment margin of 7.6%.

The Power segment produced weaker results when compared to the $29.7million reported in the second half of the 2009 financial year. US Power operations contributed a result approximately $15.0 million lower than the second half of 2009, of which approximately $5.0 million is attributable to restructuring charges, margin pressure, surplus capacity and costs of scope changes on projects performed in the period.

The European Power operations continue to perform well with a result approximately $5.0 million ahead of the previous six months. Performance of other Power operations in Australia, Canada and Asia and the Middle East was broadly in line with the prior six month period.

Major projects undertaken in the Power sector include;

- Lilama Vung Ang1 Coal Station, Vietnam
- Tuas Power Tenbusu Cogeneration Singapore
- Saudi Electric Qassim and PP10, Saudi Arabia
- Belene Nuclear Power Plant, Bulgaria
- Nuclear Power Programme, Armenia
- OPG Biomass Conversion, Canada
- Siemens Oaskarsham2 Power Uprate, Sweden
- Southern Co. Scherer Air Quality Upgrade, US
- Tennessee Valley Authority Plant Support Contract, US
- BHP Billiton RG6 Project, Australia

We have also secured and renewed a number of long-term contracts including:

- Horizon Power, Australia (New)
- CS Energy Asset Management, Australia (New)
- Sembcorp Utilities, United Kingdom (New)
- Tennessee Valley Authority, US (Renewal)
- Sellafield Multi Discipline Design House services, United Kingdom (New)
- Cogentrix Cedar Bay, US (New)

Power markets in the US, Australia, New Zealand and Canada remain challenging due to continued uncertainty around the pricing of carbon. The US power market has also been affected by lower power demand due to the economic environment and access to financing.

We are seeing conditions in some markets improving, particularly Europe, Asia and the Middle East. Nuclear programs are continuing to gain pace throughout the world, most recently in Western Europe, the Middle East and the US. The renewables market, in particular solar, wind and biofuels, is growing on the back of technology development and end user demands. As a result of the challenges in the US market we are refocusing our Power operations to respond to changed markets.

CNEC Engenharia, recently acquired by the company, has world class capability in hydropower and is an established leader within this market in Brazil.

Minerals & Metals

The Minerals & Metals business reported aggregated revenue of $239.8 million for the 6 months to December 2009, representing 9% of the group revenue result. Segment EBIT was $27.7 million with a reported segment margin of 11.6%.

Reported EBIT in the segment, when compared to the second half of the 2009 financial year, was lower by $3.3 million. Growth in Australia (up $4.2 million) and Asia/Middle East was offset by lower results in the Canadian operations (down $5.0 million), Europe and Africa. Though showing signs of recovery, the result was $23.9 million lower than the prior corresponding period, as anticipated in our expectations and guidance for a materially lower result in this segment this financial year.

Major projects undertaken in the Minerals & Metals sector include:

- BHP Billiton Cerro Matoso Furnace, Colombia
- EMAL Aluminum Smelter, Abu Dhabi
- Karara Iron Ore, Australia
- Ma'aden Alumina, Saudi Arabia
- Ma'aden Phosphate, Saudi Arabia
- Orica Naning Detonator Plant, China
- Southern Copper Toquepala Concentrator, Peru
- Sasol Shondoni Mine Development, South Africa
- Vale S11D Iron Ore FEED, Brazil
- Xstrata Strathcona Mill, Canada

We have also secured a number of new long-term contracts including:

- Sasol Shared Services, South Africa
- Alcoa Bunbury/Wagerup, Australia
- Vale Coal, Australia
- Vale Inco Integrated Services, Australia
- US Steel Corporation Capital Projects Alliance, US

Similar to the Hydrocarbons market, we are seeing an increase in a number of our clients' capital budgets reflecting generally stronger commodity prices. The iron-ore, coal and copper markets continue to offer significant project opportunities for the company.

We expect limited growth in the results for the remainder of this financial year with improvement expected to commence in the 2011 financial year.

We continue to build our presence in South America and the recent Brazilian acquisition of CNEC Engenharia will provide a substantially stronger base in this key market.

Infrastructure & Environment

The Infrastructure & Environment business reported aggregated revenue of $191.9 million for the 6 months to December 2009, representing 8% of the group revenue result. Segment EBIT was $19.0 million with a reported segment margin of 9.9%.

When compared to the second half of the 2009 financial year, the Infrastructure segment reported good growth in Australia (up $9.0 million), Canada (up $2.0 million) and Europe (up $1.5 million).

Major projects undertaken in the Infrastructure & Environment sector include:

- ConocoPhillips APLNG Environmental Impact Study and Approvals Consultant, Australia
- Doha Port Committee New Doha Port, Qatar
- EMAL Aluminium Smelter, Abu Dhabi
- Ivanhoe Oyu Tolgoi Copper Mine Infrastructure, Mongolia
- Ma'aden Phosphate Infrastructure, Saudi Arabia
- Oakajee Port and Rail Development, Australia
- SAMC Ras Al Zawr Port, Saudi Arabia
- Water Corporation Perth Desalination – Marine, Australia
- Woodside Pluto Infrastructure, Australia

The fundamentals of many sectors in the infrastructure market remain strong, in particular the water market and the global rail market are providing significant opportunities. The market for coastal and marine is also improving with good opportunities emerging in Australia, the US and Brazil.

Our Australian Infrastructure capability was strengthened by the acquisition of Evans & Peck which is an established leader offering strategic, commercial and contractual advice to governments and industry.

We are seeing increased market interest in heavy haul, metro and high speed rail in Australia and China.

We also expect an improved outlook in the Minerals and Metals market will lead to additional opportunities for 'pit-to-port' infrastructure developments.

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Outlook for WorleyParsons Group

Commenting on the outlook for the WorleyParsons Group, Mr John Grill said:

"While WorleyParsons confirms that our current expectations of net profit after tax for the 2010 financial year remains in the range of $280 million to $320 million, we are encouraged by increasing activity in a number of regions and customer sector groups supporting our view of a more significant weighting of earnings in the second half of the financial year.

"The company is confident that its medium-term and long-term prospects remain positive based on its competitive position and strong financial capacity."

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