From: Employee Ownership
Sent: Friday, November 11, 2005 3:32 PM
To: Holt, Suzanne/DEN
Subject: Third Quarter 2005 CEO Summary Report

CH2M HILL - 3rd Quarter 2005

CEO Summary Report

Current Features

- Rocky Flats earnings overcome flat quarter
- Third Quarter 2005 Highlights
    - Civil Infrastructure
    - Federal
    - Industrial
- Outlook for Q4 2005 and Early 2006
- CEO's Perspective
- Q3 2005 Business Performance

Rocky Flats earnings overcome flat quarter

For the third quarter 2005, CH2M HILL recorded gross revenues of $801 million, one of its best quarters ever. Despite mixed results among the Business Groups (BGs), and relatively flat operating performance, the announced closure of the Rocky Flats site for the U.S. Department of Energy (DOE) generated a significant performance fee. Profit After Tax (PAT) for the quarter without Rocky Flats was $11 million and with the Rocky Flats adjustment ($43 million PAT), the total PAT was $54 million. As a result, CH2M HILL's stock price rose 11 percent from $15.11 to $16.73.

Results among the BGs continue to vary, with some groups performing well (e.g., NUC, OMI, C&IS, E&IS, and Chemicals), while others are performing below expectations (e.g., WBG, TBG, CHS, ENV, and a number of the BGs in the Industrial Client Group). Compared to the same period last year, the Civil Infrastructure Client Group as a whole is slightly down, while the Federal and Industrial Client Groups are somewhat above 3Q 2004 performance levels.

Several notable items contributed to the third quarter results:

- Kaiser-Hill, the CH2M HILL joint venture, declared closure of Rocky Flats on Oct. 13, 2005, and DOE has 90 days to formally accept the completion. CH2M HILL recognized $71 million in incremental fees from the Rocky Flats project due to favorable performance against target closure costs, the site closure schedule, and job site safety. The after-tax impact of these fees is $43 million. (Details are in a separate section below.)
- Hurricane relief efforts resulted in a $100 million indefinite quantity contract with FEMA and a $50 million indefinite quantity contract with the Army Corps of Engineers. These contracts received some negative publicity due to their no-bid nature, and revenues will be earned over many months; however, CH2M HILL is poised to provide significant contributions to the relief efforts in the future.
- OMI continued its significant turnaround, performing well above expectations for all of 2005, as it exits from difficult contracts and improves its contract operations performance.

The outlook for the fourth quarter and into 2006 is strong. Highlights for the individual BGs, outlook for the remainder of 2005, and the CEO's perspectives are provided below.

Rocky Flats Adjustment

In virtually every CEO report to shareholders, we have talked about the Rocky Flats project. As that project draws to a close, and to explain the impact of the project on our earnings and stock price, we have added a special section to this report. This section includes a background on our work, how earnings are being recognized, and the resulting impact for our employee shareholders.

CH2M HILL's largest unconsolidated joint venture is Kaiser-Hill, LLC (Kaiser-Hill), in which CH2M HILL owns a 50% interest. Kaiser-Hill's revenues are derived from the Department of Energy's (DOE's) Performance Based Integrating Management Contract for the Rocky Flats

Closure Project in Golden, Colorado. Kaiser-Hill is compensated through a base fee affected, up or down, by its performance against the agreed site target closure costs. The ultimate fee will also be impacted by the schedule to achieve site closure and the safety of Kaiser-Hill's performance.

During the three-month periods ended September 30, 2005 and 2004, we recognized earnings from Kaiser-Hill of $76.2 million and $5.2 million, respectively, and $86.4 million and $15.5 million for the nine-month periods ended September 30, 2005 and 2004, respectively. The third quarter earnings for 2005 include an incremental fee of $71.2 million ($43.3 million, net of tax) as Kaiser-Hill recognized earnings related to the impact of favorable performance against the agreed-upon target closure costs, the schedule to achieve site closure, and job site safety. In the third quarter of 2005, Kaiser-Hill recognized additional performance fees as a result of the elimination of job site risks and other contract uncertainties. Although Kaiser-Hill declared physical completion of the site on October 13, 2005, certain contract provisions related to the close out remain, which inherently involve risks. Some of the remaining close-out activities include the DOE reviewing and accepting the site work and forwarding final payment. As a result, Kaiser-Hill will continue to recognize modest future earnings as the remaining risks and uncertainties are eliminated or sufficiently mitigated.

During the nine-month periods ended September 30, 2005 and 2004, we received $31.5 million and $7.0 million, respectively, of cash from Kaiser-Hill. Our investment in Kaiser-Hill as of September 30, 2005 was $90.1 million compared to $35.2 million, on December 31, 2004. The majority of this increase is related to the recording of the additional performance fees. Kaiser-Hill's ability to distribute cash is based on pre-negotiated payment terms in accordance with its contract with the DOE and can be different from the earnings recognized for accounting purposes. We anticipate receiving a majority of the cash in 2006.

As described in our prospectus, under the CH2M HILL stock price valuation methodology, the Board of Directors has the discretion to review events and exclude nonrecurring or unusual transactions from certain of the parameters used in stock price valuation. Transactions are considered nonrecurring or unusual if the market would not generally take them into account in valuing an equity security.

The Board determined that these additional earnings from Rocky Flats recognized in the third quarter were an unusual transaction because they represent nonrecurring earnings that the market would not take into account in valuing comparable equity securities. Therefore, for stock valuation purposes, the impact on our PAT of $43.3 million was excluded from the "P" (profit after tax) parameter. The impact of this Rocky Flats revenue remains in the "SE" (total shareholders' equity) parameter because it is part of our cumulative earnings history, i.e., an increase to our retained earnings. The "SE" parameter of share value impact from the additional Rocky Flats earnings results in a $1.28 per share stock price increase (out of a total $1.62 per share overall increase for the quarter).

back to top

Third Quarter 2005 Highlights

In our mid-year (2Q 2005) report, we noted that there was variability among performance levels in the Client Groups and BGs, noting some "soft spots" in some markets, which were not rebounding as quickly as we had hoped. Some of the variability continued in the third quarter, but significant project wins and better overall performance in the third quarter signal better than expected results for 2005 and a strong momentum heading into 2006. A brief review of the three Client Groups and their respective BGs reflects that positive outlook.

Civil Infrastructure

The Civil Infrastructure Client Group experienced an increase in revenues for the third quarter 2005. Significant wins, improved project performance, and aggressive goals should contribute to future success.

Transportation Business Group (TBG)

Gross revenues for TBG in 3Q 2005 were $88 million, which were $11 million above expectations for the quarter. Third quarter revenues are up 57 percent over the same period last year ($56 million). The revenue increase for the third quarter is primarily attributable to successful pursuits on design/build projects.

During the quarter, TBG had several notable project wins, including consulting work for DOTs in Nevada and Washington; road study and design work in Florida, Alberta (Canada), and California; and the integration role for capital improvements in San Antonio. TBG also resolved a major claim on its Virginia 288 program.

Water Business Group (WBG)

WBG's revenues for the quarter were $137 million, which is slightly below expected levels for the quarter, but up about 11 percent over revenues in 3Q 2004 ($123 million). However, we experienced lower than expected operating performance as a result of high business development costs and project execution issues (e.g., lower margins than bid, cost overruns, etc.). Maximizing our success in this BG will require improved client ratio, accelerated delivery of recent wins, controlled BD spending, and mitigating the impact of project delays.

WBG completed its acquisition of BBS Corporation in Ohio, adding significant presence in that market. In North America, WBG won program management jobs in Puerto Rico and San Francisco, and a major DBO job for the San Diego Water Authority's Twin Oaks water treatment plant. Outside North America, major wins included reverse osmosis plants in the Middle East, and tsunami infrastructure work for USAID. WBG's backlog of major work is significant, which bodes well for the fourth quarter and into 2006.

Operations & Maintenance (OMI)

OMI'S revenues for the third quarter were $49 million, above planned levels for the quarter and slightly above revenues for the same period in 2004 ($48 million). The most significant factors contributing to the revenue performance include the successful renewal of existing projects, scope expansion on several key projects, and the addition of new work in Canada.

OMI's successful quarter was highlighted by the award of OMI's single largest contract ever in Sandy Springs, Georgia. With WBG, OMI also won the operations portion of the Twin Oaks DBO project (San Diego County Water Authority). Other projects won during the quarter include operations contracts in Puerto Rico, and work for several industrial clients (Dow, Honeywell, and PG&E). For the year to date, OMI's total new contracts are valued at over $320 million.

back to top

Federal

The overall revenues for the Federal Client Group are down compared to the same quarter last year, $247 million versus $284 million in 2004, a drop of about 13 percent. Much of this is attributable to the government's continued spending being shifted to the war on terrorism, and DOE's decision to reduce spending at Hanford.

Nuclear (NUC)

NUC's gross revenues for the quarter were $142 million, a 12 percent drop from 3Q 2004 ($162 million). The major challenging project for this group is the Hanford DOE site, where technical issues on waste retrieval from the tanks and DOE's proposed funding reductions have reduced project activities and revenues.

In other highlights for NUC in the third quarter, work on the Idaho Cleanup Project has accelerated, with the project team fully engaged. The Miamisburg Closure Project (Mound) continues ahead of schedule. NUC has also increased its business development costs, primarily in pursuit of the Los Alamos National Lab contract, as a sub to Lockheed Martin.

(See also the separate section write-up on Rocky Flats.)

Environmental Services (ENV)

Gross revenues for ENV in the third quarter were $103 million, about 11 percent below expected levels for the quarter, and down 11 percent over 3Q 2004 ($115 million). The decline in Federal environmental work, as the government shifts funds to the global war on terrorism and now hurricane relief efforts, has contributed to lower than expected results.

During the quarter, ENV began major work on hurricane relief, under contracts with EPA

(damage assessments on Superfund sites), the Army (inspection, debris removal, and roof installations), and the Louisiana Department of Natural Resources (repair of coastal monitoring stations). ENV also supported contracts for CHS, highlighted below.

Other ENV contract wins for the quarter included: a consolidated monitoring and operations contract at multiple bases for AFCEE; expanded work for major Industrial clients (Honeywell, Dow, Lennar, Rohm & Haas); two contracts for the Navy; and a follow-on Remedial Action Contract in EPA Region 6.

CH2M HILL Services (CHS)

For the third quarter, CHS revenues were $15 million, well below expected levels and about 8 percent below the same period last year. This worse-than-planned performance continues to be driven by a number of factors, including lower-than-anticipated new business from several existing programs (e.g., the Transatlantic Program Center [TAC], Defense Logistics Agency, and United Space Alliance), plus project performance issues at a TAC airbase in Jordan.

The major highlights for CHS in the quarter were two contracts for the federal government's hurricane relief efforts. The first was a $100 million indefinite delivery/indefinite quantity (IDIQ) contract for FEMA. The FEMA work involves about 100 CH2M HILL employees, working in Louisiana, Mississippi, Alabama, and Texas. The second is a $50 million IDIQ contract with the Army Corps of Engineers, Vicksburg (Mississippi) District. Most of the initial work is transporting and placing temporary school and office buildings at 35 sites in MS.

back to top

Industrial

In last quarter's report, we said the Industrial Client Group was showing positive signs of growth despite weakness in some sectors, and this assessment is still applicable in the third quarter. Spending by industrial clients appears to be rising again, and the diversity of our industrial portfolio will serve us well. The chemicals market in particular has demonstrated significant growth, and telecommunications work is increasing.

Manufacturing

Manufacturing's gross revenues for the quarter were $54 million, well behind expectations, but 6 percent above revenues for 3Q 2004. The quarter's less than planned performance is due primarily to the delay in starting two large full-service contracts with Johns Manville (JM) and Bush Beans. For JM, we will provide EPC services to expand their fiberglass pipe insulation facility in Defiance, OH. The Bush Beans contract is for EPC services for expansion of an existing plant we built in Chestnut Hill, TN.

Other project wins in the third quarter include an EPCM contract for a tubular goods facility

in China and a design contract for a synthetic gypsum board plant.

Pharmaceuticals and Biotechnology

Pharma/Bio's gross revenues for the third quarter were $19 million, nearly 50 percent below planned levels and 32 percent below revenues in the same period last year ($27 million). Traditional high sales and client profits dropped throughout this industry, which continues to be under pressure from expensive drug withdrawals, regulatory scrutiny, and Medicare legislation. Most of the current opportunities are in biotech and are located in off-shore pharmaceutical tax havens such as Ireland and Puerto Rico.

Despite the general lack of capital spending, this BG experienced some successes in the third quarter, including expansion of work for Amgen in Puerto Rico; the design of an oral solid dosage lab for Abbott in Ireland; a gap analysis on a Procter & Gamble facility in Mexico; and the conceptual design of Sanofi Pasteur's immunization facility in Pennsylvania.

Power

For the third quarter, gross revenues in this group were $6 million, slightly less than the $6.7 million in 3Q 2004. Prospects for the end of the year appear strong, due to several project wins this quarter.

The most significant win for the quarter was a $217 million EPC contract with Xcel Energy, for a 500MW combined cycle project in St. Paul, MN. We have two components of the project, one for engineering and construction, and the other for plant equipment procurement.

Electronics

This group, which includes both electronics and other industrial segments formerly with IDC (e.g., FSG, Paragon, IDC Architects, Cleanroom Install), had gross revenues for the quarter of $29 million, substantially below the $56 million posted in 3Q 2004. The Electronics market has stayed relatively flat in 2005, although there has been a sizeable increase in volume in the last month of the third quarter. While there are signs of improvement, continued emphasis will be placed on cost management over the remainder of the year.

Much of this group's attention is focused on business development in the electronics market and cost containment until the prospects become projects. Wins in the third quarter included design work for an Intel plant in Massachusetts; expanded work in Seagate Technology's hard disk manufacturing facility in Singapore; and development of a construction bid for MMT's new disk manufacturing facility in Thailand.

Chemicals

This BG has continued its positive momentum through the third quarter, with gross revenues of $54 million, significantly better than expected, and three times the revenues for 3Q 2004 ($18 million). Major wins, increased margins, and the significant backlog of work bode well for the rest of 2005 and into 2006.

Work continued in the third quarter on major projects for Eastman Chemical (bottle resin plant); Tate & Lyle (a Sucralose plant for the artificial sweetener Splenda); ConocoPhillips (maintenance and capital construction at its Bayway, NJ refinery); and DSM DYNEEMA (fiber plant expansions). Awards are pending for several other existing clients (e.g., DuPont, Cargill, Firmenich).

Energy and Industrial Systems (E&IS)

Gross revenues for E&IS in the third quarter were $54 million, nearly $21 million better than the same period a year ago. This better than expected performance is driven by significantly more activity being contracted through two major AFCEE contracts, known as the ENRAC and WERC contracts, where E&IS provides task order environmental and facilities support services at Air Force bases around the world.

In addition to major task orders for AFCEE, E&IS won water quality work for the Navy and outfall and discharge evaluation work for the Air National Guard. Outside the U.S., E&IS was awarded the construction phase for Australian Hardboard's WWTP in Sydney and air quality work for Alcoa on an aluminum mill in Russia.

Communications and Information Systems (C&IS)

Gross revenues for C&IS's third quarter were $48 million, which was nearly $3 million better than expected and $21 million (80 percent) better than the same period last year. The primary reason for this growth is attributable to a significant stabilization in the domestic wireless market, winning wireless and wireline work in India and North America, and the acquisitions of MicroSource and Frontline.

The diversity of C&IS clients and geographies was evidenced by major activities in the third quarter. In India, C&IS has mobilized the resources to construct over 1,900 cell sites for Nortel and Nokia. As one of Ericsson's largest contractors in North America, the BG is working on wireless upgrades in four states. Work continues for ONO (and its successor, AUNA) in Spain on network buildout and project management for General Dynamics on communications infrastructures for the U.K. Ministry of Defence.

back to top

Outlook for Q4 and Early 2006

In our 2Q 2005 CEO Report, we stated that, following a flat first half of the year, we expected that there would be growth in the second half of the year. We also suggested that success would depend on a number of factors, such as: continued signs of recovery in the Industrial Client Group; OMI's continued success in turning around operations; increased revenues in the NUC group; and solid performance in core businesses (WBG, TBG, ENV). Seeing mixed signals at the time, we indicated that both revenues and PAT might be down somewhat by year's end, but that PAT could be roughly equal to 2004's record

performance.

We noted, however, that the closure of Rocky Flats could significantly alter our projections- which it has done. This event and the resulting declaration of income in this quarter, coupled with better than expected projections by many of the BGs, should mean a more positive financial outcome for the year.

Even without Rocky Flats, our current projected PAT for 2005 is a record $37.6 million, up from last quarter's projection of $32.3 million and 2004 PAT of $32.3 million. Adding expected PAT of $43.3 million from Rocky Flats result in a projected total 2005 PAT of $80.9 million.

As noted in the BG highlights of the previous section of this report, several of the BGs have posted significant wins over the past several months, building a commendable backlog of work heading into 2006. There is reason for optimism, but the OCEO will continue to monitor several key factors critical to our success.

First, in spite of solid revenue growth, the combination of increased business development investments and inconsistent project performance has caused our profitability and the margins we earn on projects to remain fairly flat for the past several years. As a firm, we are operating at overall margins well below what we estimate to be the industry average. Both monitoring our business development expenditures and improving project margins, through better project contracting, performance, and eliminating overruns, will be a focus in the coming months.

Second, we continue to rely on the diversity of our businesses. This helps us withstand economic fluctuations and changes in funding by our government and private sector clients. We are closely watching BGs which have been underperforming (e.g., TBG, Electronics, and other parts of the Industrial group) to make sure we have the right resources to grow with the markets. Even with economic fluctuations, we need to remain vigilant that we are improving the performance and profitability within our various business units.

And finally, we are carefully balancing two concepts among our various groups: focus and synergy. For most of our employees, their main task is delivery of our projects on time, within budget, outperforming our client's expectations. This focus, within each BG and Region, is what drives our businesses. At the same time, we are seeing increased evidence of the benefits of cross-BG and cross-Regional cooperation. The best evidence of this is our hurricane relief efforts. Our people are not concerned with who gets "credit" (SER, ENV, CHS, and so on), but doing the right thing for our clients. This is "selling the company store" at its finest. This will remain a healthy tension, with our efforts focused on getting the job done within each group, while finding and exploiting cross-BG opportunities and synergies.

Our success in 2006 depends on both.

back to top

CEO's Perspective

I was pleased to announce in last quarter's report that I have received a clean bill of health and have been released by my doctors following stomach cancer surgery and related treatments. I commend the OCEOs for their diligence and dedication during my absence and for their stewardship of CH2M HILL until my return in the third quarter. Now that I am fully re-engaged as CEO, here are some of my perspectives on the past, present and future of CH2M HILL:

Past

Rocky Flats-through our joint venture with Kaiser-has been an overwhelming success, and our accomplishments have been recognized the world over. The U.S. government estimated that decontamination and closure of this site (once crowned the most contaminated site in the U.S.) would take 60 years at a cost of $37 billion. We closed the site in 10 years, for less than $7 billion. I never doubted that the project could and would be completed on time and under budget, because I believed in Kaiser-Hill, our dedicated workforce, and the strong partnership we forged with the U.S. Department of Energy, the State of Colorado, and other stakeholders.

Our employee shareholders have benefited from significant earnings over the course of this project. More importantly, we have clearly made a difference to U.S. taxpayers and the environment. Success at Rocky Flats is one of the most significant milestones in the history of CH2M HILL, and for that we can all be extremely proud.

Present

In July, the OCEO completed the five-year strategic plan (2006-2010), which is built on a solid foundation of financial strength, diverse businesses, and a talented group of employee-owners who are committed to outperforming on every project, for every client, every time. The plan incorporates the key elements of the Strategic Roadmap which we have outlined and emphasized in prior reports: People, Financial Strength, Full Service, Global Expansion, and Industry-Leading Value/Margins.

Our present success is also attributable to increased enterprise-wide behaviors, where we see increasing evidence of cross-BG cooperation and collaboration. We have made a commitment to establishing CH2M HILL as the full-service firm of choice and to building a strong CH2M HILL brand based on "outperforming" our clients' expectations.

Our present position in the marketplace and in our industry gives us a positive outlook, as long as we focus on proper business development priorities and improved project performance. Our highest priority must be client satisfaction on every project we perform.

Future

At the annual Board Retreat in October, we looked further into the future, trying to

anticipate what CH2M HILL might look like in 10 years. The Board and OCEO are excited by what we see, including potentially significant growth as a major global competitor.

When the right opportunities come along, CH2M HILL is well positioned for potential mergers or acquisitions, thanks to the financial strength that we have built over the past decade or so. The "right" opportunity must be something like what we found two years ago in Lockwood Greene: good people, a strong client focus, a compatible culture, and something that strengthens our business portfolio. We are also well positioned to increase market share in some of our core areas-particularly in the full-service sectors such as water, transportation, environmental services, nuclear and telecommunications-and we have significant opportunities to expand our portfolio in the industrial sector, with likely growth in power and in oil and gas.

As always, we must continue to be "risk smart." That is, we must be ready to take on challenging assignments wherever we want to work, but with full attention to the health and safety of our employees, proper stewardship of the financial interests of our employee-shareholders, and the ability to utilize the best technologies to solve client problems.

Conclusion

The OCEO was impressed by the quality and depth of the entire strategic planning process and encouraged by our "crystal ball" look into the future of CH2M HILL. We believe that CH2M HILL has a bright future, based on the legacy of our past successes and the present abilities of our people.

Ralph R. Peterson
Chairman, President and CEO
CH2M HILL COMPANIES, LTD.

back to top

Q3 2005 Business Performance

FINANCIAL HIGHLIGHTS FOR THE THREE-MONTH PERIOD ENDED
September 30, 2005
CH2M HILL COMPANIES, LTD.
OVERALL FINANCIAL RESULTS
($ in millions, unaudited)

	Three-Month Period Ended September 30	
FINANCIAL	**2005***	**2004**
Gross revenues	$801.1	$733.9

Operating income	6.2	7.5
Pre-tax profit	89.2	16.0
Net income (after interest and taxes)	54.2	10.9

BY OPERATING SEGMENT
Three-Month Period Ended September 30

	2005			2004		
	Gross Revenues	**% Revenue**	**Pre-tax Profit (Loss)**	**Gross Revenues**	**% Revenue**	**Pre-tax Profit (Loss)**
Federal	$246.8	31	$82.8*	$283.5	39	$8.3
Civil Infrastructure	270.1	34	9.3	212.7	29	9.5
Industrial	284.2	35	3.5	237.7	32	2.1
Corporate	-	-	(6.4)	-	-	(3.9)
Total	$801.1	100	$89.2	$733.9	100	$16.0

***Includes Kaiser-Hill fee adjustment of $71.2 million ($43.3 million net income).**

back to top

C052005001BDS