22nd August 2014

ASX announcement

Mastermyne Group Limited – FY2014 Results Announcement

Key points:

- Revenue of $171.9 million (above guidance of $160m to $165m provided in February 2014)
- Net Profit After Tax of $3.0 million (at the upper end of guidance of $2 million to $3 million provided in February 2014)
- Continued decline in TRIFR rate for FY2014. Group TRIFR 3.13 (FY2013: 3.28)
- Rollover of Moranbah Umbrella and Westcliff Outbye Services Contracts
- Secured contracts during the year at Broadmeadows and Grasstree Mines expanding the Company's footprint in major underground coking coal mines in Queensland
- Workforce numbers peaked at 903 in March before finishing the year at 733
- Total Order Book $257 million at 30 June 2014
- Tendering Pipeline currently at $1.06 billion with $564 million in active tenders
- Current roadway development tenders total $472 million

Leading underground coal contractor Mastermyne Group Limited (ASX Code: MYE) ("Mastermyne" or "the Company") today released an NPAT result of $2.99 million for the full year FY2014, down 71.5% over the prior corresponding period. Revenue was also down by 31% from prior corresponding period to $171.9 million, the result of the well documented downturn faced by the mining sector over the past 12 months.

Mastermyne's Managing Director, Tony Caruso said, "Delivering this result during a period when the Australian mining sector has had to aggressively reverse its cost structure is a strong endorsement of the how well the Company is positioned with its major customers and with the underground coal sector generally. Our ongoing leverage to production versus construction and maintenance has seen the Company deliver a result that will position the Company well for the year ahead"

He went on to say that "FY2015 will continue to see a focused approach by customers to reduce costs however Mastermyne is well positioned with a strong order book totalling $257 million, (of which $112 million is expected to be delivered in FY2015), traditional uncontracted recurring work of approximately $26.5 million and approximately $25 million of contract renewals contributing to FY2015".

The Company is working on a number of roadway development tenders totalling in excess of $470 million and the tendering pipeline is above one billion with $564 million in active tenders. The significance of the roadway development tenders is the requirement of the contractor to supply its own fleet which, if successful, will see the Company's utilisation rates increase and drive margins up accordingly.

Operations Overview

Whilst the FY2014 Full Year results reflect the cyclic low point in the current resources cycle the Company is pleased with performance and to have met guidance given at the time of the interim results release. The second half result was a significant improvement on the first half. The Mastermyne Group has again benefited from its strong link to production versus greenfield construction and project development capital expenditure and which is evidenced by the performance delivered this year relative to our peers and our strong order book moving into FY2015. It has been well documented that mining operators have moved through an aggressive phase of reversing cost creep in their operations and are now focusing on prudent cost management and increased production output to reduce unit cost rates. The reliance on underground contractors for critical activities to support ongoing and increased production continues to drive contract renewals for Mastermyne and underpins the order book for the FY2015 year.

Our Engineering Division is also experiencing a similar shift from capital spending to refurbishment of existing products. This focus on increased production and value for money services continues to drive demand for the services provided by the Mastermyne Group.

With operating costs being largely incremental in the business the Company has successfully managed the major cost inputs including overhead costs without reducing capability. With this right sized overhead structure the focus throughout the year has been on securing new projects and renewing contracts that were due to roll off. We have successfully renegotiated both the Moranbah Umbrella Contract for a further three years with two one year options and the Westcliff Outbye contract for two years and we continue to work with our client on renewing the remaining Roadway Development Services contract.

During the year we have also secured new contracts at Anglo's Grasstree mine and BMA's Broadmeadows mine. Whilst these contracts are shorter in duration than typically experienced it has provided the Company with the opportunity to expand its market penetration into these new sites and sets up opportunities for future work. With the addition of these new sites the Company is now delivering services to 8 of the 13 underground coal mines in the Bowen Basin and 13 of the 16 underground metallurgical coal mines across Australia.

We have again seen a strong contribution from the Engineering Division in the second half of the financial year and as the focus shifts to refurbishment of equipment the Engineering Division is well placed to continue its strong revenue contribution. The Services Division has seen limited revenue due to the lack of construction activity and accordingly costs in this division have been minimal throughout the financial year. We continue to see tender opportunities through this division and will continue to pursue these opportunities.

Equipment utilisation continued to play a material factor in reduced profitability in the second half and overall for the full year. Whilst utilisation rates did recover over the second half they were offset by reduced hire rates. We expect to see continued improvement in equipment margins throughout FY2015 as a result of the increase in roadway development projects. This increase in roadway development activity is evidenced through the increase in tenders submitted which incorporate contractor supplied equipment. Over the coming year we will also benefit from the run off of unutilised externally hired equipment that was hired on the Newstan project which ceased in FY2013.

Overheads remained static throughout the second half as a result of prudent and responsive action taken early in the first half of FY2014. Overheads are not expected to change significantly in the first half of FY2015 and any increase would be commensurate with an increase in new projects.

Safe and productive operations continues to be a focus for the Company and we have seen a continued reduction in trailing statistics and equally important an increase in proactive statistics. Over the full year we have seen a decrease in our Total Recordable Injury Frequency Rate (TRIFR) from the previous year with the rate falling from 3.28 to 3.13. The increase in proactive statistics is aligned with our strategy of proactive safety management and is the driver for the reduction in lagging statistics. During the financial year there were surveillance audits undertaken by external auditors to ensure compliance with the AS3801 and ISO14001 certification. All audits were passed with very minor improvement notices.

Margins in FY2014 were consistent with the guidance provided with equipment utilisation being the primary driver for the reduction relative to previous years. As noted above we have opportunities for increased equipment utilisation which will in turn improve future margin performance. Margins in the contracting business have remained consistent with no material change from previous levels. Cost reductions have been achieved by reducing our cost base for labour, with these reductions passed through to our clients. The Company expects FY2015 margins to be up to 0.5% better than the run rate of the second half of FY2014 with some improvement possible in the second half of FY2015 as equipment utilisation recovers.

Outlook

The short term outlook for the Company will benefit from the focus by coal miners on maintaining increased production to lower unit rate costs. The short term outlook appears to remain unchanged for commodity prices which will continue to see operators using the services of contractors to keep cost and workforce structures flexible, substitute permanent employment and to continue to drive cost efficiencies.

The Company has experienced an increase in roadway development tenders as drivage which had previously been deferred has reached a point where it cannot be deferred any further without impacting longwall continuity for some operations. These opportunities will also drive an increase in fleet utilisation as the contractors' equipment will be required to deliver these projects. Also benefiting equipment utilisation will be dry hire opportunities as we see the regulatory requirement for maintenance and compliance requires replacement equipment to minimise production disruption while these activities take place.

Mastermyne remains well positioned with its strong link to tier 1 mining companies who operate high volume metallurgical coal mines. The Company's current order book is 100% linked to metallurgical coal producers who, whilst still under pressure, are better positioned for a recovery in coal prices than thermal operators. The longer term outlook for coal is gaining momentum however the immediate focus will remain on operating cost effective mines.

Over the next 12 months the Company's focus will be to renegotiate the remaining outstanding Roadway Development contract, secure new roadway development projects of which there are 3 major tenders in circulation and to continue to explore opportunities to increase revenue in the Services Division. The Company has also experienced more enquiries for Contract Operator projects and is currently exploring some opportunities in this area.

The Company is confident with its position in the market and the order book for FY2015 and beyond, notwithstanding coal miners aggressive focus on costs. Having said this we believe that there will be a strong case for our customers to continue to require our services to support increased production and maintain sustainable and profitable operations.

Mr Caruso concluded by saying, "The Company continues to be profitable with a strong balance sheet, has good visibility on earnings and the future is well supported by a robust tendering pipeline".

Further information:

Tony Caruso – Chief Executive and Managing Director: (07) 4963 0400

Bill Lyne – Company Secretary: (07) 3378 7673

Or visit www.mastermyne.com.au

About Mastermyne

Mastermyne Group Limited (ASX:MYE) was established in 1996 and is a leading provider of specialised services to the Australian coal mining industry. Mastermyne listed on the ASX on 7 May 2010.

It has three operating divisions, Mastermyne Underground (underground roadway development, installation of conveyors and longwall relocation), Mastermyne Engineering (design and engineering of specialised mining equipment and consumables) and Mastermyne Services (electrical, mechanical and maintenance services).

Based in Mackay Queensland, Mastermyne has operations in Queensland's Bowen Basin and the Illawarra and Hunter Valley regions in New South Wales.