

18 August 2015

MONADELPHOUS REPORTS FY 2015 SALES AND EARNINGS

Performance Highlights – FY 2015 compared to FY 2014

Sales revenue \$1,865 million, down 19.9%, impacted by deteriorating market conditions

Net profit after tax (NPAT) \$105.8 million, down 23.6% on an underlying[^] basis

Earnings per share (EPS) 113.9 cents

Final Dividend 46 cps fully franked

Cost Reduction Program delivered \$56m in annualised cost savings

Awarded new contracts and contract extensions of \$450 million, additional \$430m awarded subsequent to year end

Expanded Infrastructure markets with acquisition of Water Infrastructure Group business

Maintained strong balance sheet with net cash position of \$186.6 million

Record safety performance; improvement in Total Case Injury Frequency Rate (TCIFR).

Engineering company Monadelphous Group Ltd (ASX: MND) today announced sales revenue for the year ended 30 June 2015 of \$1,865 million, down 19.9% on the previous corresponding period. This result reflected further deterioration of market conditions and the continued focus by customers on reducing capital and operating expenditure. Net profit after tax was \$105.8 million, down 23.6% when compared to the underlying result in the previous year.

The Company's focus on improving efficiency and productivity largely offset the downward pressure on margins arising from customer cost reduction programmes and an increasingly competitive environment.

Over the past two years, Monadelphous' cost reduction program has delivered savings in excess of \$100 million on an annualised basis, including \$56 million in 2014/15, of which \$19 million relates to overhead reductions.

"The program has been very effective in ensuring that we are able to achieve the cost reduction expectations of our customers, while continuing to ensure that we remain a profitable and sustainable business," Monadelphous Managing Director Rob Velletri said.

Monadelphous secured \$450 million in new contracts and contract extensions during the period, and has announced \$430 million of additional work subsequent to 30 June 2015. This included work in both core and new service markets, such as water and pipelines.

During the year, Monadelphous undertook a number of initiatives to broaden its services in core markets, further expand into infrastructure and extend core services to overseas locations.

The company strengthened its position in the infrastructure sector with the acquisition of the design, build and maintain business of Water Infrastructure Group (WI Group). WI Group has provided Monadelphous with greater capability in water design solutions and infrastructure maintenance, and will expand the Company's geographical presence in the Australian and New Zealand market.

Monadelphous' strong balance sheet provides the company with the capacity to pursue further investment opportunities that support its market growth strategies.

Mr Velletri said maintenance prospects remained positive, particularly in the oil and gas sector.

"Monadelphous' leading position in the services market places it in a strong position to capitalise on these opportunities as activity ramps up in the next few years with a number of multi-billion dollar LNG projects moving to the operational phase," he said.

He also stated that the Company's record safety performance during the period demonstrated Monadelphous' reputation as an industry leader in health and safety management.

“Our enduring focus on safety leadership and the continued development of our processes and systems underlies our improvement in this important area”, said Mr Velletri.

2015 FULL YEAR RESULTS

Revenue

Sales revenue for the year was \$1,865 million, down 19.9 per cent on the previous corresponding period. This result reflected further deterioration of market conditions and the continued focus by customers on reducing capital and operating expenditure.

Earnings

Net profit after tax (NPAT) was \$105.8 million, down 23.6 per cent when compared to the underlying result in the previous corresponding period (which excluded the one-off gain from the sale of aviation support services business, Skystar Airport Services).

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$168.0 million, a decrease of 24.1 per cent on an underlying basis[^]. The Company’s focus on improving efficiency and productivity largely offset the downward pressure on margins arising from customer cost reduction programmes and an increasingly competitive environment.

Earnings per share (EPS) was 113.9 cents.

Dividend

The Board of Directors is pleased to declare a final dividend of 46 cents per share fully franked. This takes the full-year dividend to 92 cents per share fully franked. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the final dividend.

Healthy balance sheet

Monadelphous’ disciplined approach to working capital management ensured the maintenance of a healthy balance sheet. Net cash was \$186.6 million at 30 June 2015, a 3.2 per cent increase on 12 months earlier, and cash flow from operations was \$117.8 million.

During the period the Company renewed its banking facilities for a further two years. The renewal was completed on improved pricing and terms and conditions, reflecting the strong long term performance of the business.

Productivity improvement and cost reduction

Monadelphous continued its company-wide cost reduction program during the year, implementing a number of initiatives to protect margins and ensure overheads remain aligned to business activity levels. Structural changes and functional consolidations were undertaken during the period to lower the overhead costs of the business.

Over the past two years, the cost reduction program has delivered cost savings in excess of \$100 million on an annualised basis, including \$56 million in 2014/15, of which \$19 million relates to overhead reductions.

Secured \$450 million in new work

Monadelphous secured approximately \$450 million in new contracts and contract extensions during the year. This included work won in new service markets, such as water and pipelines, which demonstrated the success of the Company's diversification strategy.

Subsequent to the reporting period, Monadelphous secured additional contracts valued at approximately \$430 million.

Diversification strategy

During the year, Monadelphous undertook a number of initiatives to broaden its services in core markets, further expand into infrastructure and extend core services to overseas locations.

In March 2015, the Company announced it had concluded the purchase agreement with Water Infrastructure Group (WI Group), to acquire the contracts and net assets of its design, build and maintain business.

WI Group is a leading provider of water infrastructure services and has provided Monadelphous with strong capability in water design solutions. It will expand the Company's geographical presence into the New Zealand market, which includes the growing irrigation sector, as well as provide opportunities in the infrastructure maintenance sector within Australia. It has well established customer relationships with councils, utilities and the private sector and supports the Company's long term market diversification strategy.

The Company continued its overseas expansion strategy and has commenced a process to establish a presence in North America to pursue opportunities in the shale oil and gas market. Monadelphous is also actively developing prospects to extend its core services, such as water and pipelines, in Papua New Guinea and Canada as well as pursuing opportunities to provide fabrication services to customers internationally.

OPERATIONAL OVERVIEW

Health and Safety

A record total case injury frequency rate (TCIFR) of 2.81 incidents per million man-hours worked was attained during the year. The Company finished the year with a TCIFR of 3.16, an improvement of 3 per cent on the previous year.

The lost time injury frequency rate (LTIFR) remained at 0.08 incidents per million man-hours worked, with only one incident recorded during the year.

The performance demonstrates Monadelphous' reputation as an industry leader in health and safety management. An enduring focus on safety leadership and the continued development of processes and systems underlies the Company's improvement in this area.

People

The achievements of this year, in a deteriorating market, were only made possible by the dedication and efforts of our people. Monadelphous remains committed to attracting, developing and retaining highly competent people, who live our values, and actively contribute to our long-term, overall success.

As a result of the challenging market conditions, the Company's total workforce reduced by 15 per cent to 4,536 at 30 June 2015. This reduction was in line with project completions and the slowdown in construction activity. The review and consolidation of support and services functions as part of the cost reduction program further contributed to this decrease. Key talent retention rates, however, continue to be strong.

Cost saving initiatives helped to drive improved productivity during the year. Tight market conditions contributed to improved availability in the labour talent pool and downward pressure on wages, with the Company renegotiating a number of labour agreements during the period.

In November 2014, Zoran Bebic, formerly the Company's Chief Financial Officer, was appointed to the role of Executive General Manager of the Maintenance and Industrial Services division, following the retirement of Arif Erdash. The Board of Monadelphous extends its gratitude to Arif for his valued contribution to the Company's successful growth and development and wishes him well for his retirement.

Philip Trueman, a Chartered Accountant and previously the Company's General Manager, Human Resources, was appointed to the role of Chief Financial Officer.

Productivity improvement and cost reduction

Monadelphous continued its company-wide cost reduction program during the year, implementing a number of initiatives to protect margins and ensure overheads remain aligned to business activity levels.

Key initiatives undertaken during the year included:

- Rationalising staffing levels;
- Adjustments to remuneration levels to align to changed market conditions;
- Consolidation across the group of support and service functions, including human resources, procurement, plant and equipment and facilities, to drive increased efficiency and process effectiveness;
- Improving project management practices, labour productivity and innovation in project execution;
- Office lease renegotiation and sub-leasing surplus premises; and
- Negotiation of improved supply arrangements.

OPERATIONAL ACTIVITY

Monadelphous provides a broad range of services to the resources, energy and infrastructure markets.

Engineering Construction

The Engineering Construction division, which provides large-scale, multidisciplinary project management and construction services, reported sales revenue of \$1,245 million, down 25.5 per cent compared to the previous year. This reflected the reducing volume of project activity in the resources and energy markets.

Monadelphous cemented its position in the Queensland coal seam gas (CSG) sector, undertaking a number of projects for Australia Pacific LNG (APLNG). It also successfully completed projects in resources, energy, transmission pipelines, marine and water.

The WI Group business acquired during the year was integrated into the division.

During the year, major contract activity included:

- Installation of onshore pipelines, cables and tubes and construction of a CO₂ injection pipeline for the Chevron Australia-operated Gorgon Project on Barrow Island, Western Australia (WA);
- Structural, mechanical and piping works, with JKC, for the utility and offsite area of the Ichthys Project Onshore LNG Facility in Darwin, Northern Territory (NT);
- Engineering, procurement and construction, with JKC, of the gas export pipeline works for the Ichthys Project Onshore LNG Facility in Darwin, NT;

- Construction of an approach jetty and ship berth, through the Monadelphous Muhibbah Marine (MMM) Joint Venture, and a further contract to construct and commission a ship loader, associated with the Wiggins Island Coal Export Terminal Project at Gladstone, Queensland;
- Supply and installation of a screen house, two car dumpers and associated conveyor and transfer stations for Rio Tinto Iron Ore at its Cape Lambert Port B Project, WA;
- Construction of the Fortescue River Gas Pipeline from Compressor Station 1 on the Dampier to Bunbury Natural Gas Pipeline to the Fortescue Metals Group-operated Solomon Iron Ore Mines for the Fortescue River Gas Pipeline Joint Venture in the Pilbara, WA;
- Design and construction of the East Nogoia Water Treatment Plant for the Central Highlands Regional Council in Emerald, Queensland;
- Construction and commissioning of APLNG's upstream gas processing facilities associated with its coal seam gas projects at Roma, Queensland; and
- Design and construction of a 240 km irrigation scheme for Ashburton Lyndhurst Irrigation Ltd in Methven, New Zealand.

New contracts worth \$250 million were secured and undertaken during the year. They include:

- Structural, mechanical and piping installation and commissioning works within Concentrator Lines 3 to 6, valued at approximately \$160 million, with Sino Iron at Cape Preston, near Karratha, WA;
- Construction of the Spring Gully Pipeline Compression Facility for APLNG at Roma, Queensland;
- Design, supply, construction and commissioning of the flood-affected stages 1-4 and Flood Resilience works of the Oxley Creek Sewage Treatment Plant in Brisbane for Queensland Urban Utilities; and
- Construction for DDG Ashburton of a 24 km gas pipeline from its Ashburton West facilities to a new power station near Onslow, WA.

The division also secured preferred contractor status on new construction work valued at approximately \$150 million.

Subsequent to the end of the year, a number of new contracts were secured. They included a three-year contract with two one-year extensions with APLNG for the fabrication and supply of wellhead separator skids, to be commissioned at various locations in the Surat Basin, Queensland, and a contract with the Barrhill Chertsey Irrigation Ltd and Electricity Ashburton Limited Joint Venture for the design, construction and commissioning of a 40 km long, gravity and pressurised piped irrigation scheme for farming properties in Methven, New Zealand.

The New Zealand agreement was the first irrigation contract for Monadelphous following the successful acquisition of WI Group.

Maintenance and Industrial Services

The Maintenance and Industrial Services division, which specialises in the planning, management and execution of multidisciplinary maintenance services, sustaining capital projects and shutdowns, reported sales revenue of \$621 million for the year, a 6.4 per cent reduction compared to the previous year.

During the year, the division secured a 13-month extension, valued at approximately \$200 million, to the facilities management services contract associated with the Gorgon Project, operated by Chevron Australia, on Barrow Island, Western Australia (WA). The contract, originally secured in 2009, underlines the importance the Company places on long term relationships with its customers.

Other major contract activity undertaken included:

- Shutdown and maintenance services for Rio Tinto's coastal and inland operations in the Pilbara, WA;
- Maintenance and shutdown services for BHP Billiton's Nickel West operations in the Goldfields, WA;
- Maintenance and major shutdown services at the Woodside-operated Karratha Gas and Pluto LNG plants at Karratha, WA;
- Field construction services and project work for Oil Search Limited at its oil and gas production and support facilities in Papua New Guinea;
- Multidisciplinary services and a major shutdown at the Darwin LNG facility operated by ConocoPhillips in the Northern Territory;
- Multidisciplinary services for BHP Billiton's Olympic Dam operation at Roxby Downs, South Australia; and
- Maintenance services for QGC at its QCLNG Project on Curtis Island, Queensland.

Subsequent to the end of the financial year, \$380m of new contracts were secured, including:

- A new three-year facilities maintenance services contract associated with the Barrow Island, WA, assets operated by Chevron Australia Pty Ltd, for the operation and maintenance of facilities and utilities, and includes water and wastewater treatment plants, power generation and distribution systems, as well as the management and maintenance of various buildings, vehicles, plant and equipment;
- A three-year contract with a one-year extension option for the provision of labour for maintenance and shutdown services for South 32 Ltd at Worsley Alumina in Collie, WA;
- A three-year contract to provide project, maintenance and shutdown works for Queensland Alumina Limited in Gladstone, Queensland; and
- A contract with BM Alliance Coal Operations Pty Ltd to provide maintenance works for a major dragline shutdown at Blackwater Mine in Blackwater, Queensland.

Outlook

Australian market conditions are expected to remain soft on the back of historically low commodity prices across most sectors of the resources and energy market. Customers will continue to focus on reducing operating costs, improving productivity and restraining capital expenditure. Opportunities for new major construction contracts in the resources and energy sector are likely to remain at reduced levels.

Prospects for maintenance and industrial services are expected to be positive particularly in the oil and gas sector. Activity is expected to ramp up over the next few years as a number of multi-billion dollar LNG projects move to the operational phase. More broadly, maintenance service activity is expected to normalise following a long period of deferred activity. Monadelphous' leading position in the services market places it in a strong position to capitalise on these opportunities.

Margins will remain under pressure as competition is high for a smaller pipeline of work, with capital expenditure decisions delayed and operating expenditure tightened. The company will focus on additional initiatives aimed at reducing costs to protect margins and improve sustainability. Further consolidation of the Company's fixed cost base will be a priority.

Monadelphous also remains committed to advance its long term market growth strategy and diversification of revenue sources through a number of key initiatives including:

- Extending engineering capability and broadening services to undertake multidisciplinary projects and provide more cost-effective solutions for customers;
- Expanding the range of industrial services provided to customers;
- Continued expansion of its position in growing infrastructure markets throughout Australia and New Zealand including leveraging of the Company's recent acquisition of Water Infrastructure Group;
- Pursuing opportunities to provide our China based fabrication services to international customers;
- Progressing expansion opportunities in PNG and Mongolia; and
- Entering the growing oil and gas market in North America.

Importantly, the Company's strong balance sheet provides the capacity to pursue investment opportunities that support these diversification objectives.

On behalf of the Board, I take this opportunity to thank all our stakeholders for their loyalty and support and particularly our people for their dedication, commitment and highly valued contribution.

DIVIDEND ENTITLEMENTS

The final dividend of 46 cents per share fully franked will be paid to shareholders on 2 October 2015 with the record date for entitlements being 11 September 2015.

FURTHER INFORMATION

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About Monadelphous

Monadelphous Group Limited (ASX: MND) is a leading Australian engineering group providing construction, maintenance and industrial services to the resources, energy and infrastructure sectors. The Company has two operating divisions – Engineering Construction, providing large-scale multidisciplinary project management and construction services, and Maintenance and Industrial Services, specialising in the planning, management and execution of mechanical and electrical maintenance services, shutdowns, fixed plant maintenance services and sustaining capital works.

Monadelphous is headquartered in Perth, Western Australia, with a major office in Brisbane, Queensland, and projects, facilities and workshops across Australia and in New Zealand, China and Papua New Guinea. Please visit our website www.monadelphous.com.au for more information.

^ Reconciliation

Non-IFRS Financial Information

Monadelphous Group Limited results are reported under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The Company discloses certain non-IFRS measures that are not prepared in accordance with IFRS and therefore are considered non-IFRS financial measures. The non-IFRS measures should only be considered in addition to and not as a substitute for, other measures of financial performance prepared in accordance with IFRS.

The term “underlying” used within this document, is a non-IFRS profit measure which refers to the statutory result for the full-year ended 30 June 2014 excluding the one-off gain from the sale of subsidiaries, Skystar Airport Services Pty Ltd and Skystar Airport Services NZ Pty Ltd (“Skystar”). This measure is important to management as an additional way to evaluate the Company’s performance. The underlying profit measure is unaudited.

Underlying EBITDA is a non-IFRS earnings measure which does not have any standardised meaning prescribed by IFRS and therefore may not be comparable to EBITDA presented by other companies. Underlying EBITDA represents earnings before interest, tax, depreciation and amortisation and excluding the profit on the sale of Skystar. Underlying NPAT represents NPAT excluding the after tax profit on sale of Skystar.

Reconciliation of profit after income tax to underlying NPAT (unaudited)

	2015 \$'000	2014 \$'000
Profit after income tax	105,825	146,510
Gain from sale of Skystar	-	(7,934)
Underlying NPAT	<u>105,825</u>	<u>138,576</u>

Reconciliation of profit before income tax to underlying EBITDA (unaudited)

	2015 \$'000	2014 \$'000
Profit before income tax	147,041	205,203
Profit on sale of subsidiaries	-	(10,353)
Interest expense	1,701	3,101
Interest revenue	(4,478)	(3,371)
Depreciation expense	22,932	25,656
Amortisation expense	779	1,006
Underlying EBITDA	<u>167,975</u>	<u>221,242</u>