

ASX RELEASE
19 August 2014

MONADELPHOUS REPORTS FY 2014 SALES AND EARNINGS

Performance Highlights – FY 2014 compared to FY 2013

Net profit after tax (NPAT) \$146.5 million, down 6.3%, with margins holding up

Sales revenue \$2.3 billion, down 10.9% after two extraordinary years which delivered 80% growth

Underlying earnings per share^ (EPS) 150.4 cents, down 13.1%

Final Dividend 63 cps fully franked to take full-year dividend to 123 cps fully franked

Balance sheet strengthened with net cash position of \$180.8 million, up 29.0%

New contracts and contract extensions of \$1.8 billion secured during the year including the Company's **largest ever construction contract** of \$680 million

Broadened exposure to oil and gas market

Strengthened position in new service markets of pipelines and marine

Focus on productivity delivered \$53 million in annualised cost savings

Record safety performance, a 21% improvement in total case injury frequency rate (TCIFR).

Leading engineering company, Monadelphous Group Ltd (ASX: MND) today announced net profit after tax (NPAT) of \$146.5 million for 2013/14 and a solid workload underpinned by growth in oil and gas contracts into the new financial year.

The net profit, down 6.3 per cent on the previous year, flowed from lower revenue of \$2.3 billion and followed two years of extraordinary growth.

The result reflects softening activity in the mining and minerals sector, foreshadowed in the 2013/14 interim report and is expected to lead to some moderation in sales in the coming year.

The impact of this softening was reduced by Monadelphous' continued focus on productivity and increasing activity in the LNG and coal seam gas markets, with oil and gas customers contributing more than 40 per cent of total sales in the latest year.

The company further strengthened its position in new service markets of transmission pipelines and marine.

The result includes a one-off contribution from the sale of non-core aviation support services business, Skystar Airport Services.

"With the tightening conditions in mining and minerals, we continued our focus on improving productivity to ensure we remain competitive, efficient and responsive to customer requirements," Monadelphous Managing Director Rob Velletri said.

"The company-wide cost reduction program we started in the second half of the previous financial year achieved annualised cost savings of \$53 million and is driving enhanced productivity."

The solid workload for the new financial year and beyond encompasses \$1.8 billion of new contracts and contract extensions secured in 2013/14, including the company's largest ever construction contract for \$680 million of work on the Ichthys LNG Project in Darwin.

“More than 70 per cent of the new contracts are in oil and gas, highlighting the success of the strategy to position Monadelphous as a leading construction and maintenance provider to the energy market,” Mr Velletri said.

“Our broadened exposure to the oil and gas market will continue to provide construction and maintenance opportunities over the medium to longer term as construction activity in mining and minerals slows.”

With core markets continuing to tighten in the short term some moderation in sales is expected in the coming year.

Monadelphous is committed to long term growth through diversification and securing additional sources of revenue. Opportunities include broadening the service offering in core markets within Australia through development of an integrated Engineer, Procure and Construct (EPC) delivery model, extension of multidisciplinary execution capabilities, continued expansion into new markets and targeted growth overseas.

“Monadelphous’ strong financial position and healthy balance sheet will enable the pursuit of acquisition opportunities to advance these market growth and diversification objectives,” Mr Velletri said.

2014 FULL YEAR RESULTS

Revenue

Sales revenue for the year was \$2,330 million, down 10.9 per cent on the previous corresponding period. This result follows two years of exceptional growth and reflects softening activity in the mining and minerals sector.

Earnings

Net profit after tax (NPAT) was \$146.5 million, down 6.3 per cent. This included a one-off after-tax gain of \$7.9 million from the sale of aviation support services business, Skystar Airport Services (Skystar). NPAT excluding the one-off after-tax gain from the sale of Skystar (underlying NPAT[^]) was \$138.6 million, a decrease of 11.3 per cent on the previous year.

Earnings before interest, tax, depreciation and amortisation (EBITDA), excluding the \$10.4 million one-off pre-tax gain on the sale of Skystar (underlying EBITDA[^]), was \$221.2 million, a decrease of 12.1 per cent. Despite customer cost pressures and an increasingly competitive environment, margins held up well as the Company responded by focusing on reducing costs and improving productivity.

Underlying earnings per share (EPS) was 150.4 cents, down 13.1 per cent.

Dividend

The Board of Directors has declared a final dividend of 63 cents per share fully franked. This takes the full-year dividend to 123 cents per share fully franked. The Monadelphous Dividend Reinvestment Plan will apply to the final dividend.

Continued to strengthen balance sheet

Monadelphous maintained a disciplined approach to capital management and further strengthened its balance sheet during the year. Cash flow from operations was robust at \$117.6 million, up 3.9 per cent.

Capital expenditure was reduced by 84.7 per cent to \$7.1 million, following a number of years of substantial investment in strategic assets and to support extraordinary levels of activity. This contributed to a 29.0 per cent increase in the net cash position to \$180.8 million at year end.

Secured \$1.8 billion in new work

New contracts and contract extensions valued at approximately \$1.8 billion were secured during the year. They included Monadelphous's largest ever construction contract, valued at \$680 million, with JKC for structural, mechanical and piping works at the Ichthys LNG Project in Darwin in the Northern Territory. The Company also secured three upstream construction contracts in coal seam gas (CSG), valued at \$250 million, for the Australia Pacific LNG Project (APLNG) in Queensland.

Contracts in the oil and gas market made up more than 70 per cent of the total work awarded in the period, highlighting the success of the strategy to position Monadelphous as a leading construction and maintenance provider to the energy market.

Subsequent to the reporting period, Monadelphous was awarded a major iron ore construction contract with Sino Iron, as part of the Sino Iron Project at Cape Preston in Western Australia, valued at approximately \$160 million.

Productivity in focus

With market conditions in resources tightening considerably, Monadelphous continued its focus on improving productivity to ensure it remains competitive, efficient and responsive to customer requirements.

The company-wide cost reduction program initiated in the second half of the previous financial year was continued and achieved an annualised cost saving of approximately \$53 million, including \$22 million in overhead cost reductions. The program aims to improve productivity and focuses on the key areas of projects, people, procurement, plant and equipment, and property.

The July 2013 consolidation of the Infrastructure division into the operating structure of the two service-based divisions, Engineering Construction and Maintenance and Industrial Services, has facilitated improved service delivery, provided greater flexibility in resourcing and reduced fixed costs.

Key initiatives implemented during the year included:

- The consolidation of support and services structures across the business to leverage further cost savings;
- Remuneration levels adjusted to reflect the change in market conditions;
- The review of project management and delivery methodologies including the resetting of productivity targets to achieve a leaner and more disciplined approach to execution;
- The renegotiation of major supply chain agreements and the rationalisation of plant and equipment to support more efficient fleet utilisation; and
- A continued focus on contract administration and collections to support working capital management.

Sale of Skystar

In October 2013, the Company completed the sale of the non-core aviation support services business, Skystar Airport Services, to Menzies Aviation, a division of John Menzies plc. The transaction involved the wholly owned operating subsidiaries Skystar Airport Services Pty Ltd and Skystar Airport Services NZ Pty Ltd, and resulted in a one-off pre-tax profit of \$10.4 million.

OPERATIONAL OVERVIEW

Markets

Increasing activity in LNG and CSG during 2013/14 reduced the impact of slowing activity in the mining and minerals sector. Revenues from oil and gas customers contributed approximately 41 per cent of total sales, compared with 8 per cent in 2007/08.

Monadelphous continued to strengthen its position in new service markets with revenues from transmission pipelines and marine contributing approximately 15 per cent of total sales, up from a base of zero four years earlier.

The Company's broad exposure to the oil and gas market will continue to provide construction and maintenance opportunities over the medium to longer term, as construction activity in resources reduces.

Health and Safety

Monadelphous achieved another record safety performance for the year. The total case injury frequency rate (TCIFR) was 3.25 incidents per million man-hours worked, a 21 per cent improvement on the previous year.

The Company implemented a new incident management system during the period to support a consistent business-wide approach to health, safety, environment and quality incident management. Enhanced reporting capabilities will facilitate shared learning and continuous improvement.

People

The Company's workforce at year-end had reduced by approximately 25 per cent to 5,321, on a like-for-like basis. This was in line with the completion of a number of major construction projects, slowing resources construction activity and the timing of ramp up for newly awarded oil and gas contracts. Improved availability of labour contributed to greater productivity, high levels of key talent retention and an improving trend in permanent staff turnover.

OPERATIONAL ACTIVITY

Monadelphous provided 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, recorded sales revenue of \$1.67 billion, down 14.0 per cent on a like-for-like basis compared with the previous year. Following two years of extraordinary levels of construction activity, a number of major projects in iron ore and coal were completed during the period.

During the year, major contract activity included:

- Construction of stacking, reclaiming, train load out, product sampling and water infrastructure facilities for BHP Billiton Iron Ore's Jimblebar Mine, east of Newman in Western Australia (WA);
- Construction of the onshore DomGas pipeline for SapuraClough Sea Trucks Joint Venture, associated with the Chevron-operated Gorgon Project on Barrow Island (WA);
- Structural and mechanical works associated with coarse iron ore stockpiles, installation of a screen house and a new car dumper for Rio Tinto at Cape Lambert (WA);
- Structural, mechanical and piping works for a greenfield mine processing plant at Rio Tinto's and Hancock Prospecting's Hope Downs 4 Iron Ore Project near Newman (WA);
- Structural, mechanical, piping and electrical works for Rio Tinto's Marandoo Mine Phase 2 Expansion Project, east of Tom Price (WA);
- Construction of the potable water supply system, including bore field, collector main, transfer pump station and an 87km transfer pipeline, for Rio Tinto's coastal water supply project near Pannawonica (WA);
- A construction general services contract for Bechtel (Western Australia) at the Chevron Australia-operated Wheatstone Project near Onslow (WA);
- Installation of onshore, pipelines, cables and tubes and construction of a CO₂ injection pipeline for the Chevron Australia-operated Gorgon Project on Barrow Island (WA);

- Civil, structural, mechanical, piping and electrical and instrumentation works for a coal handling plant for BHP Billiton Mitsubishi Alliance's Caval Ridge Mine Project, south-east of Moranbah in Queensland (Qld);
- A design and construction contract, in joint operations with OSD Projects, for a pipeline and delivery station for Rio Tinto's Cape Lambert Petroleum Gas Pipeline at Cape Lambert (WA);
- Engineering, procurement and construction, with JKC, of the gas export pipeline works for the onshore facilities of the Ichthys Project in the Northern Territory (NT);
- Structural, mechanical, piping, electrical and instrumentation works for the construction of Rio Tinto's Western Turner Brockman iron ore plant near Tom Price (WA);
- 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 (WICET) Project at Gladstone (Qld);
- The supply of fabricated steelwork for stacker bridges and runway support gantries for WICET's coal stockyard at Gladstone (Qld); and
- An upgrade to Unitywater's Maleny Sewage Treatment Plant (Qld).

The division secured \$1.34 billion in new contracts, including the Company's largest ever construction contract, valued at \$680 million. The contract is with JKC at the Ichthys Project Onshore LNG Facility in Darwin (NT). The scope of the project comprises structural, mechanical and piping works for the utility and offsite area.

The division was also awarded three contracts with the Australia Pacific LNG Project (APLNG) for the construction of upstream gas processing and compression facilities associated with its coal seam gas projects in Queensland. The contracts have a combined value of \$250 million.

Other new contracts included:

- 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 (DBNGP) to the Fortescue-operated Solomon Iron Ore Mines in the Pilbara (WA);
- Design and construction of the East Nogoa Water Treatment Plant for the Central Highlands Regional Council in Emerald (Qld); and
- Construction of the Wheatstone Ashburton West Pipeline for the DBP Development Group (DDG) near Onslow (WA).

As stated above, in July 2014, the division was awarded a major iron ore construction contract, valued at approximately \$160 million, with Sino Iron at Cape Preston, near Karratha in WA.

Maintenance and Industrial Services

The Maintenance and Industrial Services division, which specialises in the planning, management and execution of multidisciplinary maintenance services and shutdowns, recorded sales revenue of \$663.5 million, a 0.3 per cent increase on a like-for-like basis compared to the previous year.

Growth in oil and gas maintenance activity was offset by lower volumes in the mining and minerals sector as customers focused on reducing and deferring expenditure in response to the changing market conditions.

During the year, the division continued to expand its service offering with existing customers, including working with Woodside through a newly integrated front-end support team established to carry out detailed planning for shutdown activity.

The division was awarded \$415 million in new maintenance contracts and contract extensions in the resources and energy sectors.

Contract activity and extensions awarded included:

- Facilities management services at the Chevron-operated Gorgon project on Barrow Island in Western Australia (WA) (one-year extension awarded during the period);
- Maintenance and shutdown services for Rio Tinto's coastal and inland west operations in the Pilbara (WA);
- Maintenance, minor capital work and shutdown support for BHP Billiton's Olympic Dam operation at Roxby Downs in South Australia (two-year extension awarded during the period);
- Maintenance and shutdown services for BHP Billiton's Nickel West operations in the Goldfields (WA);
- Dragline shutdown services for BHP Billiton Mitsubishi Alliance (BMA) in the Bowen Basin in central Queensland;
- Maintenance and shutdown services at the Woodside-operated Karratha Gas Plant and Pluto LNG Plant in WA;
- Multidisciplinary services at the Darwin LNG facility, operated by ConocoPhillips, in the Northern Territory (two-year extension awarded during the period);
- Onsite services, including a major shutdown, with BP at Kwinana (WA) (one-year extension awarded during the period);
- Field and construction services for Oil Search at its gas production and support facilities in the Southern Highlands Province of Papua New Guinea (three-year extension awarded during the period); and
- General maintenance services and projects for Chevron Australia at its Barrow Island and Thevenard Island operations (WA).

New contracts awarded included:

- A three-year Maintenance Services Framework Agreement with BHP Billiton Nickel West for mechanical and electrical services across all BHP Billiton's Nickel West's operations (WA); and
- A one-year contract for dragline and shovel shutdowns at Rio Tinto Coal and Allied's Mount Thorley Warkworth and Hunter Valley Operations sites in New South Wales. The agreement includes extension options of up to four years.

OUTLOOK

Monadelphous has grown significantly over the past decade, having capitalised on the strong conditions in the resources and energy sectors, as well as expanding its customer markets and service offering. The Company has progressively diversified its earnings base from the traditional mining market, with revenue from oil and gas customers now making up more than 40 per cent of sales.

Resource development investment has peaked and construction expenditure is slowing as conditions in the mining and minerals industry continue to weaken. However, a reasonable level of activity is forecast to continue, particularly in the iron ore sector. There will be ongoing opportunities in brownfield expansions as customers focus on optimising production. Maintenance and sustaining capital work, as new production assets move to the operational phase, will also provide opportunities.

Developments in the oil and gas sector will provide construction and maintenance opportunities for Monadelphous in the new financial year and beyond. The large number of LNG plants under construction will continue to generate strong levels of activity. Future opportunities include maintenance services for new LNG operations, further construction and maintenance in the coal seam gas market in Queensland and, in the longer term, floating LNG facilities.

The Company has entered the new financial year with a solid workload. However, an overall decrease in construction market opportunities is likely to lead to some moderation of sales revenues in the 2014/15 financial year.

Cost reductions and productivity improvements will remain priorities to protect operating margins in a more competitive environment. Increased availability of quality labour, improved efficiency in project delivery and a focus on innovation in productivity and safety will continue to drive improvements in this area.

Monadelphous remains committed to long term growth through diversification and securing additional sources of revenue in new markets. The Company will continue to broaden its service offering within the Australian market through the development of an integrated Engineer, Procure and Construct (EPC) delivery model, and extension of multidisciplinary execution capabilities. It will seek to expand its presence in power and water markets and further develop business in marine works and transmission pipelines. It will also look to expand overseas through leveraging opportunities with key customers, globalising its well-established China based fabrication services and explore prospects to enter the growing oil and gas market in North America.

The Company's strong financial position and healthy balance sheet will enable the pursuit of acquisition opportunities to advance these market growth and diversification objectives.

DIVIDEND ENTITLEMENTS

The final dividend of 63 cents per share fully franked will be paid to shareholders on 3rd October 2014 with the record date for entitlements being 12th September 2014.

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.

Its headquarters are in Perth, Western Australia, and it has a major office in Brisbane, Queensland, and projects, facilities and workshops across Australia and in 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 before income tax to underlying EBITDA (unaudited)

	2014 \$'000	2013 (# Restated) \$'000
Profit before income tax	205,203	221,159
Gain from sale of Skystar	(10,353)	-
Interest expense	3,101	3,971
Interest revenue	(3,371)	(3,386)
Depreciation expense	25,656	28,726
Amortisation expense	1,006	1,121
Underlying EBITDA	221,242	251,591

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

	2014 \$'000	2013 \$'000
Profit after income tax	146,510	156,314
Gain from sale of Skystar	(7,934)	-
Underlying NPAT	138,576	156,314

Restatement of Comparatives – Change in Accounting Policy

From 1 July 2013, the Group has elected to recognise the excess of the research and development tax offset over the statutory rate (‘the R&D offset’) being an additional 10% deduction as a government grant under AASB 120. As the grant relates to R&D expenditure already incurred it is recognised in the income statement in the period it became receivable. In prior years, the whole R&D offset was recognised as a reduction to the income tax expense. The change results in the R&D offset being separately disclosed in the notes to the financial statements and simplifies the presentation of the financial statements by matching the benefit of the grant against the expenditure which generated the R&D offset. The change has been applied retrospectively in accordance with Australian Accounting standards and as a result the comparatives have been restated. Please refer to note 2b of the 2014 financial statements for more details.