Monadelphous

20 November 2014

Company Announcements
Australian Securities Exchange Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000
AUSTRALIA

Dear Sir / Madam

RE: 2014 Annual General Meeting Address and Updated Outlook

Please find attached a copy of the address to shareholders by Chairman John Rubino and Managing Director Rob Velletri at the Annual General Meeting held today at The University Club in Perth, Western Australia.

Yours sincerely,

Philip Trueman
Company Secretary

ASX RELEASE

20 November 2014

2014 Annual General Meeting Address

Report by Chairman John Rubino

Good morning ladies and gentlemen. It is my pleasure to speak to you this morning about our performance for the 2014 financial year.

The Company achieved a solid earnings result for shareholders.

Following 12 consecutive years of earnings growth, sales revenue was $2.3 billion. This was down 10.9 per cent, reflecting slowing activity in mining and minerals.

Monadelphous has seen extraordinary growth for more than a decade, having capitalised on the high levels of investment in resources and energy over this period.

In fact, our sales revenue increased more than tenfold in ten years…quite a remarkable achievement.

We have maximised growth in our core markets and diversified our business into new markets.

The wave of investment in mining and minerals has now decreased from the peak of 2012/13. We have seen significant change in the industry. The focus of customers has shifted to low capital intensity and production efficiency.

Investment activity in oil and gas remains strong. Progress continues on several multi-billion dollar LNG projects. Our position in this market is stronger than ever. Around half of our sales revenue now comes from this sector.

On a different note, I am very proud of our safety performance. In the 2014 financial year we achieved a 21 per cent improvement in our total case injury frequency rate, another record result.

During the year we sold our non-core business, Skystar Airport Services to Menzies Aviation. I thank all Skystar employees for their contribution to the success of the business over the 12 years since its establishment. We wish them all the best for the future.

Our share price remains under pressure, reflecting ongoing negative sentiment towards the resources sector and a significant decline in commodity prices.

Despite these short term pressures, we remain in a strong position. Our leading capabilities, broadening market coverage and multi-disciplined service offering will continue to provide us with access to a wide range of opportunities.

We maintain our commitment to long term growth through the ongoing development of new customer and service markets. We have the balance sheet and most of all, the management team to select and invest in the right opportunities.

Before I hand over to Rob, I would like to highlight our key Board and management changes.

During the year, long-standing Director, Irwin Tollman announced his retirement, following more than 20 years' service to the company. I sincerely thank Irwin for his valued contribution to Monadelphous over this time.

Dietmar Voss, who is seated on my far left, was appointed to the Board as a Non-Executive Director in March of this year.

Dietmar brings more than 40 years' experience to the company. He has worked in a number of global mining and engineering businesses including BHP Billiton and Bechtel both in Australia and overseas.

Welcome Dietmar.

In late September, Arif Erdash, Executive General Manager of the Maintenance division announced his retirement, after 12 years of service.

The Board and I extend our gratitude to Arif for his contribution to the Company's success and wish him well in his retirement.

Our Chief Financial Officer, Zoran Bebic, who has been with the company for more than 21 years will assume Arif's role.

Our General Manager, Human Resources, Phil Trueman, will take over as CFO. Phil is a Chartered Accountant and has worked in a number of financial and general management roles since he joined us in 2003.

I wish Zoran and Phil well in their new positions.

In closing, I would like to thank all our people for their loyalty and commitment, our customers for their trust, the Board for their guidance and our shareholders for their continued support. Over to you Rob.

Report by Managing Director Rob Velletri

I am pleased to report Monadelphous' sales and earnings result for the year ended 30 June 2014. As John mentioned, sales revenue for the year was $2.3 billion, down 10.9 per cent, reflecting the softening in mining and minerals. This result follows two years of extraordinary growth where revenue increased by more than 80 per cent.

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 Skystar. Underlying earnings per share was 150.4 cents, a reduction of 13.1 per cent.

Following this result, a final dividend of 63 cents per share fully franked was paid on October 3rd. This took the full-year dividend to 123 cents per share.

John also mentioned that we achieved another record safety performance, which was a particular highlight for the period.

We won $1.8 billion of new contracts and contract extensions, more than 70 per cent of them with oil and gas customers. We saw increasing activity in LNG and Coal Seam Gas which reduced the impact of lower activity in the mining and minerals sector.

With market conditions in resources tightening, we continued to focus on productivity and reducing our cost base to ensure we remain competitive and responsive to customer requirements.

We strengthened our position in new service markets of pipelines and marine and broadened our exposure in oil and gas.

Slide nine looks in more detail at our financial performance on an underlying basis when compared with the previous year's results. A reconciliation of the statutory results to the underlying performance is included later in this presentation.

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) was $221.2 million, down 12.1 per cent, broadly in line with sales revenue.

Underlying net profit after tax reduced 11.3 per cent to $138.6 million. Pleasingly, margins remained relatively steady despite customer cost pressures and an increasingly competitive environment. This result was supported by the Company-wide cost reduction program.

As you can see, cash flow from operations was robust at $117.6 million, up 3.9 per cent on the previous 12 months.

Turning now to Financial Position and Funding.

We ended the financial year with $217.9 million of cash at bank, an 11.6 per cent increase on 12 months earlier.

The balance sheet was further strengthened with a net cash position of $180.8 million at year end, up 29 per cent on the prior year.

Capital expenditure was reduced by 84.7 per cent to $7.1 million, following a number of years of substantial investment in plant and equipment.

Total bond facilities were $675.6 million at 30 June, one-third higher than a year ago, as we took the opportunity to secure additional capacity and greater flexibility.

Slide 11 provides a summary of revenue by division.

The Engineering Construction division reported revenue of $1.67 billion, down 14 per cent.

Iron ore and coal projects dominated activity for the period.

New contracts with a combined value of approximately $1.34 billion were secured during the year.

Our Maintenance and Industrial Services division delivered sales revenue of $664 million, a slight increase on the previous year.

The division was awarded $415 million in new maintenance contracts and contract extensions.

Growth in oil and gas maintenance activity was offset by lower volumes in mining and minerals as customers reduced and deferred capital and operating expenditure.

Now to contract activity.

This map shows contract revenue by division and location during the last financial year.

As you can see, revenue came from a number of larger contracts in iron ore and oil and gas in Western Australia, and high levels of activity in coal and oil and gas in Queensland.

Turning now to contracts secured in the 2014 financial year.

As I've mentioned, we secured approximately $1.8 billion of new contracts and contract extensions during the year. They included our 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.

We were also awarded our first three upstream construction contracts in coal seam gas valued at $250 million, for the Australia Pacific LNG Project in Queensland.

I would like to give you an idea of some of the work we were involved in during the year.

Slide 14 is a photo of Rio Tinto's Western Turner Syncline project near Tom Price, Western Australia where Monadelphous carried out a major multidisciplinary construction project.

The contract was valued at around $300 million and included the construction of 26 kilometres of conveyors and a 28 kilometre 33kv HV power line with peak manning of 820 personnel.

Slide 15 is a photo of the coal handling plant at the BHP Billiton Mitsubishi Alliance's Caval Ridge Mine Project in Queensland, where we completed a multidisciplinary construction project.

The contract was valued at around $150 million and included all mechanical and electrical works associated with the run of mine, surge and train load out system. Work included 16 kilometres of conveyors with more than 100 kilometres of cable installation. Peak manning was around 300 personnel.

Slide 16 shows work being undertaken at the Wiggins Island Coal Export Terminal in Gladstone, Queensland in joint venture with Muhibbah Engineering.

The project included a 1.8 kilometre approach jetty, 485 metre wharf structure and 1300 tonne shiploader. All the wharf and jetty decking was constructed in modules and fabricated through our China based fabrication business, Sinostruct. Around 22,500 tonnes of steel and concrete structures were supplied.

Slide 17 shows Monadelphous KT installing a pipeline at Rio Tinto's West Angelas Gas Pipeline project. This project involved design and construction of an 85 kilometre transmission pipeline and facilities, in joint venture with OSD Projects. We had around 200 personnel involved in the project.

Slide 18 is a photo taken at the Woodside-operated Karratha Gas Plant, where the Maintenance and Industrial Services division have a major long-term contract that includes the provision of maintenance and shutdown services.

Slide 19 shows the Chevron-operated Gorgon Project on Barrow Island in WA, where we have provided facilities management services since 2010. The contract covers the management, operation and maintenance of construction and accommodation facilities and utilities as well as the operation and maintenance of water and waste water treatment plants, power generation and distribution systems for the island.

Turning now to contracts secured in the new financial year.

We continued to secure work, with approximately $450 million of new contracts and contract extensions won since the start of 2014/15.

These include an extension to a maintenance contract in the oil and gas sector, new iron ore construction work in Western Australia and oil and gas construction work in Queensland.

Moving on to our Safety Scorecard.

As both John and I have highlighted, Monadelphous achieved another record safety performance for the year.

We implemented a new incident management system to support a consistent business-wide approach to health, safety, environment and quality incident management. This system will enable group-wide shared learning and continuous improvement.

Moving to our People Performance.

Our total workforce reduced by approximately 25 per cent on a like-for-like basis over the year, to 5,321 at 30 June. This followed the completion of a number of major projects, slowing 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.

Slide 23, Productivity.

We continued to focus on improving productivity during the year.

The company-wide cost reduction program initiated last year achieved an annualised cost saving of approximately $53 million, including $22 million in overheads.

Key initiatives we implemented during the year included:

- Consolidation of support and services structures to reduce overhead costs;
- Adjustments to staff remuneration levels in line with the change in labour market conditions;
- Review of project management and delivery methodologies to achieve a leaner and more disciplined approach to contract execution;
- 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.

Moving to Slide 24.

As John said earlier, we have grown significantly over the past decade, capitalising on strong conditions in the resources and energy sectors and expanding our customer markets and service offering.

This slide shows that we have progressively diversified our earnings base from the traditional mining market. Revenue from oil and gas customers, shown in green on the graph, now makes up more than 40 per cent of sales, increasing from 26 per cent in the previous year, and five times that of 2008.

Monadelphous

Slide 25 shows the growing contribution from new service offerings in recent years. As you can see pipelines, water and marine work now makes up around 15 per cent of revenue.

The Company is committed to long term growth by securing additional sources of revenue in new markets.

We will continue to maximise our service offering in core markets by growing services in upstream and downstream LNG and positioning for floating LNG. We will further develop our integrated Engineer, Procure and Construct (EPC) delivery model and multidisciplinary execution capabilities.

Furthermore, we will seek to expand our presence in new markets through growing services in power and water as well as marine construction and transmission pipelines.

Overseas, we will seek to build out our position in PNG and Mongolia, and to leverage opportunities for expansion in core service markets with key customers. Other opportunities include globalising our well-established China based fabrication services, and exploring prospects to enter the growing oil and gas market in North America.

This slide provides a snapshot of Australian market conditions.

As you can see, resource development investment in Australia is now declining. While investment has slowed, a reasonable level of activity is forecast to continue, particularly in iron ore.

Investment in energy projects has been significant over the past two years and is due to peak over the next two, as seven new LNG projects commence production across Australia.

Infrastructure capex is forecast to remain relatively flat with maintenance and sustaining capital work increasing as new production assets move to the operational phase.

Turning now to the Outlook.

Market conditions in mining and minerals continue to be challenging as customers drive down capital and operating costs. While the pipeline of major resource development opportunities has reduced, we remain in a strong position to capitalise on prospects for brownfield expansion and sustaining capital works as customers focus on optimising production.

Our broad exposure to oil and gas will provide ongoing construction and maintenance opportunities. Future prospects include maintenance services for new LNG operations including floating LNG, and further construction and maintenance work in the coal seam gas market in Queensland.

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

As reported in the full-year result, an overall decrease in construction market opportunities is likely to lead to some moderation in sales revenue in the 2014/15 financial year.

At this stage we anticipate that first half sales revenue will be around 15 to 20 per cent lower than the near record first half of last financial year. It will be similar to that recorded in the second half of last financial year. Full-year sales revenues will be dependent on new contract awards and project timing.

As highlighted earlier, we remain committed to long term growth through diversification and we are in a strong financial position to pursue investment opportunities that support this objective.

On behalf of the Board, I thank all stakeholders for their loyalty and support and particularly our people for their dedication, commitment and highly valued contribution to another successful year at Monadelphous.

I look forward to our continued development for the benefit of all. Thank you.

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Further Information

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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 China and Papua New Guinea. Please visit our website www.monadelphous.com.au for more information.