

23 August 2016

## MONADELPHOUS REPORTS FY 2016 SALES AND EARNINGS

### Highlights – FY 2016 compared to FY 2015

**Sales revenue** \$1.365b, down 26.8%, reflecting lower demand for engineering construction services

**Net profit after tax (NPAT)** \$67.0 million, down 36.7% as margins remained under pressure

**Earnings per share (EPS)** 71.8 cents

**Final Dividend** 32 cps, fully franked

**Awarded new contracts and contract extensions** of \$1.1 billion, including Shell Australia Prelude FLNG services

**Maintained strong balance sheet** with net cash of \$186 million

**Solid progress in growth and diversification strategy** entered renewable energy market and secured overseas work

**Record safety performance** 22% 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 2016 of \$1.365 billion, down 26.8 per cent on the previous year. The result reflected lower demand for engineering construction activities as customers in the resources and energy sectors maintained their focus on reducing capital expenditure and minimising operating costs.

Monadelphous Managing Director Rob Velletri said resources and energy market conditions had remained challenging throughout the year.

“While opportunities for new major resource and energy construction contracts are expected to remain at low levels, we are well placed to capitalise on growing maintenance opportunities, particularly in the oil and gas sector,” Mr Velletri said.

Net profit after tax was \$67.0 million, with reduced levels of construction activity, surplus capacity of service providers and the continued focus by customers on cost savings putting pressure on margins.

Mr Velletri said the Company had continued to work closely with its customers to identify productivity improvements while remaining focused on protecting margins and improving sustainability.

Monadelphous secured more than \$1.1 billion of new work, with approximately 70 per cent being new oil and gas contracts, highlighting the success of the Company’s strategy to position itself as a leading construction and maintenance provider to the energy market.

“The award of three long term oil and gas contracts, including a services contract associated with Shell Australia’s Prelude Floating Liquefied Natural Gas (FLNG) project, demonstrates our capability to deliver a diverse range of operations and maintenance services for both onshore and offshore facilities,” Mr Velletri said.

Monadelphous made solid progress in its market growth strategy with commencement of operations in the US, growth in the water infrastructure sector and the establishment of a renewable energy business, all providing a more diversified platform for long term growth. The Company also plans to pursue a number of identified overseas project opportunities.

“Our strong financial position and healthy balance sheet provides substantial capacity to pursue investment opportunities and advance our long term growth strategy,” Mr Velletri said.

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

## 2016 FULL YEAR RESULTS

### Revenue

Sales revenue for the year was \$1.365 billion, down 26.8 per cent on the previous corresponding period. The result reflected lower demand for engineering construction activities as customers in the resources and energy sectors maintained their focus on reducing capital expenditure and minimising operating costs. Moderate increases in maintenance service activity levels were offset by reduced pricing to customers in a highly competitive environment.

### Earnings

Net profit after tax (NPAT) attributable to equity holders of the parent was \$67.0 million, down 36.7 per cent compared to the previous corresponding period.

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$113.6 million, a decrease of 32.4 per cent. Margins remained under pressure with reduced levels of construction activity, surplus capacity of service providers and the continued focus by customers on cost savings.

Earnings per share (EPS) was 71.8 cents.

### Dividend

The Board of Directors is pleased to declare a final dividend of 32 cents per share fully franked. This takes the full-year dividend to 60 cents per share fully franked. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the final dividend.

### Strong Balance Sheet

Monadelphous maintained a healthy working capital position and strong balance sheet. Net cash was \$186.0 million at 30 June 2016, and cash flow from operations was \$78.0 million.

### Secured \$1.1 billion of New Work

New contracts and contract extensions valued at approximately \$1.1 billion were secured during the year across a broad range of industries, building upon long-term relationships with key customers in core markets.

Contracts won included a long-term maintenance and modifications services contract associated with Shell Australia's Prelude Floating Liquefied Natural Gas (FLNG) project and a new contract in joint venture with Giovenco Industries Pty Ltd, for services on the Woodside-operated Karratha Gas Plant Life Extension Program.

The contract with Shell Australia is of significant strategic importance to Monadelphous, and positions the Company as a major provider of FLNG services.

### Productivity and Innovation

Monadelphous has continued to work closely with customers to identify productivity improvements within their operations. The slowing in the global consumption of commodities over the past few years, particularly in resources and energy, has led to severe cost pressures for many customers.

Key initiatives implemented during the year included further reductions in staffing levels, subleasing of surplus premises, improved supply arrangements, disposal of excess plant and machinery, improvements to project management methodologies and innovative project delivery initiatives.

During the year a review was undertaken of the Company's organisational structure to ensure alignment with strategy and better position Monadelphous to deliver its strategic vision for growth and diversification. An evaluation of the Company's support structure was also undertaken to improve the efficiency in delivery of business and project services and to support a more global business.

The Company remains focused on maximising productivity, reducing costs and maintaining its strong financial discipline.

### **Strategic Progress**

Monadelphous enhanced its business development activities across the Group, successfully capitalising on a number of opportunities in core markets and making good progress in its strategy to expand into infrastructure and extend core services overseas.

The award of three new long-term oil and gas maintenance contracts during the year reflects Monadelphous' strong delivery track record and the successful drive to implement cost-effective solutions for customers.

The Maintenance and Industrial Services division further strengthened its position in the upstream coal seam gas market securing panel service contracts for sustaining capital works. Industrial services were extended to include access solutions and mine dewatering services.

In newer markets, the Company grew its presence in water infrastructure with the award of an additional irrigation contract during the year.

In July 2016, the Company achieved a key strategic milestone establishing an agreement with renewable energy specialist, ZEM Energy, to form a new incorporated joint venture, Zenviron. Zenviron brings together the complementary strengths of Monadelphous' multidisciplinary engineering and construction capabilities and ZEM Energy's technical experience, design capabilities and long term industry relationships. Zenviron has been selected as preferred tenderer for the provision of the Balance of Plant associated with CWP Renewables' Sapphire Wind Farm, and is well-positioned to capitalise on the growing number of opportunities in the renewable energy markets in Australia and New Zealand.

The Company continues to actively pursue opportunities in the civil infrastructure market and has made good progress in developing a strategic alliance to enable the delivery of EPC services to the resources sector.

Monadelphous finalised a partnership agreement with United States (US) company Mascaro Construction, a Pittsburgh based civil contractor, to establish Monaro LLC. Monaro will deliver multidisciplinary construction services in the Marcellus and Utica gas regions of North East USA, including the states of Pennsylvania, Ohio and West Virginia. The Company opened an office in early 2016 and was recently awarded its first project. Whilst activity in the energy sector has declined due to low resource prices, Monaro is well-positioned to pursue future opportunities in its target market.

The China-based fabrication business entered the North American market, securing a number of orders to fabricate and supply process modules for various power projects in Pennsylvania.

### **Wiggins Island Coal Export Terminal**

In July 2016, Monadelphous announced that MMM, an unincorporated joint venture in which one of its subsidiaries holds a 50% interest, reached agreement with Wiggins Island Coal Export Terminal Pty Ltd, to resolve all claims relating to contracts performed on the Wiggins Island Coal Export Terminal Project in Gladstone, Queensland. The terms of this agreement are confidential and remain subject to third party approvals.

### **AnaeCo Limited (AnaeCo)**

In August 2016, Monadelphous entered into a binding agreement with Xiaoqing Environmental Protection Technology Company (XEPTC) that will result in XEPTC buying part of a convertible loan owed to Monadelphous by AnaeCo, with the remaining balance of the loan being converted to equity in AnaeCo. The transaction remains subject to AnaeCo shareholder approval. It is expected that Monadelphous will hold 30% of AnaeCo's issued share capital on conversion.

## **OPERATIONAL OVERVIEW**

### **Markets**

Global market conditions deteriorated further throughout the year against a backdrop of historically low resources and energy commodity prices. Mining and energy sector investment in Australia continued to decline as major customers scaled back capital expenditure and expansion plans and remained focused on reducing costs while improving the operating efficiency of existing assets.

Sales revenue, particularly in the Engineering Construction division, was adversely impacted by delays to existing committed projects and the slow-down in investment in new major construction projects.

Despite tough operating conditions, the Company strengthened its position in core markets by securing new work across a broad range of industries including water infrastructure, coal, alumina, base metals, oil, coal seam gas and LNG.

### **Health and Safety**

The Company finished the year with another record safety performance, demonstrating Monadelphous' reputation as industry leader in health and safety management. An emphasis on safety leadership, culture and behaviour underlies the Company's continuous improvement in this important area.

A total case injury frequency rate (TCIFR) of 2.45 incidents per million man-hours worked was attained during the year, an improvement of 22 per cent on the previous year. The lost time injury frequency rate (LTIFR) was 0.09 incidents per million man-hours worked, with only one incident recorded in the 12 months.

### **People**

The Company's total workforce at 30 June 2016 was 4,438, a slight decrease on 12 months earlier. Employee numbers are a reflection of increasing activity levels within maintenance services, offset by reductions within our construction workforce. The Company continues to experience good levels of key talent retention and a lower trend in permanent staff turnover. Productivity also continued to increase as a result of improved labour availability.

## **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 \$758 million, down 39.2 per cent compared to the previous year.

Slowing demand for construction work by customers in the resources and energy sectors continued to impact sales revenues. Construction activity declined due to project delays and a significantly reduced pipeline of new work as customers delayed expansion plans and shelved major new investments. The division remained focused on new markets and overseas opportunities.

New contracts secured during the year included:

- A three-year contract with APLNG for the supply of wellhead separator skids in the Surat Basin, Queensland;
- A contract with BCI for the design, construction and commissioning of a 40 km long irrigation scheme in Methven, New Zealand; and
- A contract with Nyrstar for structural, mechanical and piping works at its Port Pirie Smelter in South Australia.

Subsequent to the year end, new contracts announced included:

- A contract for the design, construction and commissioning of a liquid fuel supply system for Rio Tinto Iron Ore at its Cape Lambert Port Facility near Karratha, in WA;
- A contract for the design and construction of a potable water treatment plant for the Western Downs Regional Council in Chinchilla, Queensland; and
- Electrical and instrumentation works for the product loading jetty with JKC Australia LNG Pty Ltd at the Ichthys Project Onshore LNG Facilities in Darwin, NT.

Construction activity at Inpex's Ichthys Onshore LNG Facility in Darwin, was a major highlight of the year. The project reached a peak manning level in excess of 900 employees during the period and has an excellent safety record. Works have been successfully executed and were approximately 60 per cent complete at year end. The project is expected to reach practical completion during the 2017 financial year.

Newly established US company Monaro opened an office in Pittsburgh in January 2016, targeting construction projects in the energy, power, petrochemical and heavy industrial sectors in the Marcellus shale region. Monaro has recently commenced operations after being awarded a small pipework package and continues to pursue other business opportunities in the region.

During the period, SinoStruct secured a long-term contract to fabricate and supply wellhead separator skids for Australia Pacific LNG. The Company is in a strong position to convert a number of similar opportunities into supply contracts.

Other major contract activity during the year included:

- Structural, mechanical and piping works within concentrator lines 3 to 6 at the Sino Iron Project at Cape Preston, in Western Australia (WA);
- Engineering, procurement and construction, with JKC, of the gas export pipeline works for the Ichthys Project Onshore LNG Facility in Darwin, NT; and
- Design and construction of a 240 km irrigation scheme for Ashburton Lyndhurst Irrigation Ltd in Methven, New Zealand.

### **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 \$608 million for the year, slightly down on the previous year.

Sales revenue for the year reflected a moderate increase in maintenance activity, offset by reduced pricing to customers in a highly competitive market. Demand remains high for cost savings, innovation and efficient brownfields production as a number of new plants under construction transition to operations.

Over \$1 billion in new contracts and contract extensions were secured during the year, demonstrating the Company's leading position in the services market. New and extended contracts included:

- A three-year contract to provide project, maintenance and shutdown works for Queensland Alumina Limited in Gladstone, Queensland;
- A three-year contract for maintenance and shutdown services for South32 Ltd at Worsley Alumina in Collie, WA;
- A three-year facilities maintenance services contract to support the Barrow Island assets, operated by Chevron Australia, in WA;
- A contract with BM Alliance Coal Operations to provide maintenance works for a major dragline shutdown at Blackwater Mine in Blackwater, Queensland;

- A three-year contract for BP at its Kwinana Refinery, for capital works and maintenance events, in WA;
- A seven-year maintenance and modification services contract associated with Shell Australia's Prelude Floating Liquefied Natural Gas (FLNG) project, in the Browse Basin;
- A new contract in joint venture with Giovenco Industries Pty Ltd for services on the Woodside-operated Karratha Gas Plant Life Extension Program, in WA; and
- A two-year contract with BM Alliance Coal Operations to provide dragline maintenance at various locations in the Bowen Basin, Queensland.

The division also recently acquired multi-disciplined IRATA certified rope access service provider, Evo Access. Evo Access delivers innovative access solutions for customers and has extensive experience providing rope access solutions for projects within the onshore and offshore oil and gas, mining, energy, petro-chemical and infrastructure sectors.

Major contract activity undertaken included:

- Facilities management and support services at the Chevron Australia-operated Barrow Island assets, WA;
- Maintenance and major shutdown services at the Woodside-operated Karratha Gas Plant at Karratha, WA;
- 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;
- Project and maintenance services for Queensland Alumina Limited in Gladstone, Queensland; and
- Maintenance and shutdown works for BM Alliance Coal Operations in Queensland.

Subsequent to the year end, the Company announced it had been awarded a five-year maintenance support contract for BHP Billiton at its Olympic Dam operations in Roxby Downs, South Australia. Monadelphous has been providing maintenance and industrial services support at Olympic Dam for more than 25 years.

## **Outlook**

Resources and energy market conditions will remain challenging over the medium term against the backdrop of a prolonged downturn in the commodity price cycle.

Customers are expected to maintain their focus on reducing capital expenditure, improving productivity and minimising operating costs. Opportunities for new major construction contracts in the Company's core markets are likely to remain at low levels.

The outlook for maintenance and industrial services remains positive as new operations come on stream, particularly in the onshore and offshore oil and gas sector. More broadly, higher levels of production and an increasing number of aging assets in the resources sector will drive higher volumes of sustaining capital and support services.

Monadelphous has developed a leadership position in this services market and is well placed to capitalise on a growing number of opportunities.

Overall, the surplus capacity of service providers in core markets will keep margins under pressure. The Company remains focused on initiatives to reduce costs, protect margins and improve sustainability.

In the resources sector, Monadelphous will focus on expanding its range of services, progressing the establishment of an EPC service to provide more cost-effective project solutions and broadening its industrial service offering to new and existing customers' operations.

Monadelphous' position in infrastructure markets will be further strengthened. The Company will continue to grow its presence in the water infrastructure market both in Australia and New Zealand and the newly established renewable energy business provides it with another platform for growth.

The Company will continue to progress its overseas expansion strategy. It has identified a number of potential opportunities for projects in PNG and Mongolia and will develop its newly established position in the US market. Opportunities to provide China-based fabrication services to international customers will also be pursued.

Importantly, a strong balance sheet provides Monadelphous with substantial capacity to pursue investment opportunities to advance its long term market growth strategy.

On behalf of the Board, I take this opportunity to thank all our stakeholders for their loyalty and support, and particularly our dedicated team of people for their commitment and contributions during the year.

## **DIVIDEND ENTITLEMENTS**

The final dividend of 32 cents per share fully franked will be paid to shareholders on 30th September 2016 with the record date for entitlements being 9th September 2016.

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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 New Zealand, China, Mongolia, Papua New Guinea and the United States of America.*

*Please visit our website [www.monadelphous.com.au](http://www.monadelphous.com.au) for more information.*