

ASX RELEASE

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MONADELPHOUS DELIVERS RECORD 2014 FIRST-HALF PROFIT

- **Net profit after tax (NPAT)** up 10.1% to a record \$87.1 million (compared with \$79.1 million in H1 2013).
- **Sales revenue** remained near record at \$1,277 million, down 1.0% (\$1,289 million H1 2013).
- **Earnings before interest, tax, depreciation and amortisation (EBITDA[^])** \$121.4 million, down 3.1% (\$125.3 million H1 2013).
- **Underlying Earnings per share (EPS)** 86.3cps, down 2.6% from record (88.6cps H1 2013).
- **Interim dividend** of 60cps fully franked, down 3.2% (62cps H1 2013).
- **Strong balance sheet** with net cash of \$188.1 million (\$126.3 million H1 2013), strong operating cash flow and significant improvement in cash conversion.
- **New contracts and contract extensions** of approximately \$700 million (\$600 million in H1 2014 and \$100 million subsequent to H1 2014).
- **Outstanding safety performance** with total record total case injury frequency rate (TCIFR) improving by 38% to 3.41 incidents per million hours worked.
- **Company-wide cost reduction program savings** of ~\$34 million p.a. including ~\$17 million of overhead reductions.
- **Sale of Skystar**, a non-core aviation support services business, for \$10.4 million pre-tax profit.

Leading engineering group, Monadelphous Group Limited (ASX: MND) has today announced a record net profit after tax (NPAT) of \$87.1 million for the first half of 2013/2014, a 10.1 per cent increase on the previous corresponding period. Underlying NPAT[^] was up 0.1% to \$79.2 million.

Sales revenue remained close to recent record levels – down 1.0 per cent at \$1,277 million – as the company continued work on a high volume of construction contracts.

Monadelphous Managing Director Rob Velletri said the company had delivered a solid half year result as the resources market continued to tighten and the unprecedented surge in construction activity moderated.

“We are particularly pleased with our sustained improvement in safety performance with our injury frequency rates reducing almost 40%,” Mr Velletri said.

“In response to the change in market conditions, the company has achieved annualised cost savings of \$34 million to date through a program focussed on consolidating and right-sizing the business.”

“We have continued to secure new work with approximately \$600 million in new contracts and extensions in the first half and a further \$100 million subsequent to the reporting period, with additional awards expected in the coming months.”

“While mining and minerals markets have softened, bidding activity in the oil and gas market remains high and the company is in a strong position to secure new contracts in both upstream and downstream LNG developments.”

As previously reported, revenue levels have moderated, and the company expects a decline in sales for the 2014 full year of approximately 10 per cent.

OPERATIONAL OVERVIEW

Markets

Monadelphous maintained its strong position in core markets and further strengthened its reputation as a leading construction and maintenance services provider in the growing oil and gas market as the unprecedented surge in construction activity moderated.

The Company also continued the expansion and diversification of its capabilities in new service markets with transmission pipelines and marine now making up approximately 20 per cent of revenue.

Health and safety

Monadelphous's constant focus on its core value of safety and wellbeing drove further improvements in the Company's health and safety performance, and delivered another record safety result. The total case injury frequency rate was 3.41 incidents per million man-hours worked, a 38 per cent improvement on the previous corresponding period.

A new incident management system was introduced during the period. This provides the Company with a consistent business-wide approach to health, safety, environmental and quality incident management. Enhanced reporting capabilities will help facilitate shared learning and continuous improvement.

People

The Company's total workforce at 31 December 2013 was 5,656, a decrease of 25.6 per cent on a like-for-like basis from 12 months earlier when employee numbers were near peak levels. The main focus for the period was on restructuring and right-sizing the business in response to the change in market conditions.

Costs in focus

The company-wide cost reduction program, introduced in the second half of the 2013 financial year, continued during the period and has achieved an annualised cost saving of approximately \$34 million, including \$17 million of annualised overhead cost reductions. The program is aimed at maintaining profitability and improving productivity and is focused on the key areas of projects, people, procurement, plant and equipment and property.

Cost reduction initiatives have included a consolidation of support and services structures, a review of project delivery methodologies, consolidation and renegotiation of major supply agreements, rationalisation of the plant and equipment fleet and tightening of expenditure processes and authorities.

OPERATIONAL ACTIVITY

Monadelphous provides a broad range of services to the resources, energy and infrastructure markets through its two operating divisions, Engineering Construction and Maintenance and Industrial Services.

Engineering Construction

The Engineering Construction division, which provides large-scale, multidisciplinary project management and construction services, recorded sales revenue of \$960.4 million, an increase of 0.8 per cent on a like-for-like basis when compared with the previous corresponding period.

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Projects substantially completed during the latest period were:

- Construction of stacking, reclaiming, train load out, product sampling and water infrastructure facilities for BHP Billiton Iron Ore's Jumblebar 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);
- Structural, mechanical and piping installation works for BHP Billiton Petroleum, associated with the construction of the onshore gas plant at the Macedon Gas Project near Onslow (WA);
- Construction of the potable water supply system, including bore field, collector main, transfer pump station and 87km transfer pipeline for Rio Tinto's coastal water supply project near Pannawonica (WA).

Other major project activity included:

- A construction general services contract for Bechtel (Western Australia) at the Chevron Australia-operated Wheatstone Project near Onslow (WA);
- 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, Queensland;
- A design and construction contract, in joint venture with OSD Projects Pty Ltd, for a pipeline and a 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;
- 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 Pty Ltd (WICET) project at Gladstone in Queensland; and
- The supply of fabricated steelwork for stacker bridges and runway support gantries for WICET's coal stockyard at Gladstone, Queensland.

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New contracts, with a combined value of approximately \$350 million, awarded during the period included:

- Design and construction of the East Nogoia Water Treatment Plant for the Central Highlands Regional Council in Emerald, Queensland;
- Construction of the Wheatstone Ashburton West Pipeline for the DBP Development Group (DDG) near Onslow (WA); and
- 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 in WA.

Subsequent to the reporting period, the Company signed a \$100 million contract with DDG for the construction of the Fortescue River Gas Pipeline from Compressor Station 1 on the Dampier to Bunbury Natural Gas Pipeline (DBGNP) to the Fortescue-operated Solomon Iron Ore Mines in the Pilbara (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 \$317.1 million, a 6.7 per cent decline on a like-for-like basis compared with the previous corresponding period.

Volumes in maintenance were impacted by mining and minerals customers' continued focus on productivity improvements and reduction in discretionary capital spending in response to weaker commodity prices and rising costs. Oil and gas work continued to grow, and now represents almost 60 per cent of total revenue for the division.

Major contract activity during the latest period included:

- Facilities management services at the Chevron-operated Gorgon Project on Barrow Island, (WA);
- Shutdown and maintenance services for Rio Tinto's coastal and inland west operations in the Pilbara (WA);
- Maintenance and shutdown services for BHP Billiton's Nickel West operations in the Goldfields (WA);
- Maintenance and shutdown services at the Woodside-operated Karratha Gas Plant at Karratha, WA, including work with Woodside through a newly integrated front-end support team to develop work packs for future shutdowns at the plant;
- Field construction services for Oil Search Limited at its oil and gas production and support facilities in Papua New Guinea;
- Multidisciplinary services at the Darwin LNG facility, operated by ConocoPhillips, in the Northern Territory; and
- General maintenance services and projects for Chevron Australia at its Barrow Island and Thevenard Island operations (WA).

During the period, the Company was awarded approximately \$250 million in contract extensions including:

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- A three-year extension to a field construction services contract for Oil Search Limited at its oil and gas production and support facilities in the Southern Highlands Province of Papua New Guinea;
- A two-year extension to an onshore maintenance and shutdown services contract at the ConocoPhillips-operated Darwin LNG facility in the Northern Territory; and
- A one-year extension to the facilities management services contract associated with the Gorgon Project, operated by Chevron Australia, on Barrow Island (WA).

OUTLOOK

Market conditions in the mining and minerals sector have continued to tighten as customers pull back on capital expenditure and focus on productivity and maximising returns from existing assets.

Committed and planned developments in oil and gas and iron ore will continue to provide opportunities in the short to medium term. In particular, the large volume of LNG projects moving through the mechanical and electrical phase of construction will provide major construction prospects over the coming years. Bidding activity in this market is high and the company is in a strong position to secure new contracts in both upstream and downstream LNG developments.

The long term outlook for the maintenance service market remains robust as new resources and energy developments come on stream. Whilst demand for maintenance services volumes is under significant pressure from mining and minerals customers, volumes in the oil and gas market are expected to grow as new LNG projects move to the operating phase.

As highlighted at the 2013 full-year results, the Company experienced an abnormal surge in revenue in 2011/12 and 2012/13, reflecting a period of historically high capital investment in the resources and energy industries. This is moderating and at this stage 2013/14 full-year revenue is expected to decline by approximately 10 per cent.

Monadelphous is focused on managing execution risks, improving productivity and reducing costs to protect margins that remain under pressure in an increasingly competitive environment.

The Company's leadership position in its core markets of resources and energy and increasingly diversified revenue base will support ongoing revenue opportunities and long-term growth. The Company will continue to expand its range of services in new and existing markets, including transmission pipelines, marine construction, power and water, and pursue the development of new services and geographical expansion for existing customers.

DIVIDEND ENTITLEMENTS

The interim dividend of 60 cents per share fully franked will be paid to shareholders on 4 April 2014, with the record date for entitlements being 14 March 2014. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to this dividend with a 2 per cent discount to the issue price.

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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. Monadelphous's two operating divisions comprise Engineering Construction, providing large-scale multidisciplinary project management and construction services, and Maintenance and Industrial Services, that specialises in the planning, management and execution of mechanical and electrical maintenance services, shutdowns, fixed plant maintenance services and sustaining capital works.

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

^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 underlying EBITDA presented by other companies. This measure is important to management when used as an additional means to evaluate the Company's profitability.

	H1 2014	H1 2013
	\$'000	\$'000
Underlying EBITDA		
Profit before income tax	117,215	110,200
Profit on disposal of Skystar	(10,353)	-
Interest expense	1,731	1,853
Interest revenue	(1,165)	(1,870)
Depreciation expense	13,413	14,534
Amortisation expense	560	560
Underlying EBITDA	121,401	125,277
Underlying NPAT		
Net profit after tax	87,108	79,096
Profit on disposal of Skystar	(10,353)	-
Underlying NPAT	79,174	79,096