

21 February 2017

MONADELPHOUS REPORTS HY 2017 REVENUE AND EARNINGS

Performance Highlights

Strengthened position in Infrastructure market

Maintenance services expanded

New Minerals EPC business established

Sales revenue \$630.7 million*, in line with guidance provided

Net profit after tax (NPAT) attributable to equity holders of the parent \$28.6 million, similar to preceding six month period

Earnings per share (EPS) 30.5 cents

Interim Dividend 24 cps fully franked

Awarded new contracts of approximately \$700 million

Record net cash of \$226.2 million, cash conversion of 172%

Engineering company Monadelphous Group Ltd (ASX: MND) today announced its results for the half year ended 31 December 2016.

Sales revenue for the period was \$630.7 million*, similar to that of the preceding six months and in line with guidance provided, but down 14.4 per cent on the previous corresponding period. The result reflected lower construction activity levels, which were partially offset by rising Maintenance and Industrial Services revenues.

Net profit after tax (NPAT) attributable to equity holders of the parent was \$28.6 million, similar to that of the preceding six months, but down 24.1 per cent on the previous corresponding period.

New contracts valued at \$700 million were awarded since the beginning of the period. Monadelphous Managing Director Rob Velletri said a significant portion of these contracts was for customers in the infrastructure sector.

“The award of additional water infrastructure and irrigation contracts together with the award of our first major renewable energy project, highlights the success of our expansion into the infrastructure services sector,” Mr Velletri said.

Monadelphous ended the period with a record net cash position of \$226.2 million, and a healthy cash conversion rate of 172 per cent.

A number of milestones were achieved in Monadelphous’ market and growth strategy, with the expansion of the Company’s service offering in core maintenance markets and the establishment of two new strategic ventures. Zenviron will provide EPC services to the renewable energy market in Australia and New Zealand, and Mondium, a partnership between Monadelphous and engineering and project management consultancy Lycopodium, will offer turnkey EPC solutions to mining and minerals customers in Australia and overseas.

Mr Velletri said Monadelphous is in a solid position for long term growth, with a strong balance sheet providing it with substantial capacity to invest in new businesses, and a clear pipeline of opportunities in existing and new markets.

“We have demonstrated our agility in responding to the downturn in the resources sector by successfully capitalising on our strong position in the maintenance services sector and entering a number of new domestic and international markets” Mr Velletri said.

“We will continue to work with our customers to maximise productivity within their operations to ensure we continue to deliver cost competitive solutions.”

Safety will remain paramount, particularly as Monadelphous expands and diversifies.

* Includes Monadelphous’ share of joint venture revenue – refer to page 7 for reconciliation

2017 HALF YEAR RESULTS

Revenue

Monadelphous recorded sales revenue of \$630.7 million*, similar to that of the preceding six month period and in line with guidance provided. The result, which was 14.4 per cent down on the previous corresponding period, reflected lower construction activity levels, which were partially offset by rising Maintenance and Industrial Services revenues, highlighting the continuing transition in the resources and energy sectors from the investment phase to the production phase.

Earnings

Net profit after tax (NPAT) attributable to equity holders of the parent was \$28.6 million, similar to that of the preceding six month period, but down 24.1 per cent compared to the previous corresponding period.

Earnings before interest, tax, depreciation and amortisation (EBITDA)[^] was \$50.5 million, a decrease of 19.5 per cent. Customer cost reduction programmes, reduced construction activity levels and an increasingly competitive environment continued to put pressure on margins.

Earnings per share (EPS) was 30.5 cents.

Dividend

The Board of Directors has declared an interim dividend of 24.0 cents per share fully franked. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the interim dividend.

Strong balance sheet

Monadelphous' balance sheet ended the period in a strong position and the Company continues to maintain a healthy working capital balance, with a record net cash of \$226.2 million at 31 December 2016. The resolution of a number of outstanding claims during the period, including the agreement reached on the Wiggins Island Coal Export Terminal Project, contributed to a cash conversion rate of 172 per cent.

Secured \$700 million in new work

New contracts valued at approximately \$700 million have been secured since the beginning of the financial year, with a significant proportion for customers in the infrastructure sector.

Monadelphous' existing Network and Facility Renewals Program contract with Sydney Water Corporation was expanded to include the provision of mechanical, electrical and civil services. The award reinforced the Company's relationship with Sydney Water and underlined its capability in the delivery of critical water and waste water infrastructure.

The Company's newly established renewable energy business Zenviron, in consortium with wind turbine manufacturer Vestas, was awarded a contract for the delivery of the Sapphire Wind Farm project in New South Wales. The contract award represents a significant strategic milestone for the business and puts Zenviron in a strong position to take advantage of the rapidly growing renewable energy sector in Australia and New Zealand.

Subsequent to the half year end, Monadelphous announced it had received a letter of intent to award a major five year contract, in joint venture with Jacobs, for engineering, procurement and construction (EPC) services on Oil Search Limited's oil and gas production facilities in Papua New Guinea. The partnership, which combines Monadelphous' in-field services expertise with Jacobs' technical engineering capability, will lead to productivity enhancements and cost savings for Oil Search. The contract builds on Monadelphous' decade-long relationship with Oil Search, having provided brownfield project and maintenance services since 2007.

* Includes Monadelphous' share of joint venture revenue – refer to page 7 for reconciliation

[^] Refer to page 7 for reconciliation of EBITDA

Productivity

Monadelphous remains focused on maximising productivity, reducing costs and maintaining financial discipline.

The Company continues to work closely with its customers to deliver productivity improvements within their operations. Emphasis has been placed on identifying opportunities to improve productivity through innovation, technology and an ongoing business improvement drive. A number of technology solutions have been developed to increase productivity levels across the business, including a new resource management system, a workforce optimisation platform, robotic welding technology and automated 3D workpack development.

Divisional and corporate support services have been further rationalised and the Company is driving standardisation wherever possible to ensure lean and efficient support service delivery. In order to effectively support an increasingly global operational presence, focus has been placed on expanding business and project related services delivered from overseas locations.

Strategic Progress

During the period, Monadelphous made good progress in its markets and growth strategy.

The Maintenance and Industrial Services Division continued to expand the range of services provided in its core markets, adding rope access capability and establishing a dewatering and industrial pipeline business. The division also completed the acquisition of Arc West, an integrated services provider specialising in corrosion management and protective coatings, based in Western Australia (WA).

Another key milestone in its growth and diversification strategy was the establishment of strategic joint venture, Mondium. Mondium is a partnership between Monadelphous and engineering and project management consultancy Lycopodium. It will provide turnkey EPC solutions to customers in the mining and mineral processing market both in Australia and overseas, and combines the respective strengths, complimentary expertise and existing relationships of both companies. Mondium is currently pursuing a number of tender opportunities.

During the period, the Company announced the formation of a new business focused on the growing renewable energy market. Zenviron, a full service balance of plant contractor providing EPC services in Australia and New Zealand, has already commenced operations and is currently pursuing a significant number of tender opportunities to construct wind and solar projects.

The award of additional water infrastructure and irrigation contracts reinforces the Company's infrastructure service expansion, and there are a number of opportunities for further work in this market, particularly in New Zealand and on the East Coast of Australia.

The Company continues to develop its position overseas, in both the growing oil and gas market in North America and through its presence in Mongolia, where it is targeting work on Rio Tinto's multibillion dollar expansion of the Oyu Tolgoi project. SinoStruct, the Company's China based fabrication business, has identified a number of promising opportunities in the US market.

OPERATIONAL OVERVIEW

Markets

Monadelphous provides construction, maintenance and industrial services to the resources, energy and infrastructure markets.

The resource and energy markets in Australia remain challenging, despite a recent improvement in commodity prices. Capital expenditure levels remain at historically low levels, as the rate of major investment in new production slows. The market continues to invest in sustaining capital works expenditure required to support the significant increases in production levels.

The outlook for the maintenance sector remains positive as production levels grow and operating assets increase in age.

Opportunities in the broader infrastructure market are expected to grow, particularly in the renewable energy and transport infrastructure sectors, and Monadelphous' position in the water sector continues to strengthen.

Health and Safety

The total case injury frequency rate (TCIFR) was 3.43 incidents per million man-hours, and the lost time injury frequency rate (LTIFR) was 0.09 incidents per million man-hours, with only one lost time incident recorded in the six months.

The Company remains committed to maintaining its goal of an injury-free workplace, and will look to evolve and adapt its safety initiatives as it expands and diversifies into new services and markets.

People

The Company's total workforce at 31 December 2016 was 4,989, an increase of 12 per cent from six months earlier. The growth in employee numbers reflected the increasing activity levels within the maintenance services business.

Labour productivity continues to strengthen, primarily as a result of improved labour availability amid reduced demand, and lower unit costs. The Company continues to experience strong levels of key talent retention and a lower trend in permanent staff turnover.

OPERATIONAL ACTIVITY

Engineering Construction

The Engineering Construction division, which provides large-scale, multidisciplinary project management and construction services, reported sales revenue of \$292.6 million* for the period.

Works continued at the Inpex-led Ichthys Project Onshore LNG Facility in Darwin, Northern Territory (NT). The Company continues to perform strongly on this contract, and is expected to complete the scope of works under the original contract by the end of the financial year. Monadelphous was awarded an additional package of electrical and instrumentation works for the product loading jetty during the period and is well placed to secure any additional work that may arise on the project.

The Company's Infrastructure business continues to go from strength-to-strength. The water infrastructure business recorded solid growth and has completed a number of New Zealand based irrigation projects. During the period, the Company was awarded the design and construction of a major upgrade to Unitywater's Kawana Sewage Treatment Plant in Queensland.

SinoStruct recorded strong growth, securing some early work in the US as a result of the success of an extensive business development drive.

Recent contract awards in the resources and energy sector include a structural, mechanical and piping package associated with Newcrest's gold processing plant at its Cadia Valley operations, in NSW, the supply and fabrication of wellhead skids for Santos as part of its upstream CSG development in Northern Queensland and an order from APLNG, under an existing agreement, for the supply of additional wellhead skids. The division remains focused on new markets and overseas opportunities particularly in New Zealand and the US. During the period, other contract activity included:

- Structural, mechanical and piping works for Nyrstar at its Port Pirie Smelter in South Australia (SA);
- Electrical and instrumentation works for the product loading jetty with JKC Australia LNG at the Ichthys Project Onshore LNG Facilities in Darwin, NT;
- 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;
- Fabrication and supply of wellhead separator skids for APLNG in the Surat Basin, Queensland;
- Design and construction of a potable water treatment plant for the Western Downs Regional Council in Chinchilla, Queensland; and
- Construction of a 130 kilometre water pipeline network associated with the Amuri irrigation scheme, north of Christchurch, in New Zealand.

* Includes share of joint venture revenue

Maintenance and Industrial Services

The Maintenance and Industrial Services division, which specialises in the planning, management and execution of multidisciplinary maintenance services, sustaining capital works and turnarounds, recorded sales revenue of \$339.6 million, which was 19 per cent higher than the second half of the 2016 financial year. The result reflected the increased levels of maintenance and support activity for customers in the resources and onshore oil and gas sectors.

The division achieved high levels of contract retention in a very competitive environment. It continued its focus on productivity improvement, working with customers to reduce costs and implement innovative solutions.

Since the beginning of the financial year, Monadelphous has been awarded approximately \$300 million in new contracts, including a new five-year contract for BHP Billiton's Olympic Dam operation at Roxby Downs, SA.

Subsequent to the period, the division received a letter of intent to award a five year contract, in joint venture with Jacobs, to provide EPC services at Oil Search's oil and gas production facilities in Papua New Guinea.

Other contract activity undertaken included:

- Facilities management and support services at the Chevron-operated Barrow Island assets, in WA;
- Maintenance and major shutdown services at the Woodside-operated Karratha Gas Plant at Karratha, in 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;
- Maintenance and dragline shutdown works for BM Alliance Coal Operations in Queensland;
- Capital works and maintenance events for BP at its Kwinana Refinery, in WA;
- Early works and modification services associated with Shell Australia's Prelude Floating Liquefied Natural Gas (FLNG) project, in Darwin, NT;
- Multi-disciplinary services to the Woodside-operated Karratha Gas Plant Life Extension Program, through MGJV, at Karratha, in WA and
- Project fieldwork services for Oil Search Limited at its oil and gas production and support facilities in Papua New Guinea.

Outlook

Market conditions in the Australian resources and energy sector continue to be challenging though the market environment is stabilising. Solid levels of capital expenditure required to sustain the massive increases in production levels are expected to provide construction opportunities, particularly in iron ore and upstream coal seam gas.

Prospects for maintenance services are positive as new LNG projects are commissioned and production ramps up. The aging of assets in the resources sector will also drive higher volumes of maintenance and support services. The Company is well placed to capitalise on a number of new maintenance opportunities and grow its recurring revenue base.

Monadelphous will continue to pursue opportunities in infrastructure markets to further diversify revenues. In particular it will strengthen its position in water infrastructure and renewable energy, with a number of new contracts expected to be secured in the coming months.

While the Company continues to experience some delays in the timing of awards and execution of committed works, business activity levels have stabilised and at this stage we anticipate revenue for the second half of the financial year to be similar to that of the first half.

Productivity improvements and the delivery of cost competitive solutions for customers will continue to be a key focus area. High levels of competition and a focus on cost reduction by customers are likely to keep margins under pressure.

In summary, Monadelphous is in good shape. It remains in a leadership position in its core markets and is making good progress to diversify its business into new services and new customer markets, both domestically and internationally.

Importantly, a strong balance sheet provides it with substantial capacity to invest in new business opportunities, particularly in the infrastructure sector where a number of potential acquisition opportunities are progressing towards an advanced stage.

I would like to take this opportunity to thank all our stakeholders for their loyalty and support, and particularly our people for their ongoing dedication, commitment and highly valued contribution.

DIVIDEND ENTITLEMENTS

The interim dividend of 24 cents per share fully franked will be paid to shareholders on 31 March 2017 with the record date for entitlements being 10 March 2017.

^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. This measure is important to management when used as an additional means to evaluate the Company's profitability.

Reconciliation of Profit before tax to EBITDA (unreviewed)

	31 December 2016 \$'000	31 December 2015 \$'000
Profit before tax	42,362	53,188
Interest expense	411	548
Interest received	(1,924)	(2,021)
Depreciation expense	9,379	10,961
Amortisation expense	187	65
Share of interest, depreciation and amortisation of joint ventures #	89	-
EBITDA	50,504	62,741

Represents Monadelphous' proportionate share of the interest, depreciation and amortisation of joint ventures accounted for using the equity method.

Reconciliation of Statutory Sales Revenue

	31 December 2016 \$'000	31 December 2015 \$'000
Total sales revenue including joint ventures	630,736	737,043
Share of revenue from joint ventures ~	(5,542)	-
Statutory sales revenue	625,194	737,043

~ Represents Monadelphous' proportionate share of the revenue of joint ventures accounted for using the equity method.

FURTHER INFORMATION

Analysts/Investors

Kristy Glasgow

Investor Relations

T: +61 8 9316 6386

M: +61 403 781 909

Email: investor_relations@monadel.com.au

Media

Zoey Tyson

Marketing and Communications Advisor

T: +61 8 6311 1018

M: +61 406 543 989

Email: ZTyson@monadel.com.au

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](#) for more information.