

22 August 2017

## MONADELPHOUS REPORTS FY 2017 SALES AND EARNINGS

### Performance Highlights

**Sales revenue** \$1.265 billion\*, in line with guidance provided

**Net profit after tax (NPAT) attributable to equity holders of the parent** \$57.6 million

**Earnings per share (EPS)** 61.4 cents

**Final Dividend** 30 cps, fully franked

**Awarded approximately \$1.8 billion of new contracts**

**Secured several significant long term oil and gas maintenance contracts**

**New construction contracts won in water, irrigation, renewable energy and overseas markets**

**Maintained strong balance sheet** with record net cash of \$228.1 million

Engineering company Monadelphous Group Ltd (ASX: MND) today announced sales revenue for the year ended 30 June 2017 of \$1.265 billion\*, down 7.3 per cent on the previous year. The result reflected lower activity levels within the engineering construction market, which was partially offset by an increase in maintenance activity in the resources and energy sector.

The Company's position as a major provider of onshore and offshore services to the Australian oil and gas industry was strengthened with the award of several significant, long term oil and gas maintenance contracts valued in excess of \$1 billion. A number of construction contracts totalling approximately \$800 million were also secured, including a growing number of new contracts in the water, irrigation and renewable energy sectors.

Monadelphous Managing Director Rob Velletri said the contract awards demonstrated Monadelphous' strong position in both core and new markets.

"Our strategy to maintain a leadership position in core markets and diversify into new services and customer markets both domestically and internationally has been successful this year and we are in a strong position to capitalise on upcoming opportunities and grow our revenue base, particularly in the infrastructure sector," Mr Velletri said.

Monadelphous made good progress in its markets and growth strategy, with its maintenance service offering broadened to include rope access, dewatering, marine and expanded heavy lift capabilities. Delivery of core services to new overseas markets gained traction, with Monadelphous' China-based fabrication business winning a number of new contracts in North America, and, subsequent to year end, the Company secured an initial package of work on the Oyu Tolgoi project in Mongolia.

Monadelphous ended the period with a record net cash balance of \$228.1 million, and a healthy cash flow conversion rate of 131%.

Net profit after tax (NPAT) attributable to equity holders of the parent was \$57.6 million. Margins continue to remain under pressure as a result of high levels of competition in the market and a continued focus on cost reduction by customers.

During the year, divisional and corporate structural reviews were undertaken, with support services further rationalised and an expansion of Monadelphous' offshore support services in order to deliver greater cost effectiveness.

"Monadelphous will continue to focus on productivity improvement, innovation and cost reduction to ensure we are profitable and sustainable in an environment which remains highly competitive," Mr Velletri said.

\* Includes Monadelphous' share of joint venture revenue – refer to page 9 for reconciliation

## 2017 FULL YEAR RESULTS

### Revenue

Monadelphous recorded sales revenue of \$1,264.7 million\* for the year in line with the guidance provided to the market. This represents a decrease of 7.3 per cent compared to the previous corresponding period, with lower activity levels within the engineering construction market being partially offset by an increase in maintenance activity in the resources and energy sector.

### Earnings

Net profit after tax (NPAT) attributable to equity holders of the parent was \$57.6 million.

Earnings before interest, tax, depreciation and amortisation (EBITDA)^ was \$98.2 million, a decrease of 13.6 per cent. Margins continue to remain under pressure as a result of high levels of competition in the market and a continued focus on cost reduction by customers.

Earnings per share (EPS) was 61.4 cents.

### Dividend

The Board of Directors has declared a final dividend of 30 cents per share fully franked. This takes the full-year dividend to 54 cents per share fully franked, giving a dividend payout ratio of 88 per cent of net profit after tax. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the final dividend.

### Strong balance sheet

Monadelphous ended the year with a record net cash balance of \$228.1 million, a cash flow from operations of \$111.2 million and a cash flow conversion rate of 130.8 per cent. The Company's strong cash balance will enable it to pursue acquisition opportunities and make the necessary investments in plant and equipment required for continued growth and diversification.

### Secured \$1.8 billion in new work

Monadelphous has secured new contracts and additional work valued at approximately \$1.8 billion since the beginning of the financial year.

Several significant, long term oil and gas maintenance contracts valued in excess of \$1 billion were secured during the period, strengthening the Company's position as the major provider of onshore and offshore services to the Australian oil and gas industry.

An increasing number of construction contracts, across a broad range of markets, were secured during the period, totalling approximately \$800 million. The Company was awarded a number of additional packages of work at the Ichthys Project, underlining its strong performance on the project to date, and a growing number of new contracts were secured in the water, irrigation and renewable energy sectors across Australia and New Zealand. Monadelphous' China-based fabrication business secured a number of new contracts for both Australian and North American customers.

The Company's renewable energy joint venture, Zenviron, secured the balance of plant works for the construction of the Sapphire Wind Farm in NSW, and subsequent to the year-end announced the award of a contract, in consortium with Vestas – Australian Wind Technology, to provide engineering, procurement, construction and commissioning of the Salt Creek Wind Farm for Tilt Renewables, in Victoria.

Post year end, Monadelphous announced it had been awarded a number of new packages of work with a combined value of \$55 million across a variety of markets, including an initial package of work on the Oyu Tolgoi Underground Project in Mongolia highlighting the continuing expansion of core services overseas.

\* Includes Monadelphous' share of joint venture revenue – refer to page 9 for reconciliation

^ Refer to page 9 for reconciliation of EBITDA

## **Productivity**

During the period, Monadelphous continued its strong focus on maximising productivity and developing and implementing innovative and cost competitive solutions for customers.

Identifying business improvement opportunities remains a key priority in the current market, with the Company continuing to deliver productivity enhancements for both its own and its customers' businesses. Key areas of focus include reducing customer costs, increasing asset availability and optimising plant reliability, while continuing to deliver safer and more efficient outcomes.

A number of technology solutions have been developed to increase productivity levels across the business, including an updated project information management system, a purpose-built capability library and customer relationship management database, a new resource management system and workforce optimisation tool, an innovation management platform that captures ideas, measures progress and reports the value attributed to each action, the development of robotic welding technology and automated 3D workpack creation. In addition, several new technologies were trialled during the year to digitise operations, including photogrammetry and remote visualisation technologies, such as smart helmets.

During the year, divisional and corporate structural reviews were undertaken, with support services further rationalised to ensure the most effective and efficient structure is in place to support the business to achieve its growth and diversification strategy. The Company is driving standardisation wherever possible to ensure lean and efficient support service delivery.

To effectively support an increasingly global operational presence and provide greater value to customers, the Company has expanded its offshore support service centres, delivering a growing number of cost effective business and project related services.

## **Strategic Progress**

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

The Company has secured major onshore and offshore service contracts in the oil and gas sector with Shell, INPEX and Woodside. In addition to these maintenance works, the Company continued to maximise its position in the construction sector with the award of new works on the Ichthys LNG Project.

The recently acquired specialist coatings provider, Arc West, has been successfully integrated into the business, and the Company has further broadened its maintenance service offering to core markets to include rope access, dewatering, marine and expanded heavy lift capabilities. Subsequent to year end, the Company acquired Newcastle-based fabrication business RIG Installations (RIG), providing the Company with an opportunity to on-sell its diverse range of services to RIG's existing customer-base.

The Company's position in PNG was further strengthened with the award of a five year contract with Oil Search for engineering, procurement and construction (EPC) services, delivered in a joint operation with Jacobs Engineering Group.

The Company's objective to build a substantial infrastructure business has been focussed around the growth of the water and irrigation business. In the past year, the team has secured contracts for the construction of the Amuri Irrigation Scheme and water infrastructure projects in Hastings and Selwyn in New Zealand, along with further water and wastewater treatment plants in Australia.

In July 2016, the Company announced an entry into the renewable energy market through the creation of an incorporated joint venture, Zenviron, with renewable energy specialist, ZEM Energy. 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. The formation of Zenviron is a key milestone in the Company's strategy to extend services into new infrastructure markets.

During the year, Monadelphous and engineering and project management consultancy, Lycopodium, together established the strategic joint venture, Mondium, to provide turnkey EPC solutions to customers in the mining and mineral processing market, both in Australia and overseas. Mondium has tendered EPC opportunities in the Australian minerals market during the year.

Monadelphous' strategy to deliver core services overseas has progressed with the award of a contract, subsequent to financial year end, to provide mechanical decommissioning and demolition, civil and SMP construction works at the Oyu Tolgoi LLC-operated Oyu Tolgoi Underground Project located in the South Gobi region of Mongolia.

The Company's China-based fabrication business, SinoStruct, continued to respond to changing market conditions and focused heavily on global business development opportunities, particularly in the North American oil and gas and resources sectors and has secured contracts and orders in the region during the period. To support these contracts, and to position for further work, SinoStruct has recently established a workshop and logistics facility in Houston, in the United States of America (USA). With the momentum of SinoStruct, and continuing unfavourable market conditions forecast for the Marcellus region of the USA, a decision was made in June 2017 to discontinue the Monaro joint venture.

## **OPERATIONAL OVERVIEW**

### **Markets**

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

The resources and energy markets in Australia remained challenging with capital expenditure levels at historically low levels, and major greenfield LNG projects nearing completion. Investment in sustaining capital to maintain iron ore production levels is expected to increase, with some planned capital expenditure announced to replace existing mine operations.

The outlook for the maintenance sector remains 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.

Monadelphous' position in infrastructure markets is expected to strengthen further, particularly in water and renewable energy. There are a number of opportunities for further work in this market, particularly in New Zealand and on the east coast of Australia.

### **Health and Safety**

The 12-month total case injury frequency rate (TCIFR) achieved at the end of the year was 4.27 incidents per million man-hours worked and the lost time injury frequency rate (LTIFR) was 0.08. The regression in safety performance during the period can be attributed in part to the new conditions experienced as part of the Company's diversification into new markets, working in new environments with different hazards and risks.

In response, safety campaigns have been undertaken throughout the business to educate employees and reinforce key safety messages. This has included extensive data gathering and analysis, and the consequent development of improvement initiatives. Employees have been engaged via a Group-wide safety culture survey, to identify opportunities to return to the Company's high standard of safety performance. Additionally, to reinforce the Company's historically strong safety culture, a renewed focus on safety communication to the workforce has commenced on the back of the implementation of an upgraded intranet and social media tools.

Oil and gas sector operations continued to deliver at world class safety standards and performance levels.

### **People**

The Company's total workforce at 30 June 2017 was 6,164, an increase of 39 per cent on 12 months earlier. The increase in employee numbers is due to high levels of maintenance services activity, and a ramp-up of construction activity levels towards year end.

Monadelphous remains focused on attracting, developing and retaining high calibre employees who live our values and actively contribute to the achievement of our vision and strategic objectives. Key talent retention levels remain high and there was continued investment in training and development for supervisors and emerging leaders.

## OPERATIONAL ACTIVITY

### Engineering Construction

The Engineering Construction division, which provides large-scale, multidisciplinary project management and construction services, continued its focus on growth and diversification, strengthening its position in water infrastructure and securing its first major renewable energy project.

The division reported sales revenue of \$615.4 million\* for the period, reflecting lower construction activity and greater competition in the resources and energy sector.

New contracts and additional work to the value of approximately \$800 million was secured during the year, including awards in oil and gas, fabrication services, water infrastructure, irrigation and renewable energy.

At the end of the period the majority of construction and testing activity was completed on Monadelphous' largest ever construction contract, the MEC-2 project, at the INPEX-led Ichthys Project Onshore LNG Facilities in Darwin, Northern Territory (NT). The division was awarded additional packages of work on the project during the period, including the electrical and instrumentation works for the product loading jetty for JKC Australia LNG, a subcontract for structural, mechanical, piping, electrical and instrumentation work for Kawasaki Heavy Industries on the cryogenic tanks and a contract for the completion of the gas turbine generators and the associated steam piping of the combined cycle power plant for JKC Australia LNG.

There was solid growth in the water and irrigation business, with the award of several contracts in Australia and New Zealand, including a major construction contract associated with the Amuri Irrigation Scheme, north of Christchurch, New Zealand. The contract, for Amuri Irrigation Company Limited, involves the supply, installation and commissioning of a 130 kilometre water pipeline network, to deliver pressurised irrigation water from existing canal system intakes to a large number of demand offtakes for farming in the region. The project is targeted for completion in the third quarter of the 2017 calendar year.

Other new water contracts awarded included an upgrade to the Cleveland Bay Purification Plant for Townsville City Council, two contracts for the Hastings District Council, New Zealand, for the construction of a new sewer pipeline, water main and ancillary items in the Havelock North township and a new water main in Hastings City, and a construction contract for an upgrade to a wastewater treatment plant for Selwyn District Council in Rolleston, New Zealand.

Work began on the design and construction of a major upgrade to Unitywater's Kawana Sewage Treatment Plant, on the Sunshine Coast, Queensland, which was awarded during the year. Monadelphous' design solution incorporates innovative process technology that improves the effectiveness of the plant and reduces the size of the site's physical footprint. The upgrade includes the installation of new concrete structures, pipework and mechanical and electrical equipment and the refurbishment of existing equipment. Work is scheduled for completion by the end of calendar year 2018.

During the period, Monadelphous was awarded a three year contract, with a two year extension option, to provide fixed plant maintenance and shutdown crane services to Fortescue Metals Group at the Solomon Hub site in the Pilbara Region, WA, further extending the Company's core service offering.

Other work undertaken during the year included:

- 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 Western Australia (WA);
- The design and construction of a potable water treatment plant for the Western Downs Regional Council in Chinchilla, Queensland (Qld);
- Expansion of Monadelphous' existing Network and Facility Renewals Program contract with Sydney Water Corporation to include the provision of mechanical, electrical and civil services for water and waste water treatment facilities, pumping stations, pipelines, reservoirs, chemical dosing facilities and odour control facilities;

\* Includes share of joint venture revenue

- A structural, mechanical and piping package associated with Newcrest's gold processing plant at its Cadia Valley operations, in New South Wales (NSW);
- The supply and fabrication of wellhead separator skids for Santos as part of its upstream CSG development in northern Queensland;
- The supply of additional wellhead skids for Australia Pacific LNG, under an existing agreement;
- The delivery, through the Company's renewable energy business, Zenviron, in consortium with Vestas – Australian Wind Technology Pty Ltd, of the civil and electrical balance of plant works in association with the Sapphire Wind Farm in northern NSW;
- An upgrade to the Water Treatment Plant providing the potable water supply, treatment and distribution system at BHP Billiton Western Australia Iron Ore's Mining Area C operation in the northwest of WA;
- Structural, mechanical and piping works for Nyrstar at its Port Pirie Smelter in South Australia (SA);
- The supply, fabrication, pre-assembly and delivery of structural steel, conveyers and plate work with Brolton Group at the Hanson Bass Point Quarry Expansion Project in Shellharbour, NSW;
- The supply of structural steel, fabricated spooling and preassembled modular pipe racks for Jacobs, as part of a plant expansion project in the USA; and
- The supply of approximately 7,000 tonnes of structural steel, plate work and conveyers to Kiewit Corporation.

Subsequent to the year end, new contracts announced included:

- A contract to provide mechanical decommissioning and demolition, civil and SMP works associated with Shaft 1 and Shaft 2 Surface Infrastructure at the Oyu Tolgoi LLC-operated Oyu Tolgoi Underground Project located in the South Gobi region of Mongolia; and
- A contract awarded to Zenviron, in consortium with Vestas – Australian Wind Technology Pty Ltd, to provide engineering, procurement, construction and commissioning of the 54 MW Salt Creek Wind Farm for Tilt Renewables.

### **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, expanded its services in core markets and won major contracts in the onshore and offshore oil and gas sector.

The division recorded sales revenue of \$652.9 million, up 7.3 per cent on the previous year due to an increase in maintenance activity levels across the resources and energy sectors.

Since the beginning of the year, Monadelphous has been awarded approximately \$1 billion in new contracts.

A highlight was the award of two major offshore oil and gas maintenance services contracts. The INPEX Offshore Maintenance Services contract associated with the Ichthys LNG Project is for an initial period of six years with a further two two-year extension options. Monadelphous has been engaged to deliver operational, campaign and shutdown maintenance services and brownfield projects implementation associated with the Ichthys Central Processing Facility 'Ichthys Explorer' (CPF) and Floating Production Storage and Offloading facility 'Ichthys Venturer' (FPSO).

A major contract was also secured with Woodside Energy for the provision of gas asset general maintenance services and brownfields offshore implementation for Woodside-operated gas production facilities in the north west of WA. The contract, which is for an initial period of five years with a further two one-year extension options, includes maintenance, shutdown services and offshore brownfields implementation for Woodside's Karratha Gas Plant, Pluto LNG, North Rankin Complex, Goodwyn A platform and Angel platform. Monadelphous has worked with Woodside since 2002 undertaking project activities, and since 2012 has been performing shutdown and maintenance services for Karratha Gas Plant and Pluto LNG Plant.

Other contracts awarded were:

- A five year contract for BHP's Olympic Dam copper-uranium operation at Roxby Downs, SA;
- A five year contract, in joint operation with Jacobs Engineering Group Inc., for engineering, procurement and construction services on Oil Search's oil and gas production facilities in the Highlands region of Papua New Guinea;
- An order to provide facilities maintenance services at the Wheatstone LNG Project near Onslow, WA for a 12 month period, with two further one year options, under an existing agreement with Chevron Australia; and
- A contract to provide abrasive blasting, cleaning and relining of carbon steel ore wagons for The Pilbara Infrastructure Pty Limited (a wholly owned subsidiary of Fortescue Metals Group) in Port Hedland, WA.

Subsequent to the year end, the following new contracts were announced:

- A contract for piping modification and fabrication for TechnipFMC on the hook-up and commissioning phase of Shell Australia's Prelude Floating Liquefied Natural Gas (FLNG) project, in the Browse Basin, approximately 475 kilometres north-northeast of Broome, in WA.

The division expanded the range of services provided to its core markets with the acquisition of Arc West, an integrated services provider specialising in corrosion management, marine maintenance and protective coatings, based in Port Hedland, WA. The acquisition has also enabled the division to establish a local presence to support our core mechanical, electrical and maintenance services. The rope access business acquired in 2016 continued to grow, and the first dewatering and industrial pipeline projects were secured during the period.

The division continued its focus on productivity improvement, working with customers to reduce costs and implement innovative solutions.

Other contract activity undertaken during the year 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, WA;
- Shutdown and maintenance services for Rio Tinto's coastal and inland operations in the Pilbara, WA;
- Maintenance and shutdown services for BHP'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;
- Shutdown and maintenance services for QGC's Curtis LNG Plant, on Curtis Island, Qld;
- Shutdown and maintenance services for Incitec Pivot's Moranbah ammonia plant, in the Bowen Basin, Qld;
- Multi-disciplinary services to the Woodside-operated Karratha Gas Plant Life Extension Program, through MGJV, at Karratha, WA;
- Project fieldwork services for Oil Search Limited at its oil and gas production and support facilities in Papua New Guinea; and
- Projects and turnaround works at Citic Pacific Mining's Sino Iron Project in the Pilbara, WA.

## **Outlook**

Market conditions in the Australian resources and energy sector have stabilised over recent periods. While the Company continues to experience high levels of competition, the solid levels of sustaining and brownfields capital expenditure required to maintain the higher levels of production will provide an increasing number of resources construction opportunities over the next few years.

Prospects for maintenance services continue to be strong. Oil and gas services revenues are expected to be positively impacted as new LNG projects are commissioned and production commences. The aging of assets in the resources sector is likely to drive increasing maintenance and support activity levels. Overall, the Company is well positioned to capitalise on these opportunities and to grow its recurring revenue base.

Revenues from infrastructure projects in the water, irrigation and renewable energy sector are expected to grow as a result of the high volume of new contracts secured this year. Prospects for new work remain positive, particularly in renewable energy, and Monadelphous will continue to pursue opportunities in infrastructure markets to further diversify revenues.

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

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

Importantly, a strong balance sheet provides the Company with substantial capacity to invest in new business opportunities, particularly in the infrastructure sector where it will continue to pursue potential acquisitions.

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 final dividend of 30 cents per share fully franked will be paid to shareholders on 29 September 2017 with the record date for entitlements being 8 September 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 as an additional way to evaluate the Company's performance.

**Reconciliation of profit before income tax to EBITDA (unaudited):**

|   | <b>2017</b>    | <b>2016</b>   |
|---|----------------|---------------|
|   | <b>\$'000</b>  | <b>\$'000</b> |
| Profit before income tax  | <b>82,664</b>  | 95,610        |
| Interest expense  | <b>734</b>     | 1,025         |
| Interest revenue  | <b>(3,848)</b> | (4,164)       |
| Depreciation expense  | <b>17,892</b>  | 21,094        |
| Amortisation expense  | <b>562</b>     | 65            |
| Share of interest, depreciation, amortisation and tax of joint ventures # | <b>180</b>     | -             |
| EBITDA  | <b>98,184</b>  | 113,630       |

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

**Reconciliation of Statutory Sales Revenue**

|  | <b>2017</b>      | <b>2016</b>   |
|--|------------------|---------------|
|  | <b>\$'000</b>    | <b>\$'000</b> |
| Total sales revenue including joint ventures | <b>1,264,747</b> | 1,364,685     |
| Share of revenue from joint ventures ~       | <b>(19,564)</b>  | -             |
| Statutory sales revenue                      | <b>1,245,183</b> | 1,364,685     |

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

## 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.*

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