

20 February 2018

## MONADELPHOUS REPORTS HY 2018 REVENUE AND EARNINGS

### Performance Highlights

**Sales revenue** \$874.1 million\*, **up 39%**

**Net profit after tax** \$37.6 million, **up 32%**

**Earnings per share** up 31% to 40.1 cents

**Interim Dividend** up 25% to 30 cps, fully franked

**Solid revenue increases in core markets**

**Increase in demand for maintenance services – record result**

**Growth from diversification into overseas and infrastructure markets**

**Strong balance sheet** with net cash of \$206.1 million

Engineering company Monadelphous Group Ltd (ASX: MND) (“the Company”) today announced sales revenue for the half year ended 31 December 2017 of \$874.1 million\*, up 38.6 per cent on the previous corresponding period.

Net profit after tax was \$37.6 million, an increase of 31.6 per cent on the previous corresponding period.

The strong performance reflects solid revenue increases in the Company’s core resources and energy markets in Australia and was impacted by the high volume of contracts secured over the past 18 months, an increase in demand for maintenance services and growth from diversification into overseas and infrastructure markets. Increased construction activity levels, particularly in oil and gas, water and renewable energy, and a record sales performance from our maintenance services business contributed to the result.

Monadelphous Managing Director Rob Velletri said “The result reflects our strengthening position in the market and our ability to capitalise on improving levels of demand. Much of our new work and growth in the period has been driven by our historical strong operational performance with longstanding customers. We are also very pleased with the growing contribution from new areas of business.”

Monadelphous continued to make good progress in its growth strategy, offering a broader range of maintenance services to new and existing customers. The Company maintained its focus on building a substantial infrastructure business and continued to expand core services overseas.

“Market conditions in our core resources market have improved, with solid demand expected to continue for sustaining and brownfield capital works. Major construction prospects are improving, particularly in iron ore, and demand for maintenance services is expected to remain strong,” Mr Velletri said.

The outlook for the Company is positive, with full year revenue expected to be up around 30% on the previous year. Productivity improvements will continue to be a priority as competition levels in the industry remain high and customers focus on cost competitive solutions.

\* Includes Monadelphous’ share of joint venture revenue – refer to page 8 for reconciliation

## 2018 HALF YEAR RESULTS

### Revenue

Monadelphous recorded sales revenue of \$874.1 million\*, an increase of 38.6 per cent on the previous corresponding period and in line with guidance provided to the market.

The strong half year results reflect solid revenue increases in the Company's core resources and energy markets in Australia as well as growth from diversification into overseas and infrastructure markets. Revenues were up across the board with both construction and maintenance arms of the business seeing increased activity from a high volume of contracts secured over the past 12 to 18 months.

### Earnings

Net profit after tax (NPAT) attributable to equity holders of the parent was \$37.6 million, an increase of 31.6 per cent on the previous corresponding period. The Company has experienced moderating margins as a result of the diversification of the Company's business portfolio and the increased level of competition.

Earnings per share (EPS) was 40.1 cents.

### Dividend

The Board of Directors has declared an interim dividend of 30 cents per share fully franked. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the interim dividend.

### Strong balance sheet

Monadelphous ended the period with a strong net cash balance of \$206.1 million, a cash flow from operations of \$21.0 million and a cash flow conversion rate of 60.6 per cent, which was impacted by the increased activity levels and working capital requirements across the business. The Company's strong balance sheet provides substantial capacity to invest in new business opportunities.

### Strategic Progress

During the period, Monadelphous made good progress in its markets and growth strategy to maximise returns from core markets, build an infrastructure business and deliver core services to new overseas markets.

The Engineering Construction division continued works on the MEC-2 project for JKC Australia LNG on the Ichthys Project Onshore LNG Facilities in Darwin, Northern Territory, having commenced work on this project in 2014. It's performance since that time led to the award of additional work, including the electrical and instrumentation works for the product loading jetty, a subcontract for structural, mechanical, piping, electrical and instrumentation work 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.

The Company continued to offer a broader range of services to its existing and new customers. Services added to its service offering in prior years, such as corrosion management, protective coatings, marine maintenance and rope access, continued to grow and provide opportunities. During the period, Monadelphous acquired Newcastle-based maintenance services business RIG Installations, which provides an opportunity to on-sell the diverse range of services to RIG's customer base in the region.

The Company's objective to build a substantial infrastructure business has been focussed around the growth of the water and irrigation business, and its entry into the renewable energy market through Zenviron.

The water and irrigation business was heavily focussed on executing the significant number of contracts secured in the last financial year. In addition, Monadelphous also secured a contract with Pukaki Irrigation Company Limited for the design, supply, installation and commissioning of a gravity pressurised irrigation scheme in the Mackenzie Basin, New Zealand.

\* Includes Monadelphous' share of joint venture revenue – refer to page 8 for reconciliation

Zenviron made good progress on the Sapphire Wind Farm project and furthermore, was awarded a contract for the Salt Creek Wind Farm in Victoria. Through Zenviron, the Company is well placed to secure further work in the rapidly growing renewable energy sector.

Monadelphous' EPC business, Mondium, which was established last year in conjunction with Lycopodium, continued to pursue opportunities in the mining and mineral processing market. During the period, Mondium was awarded its first contract, for the design, construction and commissioning of a new feed system to the existing chemical grade plant at Talison Lithium's Greenbushes mine site, in the south west of Western Australia (WA). The work includes detailed earthworks, concrete works, structural, platework, electrical, instrumentation and process controls.

The Company's Engineering Construction division was awarded two packages of work on the Oyu Tolgoi Underground Project in Mongolia, highlighting the continuing expansion of core services overseas. The work includes mechanical decommissioning, demolition, civil, structural, mechanical, piping, electrical and instrumentation works associated with the Shaft 1 and 2 Surface Infrastructure and Facilities.

SinoStruct, the Company's China-based fabrication business, continued to focus on global business development opportunities, particularly in the North American oil and gas and resources sectors, and was supported by the newly established workshop and logistics facility in Houston, in the United States.

In total, Monadelphous has secured new contracts and additional work valued at approximately \$385 million since the beginning of the financial year.

## **Productivity**

Identifying innovative solutions which deliver value, safety and quality enhancement for the Company and its customers' continues to remain a key priority for Monadelphous.

The Company has focussed its efforts on developing and implementing technological solutions that improve its operational productivity levels. A variety of new site and workshop based innovations have been implemented that enable more efficient work practices, including robotic welding technologies, remote-operated inspection devices, 3D visualisation tools, and the broader use of mobile devices to support data capture and improve the quality and timeliness of reporting and decision making.

In addition, work continued on a purpose-built capability library and customer relationship management database, the refinement of the Company's project information management system and the enhancement of its resource management and workforce optimisation solution.

Monadelphous continues to identify and embed opportunities to deliver operational support services within a centralised and standardised operating model. The Company's offshore support service centre delivers a growing number of cost effective business and project related services, including providing support directly to its customers operations in the areas of resource estimation and workpack development.

## **OPERATIONAL OVERVIEW**

### **Markets**

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

The Australian resources and energy sectors continue to show signs of recovery, with an increase in capital projects announced or under feasibility studies. Investments in precious and base metals are strengthening, reflecting favourable forecasts for commodity prices in these sectors. The outlook for bulk commodities such as coal and iron ore reflects an ongoing focus on efficient operating cost and prudent capital investment to maintain the current high levels of production.

Activity in the maintenance sector is forecast to remain positive as production volumes remain high and essential maintenance works are delivered.

Investment in infrastructure remains healthy, with good prospects in the water and irrigation market in Australia and New Zealand, while the buoyant activity in the Australian renewables market is expected to continue for the foreseeable future.

## Health and Safety

The 12-month total case injury frequency rate (TCIFR) for the half year was 3.54 incidents per million man-hours worked, representing a 17% improvement since 30 June 2017, with the lost time injury frequency rate (LTIFR) for the same period improving by 12% to 0.07 incidents per million man-hours worked. This improvement can be attributed to the increasing maturity of operations in the new markets and environments entered in previous years, the safety campaigns undertaken throughout the business to reinforce the Company's safety culture, and the implementation of other improvement initiatives identified through the Group-wide safety survey.

## People

The Company's total workforce at 31 December 2017 was 6,277, an increase of 26 per cent on 12 months earlier. The increase in employee numbers is due to the ramp up of new offshore oil and gas contracts awarded in the last financial year and a general increase in construction and maintenance activity.

At Monadelphous, our people are our greatest asset in our journey toward long term, sustainable growth. There remains a continued focus 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 the Company continues to invest in training and development for employees.

## OPERATIONAL ACTIVITY

### Engineering Construction

The Engineering Construction division, which provides large-scale, multidisciplinary project management and construction services, reported sales revenue of \$477.5 million\* for the period, an increase of 63 per cent on the previous corresponding period. This result reflects increased construction activity levels right across the division. A surge in activity at the Ichthys Project Onshore LNG Facilities in Darwin and the growth in the water and renewables businesses were significant contributors.

The division continued to work successfully at the Ichthys Project Onshore LNG Facilities, on both the MEC-2 package, and the previously mentioned additional work announced in June 2017. The strong safety culture maintained on this project was a significant achievement considering the large scale, rapid workforce mobilisation onto the newer packages of work. The Company has been recognised for its safety performance on this project during the period, receiving its 9<sup>th</sup> Monthly Gold Standard Award for best performing subcontractor from JKC Australia LNG.

Work is underway on the two packages secured during the period on the Oyu Tolgoi Underground Project, located in the South Gobi region of Mongolia which are scheduled for completion in the second half of 2019. Monadelphous has a strong commitment to the upskilling and development of the local Mongolian workforce. To assist with the successful execution of this and future projects in Mongolia, the Company has expanded its office in Ulaanbataar, increasing its local workforce and providing upskilling and development opportunities with the establishment of a registered training organisation (RTO). The RTO, which employs local Mongolians, is now running a number of courses and assessments, with plans to further expand capability. Monadelphous has also awarded a number of subcontract packages to local Mongolian companies and will continue to support local Mongolian businesses.

SinoStruct, Monadelphous' China-based fabrication business, continued to grow overseas, supported by its newly established workshop and logistics facility in Houston, United States and its procurement and logistics expertise are being utilised on the Oyu Tolgoi project in Mongolia. During the period, the business secured an additional order from Santos for the supply and fabrication of wellhead skids as part of its upstream coal seam gas development in northern Queensland.

The division experienced an increase in activity in its water and irrigation business during the period. The construction of the Amuri Irrigation Scheme, north of Christchurch, New Zealand, was completed, and work continued on the major upgrade to Unitywater's Kawana Sewage Treatment Plant, on the Sunshine Coast, Queensland. Work began on the upgrade to the Cleveland Bay Purification Plant for Townsville City Council, and on the Pukaki Irrigation Project in the South Island, New Zealand.

\* Includes share of joint venture revenue

At the end of the half year, the Sapphire Wind Farm project, the first project through Monadelphous' renewable energy business, Zenviron, and in consortium with Vestas, was near completion and ahead of schedule. Feedback from the customer, CWP, has been positive, noting Zenviron's high regard to quality, safety and community relationships. The Sapphire Wind Farm is the largest wind farm in New South Wales (NSW) and uses the largest wind turbine generators in Australia. During the period, Zenviron was awarded a contract, again in consortium with Vestas, to provide engineering, procurement, construction and commissioning of the 54 MW Salt Creek Wind Farm for Tilt Renewables. The project, located in western Victoria, is expected to be completed in July 2018.

In order to support the growth in the Company's heavy lift crane services offering, and in particular its fixed plant maintenance and shutdown crane services contract with Fortescue Metals Group at the Solomon Hub site in the Pilbara Region, WA, the Company expanded its crane fleet, acquiring a number of all-terrain cranes ranging from 25 tonnes to 160 tonnes.

Other work undertaken during the period included:

- The Network and Facility Renewals Program contract with Sydney Water Corporation, which includes 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;
- Structural, mechanical and piping works associated with the Santos Roma West Phase 2B Project, in the Surat Basin, Queensland;
- Construction of a new sewer pipeline, water main and ancillary items in the Havelock North township and a new water main in Hastings City, New Zealand;
- An upgrade to a wastewater treatment plant for Selwyn District Council in Rolleston, New Zealand;
- The supply of additional wellhead skids for Australia Pacific LNG, under an existing agreement;
- 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 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.

## 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, achieved a record sales revenue of \$400.7 million, up 18 per cent on the previous corresponding period due to an increase in demand for maintenance services across the resources and energy sectors.

Since the beginning of the year, the Maintenance and Industrial Services division has been awarded approximately \$270 million in new contracts, including:

- 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;
- A two-year contract to supply fixed plant maintenance services for Rio Tinto at its coastal and part of the inland operations in the Pilbara, a continuation of existing work with Rio Tinto;
- A 12-month contract extension on the Woodside-operated Karratha Gas Plant Life Extension Program through its joint venture MGJV, which includes the delivery of mechanical, electrical, access, coatings and insulation services;
- A three-year contract for the supply of rope access based mechanical maintenance, inspection and protective coating services for Dalrymple Bay Coal Terminal in Mackay, Queensland;
- A three-year contract for the operation and maintenance of the coal handling facility at the Muja Power Station for Synergy in Collie, WA;
- A two-year contract extension for the supply of mechanical services for Queensland Alumina Limited in Gladstone, Queensland; and
- A three-year contract to provide shutdown maintenance, breakdown and repair services, minor projects and ad hoc services for BHP at Mount Arthur Coal in the Hunter Valley, NSW.

During the period, there was a ramp up of activity on the three offshore oil and gas maintenance services contracts; namely the Woodside-operated gas production facilities contract, the contract associated with the INPEX-operated Ichthys LNG Project and the Shell Prelude FLNG maintenance and modification services contract. A significant amount of planning, logistics coordination and recruitment and resourcing has gone into the transition and ramp up of these contracts.

Other significant contract activity undertaken during the period included:

- Maintenance services and shutdown support for BHP's Olympic Dam copper-uranium operation at Roxby Downs, SA;
- Engineering, procurement and construction services, in joint operation with Jacobs Engineering, on Oil Search's oil and gas production facilities in the Highlands region of Papua New Guinea;
- Facilities maintenance management and support services at Chevron Australia's facilities at Barrow Island and Onslow, WA;
- Abrasive blasting, cleaning and relining of carbon steel ore wagons for The Pilbara Infrastructure (a wholly owned subsidiary of Fortescue Metals Group) in Port Hedland, WA;
- Maintenance and major shutdown services at the Woodside-operated Karratha Gas Plant at Karratha, WA;
- Maintenance and shutdown services for BHP's Nickel West operations in the Goldfields, WA;
- Shutdown and maintenance services for QGC's Curtis LNG Plant, on Curtis Island, Queensland; and
- Projects and turnaround works at Citic Pacific Mining's Sino Iron Project in the Pilbara.

## **Outlook**

As highlighted earlier, the high volumes of contracts secured in the past year or so, an increase in demand for maintenance services and a spike in construction activity at the Ichthys project have driven a surge in revenue in the first half. Sales revenue is expected to moderate in the second half with the full year revenue result expected to be around 30% up on the previous year.

More broadly, the outlook for the Company's core resources market has improved as commodity prices have stabilised. Demand for sustaining and brownfield capital works is expected to be solid as operators look to maximise production and improve productivity. Prospects for major construction opportunities are improving particularly in the iron ore, copper and lithium sectors.

The outlook for the maintenance division is positive with demand expected to remain strong. Oil and gas services revenue are expected to benefit from LNG projects ramping up production and offshore work volumes increasing.

Productivity improvements will continue to be a priority as competition levels in the industry remain high and customers focus on cost competitive solutions.

The Company will continue to build upon its broadening revenue base by growing its position in the infrastructure market, including water and renewable energy and developing more opportunities overseas. A strong balance sheet continues to provide capacity to invest in the right opportunity.

In closing, I would like to take the opportunity to thank all our stakeholders for their loyalty and support and in particular our people for their continued commitment and dedication and for their contribution to an outstanding result.

## **DIVIDEND ENTITLEMENTS**

The interim dividend of 30 cents per share fully franked will be paid to shareholders on 29 March 2018 with the record date for entitlements being 8 March 2018.

Revenue including joint ventures is a non-IFRS measure which does not have any standardised meaning prescribed by IFRS and therefore may not be comparable to revenue presented by other companies. This measure is important to management as an additional way to evaluate the Company's performance.

### Reconciliation of Statutory Sales Revenue

	31 December 2017 \$'000	31 December 2016 \$'000
Total sales revenue including joint ventures	874,103	630,736
Share of revenue from joint ventures ~	(25,793)	(5,542)
Statutory sales revenue	848,310	625,194

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

### Reconciliation of Statutory Revenue

	31 December 2017 \$'000	31 December 2016 \$'000
Total revenue including joint ventures	875,468	632,660
Share of revenue from joint ventures +	(25,793)	(5,542)
Statutory revenue	849,675	627,118

+ 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.*