HD **Preliminary 2014 Monadelphous Group Ltd Earnings Presentation - Final**

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Presentation

OPERATOR: Good morning everyone and welcome the Monadelphous 2014 full year results investor and analyst briefing. Presenting this morning from Perth are Monadelphous' Managing Director Rob Velletri, and Chief Financial Officer Zoran Bebic. The Chairman John Rubino is also in attendance.

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Please note participants will be in control of moving through the presentation slides. Please follow the speakers' cues throughout the presentation. I will now hand over to your first presenter this morning, Mr Rob Velletri.

Please go ahead Rob.

ROB VELLETRI, MD, MONADELPHOUS GROUP LIMITED: Thank you and welcome to our 2014 full year results presentation. I'll briefly take you through the business highlights for the year and then hand over to Zoran to provide you with more detail of the financial performance. After that I'll discuss our operational performance at a divisional level, our market and growth strategy and the outlook.

The end of the presentation will address any questions that you may have. In our Group highlights slide I am pleased to report Monadelphous' sales and earnings result ended the year ended June 30, 2014. Sales revenue for the year was AUD2.3 billion, down 10.9% on the previous corresponding period, reflecting softening activity in the mining and minerals sector. This result follows two years of exceptional growth where revenue grew over 80%.

Net profit after tax was AUD146.5 million, down 6.3%. This included a one off after tax gain of AUD7.9 million from the sale of Skystar Airport Services. Underlying net profit after tax -- excluding the Skystar sale - was AUD138.6 million, down 11.3% on the previous year.

Underlying earnings per share was AUD1.54 which was a reduction of 13.1%. The Board of directors have declared a final dividend of AUD0.63 per share fully franked, this takes the full year dividend to AUD1.23 per share.

Monadelphous achieved a record safety performance for the year. The total case injury frequency rate improved by 21% to 3.25 incidents per million man hours worked. This is the Company's best ever annual result which is an outstanding outcome.

The increasing activity in LNG and CSG during 2013-2014 reduced the impact of slowing activity in the mining and minerals sector. With market conditions in resources tightening, Monadelphous continued its focus on productivity to ensure it remains competitive, efficient and responsive to customer requirements.

New contracts and contract extensions valued at approximately AUD1.8 billion were secured during the year. We continued to strengthen our position in new service markets, and broadened our exposure in oil and gas.

Moving to slide 4, contract activity, this map shows the contract revenue by division and location during the financial year. As you can see revenue came from numerous large contracts in Western Australia and high levels of activity in Queensland. In the west, major activity included iron ore, constructions and maintenance contracts for Rio Tinto and BHP Billiton, and LNG constructions and maintenance contracts for Chevron and Woodside.

Contacts on the east coast included work for BMA at the Caval Ridge Mine project, and marine construction work on the Wiggins Island Coal Export Terminal in Gladstone.

Turning now to slide 5, looking at the revenue by customer market the major contributors are oil and gas, iron ore and coal. Oil and gas in fact is now our largest market sector. From a geographic perspective, work in WA continues to dominate our revenue landscape, followed by Queensland.

Now turning to slide 6, contracts secured - you can see that new contracts and contract extensions valued at approximately AUD1.8 billion were secured during the year with more than 70% of these coming from the oil and gas sector, which highlights the success of the strategy to position Monadelphous as the leading construction and maintenance provider to the energy market. They included Monadelphous' largest ever construction contract valued at AUD680 million with JKC, for structural, mechanical and piping works at the Icthys LNG project in Darwin in the Northern Territory.

The Company also secured its first three upstream construction contracts in coal seam gas, valued at a total of AUD250 million for the Australia Pacific LNG Project in Queensland. And subsequent to the reporting period, Monadelphous was awarded a major iron ore construction contract with Sino Iron as part of their iron ore project at Cape Preston in Western Australia. The contract is valued at approximately AUD160 million.

Moving now to slide 7, productivity - Monadelphous continued to focus on improving productivity during the year. The Company-wide cost reduction program initiated last year achieved an annualised cost saving of approximately AUD53 million, including AUD22 million in overheads. The program was structured around the key areas of projects, people, procurement, plant equipment and property.

In 2013 we consolidated the Company's infrastructure division into the two service-based divisions engineering and construction, and maintenance and industrial services. The restructure has enabled improved service delivery, provided greater flexibility in resourcing and reduced fixed costs.

Other key initiatives implemented during the year included the consolidation for support and services structures to reduce overhead costs, adjustments to staff remuneration levels in line with the change in labour market conditions, a review of project management and delivery methodologies to achieve a leaner and more disciplined approach to contract execution, renegotiation of major supply chain agreements and the rationalisation of plant equipment to support more efficient fleet utilisation. We also continue to focus on contract administration and collections to support working capital management.

Moving now to slide 8, safety performance - as I highlighted earlier, Monadelphous achieved another record safety performance for the year. Our TCIFR or total case injury frequency rate improved 21% to 3.25 incidents per million man hours, while the Company's lost time injury frequency rate improved 57%.

We implemented a new incident management system during the period to support our consistent business-wide approach to health, safety, environment, and quality incident management. The system will enable Group-wide shared learning and continuous improvement.

Turning now to people performance, you can see from the graph there our total workforce reduced by approximately 25% to 5,321 on a like-for-like basis at the year end. This was due to the completion of a number of major construction projects, slowing construction activity and the timing of ramp-up for newly awarded oil and gas contracts. Improved availability of labour contributed to greater productivity, high levels of key talent retention and an improving trend in permanent staff turnover.

I will now hand you over to Zoran who will provide you with a bit more of a look at our financial performance.

ZORAN BEBIC, CFO, MONADELPHOUS GROUP LIMITED: Thank you Rob and good morning everyone. Throughout this presentation I will mostly refer to our underlying performance. The difference between our underlying performance and our statutory results is the one off after tax gain of AUD7.9 million from the sale of Skystar.

A reconciliation of the statutory results to our underlying performance is included at the end of this presentation on slide 23. As Rob has outlined, Monadelphous achieved a solid financial result for the year. Sales revenue was AUD2.33 billion, down 10.9% on the previous 12 months, reflecting the impact of the slowdown in the resources market.

As you can see on slide 10, earnings before interest, tax, depreciation and amortisation EBITDA was AUD221 million, a decline of 12.1% and broadly in line with sales revenue. Net profit after tax was down 11.3% to AUD138.6 million. Pleasingly the NPAT margin reduced only slightly to 5.59%, despite customer costs pressures and an increasingly competitive environment. The margin was supported by the Company-wide costs reduction program.

Earnings per share was AUD1.54 and with the robust cash flow from operations the Board declared a final dividend of AUD0.63 per share fully franked. This takes the full year dividend to AUD1.23 per share. The entitlement date for the final dividend of AUD0.63 is September 12, 2014 and payment will occur on October 3. The Monadelphous Group Limited dividend reinvestment plan will apply to this dividend with no discount to the issue price.

Turning now to slide 11, our financial position and funding. our financial position and funding. As you can see we finished 2013/2014 with AUD217.9 million of cash at bank and 11.6% increase over the year. The balance sheet was further strengthened with a net cash position of AUD180.8 million at year end. This is up 29% on June 2013.

Capital expenditure reduced by 84.7% to AUD7.1 million following a number of years of substantial investment in strategic assets and to support extraordinary levels of activity. Total bond facilities were AUD675.6 million at 30 June, up 33.5% on a year earlier as the Company took the opportunity to secure additional capacity and greater flexibility.

Turning now to our historical performance, slide 12 - the key insights presented on this slide are the sustained and strong financial performance of the Company over many years. The abnormal period of growth experienced over the previous two financial years when revenue grew by more than 80% and the impact of the change in mining and minerals in the latest period. This is supported by the sales revenue graph and reflected in most of the other financial performance measures on this slide.

Turning now to slide 13, cash flow performance - as you can see cash flow from operations was robust at AUD117.6 million, up 3.9% on the previous 12 months. The cash flow conversion rate was healthy at 83%.

This improved performance was driven by our continued efforts in contract administration and collections, an area which will remain an important focus for the business.

Slide 14 shows the drivers of the variance in net profit after tax compared with the previous year. The reduction in sales revenue impacted NPAT by AUD17 million. Margins held up as customers continued to focus on reducing operating costs and discretionary capital expenditure and the Company worked hard to ensure it responded appropriately to this change in market conditions.

Lower depreciation and amortisation charges were the result of the substantial reduction in capital expenditure during the period and the largest positive contribution was from the sale of Skystar, as mentioned earlier. This resulted in a one-off after tax profit of AUD7.9 million.

That concludes our look at the financials. I will now hand back to Rob who will provide additional detail on the performance of our operating divisions.

ROB VELLETRI: Thanks Zoran. Moving now onto slide 15 which provides a revenue summary by division. As you can see engineering and construction revenue fell 14% with revenue contributions from maintenance and industrial services increasing slightly.

Turning to slide 16, the engineering and construction division reported revenue of AUD1.67 billion. New contracts and -- with a combined value of approximately AUD1.34 billion were secured during the year which included as I said earlier the -- this LNG project in Darwin, Northern Territory and the APLNG contracts in Queensland.

Major project activity included construction work with Bechtel at Chevron's Wheatstone project, BMA's Caval Ridge Mine Project in Queensland, structural mechanical piping and electrical works at Rio Tinto's Marandoo Mine phase two project in WA, construction work for Rio Tinto's Western Turner Brockman iron ore project and also its Hope Downs 4 iron ore project in WA and construction of the Wiggins Island coal export terminal in Gladstone in Queensland.

Our main -- slide 17 now, maintenance and industrial services division which specialises in the planning, management and execution of multidisciplinary maintenance services and shutdowns delivered sales revenue of AUD644 million, a slight increase when compared to the previous year.

Growth in oil and gas maintenance activity was offset by lower volumes in the mining and mineral sector as customers focused on reducing and deferring capital and operating expenditure.

The division continued to expand its service offering with existing customers including working with Woodside through a newly integrated front end support team established to carry out detailed planning for ongoing shutdown activity. The division was also awarded AUD415 million in new maintenance contracts and contract extensions during the year.

Moving now to slide 18 which is revenue by end customer market, Monadelphous has grown significantly over the past decade having capitalised on strong conditions in the resources and energy sectors as well as expanding its customer markets and service offering.

The Company's progressively diversified its earning base from the traditional mining market with revenue from oil and gas customers now making up more than 40% of sales which is up from 26% the previous year and five times that of 2008.

And slide 19 gives graphs of revenue by service market and you can see that the graph shows a growing contribution from our new service markets over recent years in pipelines, water and marine work now making up around 15% of our revenue.

Moving now to slide 20, market growth strategy. The Company is committed to long term growth through securing additional sources of revenue in new markets. The Company will continue to maximise its service offering in core markets through growing services in upstream and downstream LNG and positioning for floating LNG. We will further develop our integrated engineer procure and construct or EPC delivery model and multidisciplinary execution capabilities. Furthermore, we will seek to expand our presence in new markets through growing services in power and water, as well as marine construction and transmission pipelines.

Overseas, we will build out our position in PNG and Mongolia and seek to leverage opportunities for expansion in core service markets with our key customers. Other opportunities include globalizing our well established China based fabrication services and exploring prospects to enter the growing oil and gas market in North America. The Company's strong financial position and healthy balance sheet will enable the pursuit of acquisition opportunities to advance these growth and diversification objectives.

Looking now out at the Australian market conditions, you can see resource development investment in Australia has peaked and construction expenditure is slowing, as conditions in the mining and minerals industry weaken. A reasonable level of activity is forecast to continue, particularly in the iron ore sector. Maintenance and sustaining capital work, as new production assets move to the operational phase, will also continue to provide opportunities. The forecast for construction activity in the infrastructure market is expected to remain relatively flat.

Moving now to the outlook. While market conditions in mining and minerals are relatively subdued, there will be ongoing opportunities in brownfield expansion and sustaining capital works, as customers focus on optimizing production. The Company's broad exposure to oil and gas will continue to provide construction and maintenance opportunities for Monadelphous in the new financial year and beyond.

Future opportunities include maintenance services for new LNG operations, further construction and maintenance in the coal seam gas market in Queensland and in the longer term floating LNG facilities. The Company has entered the new financial year with a solid workload. However, an overall decrease in construction market opportunities is likely to lead some moderation of sales revenue in the 2014/2015 financial year.

Cost reductions and productivity improvements will remain priorities to protect margins in a much more competitive environment. Increased availability of quality labour improved efficiency and project delivery and a focus on innovation in productivity and safety will assist us in driving improvements in this area.

On behalf of the Board, I would like to thank all stakeholders for their loyalty and support and particularly our people for their dedication, commitment and highly valued contribution to another successful year at Monadelphous.

Thank you. I will no worries hand you over to the operator for any questions.

Questions and Answers

OPERATOR: Ladies and gentlemen, we will now begin the question and answer session. (Operator instructions). Your first question comes from the line of Andrew Hodge from CIMB. Please go ahead.

ANDREW HODGE, ANALYST, CIMB: Hi, everyone. Just a few questions, if I could. The first one just relates to the level of restructuring that you took above the line in the FY14 result and what your expectations are for FY15.

ZORAN BEBIC: Yes, Hodgey, in terms of the total value of restructuring costs, a component - there was a small component in the previous financial year, and I think the number this year was about AUD5 million that we took above the line. I would expect some cost to flow through next year, but probably not as significant as that.

ANDREW HODGE: All right. Thank you. Then just on the new projects that you're winning, I know, Rob, you always say that the margin that you get is a function of the productivity that you deliver, but with regard to the gross margin on a bid basis, are you seeing a compression on the gross margin as you bid projects or are they still holding out relatively similar to the last couple of years?

ROB VELLETRI: No. I think - yes. You have to be a little bit more bold, I think, when you're bidding work in terms of your view around the ability to improve productivity. So I mean, the bid margins may tighten, but it's a question of whether you can convert - improve productivity to sustaining historical bid margins or sustaining historical outcomes, if you like.

ANDREW HODGE: All right. Then just my last question. If I look at the growth opportunity chart, I guess the two things that stick out domestically, looking at the potential to go into civil, EPC civils work and then, I guess, the **oil** and gas work in the US, in regard to both of those markets, what do you bring? What is it that you will have that competitors, either existing competitors, or people that are also trying to break into that market (technical difficulty)?

And if you need to do it via **acquisition**, does this mean that the metrics you've used in the past of maybe up to three or four times EBIT as a multiple to pay are probably going to change and we'll see you spend maybe a little bit more in terms of the multiples that you pay for an **acquisition**?

ROB VELLETRI: Yes, I guess the view is that we - we have developed quite a capability in executing the type of work that we have done in **oil** and gas and across a range of services and we are in the early stages of looking at that - the prospects in the US and Canada where there is significant demand going on. So let's say it is - it's early days, but I think we will have significant experience to offer that market, which doesn't - hasn't had the level of activity or anywhere near the level of activity that's going on at the moment for a long, long time. I'**m** not sure whether there's room for our capability over there.

Acquisition wise, I guess, yes, note your comment. I guess, we'll have to explore the ramification or the valuations, et cetera, or opportunities over there. I guess it's a bit early to actually make any serious assessment or comment on what we might have to pay.

ANDREW HODGE: All right. Thanks, guys.

OPERATOR: Your next question comes from the line of Craig Wong-Pan from Deutsche Bank. Please go ahead.

CRAIG WONG-PAN, ANALYST, DEUTSCHE BANK: Hi. Just a question, following on from that question around acquisitions, could you give a sense then - I mean, because typically you've focused on kind of small bolt on acquisitions. Would that be a similar trend or would you be willing to go outside of that and potentially pay for a larger business?

ROB VELLETRI: Well, I think the driver here is really acquisitions which are strategic, so those that will help us to fulfil the objectives I outlined earlier. I guess, generally, I guess, we would be looking at - we wouldn't be looking at huge or - we would be looking at bolt ons that give us access to a market or give us a service capability that we can bring the rest of business to explore it.

CRAIG WONG-PAN: Okay --

ROB VELLETRI: So generally not large.

CRAIG WONG-PAN: Yes. Okay. That's helpful. Then just secondly, I mean, one for you, Zoran. Just on the balance sheet, I mean, could you give us a feel for what the level of surplus cash is? I mean, I know you've got AUD180 **million** on the balance sheet. I mean, some of that's payments in advance. I guess, you need to have some cash for working capital from month-to-month. Can you give a sense of how much surplus cash you're holding at the moment?

ZORAN BEBIC: You've done a good job in answering the question, Craig (laughs). Not much. I mean, there's clearly - there's a small buffer there, but in terms of this operating environment and working capital lockup, we've still got a lot of work to do to relieve that position and the fluctuation in the cash balance is still large throughout the course of a month. So there's not a substantial surplus cash component on the balance sheet.

CRAIG WONG-PAN: Okay. Then just one last question, around the receivables balance, that still has remained high. I mean, I thought that, given you would have completed a number of projects, your actual - or your might have received back some of those payments on some of those projects. Is that still to come? I mean, are we - should I be thinking of a strong cash flow, operating cash flow balance, coming through an FY15 as you get payment for some of those projects? Or is that - it is more a function of where we are in the cycle and that things are taking longer to pay still?

ZORAN BEBIC: Well, I think it's a combination of both those elements, if - we said in the second half we reached the back end of a number of large projects in terms of completion. The receivable number reflects some of that final billing, which will be coming through now. But then the comment around the general operating environment, we'll need to work hard to ensure that we optimise the working capital position. But I would like to - certainly like to think we'd make some more progress over the next 12 months in terms of resolving it or dealing with some of those issues.

CRAIG WONG-PAN: Okay. But you're not having to face any kind of claim write-offs or anything like that?

ZORAN BEBIC: No. Look, probably the comment I'd make is if I look at what's transpired over the last 12 months, in terms of resolution of claims, they'd be in line with our expected outcome.

CRAIG WONG-PAN: Okay. Thanks.

ZORAN BEBIC: So I'd like to think that that will continue.

OPERATOR: Your next question comes from the line of Oscar Oberg from CLSA. Please go ahead.

OSCAR OBERG, ANALYST, CLAS: Yes. Thanks, guys. Just a few questions from me. Just looking at your major contract activity for 2014, there seems there a number of projects, like Caval Ridge and WICET, that have been there for quite some time. They've gone for a lot longer than you originally anticipated. I'**m** just wondering are you finding it harder to seek payment for variations on some of these longer term projects?

ROB VELLETRI: The - it's pretty normal now for lots of push back on variation. That's just par for the course, I think, with the climate that we're in. So I mean nothing is really - we've been in that climate now for a good--

ZORAN BEBIC: 18 months.

ROB VELLETRI: 18 months. There's no different than it was 12 months ago.

OSCAR OBERG: Okay. Cheers. Next one. (Inaudible) bank guarantees utilised increased by around 27% in 2014, compared to 2013. Is this due to a higher [exposure to] **oil** and gas or are customers demanding more post Forge?

ROB VELLETRI: No. It's certainly nothing to do with the post Forge point. But I guess the reality is that we've still got projects that have reaching completion or at the back end of completion and we've still got bank guarantees that are outstanding on those and need to be collected, as well as bank guarantees to support the work that we've been awarded and that's starting to ramp-up. So it's really just a mix of timing of that work. Projects coming off and projects coming on. But I would expect to see that number come down over the next 12 months.

OSCAR OBERG: All right. Just the last one. Just talking about the R&D offset, just wanted to know why it was AUD10 **million** in 2014, compared to the AUD5 **million** in 2013? I guess, how much R&D are you assuming in 2015?

ROB VELLETRI: Yes, I don't really have a view around what we're assuming in terms of a specific number, but it will be less than it was in 2013. I think it if - you made the comment that last year or the previous year was about AUD5 **million** - about AUD4 **million**, AUD4.5 **million**. I think the previous year it was higher at around AUD7 **million**. The R&D number does vary based on the type of work that we actually have. So the R&D eligible expenditure is attached to projects and work itself. So it's a function of the type of work we're doing, the service market that we're operating in. So it can vary.

So my expectation would be next year that the number will be lower than it was certainly this year in FY13. Probably somewhere between FY12 and FY13.

OSCAR OBERG: Okay. Thanks for that.

OPERATOR: Your next question comes from the line of Anthony Passe-de Silva from JP Morgan. Please go ahead.

ANTHONY PASSE-DE SILVA, ANALYST, JP MORGAN: Good morning, gentlemen. First question I had is with regards to the NGO construction business. Of those jobs that you list that you were completing work on or conducting work on in the FY14 period, how many of those major jobs progress into the FY15 period?

ROB VELLETRI: Which way? Do you mean the - are we talking about the ones on the slide, or are we talking --

ANTHONY PASSE-DE SILVA: Well, so if you have a look in the press release or the slide, you talk there about contract activity in the FY14 period and you list out a series of contracts there --

ROB VELLETRI: Yes.

ANTHONY PASSE-DE SILVA: -- which of those jobs progress into FY15 period, as well?

ROB VELLETRI: That's not - the list on the slide is not an exhaustive list, so there - I mean, we could - this continues on. There's still - we're still with - we're still on the Rio Tinto, which is not mentioned here. Rio Tinto Cape Lambert Phase II project. Most of those ones that are one that list that are on the slide, the vast majority are complete.

ANTHONY PASSE-DE SILVA: Okay.

ROB VELLETRI: Substantially complete. Yes.

ANTHONY PASSE-DE SILVA: Okay. So when I look at the profitability then of the business in the second half of 2014, given that you've neared completion, I'm assuming then that you will have also booked the last 10% on all those jobs? Or will there still be some level of profitability that still needs to be captured in the first half of 2015?

ROB VELLETRI: I mean, not all of them will be completely closed out.

ZORAN BEBIC: Yes.

ROB VELLETRI: No. I mean --

ZORAN BEBIC: [Hence] the term nearing completion.

ROB VELLETRI: When I say nearing completion, I'm saying the work is virtually complete. The close out of the contract may take some months beyond that.

ANTHONY PASSE-DE SILVA: Okay.

ROB VELLETRI: That will configure in this year.

ANTHONY PASSE-DE SILVA: Okay. Second question is with regards to working capital in cash conversion. The cash conversion this year is still below the average of the last four. Can you give a sense of where you think your cash conversion will get to or what sort of targets you're setting internally to get operating cash flow conversion to in FY15?

ROB VELLETRI: I would like to think we could achieve a number around this year's conversion number.

ANTHONY PASSE-DE SILVA: Okay. So when do you think you'll be able to get your cash flow conversion back to the levels you've done historically? Particularly what you've did between FY10 and FY12?

ROB VELLETRI: I guess when there's another boom in the resources sector, I'd be more comfortable with could achieve those levels.

ANTHONY PASSE-DE SILVA: Well, it's just more because you have had the ramp-up in your receivables. Obviously, the payables have also gone up, because you've had prepayments. But I would imagine that as these construction projects come off that you would think there would be some cash released. So would it be fair to say that this is a new normal, given that the Group is doing more oil and gas construction work? Or is there something that has changed in the business that means your cash conversion going forward is weaker?

ROB VELLETRI: No, I think there's two factors. I mean, the nature and mix of the work is one factor. Oil and gas will generally be a little more working capital intensive and the changing market conditions is definitely - in resources is definitely a factor. It's slowing extension of payment terms, takes longer to resolve claims and that clearly has an impact on conversion. So I think - I would expect that we can achieve a pretty reasonable level of cash flow conversion consistent with this year's number.

Possibly some opportunity on the up side. But I think the numbers of the percentages around in excess of a hundred, I think, are - would be difficult to achieve going forward, certainly in the next 12 to 24 months.

ANTHONY PASSE-DE SILVA: Okay. Just my last question is around--

ROB VELLETRI: Having said that - sorry. Having said that, just reiterating the point that we've got a lot of focus on that particular issue, so we're doing a lot of work in trying to ensure we manage that effectively.

ANTHONY PASSE-DE SILVA: Okay. That's fair enough. Just last question from me, in terms of CapEx, what can we expect for FY15 and where would that be, any M&A that you may look to pursue in the next 12 months?

ROB VELLETRI: I think in terms of general CapEx, my expectation would be that we would see another low number in terms of overall CapEx. I mean, if you - we've consistently and historically said that we're a low capital intensity business and I think we've demonstrated this year that the ability just to turn the tap off quickly in terms of CapEx, and I think we can hold to a low number again in FY15.

ANTHONY PASSE-DE SILVA: Okay. Great. Thank you.

OPERATOR: Your next question comes from the line of John O'Shea from Bell Potter. Please go ahead.

JOHN O'SHEA, ANALYST, BELL POTTER: Thanks, guys. A good result in a tough climate, so well done there. Look, I just had a question, if you could give us a bit of colour, perhaps around how we should look at the - perhaps, the margins in terms of EBITDA margins for next year. Obviously this year, it held it pretty steady, which obviously was a rough function of your cost out as well. But maybe if you could just give us a bit of colour around how you think we should be thinking about that as we looked ahead to 2015.

ROB VELLETRI: I think the drivers here for margin continue to be as we say in terms of, one, that they're a very tight market. Two, we have a drive on productivity and the outcome of our margin is going to be really a function of our ability to do things more efficiently, particularly on some of our project. So I mean it would be hard to see the margins going up. It would be a case of whether we could maintain them. That would be the challenge.

JOHN O'SHEA: Thank you.

OPERATOR: Your next question comes from the line of Raju Ahmed from CCZ please go ahead.

RAJU AHMED, ANALYST, CCZ: Hi guys, just three questions from me. The first one, if we go back to your slide, I believe it's slide 20, the growth strategy. Can you just give us a sense of if we take a two to three year horizon, what is more likely and what is less likely or perhaps what is a bigger priority?

ROB VELLETRI: Well yes, I guess the way the slide's conducted is really around -- towards the left really is the nearer term, where we're maximising our position in oil and gas and expanding our service offering. So the EPC multi-disciplinary focus is really something we're focused on right now and extending our range of services for a particular customer opportunity.

Then the second box there is really around expanding our newer markets where - which is also something we'll be focusing on for shorter to medium term. Obviously in terms of we've got a smaller market share in those markets, so we've got opportunities to grow that. So that's a focus for us.

Then the overseas focus, which is probably a little longer term, where we're very active at the moment in terms of just understand what that opportunity really is. There is a very real opportunity there in terms of the level of activity in some other parts of the world.

The more immediate one there is going to be the Sino [struck] expansion, where we're looking at opportunities to fabricate for customers elsewhere in the world. We're actually quite active in bidding some of that work, or will be this year. So the broader one around developing a presence in the US et cetera I think that there's less certainty around that in terms of the timing. It is a focus -- all of those are focus areas for us.

RAJU AHMED: Yes, sure. So just focusing on the EPC capability, can you give us a sense of how developed that model is right now? When can we see some first signs of, I suppose tangible revenue and earnings coming in? [Is this going to be the point of] (inaudible)?

ROB VELLETRI: Yeah look, that capability exists. I guess it's a question of the opportunity and the degree of -- or the scope of the opportunity and there are a number of opportunities in the iron ore sector that -- where customers are looking for that service. So we'd say we're pretty well developed in that area and have done some projects on a design and construct basis previously, not of huge scale, but that capability -- I mean we can bring that capability to opportunities that we may develop with customers around that sort of model where it's more of a one stop shop.

Sorry, the question of how much revenue is in this year, I mean we do have some targets this year that are EPC targets.

RAJU AHMED: Yeah (technical difficulty) nominal number or is it less than -- is it 5%, 10%? How should we be thinking about it?

ROB VELLETRI: Oh you should probably be thinking about 10% or 15%.

RAJU AHMED: Right, okay. The next question is just on your acquisitions. I think it was yours or mentioning that you don't really have that much surplus cash on the balance sheet. So in terms of if you were to do acquisitions and I know you've mentioned that it's unlikely to be large. How should we be thinking about the acquisitions in the context of your high dividend payout ratio? Are you -- do you need to compromise your dividend model at this point in time to fund your next wave of growth?

ZORAN BEBIC: Raju the way I've answered that is to depending upon acquisition. If you look at what we've historically done in terms of smaller [bulk time] acquisitions it hasn't really had too much of an impact. It's been funded from cash on the balance sheet. So I think it depends upon the opportunity and the size of that opportunity.

RAJU AHMED: Right, would you debt fund it if the opportunity --

ZORAN BEBIC: I think that's a consideration, particularly in this market. I mean if you look at our -- essentially we don't have any external debt outside of equipment financing on the balance sheet, so we've got a low capacity to do that. Markets - growth markets in terms of the banking sector are pretty tight. So there's a lot of capacity in the market, so that certainly would be an option.

RAJU AHMED: Okay. The last one - hopefully this is a quick one, there's talks about the Adani coal mines coming up, probably early next year. Does Monadelphous see opportunities in there?

ROB VELLETRI: Oh yes, [it's a real job] we definitely -- that is -- I

guess -- on our radar. Yes, it's a big project. It fits within our scope neatly.

RAJU AHMED: What's the pie there from I suppose, an engineering and construction perspective?

ROB VELLETRI: The pie? I think it's quite significant. The Adani coal terminal isn't it?

RAJU AHMED: Yes.

ROB VELLETRI: Coal terminal and coal plant, which I mean is a significant element. So we're doing structural, mechanical, electrical, we can join with a designer, we can do EPC on the plant itself. We can build the -- we got capability to build or get involved in the port facilities, the stock piling facilities. So yes, it's a significant opportunity.

RAJU AHMED: Okay thank you.

OPERATOR: Your next question comes from the line of Rob Craigie from Baillieu Holst. Please go ahead.

ROB CRAIGIE, ANALYST, BAILLIEU HOLST: Yes, I've got two questions and probably the first one for Rob and still on the market growth strategy slide. Just perhaps ask an M&A question another way and that is, where -- for incremental -- so I understand incremental M&A that you might be looking at and would that be part of the mix in all the new customer markets listed on the slide. So in other words in power, water, marine and transmission pipelines?

ROB VELLETRI: There's not a yes/no answer to that. Some expansion we can do, say in water or -- in terms of opportunities for water. I mean that could be -- in terms of the work we're doing at the moment, water treatment plants and the like, that can be organic. If there were some sectors in power that were not within our current reach, then -- such as power transmission, then there's probably acquisitions avenue there. Maybe in marine, but we're certainly -- we've certainly got capability internally for that. In transmission pipelines, I doubt it, other than if it was some sort of international expansion.

ROB CRAIGIE: Yes.

ROB VELLETRI: Does that answer your question?

ROB CRAIGIE: Yes.

ROB VELLETRI: On an international though, or overseas basis (inaudible) is pretty easy to expand, it's just different customers in different parts of the world. It's a supply function. The others, PNG, we're already present there. That's probably not an issue. Certainly anything in North America would probably involve something like that, an acquisition.

ROB CRAIGIE: Okay. My second question, just on cost reductions and productivity improvements, you've noted increased availability of quality labour, with obviously the demand for labour having come off the peak levels we've seen over the last couple of years. Can you comment on how significant that might be in terms of your overall costs or potential cost reductions and execution performance?

ROB VELLETRI: I think it's significant because clearly we've seen up to whatever it

was, 12 or 18, [too] years ago, a huge influx of inexperienced people in terms of the market and I think that would have contributed significantly to the loss of productivity. Having now I guess, access to - or when I say access, you're able to high grade if you like, your workforce to ensure you've got the quality of workforce or maximise the quality of workforce to deliver greater levels of productivity. I think that's quite a significant opportunity. It's an opportunity for everyone though, it's not just us.

ROB CRAIGIE: Yes, lovely thanks.

OPERATOR: Your next question comes from the line of Nathan Reilly of Goldman Sachs. Please go ahead.

NATHAN REILLY, ANALYST, GOLDMAN SACHS: Hey guys, just a question around **acquisition** to gearing. Just to what extent would you feel comfortable gearing the balance sheet if the right opportunity came up?

ZORAN BEBIC: It's a difficult question to answer, because it's a function of the opportunity itself in terms of how attractive the opportunity is, in terms of how it aligns with the stuff that Rob talked about in terms of growth opportunities.

I mean we've always taken a conservative position in terms of how we've held the balance sheet, but that doesn't mean that we're not prepared to extend ourselves a little bit. Clearly -- I mean this environment's just highlighted the fact that you do need to have a conservative position in terms of your balance sheet, just to be able to operate on a day-to-day basis. So we can't lose sense of how important that is either.

NATHAN REILLY: Okay no worries. Just on the head count, looks like you finished the year around 5,300 staff. Can you just give us an indication of where head count is now and just what's the trend outlook from here, just as you ramp up on this or other projects?

ROB VELLETRI: Probably a little higher.

ZORAN BEBIC: At the moment it's a little bit higher than that as in the year end number.

ROB VELLETRI: Probably, well it's a low point so far that one.

NATHAN REILLY: Sorry, so you're saying it's going to ramp up over the course of (multiple speakers)?

ROB VELLETRI: Depending on the timing of the ramp up of some of this **oil** and gas work is -- there still is a level of uncertainty around timing, but as it is at the moment we're -- those numbers are higher. The numbers we have at the moment are on the ramp up.

NATHAN REILLY: Okay thank you.

OPERATOR: Your next question comes from the line of Tony Mitchell from Ord Minnett. Please go ahead.

TONY MITCHELL, ANALYST, ORD MINNETT: Hi Rob, I was going to ask a question on employee numbers, but one other question I've got is, to the extent that you're getting -- you're ploughing much more now into **oil** and gas. Just as a rule of thumb, would the margin that you make on an **oil** and gas project be higher on average than one of your base metals or **iron ore** projects?

ROB VELLETRI: No, it wouldn't factor any difference.

TONY MITCHELL: No difference?

ROB VELLETRI: No.

TONY MITCHELL: Alright, okay thank you.

OPERATOR: Your next question comes from the line of Nick Robertson from Morgan Stanley. Please go ahead.

NICK ROBERTSON, ANALYST, MORGAN STANLEY: Hi guys, just a couple of quick questions. Firstly I just wanted to go back to the working capital. (Inaudible) that first half, it looks like a very substantial increase in receivables. Can you explain specifically what is driving that increase?

ZORAN BEBIC: Yes, we spoke about a number of large construction projects that are nearing completion or completed during the period, so there's billing associated with those projects, which has been invoiced to customers that we're awaiting payment of.

NICK ROBERTSON: Is that (inaudible) about other debtors line, is that what's driving that?

ZORAN BEBIC: No actually most of it's sitting in the actual receivables figure.

NICK ROBERTSON: Okay, so what's in the other debtors that you're accruing?

ZORAN BEBIC: Oh that's just sales accruals. So if we get to the end of a month and we haven't actually been able to get a claim approved in terms of timing, we'll raise an accrual for it. It just hasn't made the system. It's just a timing issue.

NICK ROBERTSON: Okay.

ZORAN BEBIC: I do note, it's a little bit more than it was last year, probably might be about double what it was last year. But there's no issue outside of a timing issue in terms of our ability to raise that and get that bill into our system.

NICK ROBERTSON: Okay. And similarly on the payables, looks like a large prepayment has come in, probably in the second half.

ZORAN BEBIC: Yes.

NICK ROBERTSON: What is that coming from?

ZORAN BEBIC: There are a number of prepayments, probably a more substantial one is associated with the [Inpex] contract, but there are others that have come through in the second half. So whilst that number's increased, I think it's important to look at that in the context of overall payables. You'll see our trade creditors number has come down substantially during the period.

NICK ROBERTSON: Yes, but ultimately those prepayments will become a drag issue (inaudible) them off?

ZORAN BEBIC: Yes. Conversely we've got AUD100 **million** less of creditors to pay than we did last year.

NICK ROBERTSON: Just on the provisions as well, they are coming down quite sharply, which I presume is in line with the workforce.

ZORAN BEBIC: Yes.

NICK ROBERTSON: So as you ramp up the workforce, you're going to need to reprovision for the entitlements, which I'd expect will be a margin drag?

ZORAN BEBIC: No shouldn't be -- no there shouldn't be a margin drag. We accrue for that as the work occurs. It's directly linked to the work, so there shouldn't be an impact in terms of margin.

NICK ROBERTSON: Okay and then the last one, just in terms of how this year's compared to maybe last year. I mean last year you talked about obviously abnormal levels of activity. So at this point of the year, looking across the remainder of fiscal 2015, how much of the revenue do you think you've locked in relative to your target? I'**m** just trying to understand how we're trending relative to what was an up-cycle the last five, seven years.

ROB VELLETRI: We still need to win work to -- I mean it's a reasonable level of work going forward, but we still need to book contracts to maintain our momentum. So it's the same degree of uncertainty if you like that we would normally have at this time of the year, so in terms of the volume of work that we have, versus the volume of work that we need to win. Again, it's also very highly dependent on timing of the work that we've got on.

OPERATOR: Ladies and gentlemen in the interests of time, the Q&A session is now closed and there will be no further questions accepted at this time. That does conclude our conference for today. Thank you for participating, you may now all disconnect. Please enjoy your day ahead.

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