

MONADELPHOUS GROUP LIMITED
A.B.N. 28 008 988 547
CONSOLIDATED FINANCIAL REPORT
30 JUNE 2019

MONADELPHOUS GROUP LIMITED
A.B.N. 28 008 988 547
CORPORATE DIRECTORY

Directors

Calogero Giovanni Battista Rubino
Chairman

Robert Velletri
Managing Director

Peter John Dempsey
Lead Independent Non-Executive Director

Christopher Percival Michelmore
Independent Non-Executive Director

Dietmar Robert Voss
Independent Non-Executive Director

Helen Jane Gillies
Independent Non-Executive Director

Susan Lee Murphy AO
Independent Non-Executive Director

Company Secretaries

Kristy Glasgow
Philip Trueman

Principal Registered Office in Australia

59 Albany Highway
Victoria Park
Western Australia 6100
Telephone: +61 8 9316 1255
Facsimile: +61 8 9316 1950
Website: www.monadelphous.com.au

Postal Address

PO Box 600
Victoria Park
Western Australia 6979

Share Registry

Computershare Investor Services Pty Ltd

Level 11, 172 St George's Terrace
Perth
Western Australia 6000
Telephone: 1300 364 961
Facsimile: +61 8 9473 2500

ASX Code

MND – Fully Paid Ordinary Shares

Bankers

National Australia Bank Limited

100 St George's Terrace
Perth
Western Australia 6000

HSBC

188-190 St George's Terrace
Perth
Western Australia 6000

Bankers (continued)

Westpac Banking Corporation

109 St George's Terrace
Perth
Western Australia 6000

Auditors

Ernst & Young
11 Mounts Bay Road
Perth
Western Australia 6000

Solicitors

Johnson, Winter & Slattery
Level 4, 167 St George's Terrace
Perth
Western Australia 6000

Controlled Entities

Monadelphous Engineering Associates Pty Ltd
Monadelphous Engineering Pty Ltd
Monadelphous Properties Pty Ltd
Monadelphous Workforce Pty Ltd
Genco Pty Ltd
Monadelphous Electrical & Instrumentation Pty Ltd
Monadelphous PNG Ltd
Monadelphous Holdings Pty Ltd
Moway International Limited
SinoStruct Pty Ltd
Moway AustAsia Steel Structures Trading (Beijing)
Company Limited
Monadelphous Group Limited Employee Share Trust
Monadelphous KT Pty Ltd
Monadelphous Energy Services Pty Ltd
Monadelphous Singapore Pte Ltd
Monadelphous Mongolia LLC
M&ISS Pty Ltd
M Maintenance Services Pty Ltd
Monadelphous Engineering NZ Pty Ltd
Monadelphous Marcellus LLC
MKT Pipelines Limited
Evo Access Pty Ltd
Monadelphous Inc.
MGJV Pty Ltd
M Workforce Pty Ltd
Monadelphous Investments Pty Ltd
MWOG Pty Ltd
Arc West Group Pty Ltd
MOAG Pty Ltd
Monadelphous International Holdings Pty Ltd
Monadelphous Sdn Bhd
R.I.G. Installations (Newcastle) Pty Ltd
R E & M Services Pty Ltd
Pilbara Rail Services Pty Ltd
EC Projects Pty Ltd (incorporated 3 May 2019)

MONADELPHOUS GROUP LIMITED**A.B.N. 28 008 988 547**

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The Directors of Monadelphous Group Limited are pleased to report the Company's financial results for the year ended 30 June 2019.

Revenue

Monadelphous recorded revenue for the year of \$1,608.3 million*, a 9.85 per cent decrease on the previous year and in line with guidance provided to the market. Statutory revenue, which excludes Monadelphous' share of revenue from joint ventures, was \$1,477.3 million.

The continued growth in the Company's maintenance and infrastructure revenues was offset by the reduction in resources construction activity levels. As foreshadowed at the end of the previous year, the reduction was a result of the timing of the award and commencement of new major resources construction contracts, and the significant revenue generated from the Ichthys project in the prior period.

The Maintenance and Industrial Services division achieved a record annual revenue performance as activity levels grew in the iron ore and offshore oil and gas sectors and demand strengthened for its services in the resources sector more broadly.

The Company strengthened its position in the infrastructure sector, with revenue growth achieved in both the water and renewable energy markets.

Earnings

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$106.8 million[^], a reduction of 10.3 per cent compared to the previous year.

During the period, the Company made a one-off provision of approximately \$7 million (net of tax) which impacted its net profit after tax. The provision resulted from the receipt of Notices of Amended Assessments from the Australian Taxation Office relating to the 2015 and 2016 income years. The amended assessments relate to Research and Development tax incentives claimed by the Company in those years, which were prepared and lodged on the Company's behalf by independent tax advisors and were subsequently deemed to be ineligible. Monadelphous has applied for a review of these findings.

The Company's plant and equipment fleet renewal process over recent years resulted in an increased depreciation charge for the period, and combined with a reduction in net interest earned contributed to an underlying net profit after tax attributable to members (NPAT) of \$57.4 million[#] and a reported NPAT of \$50.6 million.

Underlying earnings per share (EPS) was 61.0 cents and reported EPS was 53.7 cents.

Dividend

The Board of Directors has declared a final dividend of 23 cents per share. This takes the full-year dividend to 48 cents per share fully franked, giving a dividend payout ratio of approximately 90 per cent of reported 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 cash balance of \$164 million, a cash flow from operations of \$16.0 million and a cash flow conversion rate of 54 per cent. Cash reserves were impacted by increased working capital requirements across the business, and a significant level of employee entitlement payouts on large, multi-year projects which demobilised during the year.

The Company's balance sheet remains strong and provides substantial capacity to invest in suitable new business opportunities which may arise.

* Includes Monadelphous' share of joint venture revenue – refer page 11 for reconciliation

[^] Refer page 11 for reconciliation of EBITDA

[#] Underlying – refer to page 11 for reconciliation

Strategic Progress

During the year, 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 overseas markets.

The Engineering Construction division successfully completed its work at the Ichthys Project Onshore LNG Facilities in Darwin, Northern Territory early in the period. Monadelphous' strong execution and safety performance throughout the project resulted in the award of significant levels of complex additional work, and enabled the Company to broaden its experience in the oil and gas market and showcase its execution capabilities to a number of potential new customers.

In total, approximately \$1.35 billion of new contracts and contract extensions were secured since the beginning of the year, including approximately \$400 million of new contracts subsequent to year end.

During the 2019 calendar year to date, the Company has been awarded a significant number of major resources construction contracts with a combined value in excess of \$500 million.

Monadelphous' proven track record for reliably and safely delivering large multidisciplinary construction projects in the iron ore sector culminated in the award of two major construction contracts at BHP's South Flank Project in the Pilbara region of Western Australia (WA). The multi-disciplinary contracts, valued in excess of \$200 million in aggregate, are associated with the construction of the projects' inflow and outflow infrastructure.

Mondium, the Company's engineering, procurement and construction (EPC) service provider continues to establish its reputation as a safe and reliable service provider in the EPC market. Towards the end of the period, Mondium was awarded its largest contract to date, valued at approximately \$100 million, for the design and construction of a new tailings retreatment processing plant at Talison Lithium's Greenbushes mine site in WA.

Post the reporting period, the Company secured two additional multidisciplinary contracts in WA, at Rio Tinto's West Angelas project in the Pilbara and at Albemarle Lithium's new Kemerton lithium hydroxide plant.

The Maintenance and Industrial Services division experienced increased levels of demand in the resources sector for sustaining capital works and shutdown services, as well as growth in activity levels in its offshore oil and gas maintenance services contracts. The award of a \$240 million three-year general maintenance services contract with BHP for its Pilbara iron ore mine sites further strengthened the Company's leadership position in this market.

Monadelphous continued to build on its strong reputation for safe and quality service delivery in the infrastructure market, securing new contracts and additional work in renewable energy and water and irrigation during the year.

Zenviron, the Company's renewable energy joint venture, continues to go from strength to strength, successfully completing work on the Sapphire and Salt Creek wind farms, and making substantial progress on a number of other projects. During the period it secured three additional wind farm contracts, valued at approximately \$190 million in total, bringing to eight the total number of contracts secured since the establishment of the joint venture in 2016.

The Company's strong reputation for successful delivery in the water market lead to it being appointed to the Hunter Water Corporation Complex Capital Works Design and Construct Panel, in New South Wales (NSW), for a four-year period, as well as securing additional packages of work with Sydney Water Corporation.

Monadelphous continues to expand its broad range of services to existing and new customers and diversify into new geographical regions, with the Maintenance and Industrial Services division broadening the scope of support activities provided on the east coast of Australia, and also opening three additional workshop facilities across Australia to support the delivery of services to customers in key operational locations.

Subsequent to year end, the Company completed an agreement to purchase the assets of iPipe Services, a provider of technology solutions and construction and maintenance services to the coal seam gas sector. The specialist services provided by iPipe, including nitrogen testing and leak detection and repair, complement Monadelphous' existing services, enabling further expansion of its core offering to customers in this sector.

Health and Safety

The rapid mobilisation of resources required to support the growth in maintenance activity, as well as the increasing number of subcontractors across the business, impacted the Company's safety performance for the year, with the 12-month total recordable injury frequency rate (TRIFR) increasing to 4.02 incidents per million man-hours worked.

The Company implemented a number of improvement actions to address this disappointing performance trend, including improved subcontractor management, a revised safety leadership development program, and the launch of a safety behavioural standard framework to support a strong and sustainable safety culture. A major organisational restructure of the Maintenance and Industrial Services division was also undertaken to, amongst other things, ensure the Company continues to focus the appropriate level of management resources on its safety performance and initiatives.

To underline its reputation as a leader in the area of health and safety management, Monadelphous decided to early adopt the new ISO 45001:2018, the International Standards Organisation standard for occupational health and safety management systems, and during the year was one of the first to achieve certification in Australia.

People

Monadelphous remains focused on the attraction, development and retention of high calibre employees who live the Company's values and actively contribute to the overall success of the business.

During the period, the Company appointed Ms Sue Murphy AO, a Civil Engineer with over 35 years' experience in the resources and infrastructure sectors, as an Independent Non-Executive Director. Ms Murphy's breadth of experience in corporate governance, capital works development and productivity improvement further enhance Monadelphous' capability, and better enables the Company to achieve its strategic objectives and provide value for shareholders.

The strategic diversification of the business over recent years, both internationally and into the infrastructure sector, has seen a substantial increase in the engagement of subcontractor labour to supplement the Company's capability. Total workforce numbers at year end, including subcontractors, were 7,091. The Company directly employed 5,942 employees at the same date, which was a slight increase on 12 months earlier.

Employee numbers increased on the Company's offshore oil and gas maintenance contracts and as overall maintenance services activity levels grew, and were offset by the demobilisation of a number of construction projects during the year.

The Company will maintain its focus on attracting and retaining key talent as market conditions continue to improve, and the employment market tightens. Talent management and succession planning activities remain a priority and the Company will continue with the implementation of its Senior Leadership Capability Framework, which provides a behavioural road map for aspiring and existing leaders.

During the year, the Company formalised its longstanding commitment to increasing female participation levels across the business with the launch of the inaugural Monadelphous Gender Diversity and Inclusion Plan.

Productivity and Innovation

Monadelphous is committed to the ongoing development of new and improved operational and support methodologies, practices and processes which enhance its competitive position in the market, and deliver high quality, safe, value-adding services which use proven technologies to improve the efficiency of customer operations.

The Monadelphous Innovation Framework provides the strategic direction and governance structures to direct and focus the Company's productivity and innovation activities, prioritises and co-ordinates the delivery of these initiatives, and ensures collaboration across the business.

During the year, the Company identified and implemented a range of innovation initiatives including the provisional patenting and commercialisation of a robotic inspection vehicle, investment in 4D visualisation software, delivery of an integrated maintenance shutdown model and increased deployment of infield mobile devices.

Focus remained on systems optimisation and automation activities, as well as data analytics to identify opportunities to improve operational performance and productivity levels. Activities continued in the areas of application and integration of data capture, workflow and visualisation tools, including the use of products incorporating artificial intelligence technology. During the period the Company deployed in-vehicle monitoring system (IVMS) and tracking technology to measure and enable improved productivity, safety and utilisation levels across its fleet of plant and equipment.

OPERATIONAL ACTIVITY

Engineering Construction

The Engineering Construction division, which provides large-scale, multidisciplinary project management and construction services, reported revenue of \$622.9 million*, down 34 per cent on the previous year, reflecting subdued activity levels in the resources construction market, offset by growth in the renewable energy business.

Since the beginning of the financial year, the division secured new contracts valued at approximately \$850 million.

With renewed confidence in the resources sector, the Company secured two major construction contracts with BHP at its South Flank Project in the Pilbara region of WA for structural, mechanical, piping and electrical and instrumentation works associated with the project's inflow and outflow process facilities. Work on both contracts commenced during the year and is expected to be completed in mid-2021.

Several projects were carried out under the BHP Western Australian Iron Ore (WAIO) panel agreement for the provision of structural, mechanical, piping and electrical and instrumentation works in the Pilbara, which provides the Company with a strong pipeline of opportunities.

Post year end, the division secured a number of new resources construction contracts in WA, including a major contract, valued in excess of \$100 million, for the supply and installation of structural, mechanical, piping, electrical and instrumentation works associated with Rio Tinto's West Angelas Deposits C and D Project, in the Pilbara region. In addition, Monadelphous was awarded a major construction contract at Albemarle Lithium's new Kemerton lithium hydroxide plant in the south west region of WA.

Also subsequent to the end of the financial year, the Company secured a contract with Origin for the construction of the Talinga Orana Gas Gathering Station located near Chinchilla, Queensland. The contract includes the procurement, fabrication, preassembly and site construction of two gas compression trains and supporting utilities and infrastructure, and broadens the Company's experience in the growing coal seam gas market. The project is expected to be completed by March 2020.

* Includes Monadelphous' share of joint venture revenue

Activity remained high during the year in the infrastructure sectors of water and irrigation and renewable energy.

Monadelphous was appointed as one of three contractors to the Hunter Water Corporation Complex Capital Works Design and Construct Panel, in the Hunter region of NSW. The appointment, for an initial term of four years, with two one-year extension options, includes the upgrade and renewal of water, wastewater and recycled water systems, with the total works available valued at approximately \$450 million over the four-year period. The Company secured its first package of work under the program during the year for the provision of a filter to waste system, a chemical systems upgrade and replacement of existing electrical switchboards at the Dungog Water Treatment Plant.

Work continued on the Sydney Water Corporation's Network and Facilities Renewals Program. This included the award of an additional package of work to provide desilting and rehabilitation on the Northern Suburbs Ocean Outfall Sewer during the year.

A new design and construction contract was secured for an 18 kilometre pipeline, pump station and associated works from Malpas Dam to the Guyra Water Treatment Plant for Armidale Regional Council in NSW. In New Zealand's South Island, the Pukaki Irrigation Project was completed, and work commenced on a new design and construct contract for a similar piped irrigation scheme for the Kurow Duntroon Irrigation Company. In Queensland, construction continued on the Kawana Sewage Treatment Plant and the Cleveland Bay Purification Plant.

Zenviron continues to strengthen its position in the renewable energy market across Australia, making good progress on the projects secured in the prior period.

Three new contracts were secured during the period. These include two balance-of-plant civil and electrical works contracts for Vestas – Australian Wind Technology in Victoria, at the Dundonnell Wind Farm, valued at approximately \$100 million, and an engineering, procurement and construction contract for works on the Cherry Tree Wind Farm.

Zenviron also secured the balance of plant works for the southern section of Moorabool Wind Farm, for Goldwind Australia, which is in addition to the contract for the northern section secured in the prior year, taking the total contract works on the project to approximately \$130 million.

SinoStruct continued to perform strongly, supplying fabricated product and procurement services to internal and external customers. It continues to generate high levels of repeat business, securing a number of orders for the supply of wellhead skids to Santos and Australia Pacific LNG for their upstream CSG developments in Queensland.

Internationally, SinoStruct completed works on large projects in North America and received orders for fabrication work associated with the Oyu Tolgoi project in Mongolia. Activity continued to increase at the Houston workshop as the Company establishes a presence and reputation in the local US oil and gas market.

The Company's heavy lift business continued to grow its services and extend its customer base through the year. It continued to supply fixed plant maintenance and shutdown crane services for Fortescue Metals Group at the Solomon Hub and subsequent to year end, expanded those services to include heavy mobile equipment works. The business also secured a crane services contract, in association with the Maintenance and Industrial Services division, to several of Woodside's gas facilities in the Pilbara region.

Monadelphous continues to make good progress on the two packages of work currently being undertaken at the Oyu Tolgoi Underground Project in Mongolia, and will continue to assess further opportunities on this project as they come to market.

Maintenance and Industrial Services

The Maintenance and Industrial Services division specialises in the planning, management and execution of multidisciplinary maintenance services, sustaining capital works and turnarounds.

The division, which continued to broaden the range of services delivered to existing and new customers, and expanded its presence into a number of new geographical regions, achieved a record revenue performance for the year of \$998.4 million, up 19 per cent on the prior period.

The strong performance reflected an increased demand for the division's services across all markets, as activity levels increased in the oil and gas market, and with significant levels of sustaining capital and additional shutdown works experienced in the resources sector.

Following a substantial increase in activity over recent periods, and to facilitate the appropriate governance and management structures required to deliver on its strategy, a divisional restructure was undertaken during the year to best position it for future growth, ensuring that the capabilities of each business unit remain aligned with customer requirements, and ensure appropriate levels of leadership and management.

Monadelphous continued to perform strongly on its long-term oil and gas maintenance services contracts at Shell's Prelude FLNG (floating liquefied natural gas) facility, the INPEX-operated Ichthys LNG Project, and at the Woodside-operated North West Shelf offshore gas production facilities.

The division broadened the scope of support activities provided on the east coast of Australia, with rope access and non-destructive testing services now offered to customers on a national basis. Ultra-high-pressure jetting capability was also embedded across the division to further broaden the service offering in the offshore oil and gas market. It continued to actively build capability to support expansion in sustaining capital works, particularly in the resources sector in the Pilbara region of WA, and to broaden the platform for growth in the smaller brownfields project market.

The division secured approximately \$500 million of new contracts and contract extensions since the beginning of the financial year.

A major contract was secured with BHP for the provision of general maintenance services for shutdowns, outages and minor capital works, totalling \$240 million over a three-year period with an additional two one-year extension options. The contract includes work at BHP's Mt Whaleback, Jimblebar, Eastern Ridge, Mining Area C and Yandi mine sites in the Pilbara, WA. To support the effective delivery of this contract, and to enhance its reputation in the market and commitment to the region, the Company purchased a new workshop facility in Newman. In addition, new workshops were also opened in Chinchilla in Queensland and Mudgee in NSW.

Two three-year contracts were secured with Whitehaven Coal for the provision of mechanical services, maintenance, shutdown support and minor projects in NSW.

A number of contract extensions were secured in Queensland, including a one year extension with Shell's QGC business to provide maintenance services, shutdown support and minor capital works at its LNG Plant on Curtis Island, and a two-year extension to provide dragline shutdown services for BHP Mitsubishi Alliance in the Bowen Basin.

This followed major work performed for BHP Mitsubishi Alliance on the Shiploader 2 shutdown at the Hay Point Coal Terminal, also in Queensland, where the division ramped up safely at short notice and significantly increased its on-site workforce to resource rapidly emerging additional works.

Other significant contract activity undertaken during the year included:

- Sustaining capital works and fixed plant maintenance services for Rio Tinto at its coastal and inland operations in the Pilbara;
- Maintenance and major shutdown services at the Woodside-operated Karratha Gas Plant at Karratha, WA;
- Mechanical, electrical, access, coatings and insulation services on the Woodside-operated Karratha Gas Plant Life Extension Program through joint venture MGJV;
- Engineering, procurement and construction services on Oil Search's oil and gas production and support facilities in the Highlands region of Papua New Guinea, in joint operation with Worley;
- Maintenance and shutdown services for BHP's Olympic Dam copper-uranium operation at Roxby Downs, South Australia;
- Maintenance and shutdown services for BHP's Nickel West operations in the Goldfields, WA;
- Maintenance and turnarounds for Glencore in the Hunter Valley, NSW;
- Shutdown maintenance, breakdown and repair services, minor projects and ad hoc services for BHP at Mount Arthur Coal in the Hunter Valley, NSW;
- Maintenance and turnarounds for Queensland Alumina Limited in Gladstone, Queensland;
- Mechanical shutdown services and tank maintenance and refurbishments for Newmont at Boddington, WA;
- Operation and maintenance of the coal handling facility at the Muja Power Station for Synergy in Collie, WA;
- Rail track maintenance work in the Pilbara, WA; and
- Rope access based mechanical maintenance, inspection and protective coating services for Dalrymple Bay Coal Terminal in Mackay, Queensland.

Subsequent to year end, the Company announced the award of a number of new contracts with Rio Tinto, including a three-year contract, valued at approximately \$60 million, with a further two three-year extension options for the provision of services on its privately-owned rail network in the Pilbara region of WA, strengthening the Company's position in the rail sector. Other work awarded included a contract for the refurbishment of the high grade screenhouse at Tom Price mine in WA, a three-year contract to provide rope access and tank inspection services for its Yarwun alumina refinery near Gladstone and the award of a major shutdown at the Hay Point Coal Terminal.

Markets and Outlook

The resources and energy sector in Australia is expected to provide a solid pipeline of opportunities over coming years as more favourable market conditions return.

Project development activity has been increasing with a number of resources construction opportunities coming to market, particularly in the iron ore and lithium sectors. Prospects from further development in LNG production are also expected to be positive in the years to come.

Maintenance activity in the resources market is expected to be strong as production levels in Australia remain at record levels. Customer focus on optimising production and increasing productivity levels will continue to drive demand for ongoing maintenance support and sustaining capital work.

Investment in infrastructure remains healthy, and with the Company's reputation for safe and quality project delivery in this market, prospects in both the water and renewables sector will continue to provide opportunities.

Monadelphous has been awarded a significant number of new major construction and maintenance contracts since the beginning of the 2019 calendar year and, with its strong reputation across a broadening service offering, is in a good position to secure further work.

A number of construction opportunities, however, are coming to market and advancing to execution later than expected. While growth prospects over the longer term are positive, revenue for the 2019/20 financial year will be dependent on the timing of the execution of work recently secured, as well as the value and timing of future successful awards of additional resources construction contracts.

High levels of market competition, price sensitivity and customer expectations for cost competitive delivery will drive demand for productivity improvements, and continue to challenge margins.

As always, the attraction and retention of high performing talent is a key priority for the Company. The expected increase in industry activity is likely to lead to further pressure in the employment market and present challenges in respect of the attraction and retention of labour.

In summary, Monadelphous remains in good shape to deal with the opportunities and challenges ahead.

I would like to take this opportunity to thank our talented and committed team of people for their loyalty and highly valued contribution, and our shareholders and other stakeholders for their ongoing support.



John Rubino
Monadelphous Chairman
19 August 2019

A review of the Company's performance over the last five years is as follows:

	2019	2018	2017	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	1,479,737	1,737,632	1,249,085	1,368,849	1,869,505
EBITDA	106,791	119,046	98,184	113,630	167,975
Profit before income tax expense	83,426	102,845	82,664	95,610	147,041
Income tax expense	31,313	30,570	24,144	28,702	41,216
Profit after income tax expense attributable to equity holders of the parent	50,565	71,479	57,563	67,014	105,825
Basic earnings per share	53.72c	76.11c	61.41c	71.77c	113.91c
Interim dividends per share (fully franked)	25.00c	30.00c	24.00c	28.00c	46.00c
Final dividends per share (fully franked)	23.00c	32.00c	30.00c	32.00c	46.00c
Net tangible asset backing per share	413.93c	415.86c	398.23c	390.64c	391.75c
Total equity and reserves attributable to equity holders of the parent	393,436	394,481	377,393	368,995	368,098
Depreciation	19,490	17,222	17,892	21,094	22,932
Debt to equity ratio	9.7%	5.3%	3.6%	4.8%	6.3%
Return on equity	12.9%	18.1%	15.3%	18.2%	28.7%
EBITDA margin	6.6%	6.7%	7.8%	8.3%	9.0%

The comparative information has not been restated following the adoption of AASB 15 and continues to be reported under the previous accounting policy. Refer to note 31 to the financial statements for further details.

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, which is unaudited, is important to management as an additional way to evaluate the Company's performance.

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

	2019 \$'000	2018 \$'000
Profit before income tax	83,426	102,845
Interest expense	1,930	452
Interest revenue	(2,269)	(2,573)
Depreciation expense	19,490	17,222
Amortisation expense	1,306	625
Share of interest, depreciation, amortisation and tax of joint ventures #	2,908	475
EBITDA	<u>106,791</u>	<u>119,046</u>

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

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, which is unaudited, is important to management when used as an additional means to evaluate the Company's performance.

Reconciliation of Statutory Revenue from Contracts with Customers (unaudited):

	2019 \$'000	2018 \$'000
Total revenue from contracts with customers including joint ventures	1,608,277	1,783,999
Share of revenue from joint ventures ~	(131,008)	(49,118)
Statutory revenue from contracts with customers	<u>1,477,269</u>	<u>1,734,881</u>

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

Reconciliation of Net Profit After Income Tax to Underlying Net Profit After Income Tax (unaudited):

	2019 \$'000	2018 \$'000
Net profit after tax attributable to members	50,565	71,479
Research and development tax repayment*	6,884	-
Underlying net profit after tax attributable to members	<u>57,449</u>	<u>71,479</u>

*During the period, the Company made a one-off provision of approximately \$7 million (net of tax) which impacted its net profit after tax. The provision resulted from the receipt of Notices of Amended Assessments from the Australian Taxation Office relating to the 2015 and 2016 income years. The amended assessments relate to Research and Development tax incentives claimed by the Company in those years which were subsequently deemed to be ineligible.

Your directors submit their report for the year ended 30 June 2019.

DIRECTORS

The names and details of the directors of the Company in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Calogero Giovanni Battista Rubino *Chairman*

Appointed 18 January 1991
Resigned as Managing Director on 30 May 2003 and continued as Chairman
53 years experience in the construction and engineering services industry

Robert Velletri

Managing Director
Appointed 26 August 1992
Mechanical Engineer, Corporate Member of Engineers Australia
Appointed as Managing Director on 30 May 2003
40 years experience in the construction and engineering services industry

Peter John Dempsey

Lead Independent Non-Executive Director
Appointed 30 May 2003
Civil Engineer, Fellow of Engineers Australia, Member of the Australian Institute of Company Directors
47 years experience in the construction and engineering services industry
Also a non-executive director of the following other publicly listed entity, Service Stream Limited (ASX: SSM) – appointed 1 November 2010

Christopher Percival Michelmore *Independent Non-Executive Director*

Appointed 1 October 2007
Civil Engineer, Fellow of Engineers Australia
47 years experience in the construction and engineering services industry

Dietmar Robert Voss

Independent Non-Executive Director
Appointed 10 March 2014
Chemical Engineer, Member of the Australian Institute of Company Directors
45 years experience in the oil and gas, and mining and minerals industries

Helen Jane Gillies

Independent Non-Executive Director
Appointed 5 September 2016
Solicitor, Master of Business Administration and Construction Law, Fellow of the Australian Institute of Company Directors
23 years experience in the construction and engineering services industry
Also a non-executive director of the following other publicly listed entity, Yancoal Australia Limited (ASX: YAL) – appointed 30 January 2018

Susan Lee Murphy AO

Independent Non-Executive Director
Appointed 11 June 2019
Civil Engineer
35 years experience in the resources and infrastructure industries

COMPANY SECRETARIES

Philip Trueman

Company Secretary and Chief Financial Officer

Appointed 21 December 2007

Chartered Accountant, Member of Chartered Accountants Australia and New Zealand

19 years experience in the construction and engineering services industry

Kristy Glasgow

Company Secretary

Appointed 8 December 2014

Chartered Accountant, Member of Chartered Accountants Australia and New Zealand

14 years experience in the construction and engineering services industry

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Monadelphous Group Limited were:

	Ordinary Shares	Performance Rights over Ordinary Shares
C. G. B. Rubino	1,022,653	Nil
R. Velletri	2,106,670	13,341
P. J. Dempsey	78,000	Nil
C. P. Michelmore	40,000	Nil
D. R. Voss	2,852	Nil
H. J. Gillies	8,278	Nil
S. L. Murphy	Nil	Nil

EARNINGS PER SHARE

	Cents
Basic Earnings Per Share	53.72
Diluted Earnings Per Share	53.62

DIVIDENDS

	Cents	\$'000
Final dividends declared		
▪ on ordinary shares	23.00	21,688
Dividends paid during the year:		
<i>Current year interim</i>		
▪ on ordinary shares	25.00	23,561
<i>Final for 2018</i>		
▪ on ordinary shares	32.00	30,112

CORPORATE INFORMATION

Corporate structure

Monadelphous Group Limited is a company limited by shares that is incorporated and domiciled in Australia. Monadelphous Group Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year (refer note 20 in the financial report).

The registered office of Monadelphous Group Limited is located at:

59 Albany Highway
 Victoria Park
 Western Australia 6100

Nature of operations and principal activities

Engineering Services

Monadelphous is a diversified services company operating in the resources, energy and infrastructure industry sector.

Services provided include:

- Fabrication, modularisation, offsite pre-assembly, procurement and installation of structural steel, tankage, mechanical and process equipment, piping, demolition and remediation works
- Multi-disciplined construction services
- Plant commissioning
- Electrical and instrumentation services
- Process and non-process maintenance services
- Front-end scoping, shutdown planning, management and execution
- Water and waste water asset construction and maintenance
- Irrigation services
- Construction of transmission pipelines and facilities
- Operation and maintenance of power and water assets
- Heavy lift and specialist transport
- Access solutions
- Dewatering services
- Corrosion management services

General

Monadelphous operates from major offices in Perth and Brisbane, with regional offices in Sydney, Newcastle, Houston (USA), Beijing (China), Christchurch (New Zealand), Ulaanbaatar (Mongolia) and Manila (Philippines), and a network of workshop facilities in Kalgoorlie, Karratha, Port Hedland, Newman, Tom Price, Darwin, Roxby Downs, Gladstone, Hunter Valley, Mackay, Bibra Lake, Bunbury, Chinchilla and Mudgee.

The consolidated entity's revenue is earned predominantly from the resources, energy and infrastructure industry sector.

There have been no significant changes in the nature of those activities during the year.

Employees

The consolidated entity employed 5,942 employees as of 30 June 2019 (2018: 5,828 employees).

OPERATING AND FINANCIAL REVIEW

Review

A review of operations of the consolidated entity during the financial year, the results of those operations, the changes in the state of affairs and the likely developments in the operations of the consolidated entity are set out in the Chairman's Report.

Operating results for the year

	2019	2018
	\$'000	\$'000
Revenue from contracts with customers	1,477,269	1,734,881
Profit after income tax expense attributable to equity holders of the parent	50,565	71,479

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the parent entity or the consolidated entity during the financial year.

SIGNIFICANT EVENTS AFTER REPORTING PERIOD

Dividends declared

On 19 August 2019, the directors of Monadelphous Group Limited declared a final dividend on ordinary shares in respect of the 2019 financial year. The total amount of the dividend is \$21,687,732 which represents a fully franked final dividend of 23 cents per share. This dividend has not been provided for in the 30 June 2019 financial statements. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the dividend.

Acquisition of iPipe Services assets

On 5 July 2019, Monadelphous Group Limited completed the purchase of assets of iPipe Services, a provider of technology solutions, construction and maintenance services to the coal seam gas sector. Total consideration of the acquisition was approximately \$3,000,000. The acquisition was not material to the group.

Other than the items noted above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Refer to the Chairman's report for information regarding the likely developments and future results.

ENVIRONMENTAL REGULATION AND PERFORMANCE

Monadelphous Group Limited is subject to a range of environmental regulations.

During the financial year, Monadelphous Group Limited met all reporting requirements under any relevant legislation. There were no incidents which required reporting.

The Company strives to continually improve its environmental performance.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 165,636 performance rights on issue as follows:

- 82,804 performance rights to take up one ordinary share in Monadelphous Group Limited. The performance rights have a vesting date 1 July 2020
- 82,832 performance rights to take up one ordinary share in Monadelphous Group Limited. The performance rights have a vesting date 1 July 2021

The Board determined, based on the financial performance of the Company for the year ended 30 June 2019, that an award could be made under the Combined Reward Plan. The total value of the award approved by the Board was approximately \$4,000,000 with around 100 employees eligible for an award. It is estimated that the number of performance rights to be issued will be approximately 220,000, determined using the share price at 30 June 2019. Refer to the Remuneration Report for further details.

Performance rights holders do not have any right, by virtue of the performance right, to participate in any share issue of the Company or any related body corporate or in the interest of any other registered Scheme.

Shares issued as a result of the exercise of options

During the financial year, no employees or directors have exercised any options.

On 1 July 2019, 82,771 performance rights vested and were exercised.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company has paid premiums in respect of a contract insuring all the directors and officers of Monadelphous Group Limited against a liability incurred in their role as directors of the Company, except where:

- (a) the liability arises out of conduct involving a wilful breach of duty; or
- (b) there has been a contravention of Sections 182 or 183 of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid during the financial year was \$529,983 (2018: \$432,614).

INDEMNIFICATION OF AUDITORS

The Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against certain liabilities to third parties arising from the audit to the extent permitted by law. The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission by Ernst & Young. No payment has been made to indemnify Ernst & Young during or since the audit.

INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS WITH THE COMPANY

During or since the end of the financial year, no director has had any interest in a contract or proposed contract with the Company being an interest the nature of which has been declared by the director in accordance with Section 300(11)(d) of the *Corporations Act 2001*.

REMUNERATION REPORT (Audited)

The Remuneration Report for the year ended 30 June 2019 outlines the Key Management Personnel remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001*.

For the purposes of this report Key Management Personnel of the Group are defined as those persons having the authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company. For the purposes of this report, the term 'executive' encompasses the Managing Director (MD), Chief Financial Officer (CFO) and Executive General Managers (EGM) of the Group.

Details of Key Management Personnel

(i) *Directors*

C. G. B. Rubino	Chairman
R. Velletri	Managing Director
P. J. Dempsey	Deputy Chair and Lead Independent Non-Executive Director
C. P. Michelmore	Independent Non-Executive Director
D. R. Voss	Independent Non-Executive Director
H. J. Gillies	Independent Non-Executive Director
S. L. Murphy	Independent Non-Executive Director

(ii) *Senior executives*

D. Foti	Executive General Manager, Engineering Construction
Z. Bebic	Executive General Manager, Maintenance & Industrial Services
P. Trueman	Chief Financial Officer and Company Secretary

Remuneration Philosophy

The performance of the Company depends predominantly and primarily upon the quality of its employees. To prosper, the Company must attract, motivate and retain highly skilled employees, which includes the directors and executives of the Company.

To this end, the Company embodies the principles of providing competitive rewards to attract and retain high calibre executives, and the linking of executive rewards to the creation of shareholder value.

Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors and the executive management team.

The Remuneration Committee utilises remuneration survey data compiled by a recognised remuneration research organisation across a range of industries and geographic regions. The remuneration survey data is updated every 6 months and is used to assess the appropriateness of the nature and amount of remuneration of directors and the executive management team. This assessment is made with reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

In determining the remuneration levels of directors and executives, the Remuneration Committee takes into consideration the performance of the Group, divisions and business units as well as that of the individual.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

REMUNERATION REPORT (Audited) (continued)

Executive remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- Reward executives for Group, divisional, business unit, and individual performance;
- Align the interests of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

All executives have non-fixed term employment contracts. The Company or executive may terminate the employment contract by providing 3 months written notice. The Company may terminate the contract at any time without notice if serious misconduct has occurred.

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee receives external survey data from a recognised remuneration research organisation and considers market levels for comparable executive roles when making its recommendations to the Board.

Executive remuneration consists of a fixed remuneration element and a variable remuneration element. The variable remuneration element can be provided under the Combined Reward Plan and/or the Employee Option Plan.

Remuneration element	Individual components	Purpose	Link to performance
Fixed Remuneration	Comprises base salary, superannuation and other benefits.	To provide market competitive fixed remuneration appropriate to the position and competitive in the market, taking into account the individual's skills, experience and qualifications.	Assessed at an individual level based on performance of responsibilities and cultural alignment with the Company's values.
Variable Remuneration – Combined Reward Plan	Comprises cash payment, and/or performance rights issued under the Monadelphous Group Limited Performance Rights Plan.	To recognise and reward the senior leaders of the business who contribute to the Group's success, to align these rewards to the creation of shareholder wealth over time and ensure the long term retention of employees.	Performance assessed against financial, safety, people, customer satisfaction and strategic progress targets set by the Board on an annual basis. Vesting of awards is dependent on continuity of employment.
Variable Remuneration – Employee Option Plan	Comprises options issued under the Monadelphous Group Limited Employee Option Plan.	To retain and reward key employees in a manner aligned to the creation of shareholder wealth.	Vesting of awards is dependent on exceeding EPS growth targets and continuity of employment.

REMUNERATION REPORT (Audited) (continued)

The proportion of fixed remuneration and variable remuneration is established for each member of the executive management team by the Remuneration Committee. Tables 1 and 2 on pages 24 and 25 of this report detail the proportion of fixed and variable remuneration for each of the executive directors and the senior executives of the Company.

Fixed remuneration

Objective

Monadelphous has a structured approach aimed at delivering fixed remuneration which is market competitive and rewards performance. The Company participates in a number of respected remuneration surveys from which it receives quarterly or six-monthly market and forecast data, and its remuneration system is designed to analyse detailed market and sector information at various levels.

The level of fixed remuneration is set to provide a base level of remuneration which is both appropriate to the position and competitive in the market, taking into account the individual's skills, experience and qualifications.

Fixed remuneration levels are considered annually by the Remuneration Committee having reviewed an individual's performance, alignment with the Company's values and comparative remuneration levels in the market.

Structure

Executive team members are given the opportunity to receive their fixed remuneration in a variety of forms including base salary, superannuation and other benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed remuneration component of the executives of the Company is detailed in Tables 1 and 2 on pages 24 and 25 of this report.

Variable remuneration – Combined Reward Plan

Objective

The objective of the Combined Reward Plan (the CR Plan) is to recognise and reward the senior leaders of the business who positively contribute to the Company's success, to align these rewards to the creation of shareholder wealth over time and to ensure the long term retention of the Company's key talent.

The CR Plan combines short and long term incentive elements and rewards performance of both the Company and the employee. The equity component of the award is subject to service vesting conditions and disposal restrictions, encouraging employee retention and linking rewards to the creation of shareholder value through long term share ownership, with employee and shareholder alike benefitting from the long term growth in the share price.

Structure

Under the CR Plan, the Board has the discretion to make awards on an annual basis subject to Company and individual performance. Awards may be delivered in the form of a combination of cash and/or Performance Rights.

For the year ended 30 June 2019, the Board and Remuneration Committee determined that 100 per cent of the awards under the Combined Reward Plan will be issued in the form of Performance Rights. The number of Performance Rights to be issued will be calculated using the arithmetic average of the ten-day daily volume weighted average market price of the Company's shares commencing on the second trading day after the record date in respect of the FY19 Final Dividend. This calculation is the same as that used to determine the undiscounted share price for the dividend reinvestment plan.

REMUNERATION REPORT (Audited) (continued)

For the year ended 30 June 2018, 25 per cent of the award was paid in cash shortly after the year end, with 75 per cent of the award issued in the form of Performance Rights granted in July and August 2018 (except for those issued to the Managing Director which were granted at the AGM in November 2018). The number of Performance Rights issued were calculated using the arithmetic average of the ten-day daily volume weighted average market price of the Company's shares commencing on the second trading day after the record date in respect of the FY18 Final Dividend; in other words, the dividend reinvestment plan price of \$15.73.

The Performance Rights component (for both the 2018 and 2019 awards) vest into shares in equal instalments, one, two and three years subsequent to the year of allocation, subject to the employee remaining in the employ of the Company at those particular dates. The Performance Rights are exercisable into shares at those dates, with one share issued for each vested Performance Right. The total number of shares issued are held in escrow until a date three years after the Performance Rights were originally issued.

Unvested performance rights remain subject to Monadelphous' clawback policy. The Board has the discretion as to the circumstances that would result in a clawback of unvested performance rights. Factors resulting in material financial misstatement or underperformance, gross negligence, material lack of compliance, significant personal underperformance or behaviour that is likely to damage the Company's reputation, would likely result in a clawback of unvested Performance Rights.

Performance Requirements

At the beginning of each financial year, the Board sets quantified, challenging, performance targets for the key performance areas of the business, taking into account the prevailing economic conditions for the year ahead, the Company's strategic objectives and the key risk factors facing the business at that time. The targets are designed to focus the activities of the business on the key areas of performance that deliver long term sustainable growth for shareholders.

For the year ended 30 June 2019, the Managing Director had a target opportunity of 40% of fixed remuneration, and a maximum opportunity of 60%. Executives had a target opportunity of 30% of fixed remuneration, and a maximum opportunity of 45%. The target opportunity is awarded for achieving the objectives set by the Board at the beginning of each financial year. In order for the maximum opportunity to be awarded, performance must be a clear margin above the planned targets that were set.

At the end of each financial year, the Board assesses the Group's net profit before tax performance against the budgeted target prior to any awards being considered under the CR Plan.

Once the Board has approved that an award can be made under the CR Plan, executive performance is assessed against the relevant targets set at the beginning of the financial year at a Group, division, business unit and individual level. This assessment is taken into account when determining the amount, if any, of the award to be made to each individual under the CR Plan, with annual awards being subject to approval by the Remuneration Committee and Board. The following key performance areas (KPA) are considered in the assessment process, covering a number of financial and non-financial, Group and divisional measures of performance. The table below provides an overview of these KPAs and the weighting applied when assessing performance.

	Earnings performance		Other	
	Earnings per share	Divisional contribution	Group KPAs	Divisional KPAs
MD	60%	-	40%	-
CFO	60%	-	-	40%
EGM	30%	30%	-	40%

Other Group or divisional KPAs relate to:

- Working capital management
- Safety performance
- People performance
- Customer satisfaction
- Strategic progress

REMUNERATION REPORT (Audited) (continued)

Subsequent to year end, the Board determined on 30 July 2019, based on the financial performance of the Company for the year ended 30 June 2019, that an award could be made under the CR Plan, with approximately 100 employees eligible for an award of performance rights.

The Company regards the performance targets and the actual result as confidential and commercially sensitive in nature and if disclosed, would provide an unfair advantage to competitors. Therefore, the Company has only disclosed the performance measure and the actual performance relative to the target (i.e. between target and maximum, on target or between threshold and target) as opposed to the actual target itself.

Group and Divisional performance for the year ended 30 June 2019 was as follows:

	Earnings Performance		Other				
	EPS	Divisional contribution	Working capital management	Safety	People	Customer satisfaction	Strategic Progress
Group	■		■	■	●	●	●
Engineering Construction		■	■	▲	●	●	●
Maintenance & Industrial Services		●	■	■	●	●	●

Between target and maximum	▲
On target	●
Between threshold and target	■

The following table sets out the awards under the CR Plan for each executive for the financial years ended 30 June 2018 and 30 June 2019:

Executive	2019 Total Award \$	2018 Total Award \$	2019 % of Maximum Opportunity Earned	2018 % of Maximum Opportunity Earned
R. Velletri	296,800	419,700	49%	68%
P. Trueman	118,400	183,200	51%	77%
D. Foti	154,800	215,700	43%	70%
Z. Bebic	156,800	238,700	52%	74%

Tables 1 and 2 on pages 24 and 25 of this report detail the proportion of fixed and variable remuneration for each of the executive directors and the senior executives of the Company for the financial years ended 30 June 2019 and 30 June 2018. The deferred performance right component of the award to be allocated early in the 2020 financial year will be amortised over four years, including the financial year ended 30 June 2019 and the following one to three year service periods. It is estimated, based on the share price at 30 June 2019, that approximately 40,000 performance rights will be granted to Key Management Personnel under the terms of the CR Plan for the year ended 30 June 2019 (2018: 52,126 Performance Rights).

On 1 November 2018, 237,368 performance rights were issued under the terms of the CR Plan for the year ended 30 June 2018 and subject to the Monadelphous Group Limited Performance Rights Plan Rules. 32,115 performance rights were issued to Key Management Personnel.

On 20 November 2018, following approval by shareholders at the Company's AGM, 20,011 performance rights were issued to the Managing Director, Rob Velletri, under the terms of the CR Plan for the year ended 30 June 2018 and subject to the Monadelphous Group Limited Performance Rights Plan Rules.

REMUNERATION REPORT (Audited) (continued)

On 1 July 2019, 82,771 performance rights representing the first tranche of the award under the terms of the CR Plan for the year ended 30 June 2018 vested and were exercised into Monadelphous Group Limited ordinary shares.

Variable remuneration – Employee Option Plan

Objective

The objective of the Employee Option Plan is to retain and reward key employees in a manner which aligns this element of remuneration with the creation of shareholder wealth. As previously mentioned, the Company has utilised the CR Plan to reward executives and other employees for the year ended 30 June 2019, but retains the Employee Option Plan as an alternative or additional scheme for the executive management team.

Structure

Monadelphous Group Limited Employee Option Plan

Equity-based grants to executives are at the discretion of the Remuneration Committee and Board, and may be delivered in the form of options. Should any issue of options be considered, the individual performance rating of each executive and the annual cost to the Company, on an individual basis, is taken into account when determining the amount, if any, of options granted.

In accordance with the rules of the Monadelphous Group Limited Employee Option Plan, options may only be exercised in specified window periods (or at the discretion of the Board in particular circumstances):

- 25% 2 years after the options were issued
- 25% 3 years after the options were issued
- 50% 4 years after the options were issued

In addition, the ability to exercise options during each applicable window period is subject to the financial performance of the Company during the option vesting period. The options shall only be capable of exercise during that window period where the prescribed performance hurdle has been achieved. If, however, this hurdle is not achieved for a particular window period, rather than lapsing, the options will be re-tested during all later window periods in respect of that issue and may become exercisable at that later date.

There are currently no options on issue under the Monadelphous Group Limited Employee Option Plan.

Hedging of equity awards

The Company prohibits executives from entering into arrangements to protect the value of unvested equity-based awards. The prohibition includes entering into contracts to hedge their exposure to options awarded as part of their remuneration package.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The most recent determination was at the Annual General Meeting held on 22 November 2016 when shareholders approved an aggregate remuneration of \$750,000 in the 'not to exceed sum' paid to non-executive directors.

REMUNERATION REPORT (Audited) (continued)

Structure (continued)

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Non-executive director fees consist of base fees and committee chair fees. The Deputy Chair/Lead Independent Non-executive Director also receives an additional fee. The payment of committee chair fees recognises the additional time commitment required by non-executive directors to chair the Board committees. Committee members do not receive a separate fee for sitting on a committee.

The table below summarises Board and Committee fees payable to non-executive directors for the financial year ended 30 June 2019 (inclusive of superannuation):

Board Fees	\$
Non-executive Director fee	114,400
Board Deputy Chair and Lead Independent Non-executive Director additional fee	20,000
Committee Chair Fees	
Audit	10,000
Remuneration	10,000
Nomination	*

* The Nomination Committee is chaired by the Executive Chairman.

Non-executive directors have long been encouraged by the Board to hold shares in the Company (purchased by the director on-market). It is considered good governance for directors to have a stake in the Company.

Fees for non-executive directors are not linked to the performance of the Company. The non-executive directors do not receive retirement benefits, nor do they participate in any incentive programs.

The remuneration of non-executive directors for the year ending 30 June 2019 is detailed in Table 1 on page 24 of this report.

Employment contracts

All executives have non-fixed term employment contracts. The Company or executive may terminate the employment contract by providing 3 months written notice. The Company may terminate the contract at any time without notice if serious misconduct has occurred.

Company performance

The profit after income tax expense and basic earnings per share for the Group for the last five years is as follows:

	2019	2018	2017	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000
Profit after income tax expense attributable to equity holders of the parent	50,565	71,479	57,563	67,014	105,825
Basic earnings per share	53.72c	76.11c	61.41c	71.77c	113.91c
Share Price as at 30 June	\$18.81	\$15.06	\$13.99	\$7.46	\$9.37

A review of the Company's performance and returns to shareholders over the last five years has been provided on page 10 of this report.

The comparative information has not been restated following the adoption of AASB 15 and continues to be reported under the previous accounting policy. Refer to note 31 for further details.

REMUNERATION REPORT (Audited) (continued)

Remuneration of Key Management Personnel

Table 1: Remuneration for the year ended 30 June 2019

	Short Term Benefits				Post Employment	Long Term Benefits	Share-Based Payments *	Total	Total Performance Related	Total Performance Rights Related
	Salary & Fees	Leave #	Non Monetary +	Cash Award	Super-annuation	Leave	Performance Rights			
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<i>Non- Executive Directors</i>										
P. J. Dempsey	131,861	-	21,199	-	12,527	-	-	165,587	-	-
C. P. Michelmore	113,596	-	21,199	-	10,792	-	-	145,587	-	-
D. R. Voss	104,464	-	21,199	-	9,925	-	-	135,588	-	-
H. J. Gillies	104,464	-	21,199	-	9,925	-	-	135,588	-	-
S. L. Murphy ^	4,968	-	1,045	-	472	-	-	6,485	-	-
Subtotal Non-Executive Directors	459,353	-	85,841	-	43,641	-	-	588,835	-	-
<i>Executive Directors</i>										
C. G. B. Rubino	412,000	37,261	21,199	-	20,531	8,073	-	499,064	-	-
R. Velletri	973,000	(127,989)	32,387	-	20,531	31,658	265,788	1,195,375	22.23	22.23
Subtotal Executive Directors	1,385,000	(90,728)	53,586	-	41,062	39,731	265,788	1,694,439	15.69	15.69
<i>Other Key Management Personnel</i>										
D. Foti	758,800	41,217	24,004	-	20,531	(13,477)	155,654	986,729	15.77	15.77
Z. Bebic	643,400	52,685	31,309	-	20,531	30,920	155,876	934,721	16.68	16.68
P. Trueman	483,500	(5,003)	29,813	-	20,531	13,907	118,927	661,675	17.97	17.97
Subtotal Other Key Management Personnel	1,885,700	88,899	85,126	-	61,593	31,350	430,457	2,583,125	16.66	16.66
Total	3,730,053	(1,829)	224,553	-	146,296	71,081	696,245	4,866,399	14.31	14.31

^ S. L. Murphy was appointed as an Independent Non-Executive Director on 11 June 2019.

* Relates to both the 2018 and 2019 awards under the CR Plan. The performance rights award for the year ended 30 June 2019, to be allocated early in the 2020 financial year, is being amortised based on an estimated fair value over 4 years commencing 1 July 2018. Refer page 21 for details.

Leave reflects annual leave accrual less annual leave taken.

+ Non-monetary benefits consist of Directors and Officers, and Life and Salary Continuance, insurance premiums

REMUNERATION REPORT (Audited) (continued)

Remuneration of Key Management Personnel

Table 2: Remuneration for the year ended 30 June 2018

	Short Term Benefits				Post Employment	Long Term Benefits	Share-Based Payments	Total	Total Performance Related	Total Options Related
	Salary & Fees	Leave #	Non Monetary +	Cash Award	Super-annuation	Leave	Options			
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<i>Non-Executive Directors</i>										
P. J. Dempsey	127,854	-	7,753	-	12,146	-	-	147,753	-	-
C. P. Michelmore	109,589	-	6,645	-	10,411	-	-	126,645	-	-
D. R. Voss	100,457	-	6,092	-	9,543	-	-	116,092	-	-
H. J. Gillies	100,457	-	6,092	-	9,543	-	-	116,092	-	-
Subtotal Non-Executive Directors	438,357	-	26,582	-	41,643	-	-	506,582	-	-
<i>Executive Directors</i>										
C. G. B. Rubino	412,000	21,802	26,306	-	20,049	8,640	-	488,797	-	-
R. Velletri	949,300	(34,902)	65,671	104,925	20,049	30,322	-	1,135,365	9.24	-
Subtotal Executive Directors	1,361,300	(13,100)	91,977	104,925	40,098	38,962	-	1,624,162	6.46	-
<i>Other Key Management Personnel</i>										
D. Foti	740,300	(33,822)	47,550	62,925	20,049	25,405	-	862,407	7.30	-
Z. Bebic	605,000	9,608	46,192	59,675	20,049	36,123	-	776,647	7.68	-
P. Trueman	460,000	(560)	35,328	45,800	20,049	13,669	-	574,286	7.98	-
Subtotal Other Key Management Personnel	1,805,300	(24,774)	129,070	168,400	60,147	75,197	-	2,213,340	7.61	-
Total	3,604,957	(37,874)	247,629	273,325	141,888	114,159	-	4,344,084	6.29	-

Leave reflects annual leave accrual less annual leave taken.

+ Non-monetary benefits consist of Directors and Officers, and Life and Salary Continuance, insurance premiums

REMUNERATION REPORT (Audited) (continued)

Remuneration of Key Management Personnel (continued)

Table 3: Performance Rights: Granted during the year ended 30 June 2019

	Terms and conditions for each Grant						
	Granted Number	Grant Date	Fair value per right at grant date	Exercise price per right	Expiry date	First exercise date	Last exercise date
<i>Executive Directors</i>							
C. G. B. Rubino	-	-	-	-	-	-	-
R. Velletri	20,011	20/11/2018	\$13.01	Nil	1/7/2021	1/7/2019	1/7/2021
<i>Non-Executive Directors</i>							
P. J. Dempsey	-	-	-	-	-	-	-
C. P. Michelmore	-	-	-	-	-	-	-
D. R. Voss	-	-	-	-	-	-	-
H. J. Gillies	-	-	-	-	-	-	-
S. L. Murphy	-	-	-	-	-	-	-
<i>Other Key Management Personnel</i>							
D. Foti	12,000	6/8/18	\$13.71	Nil	1/7/2021	1/7/2019	1/7/2021
Z. Bebic	11,381	2/7/18	\$13.99	Nil	1/7/2021	1/7/2019	1/7/2021
P. Trueman	8,734	2/7/18	\$13.99	Nil	1/7/2021	1/7/2019	1/7/2021
Total	52,126						

Subsequent to 30 June 2019, the Board has approved the issue of additional performance rights relating to the 2018/19 financial year. The rights will be issued based on the dividend reinvestment plan price for the 2019 final dividend to be determined in October 2019. The value of the 2019 total award to each Key Management Personnel is set out in the table on page 21. It is estimated that approximately 40,000 performance rights will be issued to Key Management Personnel under the terms of the CR Plan for the year ended 30 June 2019. The expiry date of these performance rights will be 1 July 2022, with the first exercise date being 1 July 2020 and the last exercise date being 1 July 2022. The fair value of the performance rights has been estimated using the 30 June 2019 share price.

Table 4: Shares issued on exercise of performance rights during the year ended 30 June 2019

During the year ended 30 June 2019, no shares were issued on exercise of Performance Rights by Key Management Personnel.

REMUNERATION REPORT (Audited) (continued)

Additional disclosures relating to options and shares

Table 5: Performance rights holdings of Key Management Personnel

<i>Options held in Monadelphous Group Limited</i>	Balance at Beginning of Period 1 July 2018	Granted as Remuneration	Rights Exercised and Lapsed	Net Change Other	Balance at End of Period 30 June 2019
Directors					
C. G. B. Rubino	-	-	-	-	-
R. Velletri	-	20,011	-	-	20,011
P. J. Dempsey	-	-	-	-	-
C. P. Michelmore	-	-	-	-	-
D. R. Voss	-	-	-	-	-
H. J. Gillies	-	-	-	-	-
S. L. Murphy	-	-	-	-	-
Executives					
D. Foti	-	12,000	-	-	12,000
Z. Bebic	-	11,381	-	-	11,381
P. Trueman	-	8,734	-	-	8,734
Total	-	52,126	-	-	52,126

No performance rights had vested or were exercisable at 30 June 2019.

Table 6: Shareholdings of Key Management Personnel

<i>Shares held in Monadelphous Group Limited</i>	Balance at Beginning of Period 1 July 2018	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance at End of Period 30 June 2019
Directors					
C. G. B. Rubino	1,022,653	-	-	-	1,022,653
R. Velletri	2,100,000	-	-	-	2,100,000
P. J. Dempsey	78,000	-	-	-	78,000
C. P. Michelmore	30,000	-	-	10,000	40,000
D. R. Voss	2,852	-	-	-	2,852
H. J. Gillies	4,078	-	-	4,200	8,278
S. L. Murphy	-	-	-	-	-
Executives					
D. Foti	129,316	-	-	(75,000)	54,316
Z. Bebic	-	-	-	-	-
P. Trueman	-	-	-	-	-
Total	3,366,899	-	-	(60,800)	3,306,099

Loans to Key Management Personnel and their related parties

No directors or executives, or their related parties, had any loans during the reporting period.

Other transactions and balances with Key Management Personnel and their related parties

There were no other transactions and balances with Key Management Personnel or their related parties.

END OF REMUNERATION REPORT

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director are shown in the table below.

	Directors' Meetings	Meetings of Committees		
		Audit	Remuneration	Nomination
Number of meetings held:	13	6	2	2
Number of meetings attended:				
C. G. B. Rubino	13	-	-	2
R. Velletri	13	-	-	-
P. J. Dempsey	13	6	-	2
C. P. Michelmore	12	-	2	2
D. R. Voss	13	6	2	2
H. J. Gillies	13	6	2	2
S. L. Murphy [^]	1	-	-	-

[^] S.L. Murphy was appointed as a Non-Executive Director on 11 June 2019 and attended all meetings she was eligible to attend.

COMMITTEE MEMBERSHIP

As at the date of this report, the Company had an audit committee, a remuneration committee and a nomination committee.

Members acting on the committees of the Board during the year were:

Audit	Remuneration	Nomination
P. J. Dempsey (c)	C. P. Michelmore (c)	C. G. B. Rubino (c)
D. R. Voss	D. R. Voss	C. P. Michelmore
H. J. Gillies	H. J. Gillies	P. J. Dempsey
		H. J. Gillies
		D. R. Voss

Note: (c) Designates the chair of the committee.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars (\$'000) (where rounding is applicable) under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the legislative instrument applies.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Monadelphous Group Limited support and have adhered to the principles of Corporate Governance. The Company's Corporate Governance Statement is detailed on the company's website.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors have received an independence declaration from the auditor of Monadelphous Group Limited, as shown on page 30.

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Tax compliance services	<u>36,089</u>

Signed in accordance with a resolution of the directors.



C. G. B. Rubino
Chairman
Perth, 19 August 2019



Ernst & Young
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Perth WA 6000, Australia
GPO Box M939 Perth WA 6843

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Auditor's Independence Declaration to the Directors of Monadelphous Group Limited

As lead auditor for the audit of the financial report of Monadelphous Group Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Monadelphous Group Limited and the entities it controlled during the financial year.

A stylized signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'D S Lewsen'.

D S Lewsen
Partner
19 August 2019



Ernst & Young
11 Mounts Bay Road
Perth WA 6000, Australia
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Independent auditor's report to the members of Monadelphous Group Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Monadelphous Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.



Recognition of revenues and profits on long-term contracts

Why significant	How our audit addressed the key audit matter
<p>The Group's business involves entering into contractual relationships with customers to provide a range of services. A significant proportion of the Group's revenues and profits are derived from long-term contracts.</p> <p>Revenue recognition involves a significant degree of judgement, with estimates being made to:</p> <ul style="list-style-type: none"> ▶ Determine the transaction price under the customer contract ▶ Assess the total contract costs ▶ Measure the Group's progress towards the complete satisfaction of the performance obligations under the customer contract ▶ Appropriately provide for onerous contracts. 	<p>We examined a sample of key contracts and enquired with the Group for each of these contracts to understand the specific terms and risks, which in turn allowed us to assess the recognition of revenue.</p> <p>We evaluated and tested the relevant IT systems and assessed the operating effectiveness of controls over the recording of revenue recognised in the financial report, including controls relating to:</p> <ul style="list-style-type: none"> ▶ Contract reviews performed by the Group that included estimating total costs, stage of completion of contracts and contract profitability ▶ Revenue recording and billing processes ▶ Contract cost recording processes including the purchases, payments and payroll processes.
<p>The Group's accounting policies and disclosures for revenue are detailed in <i>General Information - Key Judgements - Revenue, Note 1 Revenue and Other Income and Note 7 Contract Assets</i> of the financial report.</p>	<p>For a sample of contracts with a delivery schedule of greater than 12 months we performed the following additional procedures:</p> <ul style="list-style-type: none"> ▶ Understood the performance and status of the contracts through enquiries with the key executives with oversight over the various contract portfolios ▶ Assessed the contract status through the examination of external evidence, such as approved variations and customer correspondence ▶ Analysed the Group's estimates for total contract costs and forecast costs to complete, including consideration of historical estimation accuracy ▶ For projects with known disputes, sighted claim documentation, met with the Group's Internal General Counsel and reviewed supporting documentation in relation to the status and disclosure of these matters ▶ Assessed the provisions for onerous contracts and whether these appropriately reflected the expected contractual positions ▶ Assessed the Group's accounting policies and the adequacy of its related disclosures in the financial report.



Information other than the financial statements and auditor's report

The directors are responsible for the other information. The other information comprises the information included in the Company's 2019 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control



- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 27 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Monadelphous Group Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.



Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

A handwritten signature in blue ink, appearing to read 'D S Lewsen', written over a faint, larger 'Ernst & Young' logo.

D S Lewsen
Partner
Perth
19 August 2019

In accordance with a resolution of the Directors of Monadelphous Group Limited, I state that:

1) In the opinion of the directors:

- (a) the financial statements, notes and the additional disclosures included in the Directors' Report designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed on page 42.

2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2019.

3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in note 20 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



C. G. B. Rubino
Chairman
Perth, 19 August 2019

MONADELPHOUS GROUP LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2019

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	Notes	2019 \$'000	2018 \$'000
Continuing Operations			
REVENUE	1	1,479,737	1,737,632
Cost of services rendered		<u>(1,351,482)</u>	<u>(1,590,821)</u>
GROSS PROFIT		128,255	146,811
Other income	1	5,737	5,430
Business development and tender expenses		(20,755)	(17,595)
Occupancy expenses		(3,675)	(3,525)
Administrative expenses		(31,759)	(29,871)
Finance costs	2	(1,930)	(452)
Share of profit from joint ventures	11	7,144	374
Unrealised foreign currency gain		<u>409</u>	<u>1,673</u>
PROFIT BEFORE INCOME TAX		83,426	102,845
Income tax expense	3	<u>(31,313)</u>	<u>(30,570)</u>
PROFIT AFTER INCOME TAX		<u>52,113</u>	<u>72,275</u>
ATTRIBUTABLE TO			
EQUITY HOLDERS OF THE PARENT		50,565	71,479
NON-CONTROLLING INTERESTS		1,548	796
		<u>52,113</u>	<u>72,275</u>
Basic earnings per share (cents per share)	4	53.72	76.11
Diluted earnings per share (cents per share)	4	53.62	76.07

MONADELPHOUS GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

38

	2019	2018
	\$'000	\$'000
NET PROFIT FOR THE YEAR	52,113	72,275
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Net gain on available-for-sale financial asset	-	905
Income tax effect	-	(271)
	-	634
Foreign currency translation	275	(910)
	275	(276)
Items that will not be reclassified subsequently to profit or loss:		
Net gain on equity instruments designated at fair value through other comprehensive income	115	-
Income tax effect	(34)	-
	81	-
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	356	(276)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	52,469	71,999
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	50,921	71,203
NON-CONTROLLING INTERESTS	1,548	796
	52,469	71,999

MONADELPHOUS GROUP LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

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	Notes	2019 \$'000	2018 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	5	164,042	208,773
Trade and other receivables	6	322,849	288,371
Contract assets	7	29,372	-
Inventories	8	4,607	47,200
Income tax receivable	3	205	-
Total current assets		521,075	544,344
Non-current assets			
Property, plant and equipment	9	115,437	101,983
Contract assets	7	289	-
Intangible assets and goodwill	10	3,120	3,120
Investment in joint venture	11	7,980	1,437
Deferred tax assets	3	34,164	35,304
Other non-current assets	12	2,921	2,806
Total non-current assets		163,911	144,650
TOTAL ASSETS		684,986	688,994
LIABILITIES			
Current liabilities			
Trade and other payables	13	184,341	164,008
Interest bearing loans and borrowings	14	10,868	7,944
Income tax payable	3	-	8,522
Provisions	15	63,053	94,106
Total current liabilities		258,262	274,580
Non-current liabilities			
Interest bearing loans and borrowings	14	27,361	13,027
Provisions	15	4,542	5,259
Deferred tax liabilities	3	140	-
Total non-current liabilities		32,043	18,286
TOTAL LIABILITIES		290,305	292,866
NET ASSETS		394,681	396,128
EQUITY			
Contributed equity	18	128,723	125,703
Reserves	19	33,707	30,292
Retained earnings	19	231,006	238,486
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		393,436	394,481
Non-Controlling Interests		1,245	1,647
TOTAL EQUITY		394,681	396,128

MONADELPHOUS GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

40

	<i>Attributable to equity holders</i>						
	Issued Capital \$'000	Share- Based Payment Reserve \$'000	Foreign Currency Translation Reserve \$'000	Retained Earnings \$'000	Non- controlling Interests \$'000	Fair value reserve for Financial Assets at FVOCI [^] \$'000	Total \$'000
At 1 July 2018 as previously stated	125,703	29,662	(191)	238,486	1,647	821	396,128
Opening balance adjustment on application of AASB 15*	-	-	-	(4,127)	-	-	(4,127)
Opening balance adjustment on application of AASB 9*	-	-	-	(245)	-	-	(245)
At 1 July 2018 as restated	125,703	29,662	(191)	234,114	1,647	821	391,756
Other comprehensive income	-	-	275	-	-	81	356
Profit for the period	-	-	-	50,565	1,548	-	52,113
Total comprehensive income for the period	-	-	275	50,565	1,548	81	52,469
Transactions with owners in their capacity as owners							
Share-based payments	-	2,953	-	-	-	-	2,953
Adjustment to deferred tax asset recognised on employee share trust	-	106	-	-	-	-	106
Dividend reinvestment plan	3,020	-	-	-	-	-	3,020
Dividends paid	-	-	-	(53,673)	(1,950)	-	(55,623)
At 30 June 2019	128,723	32,721	84	231,006	1,245	902	394,681

	<i>Attributable to equity holders</i>						
	Issued Capital \$'000	Share- Based Payment Reserve \$'000	Foreign Currency Translation Reserve \$'000	Retained Earnings \$'000	Non- controlling Interests \$'000	Available-for- sale reserve \$'000	Total \$'000
At 1 July 2017	122,965	30,142	719	223,380	851	187	378,244
Other comprehensive income	-	-	(910)	-	-	634	(276)
Profit for the period	-	-	-	71,479	796	-	72,275
Total comprehensive income for the period	-	-	(910)	71,479	796	634	71,999
Transactions with owners in their capacity as owners							
Share-based payments	-	(480)	-	-	-	-	(480)
Dividend reinvestment plan	2,738	-	-	-	-	-	2,738
Dividends paid	-	-	-	(56,373)	-	-	(56,373)
At 30 June 2018	125,703	29,662	(191)	238,486	1,647	821	396,128

[^] Previously Available-for-Sale reserve

* Refer to note 31 for details of the opening balance adjustments made on application of the new accounting standards applicable for the Group from 1 July 2018

MONADELPHOUS GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

41

	Notes	2019 \$'000	2018 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		1,596,337	1,873,522
Payments to suppliers and employees (inclusive of GST)		(1,546,389)	(1,793,937)
Interest received		2,269	2,573
Borrowing costs		(1,930)	(493)
Other income		2,295	2,496
Income tax paid		(36,816)	(32,692)
Dividends received		199	178
NET CASH FLOWS FROM OPERATING ACTIVITIES	5	15,965	51,647
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		4,970	3,442
Purchase of property, plant and equipment		(19,707)	(25,039)
Repayment of loans to joint ventures and associates		600	1,833
Payment of loans to joint ventures and associates		-	(2,449)
Acquisition of controlled entities		-	(1,414)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(14,137)	(23,627)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(52,603)	(53,635)
Proceeds from borrowings		15,054	-
Repayment of borrowings		(300)	(1,500)
Payment of finance leases		(9,995)	(6,400)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(47,844)	(61,535)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Net foreign exchange differences		1,285	379
Cash and cash equivalents at beginning of period		208,773	241,909
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5	164,042	208,773

GENERAL INFORMATION

The consolidated financial report of Monadelphous Group Limited (the Group) and its subsidiaries for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of directors on 19 August 2019.

Monadelphous Group Limited is a for profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The Group's registered office is 59 Albany Highway, Victoria Park, Western Australia.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

Basis of preparation

The financial report is a general purpose financial report, which:

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board as applicable to a for-profit entity.
- has also been prepared on a historical cost basis except for certain financial assets that have been measured at fair value.
- is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the legislative instrument applies.
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or before 1 July 2018 (Refer to note 31).
- does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally, there is a presumption that a majority of voting rights results in control.

A list of controlled entities (subsidiaries) at year end is contained in note 20. Consolidation of the subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a debit balance.

GENERAL INFORMATION (continued)

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer. Acquisition-related costs are expensed as incurred.

Foreign currency translation

Functional and presentation currency

Each entity in the Group determines its own functional currency. Both the functional and presentation currencies of Monadelphous Group Limited, its Australian subsidiaries and its Papua New Guinea subsidiary (Monadelphous PNG Ltd) are Australian dollars (A\$).

The functional currency is United States dollars (US\$) for the Hong Kong subsidiary (Moway International Limited), the Singapore subsidiary (Monadelphous Singapore Pte Ltd) and the US subsidiaries (Monadelphous Inc. and Monadelphous Marcellus LLC). The functional currency of the Chinese subsidiary (Moway AustAsia Steel Structures Trading (Beijing) Company Limited) is Chinese Renminbi (RMB). The functional currency of the New Zealand subsidiary (Monadelphous Engineering NZ Pty Ltd) is New Zealand dollars (NZD). The functional currency of the Mongolian subsidiary (Monadelphous Mongolia LLC) is Mongolian Tugrik (MNT).

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Translation of Group companies' functional currency to presentation currency

As at the reporting date the assets and liabilities of the foreign operations are translated into the presentation currency of Monadelphous Group Limited at the rate of exchange ruling at the reporting date and the income statements are translated at the weighted average exchange rates for the year. Exchange variations arising from the translation are recognised in the foreign currency translation reserve in equity.

Other accounting policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements or at note 31.

GENERAL INFORMATION (continued)

Key judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Management have identified the following critical accounting policies for which significant judgements, estimates and assumptions are made:

Revenue from contracts with customers

Where performance obligations are satisfied over time, revenue is recognised in the consolidated income statement by reference to the progress towards complete satisfaction of each performance obligation.

For construction contracts, revenue is recognised using an output method based on work certified to date which the Group believes depicts the transfer of goods and services as it is based on completed work as agreed by our customers.

Fundamental to this calculation is a reliable estimate of the transaction price (total contract revenue). In determining the transaction price, variable consideration including claims and certain contract variations are only included to the extent it is highly probable that a significant reversal in revenue will not occur in the future. Where a variation in scope has been agreed with the customer but the corresponding change in the transaction price has not been agreed the variation is accounted for as variable consideration. The estimate of variable consideration is determined using the expected value approach taking into account the facts and circumstances of each individual contract and the historical experience of the Group and is reassessed throughout the life of the contract.

When it is probable that total contract costs will exceed total contract revenue, the contract is considered onerous and the present obligation under the contract is recognised immediately as a provision. Key assumptions regarding costs to complete contracts include estimation of labour, technical costs, impact of delays and productivity.

Taxation

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the consolidated statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised in the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustments, resulting in a corresponding credit or charge to the income statement.

Impairment

Refer to notes 6 and 9 for details.

Workers Compensation

Refer note 15 for details.

Consolidation of MGJV Pty Ltd

Refer to note 20 for details.

	2019	2018*
	\$'000	\$'000
1. REVENUE AND OTHER INCOME		
Revenue from contracts with customers		
Services revenue	998,435	841,081
Construction revenue	478,834	893,800
	1,477,269	1,734,881
Finance revenue	2,269	2,573
Dividends received	199	178
	1,479,737	1,737,632
Net gains on disposal of property, plant and equipment	3,442	2,934
Other income	2,295	2,496
	5,737	5,430
Disaggregation of revenue from contracts with customers by end customer industry:		
Oil and gas	594,868	1,043,560
Other minerals	219,918	240,962
Iron Ore	368,164	217,098
Infrastructure	282,090	203,508
Coal	143,237	78,871
	1,608,277	1,783,999
Less share of revenue from joint ventures accounted for using the equity method	(131,008)	(49,118)
	1,477,269	1,734,881

The following amounts are included in revenue from contracts with customers:

Revenue recognised as a contract liability in the prior period	24,872
Revenue from performance obligations satisfied in prior periods	8,500

Unsatisfied Performance Obligations

Total
\$'000

Transaction price expected to be recognised in future years for unsatisfied performance obligations at 30 June 2019:

Services revenue	2,137,094
Construction revenue	405,869
Total	2,542,963

In line with the Group's accounting policy described following, the transaction price expected to be recognised in future years excludes variable consideration that is constrained.

The average duration of contracts is given below, however some contracts will vary from these typical lengths. Revenue is typically earned over these varying timeframes.

Services	1 to 5 years
Construction	1 to 2 years

*The comparative information has not been restated following the adoption of AASB 15 and continues to be reported under the previous accounting policy. Refer to note 31 for further details.

1. REVENUE AND OTHER INCOME (continued)

Recognition and measurement – effective from 1 July 2018

Revenue from contracts with customers

The Group is in the business of providing construction and maintenance services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods and services before transferring them to the customer.

Construction services

Construction contracts are assessed to identify the performance obligations contained in the contract. The total transaction price is allocated to each individual performance obligation. Typically, the Group's construction contracts contain a single performance obligation.

Work is performed on assets that are controlled by the customer or on assets that have no alternative use to the Group, with the Group having right to payment for performance to date. As performance obligations are satisfied over time, revenue is recognised over time using an output method based on work certified to date.

Customers are typically invoiced on a monthly basis and invoices are paid on normal commercial terms.

Services contracts

Contracts for performance of maintenance activities cover servicing of assets and involve various activities. These activities tend to be substantially the same with the same pattern of transfer to the customer. Where this is the case, which is the majority of the services contracts, these services are taken to be one performance obligation and the total transaction price is allocated to the performance obligation identified.

Performance obligations are fulfilled over time as the Group largely enhances assets which the customer controls. Customers are typically invoiced monthly for an amount that is calculated on either a schedule of rates or a cost plus basis. For these contracts, the transaction price is determined as an estimate of this variable consideration.

Variable consideration

If the consideration in the contract includes a variable amount, the Group estimates the amount of the consideration to which it is entitled in exchange for transferring the goods and services to the customer. The Group includes some or all of this variable consideration in the transaction price only to the extent it is highly probable that a significant reversal of the cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Certain contracts are subject to claims which are enforceable under the contract. If the claim does not result in any additional goods or services, the transaction price is updated and the claim accounted for as variable consideration.

Significant financing component

Using the practical expedient in AASB 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

1. REVENUE AND OTHER INCOME (continued)

Recognition and measurement – policies applied prior to 1 July 2018

Revenue was recognised and measured at the fair value of the consideration received or receivable to the extent that it was probable that the economic benefits would flow to the Group and the revenue could be reliably measured. The following specific recognition criteria must also have been met before revenue was recognised:

Rendering of Services

Where the contract outcome could be reliably measured, revenue was recognised as services were rendered to the customer for maintenance contracts. For construction contracts refer to the accounting policy below.

Where the contract outcome could not be reliably measured, contract costs were recognised as an expense as incurred, and where it was probable that the costs would be recovered, revenue was recognised only to the extent that costs had been incurred. This also applied to construction contracts.

Construction contracts

Revenue arising from fixed price contracts was recognised in accordance with the percentage of completion method. Stage of completion was agreed with the customer on a work certified to date basis, as a percentage of the overall contract. Revenue from cost plus contracts was recognised by reference to the recoverable costs incurred plus a percentage of fees earned during the financial year. The percentage of fees earned during the financial year was based on the stage of completion of the contract.

Where a loss was expected to occur from a construction contract the excess of the total expected contract costs over expected contract revenue was recognised as an expense immediately.

	2019 \$'000	2018 \$'000
2. EXPENSES		
Finance costs		
Loans and overdrafts	62	14
Finance charges payable under finance leases and hire purchase contracts	1,048	438
Tax shortfall interest charge	820	-
	<u>1,930</u>	<u>452</u>
Depreciation and amortisation		
Depreciation expense	19,490	17,222
Amortisation of intangible assets	-	625
Amortisation of deferred contract fulfilment costs	1,306	-
	<u>20,796</u>	<u>17,847</u>
Employee benefits expense		
Employee benefits expense	772,161	923,451
Defined contribution superannuation expense	53,871	64,189
	<u>826,032</u>	<u>987,640</u>
Lease payments and other expenses		
Minimum lease payments – operating lease	10,966	12,971
Government grants included in the income statement	-	2,501

Recognition and measurement

Finance costs

The Group does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with the qualifying assets would be capitalised. All other finance costs are expensed as incurred.

Depreciation and amortisation

Refer to notes 9 and 10 for details on depreciation and amortisation.

Employee benefits expense

Refer to note 15 for employee benefits expense and note 26 for share-based payments expense. Contributions to defined contribution superannuation plans are recognised as an expense as they become payable.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The minimum lease payments of operating leases are recognised as an expense on a straight line basis over the lease term.

Government Grants

The Group recognises the excess of the research and development (R&D) tax offset over the statutory rate (the R&D offset) being an additional 8.5% deduction as a government grant when there is reasonable assurance it will be received and any attached conditions will be complied with. As the grant relates to R&D expenditure already incurred it is recognised in the income statement in the period it became receivable as a reduction to cost of sales. The Group has not claimed or recognised the R&D tax offset for the current year.

	2019	2018
	\$'000	\$'000
3. INCOME TAX		
The major components of income tax expense are:		
Income statement		
<i>Current income tax</i>		
Current income tax charge	26,338	34,791
Adjustments in respect of previous years	1,757	644
<i>Deferred income tax</i>		
Temporary differences	3,218	(4,865)
Income tax expense reported in the income statement	31,313	30,570
Statement of Comprehensive Income		
Deferred tax related to items recognised in Statement of Comprehensive income during the year:		
Unrealised gain on equity instrument designated at fair value through other comprehensive income	34	271
	34	271
Amounts credited directly to equity		
Share based payment	(106)	-
Income tax benefit reported in equity	(106)	-
Tax reconciliation		
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit before income tax	83,426	102,845
Income tax rate of 30% (2018: 30%)	25,028	30,854
- Share based payment expense	389	240
- R&D repayment*/receipt	6,311	(750)
- Other	(415)	226
Aggregate income tax expense	31,313	30,570

*During the period, the Company made a one-off provision net of interest totalling \$6,311,000. The provision resulted from the receipt of Notices of Amended Assessments from the Australian Taxation Office relating to the 2015 and 2016 income years. The amended assessments relate to Research and Development tax incentives claimed by the Company in those years which were subsequently deemed to be ineligible.

3. INCOME TAX (continued)

Recognised deferred tax assets and liabilities

	2019 \$'000 Current Income Tax	2019 \$'000 Deferred Income Tax	2018 \$'000 Current Income Tax	2018 \$'000 Deferred Income Tax
Opening balance	(8,522)	35,304	(3,603)	25,966
Opening balance adjustment on application of AASB 15 and AASB 9 (refer note 31)	-	1,873	-	-
Charged to income	(28,095)	(3,218)	(35,435)	4,865
Charged to equity	-	72	-	(271)
Other / payments	36,822	(7)	30,516	4,744
Closing balance	205	34,024	(8,522)	35,304

Amounts recognised on the consolidated
statement of financial position:

Deferred tax asset	34,164	35,304
Deferred tax liability	(140)	-
	34,024	35,304

	2019 \$'000	2018 \$'000
Deferred income tax at 30 June relates to the following:		
<i>Deferred tax assets</i>		
Provisions	28,842	29,709
Depreciation	-	1,425
Other	6,148	4,875
Gross deferred tax assets	34,990	36,009
Set-off of deferred tax liabilities	(826)	(705)
Net deferred tax assets	34,164	35,304
<i>Deferred tax liabilities</i>		
Accelerated depreciation	(288)	-
Other	(678)	705
Gross deferred tax liabilities	(966)	705
Set-off against deferred tax assets	826	(705)
Net deferred tax liabilities	(140)	-

Unrecognised temporary differences

At 30 June 2019, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries.

3. INCOME TAX (continued)

Tax consolidation

Monadelphous Group Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. Members of the tax consolidated group have entered into a tax funding agreement. The head entity, Monadelphous Group Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Monadelphous Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Recognition and measurement

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred taxes

Deferred income tax is provided for using the full liability balance sheet approach.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists and they relate to the same taxable entity and the same taxation authority.

	2019	2018
	\$'000	\$'000
4. EARNINGS PER SHARE		
The following reflects the income and share data used in the calculation of basic and diluted earnings per share:		
Net profit attributable to ordinary equity holders of the parent	50,565	71,479
Earnings used in calculation of basic and diluted earnings per share	50,565	71,479
	Number	Number
Number of shares		
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	94,127,723	93,916,738
Effect of dilutive securities		
Shares issuable associated with Arc West Group Pty Ltd acquisition	-	49,372
Performance Rights	166,737	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	94,294,460	93,966,110

Conversions, calls, subscriptions or issues after 30 June 2019:

On 1 July 2019, 82,771 performance rights vested and were exercised.

Calculation of earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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	2019	2018
	\$'000	\$'000

5. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 30 June:

Cash balances comprise:

Cash at bank	161,173	183,773
Short term deposits	2,869	25,000
	<u>164,042</u>	<u>208,773</u>

Reconciliation of net profit after tax to the net cash flows from operating activities

Net profit	52,113	72,275
Adjustments for		
Depreciation of non-current assets	19,490	17,222
Amortisation and impairment of intangible assets	1,306	625
Net profit on sale of property, plant and equipment	(3,442)	(2,934)
Share-based payment expense/(credit)	2,953	(480)
Unrealised foreign exchange gain	(409)	(1,673)
Share of profits from joint ventures	(7,144)	(374)
Other	(2,101)	1,678
Changes in assets and liabilities		
Increase in receivables	(34,659)	(40,086)
Decrease in inventories	36,698	22,682
Increase in contract assets	(31,136)	-
Decrease/(increase) in deferred tax assets	3,085	(9,252)
Increase/(decrease) in payables	19,568	(20,172)
(Decrease)/increase in provisions	(31,770)	7,231
(Decrease)/increase in income tax payable	(8,727)	4,919
Increase/(decrease) in deferred tax liabilities	140	(14)
Net cash flows from operating activities	<u>15,965</u>	<u>51,647</u>

Non-cash financing and investing activities

Hire purchase transactions:

During the year, the consolidated entity acquired plant and equipment by means of hire purchase agreements with an aggregate fair market value of \$12,498,577 (2018: \$15,152,164).

Reconciliation of liabilities arising from financing activities

	2018	Cash flows	Non-cash changes	2019
	\$	\$	New leases	\$
	\$	\$	\$	\$
Hire purchase liabilities	20,971	1,459	12,499	34,929
Loan	-	3,300	-	3,300
	<u>20,971</u>	<u>4,759</u>	<u>12,499</u>	<u>38,229</u>

Recognition and measurement

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and on hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

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	2019	2018
	\$'000	\$'000
6. TRADE AND OTHER RECEIVABLES		
CURRENT		
Trade receivables	252,636	217,611
Less allowance account for impairment losses	(3,634)	(3,643)
	249,002	213,968
Other debtors	74,117	74,403
Less allowance account for impairment losses	(270)	-
	322,849	288,371

Trade receivables generally have 30 to 60 days terms.

Allowance account for trade receivables impairment losses

Movements in loss allowance based on lifetime ECL:

Balance at the beginning of the year	3,643	2,794
AASB 15 transition adjustment	(181)	-
Balance at the beginning of the year - restated	3,462	2,794
Increase in loss allowance	172	849
Balance at the end of the year	3,634	3,643

Recognition and measurement

Trade receivables – effective 1 July 2018

Refer to accounting policies of financial assets in note 31 Financial Assets.

Other debtors - effective 1 July 2018

Other debtors include contract assets that are unconditional (see note 7). These assets are reclassified to trade receivables when invoiced.

Trade receivables – policy applied prior to 1 July 2018

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. Bad debts are written off when identified.

Collectability of trade receivables is reviewed on an ongoing basis at a Company and business unit level. An impairment provision is recognised where there is objective evidence that the Group will not be able to collect the receivables. Financial difficulties of the debtor, default payments, historical bad debt performance or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

Other debtors - policy applied prior to 1 July 2018

Other debtors include accrued sales which are non-interest bearing and have repayment terms between 30 to 60 days.

	2019 \$'000
7. CONTRACT ASSETS	
CURRENT	
Contract assets	<u><u>29,372</u></u>
NON CURRENT	
Contract assets	<u><u>289</u></u>

Contract assets are net of expected credit losses of \$275,000. Included in contract assets are deferred project fulfilment costs of \$455,000.

Significant changes in contract assets

Prior to the initial application of AASB 15, contract assets were disclosed within Inventories. The contract asset balance at 30 June 2019 has increased when compared with the balance on transition as at 1 July 2018 (refer to note 31) as a result of changes in the progress of completion and the timing of invoicing.

Recognition and measurement

Contract assets – effective from 1 July 2018

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration. If the Group's right to an amount of consideration is unconditional (other than the passage of time), the contract asset is classified as a receivable.

Refer to accounting policies of revenue from contracts with customers in note 1.

Project fulfilment costs - effective 1 July 2018

If project fulfilment costs are within the scope of AASB 15, the Group recognises these costs as an asset only if the costs relate directly to a contract, the costs generate or enhance resources and the costs are expected to be recovered.

These costs are amortised on a systematic basis that is consistent with the transfer of goods and services under the contract. If not capitalised, project fulfilment costs are expensed as incurred.

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	Notes	2019 \$'000	2018 \$'000
8. INVENTORIES			
Construction work in progress			
Cost incurred to date plus profit recognised			1,432,940
Consideration received and receivable as progress billings			<u>(1,451,339)</u> <u>(18,399)</u>
Represented by:			
Amounts due to customers	13		<u>65,599</u>
Amounts due from customers			<u>47,200</u>
Raw materials and consumables		<u>4,607</u>	

Recognition and measurement

Construction work-in-progress – policies applied prior to 1 July 2018

For the comparative period, construction work-in-progress was stated at the aggregate of contract costs incurred to date plus profits recognised to date (see note 1 for the accounting policy for revenue recognition) less recognised losses and progress billings. Costs included all costs directly related to specific contracts.

Advances received for construction work not yet commenced or for committed subcontractor work not yet received are recognised as a current liability in trade and other payables.

Following the adoption of AASB 15, amounts previously disclosed as construction work-in-progress are now disclosed as receivables (refer note 6), contract assets (refer to note 7) or contract liabilities (refer to note 13).

Raw materials and consumables

Raw materials and consumables are stated at the lower of cost and net realisable value. Prior to the adoption of AASB 15 on 1 July 2018, raw materials and consumables directly related to specific contracts were included in construction work in progress.

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9. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying amounts at the beginning and end of the period

	PROPERTY		PLANT AND EQUIPMENT		Total \$'000
	Freehold land \$'000	Buildings \$'000	Plant and equipment \$'000	Plant and equipment under hire purchase \$'000	
Year ended 30 June 2019					
Net carrying amount at 1 July 2018	13,411	16,425	46,762	25,385	101,983
Additions	1,400	2,276	18,260	12,499	34,435
Assets transferred	-	-	(9,209)	9,209	-
Disposals	-	(5)	(1,523)	-	(1,528)
Depreciation charge	-	(1,085)	(13,265)	(5,140)	(19,490)
Exchange differences	-	-	37	-	37
Net carrying amount at 30 June 2019	14,811	17,611	41,062	41,953	115,437
At 30 June 2019					
Gross carrying amount – at cost	14,811	28,647	166,842	51,436	261,736
Accumulated depreciation	-	(11,036)	(125,780)	(9,483)	(146,299)
Net carrying amount	14,811	17,611	41,062	41,953	115,437

	PROPERTY		PLANT AND EQUIPMENT		Total \$'000
	Freehold land \$'000	Buildings \$'000	Plant and equipment \$'000	Plant and equipment under hire purchase \$'000	
Year ended 30 June 2018					
Net carrying amount at 1 July 2017	13,411	17,197	31,121	17,323	79,052
Additions	-	278	24,761	15,152	40,191
Acquired through business combination	-	11	672	-	683
Assets transferred	-	-	4,148	(4,148)	-
Disposals	-	-	(508)	-	(508)
Depreciation charge	-	(1,061)	(13,219)	(2,942)	(17,222)
Exchange differences	-	-	(213)	-	(213)
Net carrying amount at 30 June 2018	13,411	16,425	46,762	25,385	101,983
At 30 June 2018					
Gross carrying amount – at cost	13,411	26,499	173,372	32,170	245,452
Accumulated depreciation	-	(10,074)	(126,610)	(6,785)	(143,469)
Net carrying amount	13,411	16,425	46,762	25,385	101,983

9. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment pledged as security

Assets under hire purchase are pledged as security for the associated hire purchase liabilities.

	2019	2018
	\$'000	\$'000
Assets pledged as security	41,953	25,385

Recognition and measurement

Property, plant and equipment

All classes of property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in the income statement as incurred.

Depreciation is calculated on a straight line basis on all classes of property, plant and equipment other than freehold land. The estimated useful life of buildings is 40 years; plant and equipment is between 3 and 20 years.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Impairment of non-financial assets other than goodwill

We have performed an impairment assessment based on the policy below. No material impairment was noted.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists or when annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount the asset or cash-generating unit is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

	Intangible Assets \$'000	Goodwill \$'000	Total \$'000
10. INTANGIBLE ASSETS AND GOODWILL			
Year ended 30 June 2019			
At 1 July 2018	-	3,120	3,120
At 30 June 2019	-	3,120	3,120
Year ended 30 June 2018			
At 1 July 2017	625	2,720	3,345
On business combination	-	400	400
Amortisation	(625)	-	(625)
At 30 June 2018	-	3,120	3,120

Description of the Group's intangible assets

Intangible assets relate to the fair value of contracts acquired on acquisition of Arc West Group Pty Ltd. Intangible assets have been assessed as having a finite life and are amortised using the straight line method over a period of 19 months.

Impairment testing of the Group's intangible assets and goodwill

Goodwill acquired through business combinations has been allocated to cash generating units ("CGU") for impairment testing purposes. The CGUs are the entity Monadelphous Electrical & Instrumentation Pty Ltd, the Hunter Valley business unit, the entity Monadelphous Energy Services Pty Ltd, the entity Arc West Group Pty Ltd and the entity R.I.G. Installations (Newcastle) Pty Ltd. None of these CGUs are material to the Group. The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period and applying a discount rate to the cash flow projections in the range of 12% to 15%. No reasonably possible changes in key assumptions would result in the carrying amount of the individual CGUs exceeding their recoverable amount.

Recognition and measurement

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration over the fair value of the Group's identifiable assets acquired and liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination, is, from the acquisition date, allocated to each of the Group's CGUs or groups of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. If the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

10. INTANGIBLE ASSETS AND GOODWILL (continued)

Recognition and measurement (continued)

Intangible assets

The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite. The intangible assets are amortised over their useful life. Intangible assets are tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for the intangible assets is reviewed at least each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

11. INTEREST IN JOINT VENTURES

Mondium Pty Ltd

On 21 October 2016, an Australian joint venture company, Mondium Pty Ltd was formed between Monadelphous and Lycopodium Ltd. The Group has a 60% interest in the joint venture. The principal activity of Mondium is to deliver engineering, procurement and construction services in the minerals processing sector. The Group's interest in Mondium Pty Ltd is not material.

Zenviron Pty Ltd

On 26 July 2016, a joint venture company, Zenviron Pty Ltd was formed between Monadelphous and ZEM Energy Investments Pty Ltd. The Group has a 55% ownership interest in the joint venture and a 50% interest in the voting rights. The principal activity of Zenviron is to deliver multi-disciplinary construction services in the renewable energy market in Australia and New Zealand.

The Group considers that it has joint control with its respective joint venture partner over Mondium Pty Ltd and Zenviron Pty Ltd as relevant decisions at a Board and Shareholder level require unanimous agreement.

Zenviron Pty Ltd results, assets and liabilities are as follows:

	2019	2018
	\$'000	\$'000
Summarised statement of financial position		
Cash and cash equivalents	23,272	17,087
Current assets	73,127	35,987
Non-current assets	4,574	1,413
Current liabilities	(61,486)	(26,158)
Current financial liabilities	(735)	-
Non-current liabilities	(3,824)	(10,261)
Non-current financial liabilities	(2,037)	-
Equity	12,392	981
Group's share of Zenviron Pty Ltd net assets	6,815	540
Summarised statement of financial performance		
Revenue from contracts with customers	220,618	89,210
Cost of sales	(197,171)	(80,105)
Profit before tax	16,326	1,203
Income tax expense	(4,915)	(365)
Profit after tax	11,411	838
Profit and total comprehensive income for the year	11,411	838
Depreciation expense	(770)	(354)
Interest income	362	145
Interest expense	(23)	(201)
Group's share of profit for the year	6,276	461

Commitments and contingent liabilities relating to Joint Ventures

The Group's share of insurance bond guarantees issued by Joint Ventures at 30 June 2019 was \$9,782,482 (2018: \$9,823,596).

Joint ventures had no capital commitments at 30 June 2019 (2018: \$nil).

11. INTEREST IN JOINT VENTURES (continued)

Recognition and measurement

A joint venture is a type of arrangement whereby the parties that have joint control of the arrangement have the rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its joint ventures are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost. The carrying value of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. The income statement reflects the Group's share of the results of the joint venture.

	2019	2018
	\$'000	\$'000
12. OTHER NON-CURRENT ASSETS		
Other non-current assets	2,921	2,806

Other non-current assets consist of investments as follows:

Ordinary shares at fair value in Lycopodium Limited (ASX Code: LYL). The investment is classified as a financial asset at fair value through other comprehensive income (30 June 2018: available-for-sale investment). Refer note 31. Fair value is calculated using quoted prices in active markets.

13. TRADE AND OTHER PAYABLES	2019	2018
	\$'000	\$'000
CURRENT		
Trade payables	113,661	68,946
Contract liabilities	33,579	-
Advances on construction work in progress	-	65,599
Sundry creditors and accruals	37,101	29,463
	184,341	164,008

Significant changes to contract liabilities

During the year an amount of \$24,782,000 of contract liabilities recognised at the date of initial application of AASB 15 was recognised as revenue. At 30 June 2019 advance payments of \$33,579,000 have been received from customers. Contract liabilities fluctuate based on progress of completion of contracts.

Recognition and measurement

Trade and other payables

Trade and other payables are carried at amortised cost and are not discounted due to their short term nature. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, non-interest bearing and are usually paid within 30 to 45 days of recognition.

Sundry creditors and accruals are non-interest bearing and have terms of 7 to 30 days.

13. TRADE AND OTHER PAYABLES (continued)

Contract liability – effective 1 July 2018

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

	2019 \$'000	2018 \$'000
14. INTEREST BEARING LOANS AND BORROWINGS		
CURRENT		
Hire purchase liability – secured	9,668	7,944
Loan – secured	1,200	-
	10,868	7,944
NON-CURRENT		
Hire purchase liability – secured	25,261	13,027
Loan – secured	2,100	-
	27,361	13,027

Terms and conditions

Hire purchase agreements have an average term of three years. The average discount rate implicit in the hire purchase liability is 3.35% (2018: 4.09%). The hire purchase liability is secured by a charge over the hire purchase assets.

Defaults and breaches

During the current and prior year, there were no defaults or breaches on any of the loans.

Recognition and measurement

Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Gains or losses are recognised in the income statement when the liabilities are derecognised.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

14. INTEREST BEARING LOANS AND BORROWINGS (continued)

Recognition and measurement (continued)

Finance leases

Leases which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are classified as finance leases. The financed asset is stated at the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. An interest bearing liability of equal value is also recognised at inception. Minimum lease payments are apportioned between the finance charge and the reduction of the lease liability.

The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

	2019	2018
	\$'000	\$'000
15. PROVISIONS		
CURRENT		
Employee benefits	44,690	67,837
Workers' compensation	18,363	26,269
	63,053	94,106
NON-CURRENT		
Employee benefits – long service leave	4,542	5,259

	2019
	\$'000
Movements in provisions	
<i>Workers compensation</i>	
Carrying amount at the beginning of the year	26,269
Additional provision	2,140
Amounts utilised during the year	(10,046)
Carrying amount at the end of the financial year	18,363

15. PROVISIONS (continued)

Recognition and measurement

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relevant to the expected life of the provision is used as a discount rate. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Employee benefits includes liabilities for wages and salaries, rostered days off, vesting sick leave, project incentives and project redundancies. It is customary within the engineering and construction industry for incentive payments and redundancies to be paid to employees at the completion of a project. The provision has been created to cover the expected costs associated with these statutory and project employee benefits.

Liabilities for short term benefits expected to be wholly settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liability is settled. Expenses for non-vesting sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

The liability for long term benefits is recognised and measured as the present value of the expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds, which have terms to maturity approximating the estimated future cash outflows.

Workers' compensation

It is customary for all entities within the engineering and construction industry to be covered by workers' compensation insurance. Payments under these policies are calculated differently depending on which state of Australia the entity is operating in. Premiums are generally calculated based on actual wages paid and claims experience. Wages are estimated at the beginning of each reporting period. Final payments are made when each policy is closed out based on the difference between actual wages and the original estimated amount. The amount of each payment varies depending on the number of incidents recorded during each period and the severity thereof. The policies are closed out within a five years period through negotiation with the relevant insurance company. The provision has been created to cover the expected costs associated with closing out each insurance policy and is adjusted accordingly based on the actual payroll incurred and the severity of incidents that have occurred during each period.

16. CAPITAL MANAGEMENT

Capital is managed by the Group's Chief Financial Officer in conjunction with the Group's Finance and Accounting department. Management continually monitor the Group's net cash/debt position and the gearing levels to ensure efficiency and compliance with the Group's banking facility covenants, including the gearing ratio, operating leverage ratio and fixed charge coverage ratio. At 30 June 2019, the Group is in a net cash position of \$125,813,000 (2018: \$187,802,000) and has a debt to equity ratio of 9.7% (2018: 5.3%) which is within the Group's net cash and debt to equity target levels.

During the year ended 30 June 2019, management paid dividends of \$53,673,000. The policy is to payout dividends of 80% to 100% of annual net profit after tax, subject to the working capital requirements of the business, potential investment opportunities and business and economic conditions generally.

The capital of the Company is considered to be contributed equity.

17. DIVIDENDS PAID AND PROPOSED

Declared and paid during the year

Current year interim

Interim franked dividend for 2019 (25 cents per share) (2018: 30 cents per share)

2019	2018
\$'000	\$'000

<u>23,561</u>	<u>28,199</u>
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Previous year final

Final franked dividend for 2018 (32 cents per share) (2017: 30 cents per share)

<u>30,112</u>	<u>28,174</u>
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Unrecognised amounts

Current year final

Final franked dividend for 2019 (23 cents per share) (2018: 32 cents per share)

<u>21,688</u>	<u>30,115</u>
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Franking credit balance

Franking credits available for future reporting years at 30% adjusted for franking credits that will arise from the payment of income tax payable as at the end of the financial year

58,351	53,356
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Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period

<u>(9,295)</u>	<u>(12,906)</u>
<u>49,056</u>	<u>40,450</u>

Tax rates

The tax rate at which paid dividends have been franked is 30% (2018: 30%). Dividends payable will be franked at the rate of 30% (2018: 30%).

Recognition and measurement

A provision for dividends is not recognised as a liability unless the dividends are declared on or before the reporting date.

MONADELPHOUS GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:
CAPITAL STRUCTURE
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	2019	2018
	\$'000	\$'000
18. CONTRIBUTED EQUITY		
Ordinary shares – Issued and fully paid	129,992	126,972
Reserved shares	(1,269)	(1,269)
	<u>128,723</u>	<u>125,703</u>

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

	2019		2018	
	Number of	\$'000	Number of	\$'000
	Shares		Shares	
Beginning of the financial year	94,108,311	126,972	93,928,264	124,234
Dividend reinvestment plan	186,176	3,020	180,047	2,738
End of the financial year	<u>94,294,487</u>	<u>129,992</u>	<u>94,108,311</u>	<u>126,972</u>

During the year ended 30 June 2019, no employees exercised options to acquire fully paid ordinary shares.

Reserved shares

	2019		2018	
	Number of	\$'000	Number of	\$'000
	Shares		Shares	
Beginning of the financial year	85,500	(1,269)	85,500	(1,269)
Acquisition of reserved shares	6,875	-	-	-
End of the financial year	<u>92,375</u>	<u>(1,269)</u>	<u>85,500</u>	<u>(1,269)</u>

Recognition and measurement

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are recognised directly in equity as a deduction, net of tax, from the proceeds.

Reserved shares

The Group's own equity instruments, which are reacquired for later use in employee share-based payment arrangements (reserved shares), are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

MONADELPHOUS GROUP LIMITED
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CAPITAL STRUCTURE
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	2019 \$'000	2018 \$'000
19. RESERVES AND RETAINED EARNINGS		
Foreign currency translation reserve	84	(191)
Share-based payment reserve	32,721	29,662
Fair value reserve for financial assets (2018: Available for sale reserve)	902	821
	33,707	30,292
Retained earnings	231,006	238,486

Movements in retained earnings

Balance at the beginning of the year	238,486	223,380
Opening balance adjustment of AASB 15	(4,127)	-
Opening balance adjustment of AASB 9	(245)	-
Balance at the beginning of the year – restated	234,114	223,380
Net profit attributable to equity holders of the parent	50,565	71,479
Total available for appropriation	284,679	294,859
Dividends paid	(53,673)	(56,373)
Balance at the end of the year	231,006	238,486

Movements in reserves

	Foreign currency translation reserve \$'000	Share- based payment reserve \$'000	Fair value reserve for financial assets \$'000	Total \$'000
At 1 July 2017	719	30,142	187	31,048
Foreign currency translation	(910)	-	-	(910)
Share-based payment	-	(480)	-	(480)
Net fair value gain of available-for-sale financial assets	-	-	634	634
At 30 June 2018	(191)	29,662	821	30,292
Foreign currency translation	275	-	-	275
Share-based payment	-	2,953	-	2,953
Adjustment to deferred tax asset recognised on employee share trust	-	106	-	106
Net fair value gain of financial assets	-	-	81	81
At 30 June 2019	84	32,721	902	33,707

Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from translation of the financial statements of foreign subsidiaries.

Share-based payment reserve

The share-based payment reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 26 for further details of these plans.

Fair value reserve financial assets (previously Available for sale reserve)

The fair value reserve for financial assets (2018: available-for-sale reserve) is used to record the movement in fair value of financial assets.

20. SUBSIDIARIES

The consolidated financial statements include the financial statements of Monadelphous Group Limited and subsidiaries:

Name	Country of Incorporation	Percentage Held by Consolidated Entity		Parent Entity Investment	
		2019 %	2018 %	2019 \$'000	2018 \$'000
Parent:					
Monadelphous Group Limited					
Controlled entities of Monadelphous Group Limited:					
#Monadelphous Engineering Associates Pty Ltd	Australia	100	100	26,132	26,132
#Monadelphous Properties Pty Ltd	Australia	100	100	1,941	1,941
#Monadelphous Engineering Pty Ltd	Australia	100	100	4,066	4,066
#Genco Pty Ltd	Australia	100	100	342	342
#Monadelphous Workforce Pty Ltd	Australia	100	100	370	370
#Monadelphous Electrical & Instrumentation Pty Ltd	Australia	100	100	5,343	5,343
#Monadelphous KT Pty Ltd	Australia	100	100	15,729	15,729
#Monadelphous Energy Services Pty Ltd	Australia	100	100	4,434	4,434
#M Workforce Pty Ltd	Australia	100	100	-	-
#M Maintenance Services Pty Ltd	Australia	100	100	-	-
M&ISS Pty Ltd	Australia	100	100	-	-
SinoStruct Pty Ltd	Australia	100	100	125	125
Monadelphous Group Limited Employee Share Trust	Australia	100	100	-	-
Monadelphous Holdings Pty Ltd	Australia	100	100	-	-
MGJV Pty Ltd	Australia	70 ^	70 ^	-	-
Evo Access Pty Ltd	Australia	100	100	-	-
Monadelphous Investments Pty Ltd	Australia	100	100	-	-
MWOG Pty Ltd	Australia	100	100	-	-
MOAG Pty Ltd	Australia	100	100	-	-
Monadelphous International Holdings Pty Ltd	Australia	100	100	-	-
Arc West Group Pty Ltd	Australia	100	100	5,440	5,440
R.I.G. Installations (Newcastle) Pty Ltd	Australia	100	100	1,488	1,488
RE&M Services Pty Ltd	Australia	100	100	-	-
Pilbara Rail Services Pty Ltd	Australia	100	100	-	-
EC Projects Pty Ltd*	Australia	100	-	-	-
Monadelphous PNG Ltd	Papua New Guinea	100	100	-	-
Moway International Limited	Hong Kong	100	100	515	443
Moway AustAsia Steel Structures Trading (Beijing) Company Limited	China	100	100	-	-
Monadelphous Singapore Pte Ltd	Singapore	100	100	304	144
Monadelphous Mongolia LLC	Mongolia	100	100	-	-
Monadelphous Inc.	USA	100	100	1,806	1,806
Monadelphous Marcellus LLC	USA	100	100	-	-
MKT Pipelines Ltd	Canada	100	100	-	-
Monadelphous Engineering NZ Pty Ltd	New Zealand	100	100	8,587	-
Monadelphous Sdn Bhd	Malaysia	100	100	-	-
				76,622	67,803

Controlled entities subject to the Class Order (Refer to note 30)

* Incorporated during the year

^ The Group considers that it controls MGJV Pty Ltd as it has a casting vote at Board Meetings.

Ultimate parent

Monadelphous Group Limited is the ultimate holding company.

Material partly-owned subsidiaries

There were no subsidiaries that have a material non-controlling interest during the year.

21. INTEREST IN JOINT OPERATIONS

Joint operations interests

The Group's interests in joint operations are as follows:

Joint Arrangement	Principal Activity	Principal place of business	Group Interest	
			2019 %	2018 %
Monadelphous Worley JV PNG	Engineering, Procurement and Construction & Maintenance Support Work in PNG	PNG	65	65
Monadelphous Worley JV	Engineering, Procurement and Construction & Maintenance Support Work	Brisbane, QLD	65	65
China Petroleum Engineering & Construction (Australia) Pty Ltd and Monadelphous Engineering Pty Ltd Joint Venture	Maintenance Support Work	Brisbane, QLD	50	-

Commitments and contingent liabilities relating to joint operations

There were no capital commitments or contingent liabilities relating to the joint operations at 30 June 2019 (2018: \$nil).

Impairment

There were no assets employed in the joint operations during the year ended 30 June 2019 (2018: \$nil).

Recognition and measurement

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractual agreed sharing of control of the arrangement which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the individual assets and obligations arising from the joint arrangement, the arrangement is classified as a joint operation and as such, the Group recognises its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the investment is classified as a joint venture and accounted for using the equity method. Under the equity method, the cost of the investment is adjusted by the post-acquisition changes in the Group's share of the net assets of the venture.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, loans, finance leases and hire purchase contracts, cash and short-term deposits.

The Group is exposed to financial risks which arise directly from its operations. The Group has policies and measures in place to manage financial risks encountered by the business.

Primary responsibility for the identification of financial risks rests with the Board. The Board determines policies for the management of financial risks. It is the responsibility of the Chief Financial Officer and senior management to implement the policies set by the Board and for the constant day to day management of the Group's financial risks. The Board reviews these policies on a regular basis to ensure that they continue to address the risks faced by the Group.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's policy to minimise risk from fluctuations in interest rates is to utilise fixed interest rates in its loans, finance leases and hire purchase contracts. Cash and short term deposits are exposed to floating interest rate risks. The Group manages its foreign currency risk arising from significant supplier contracts in foreign currencies by holding foreign currency or taking out forward exchange contracts. Analysis is performed on a customer's credit rating prior to signing contracts and analysis is performed regularly of credit exposures and aged debt to manage credit and liquidity risk.

The policies in place for managing the financial risks encountered by the Group are summarised below.

Risk exposures and responses

Interest rate risk

The Group's exposure to variable interest rates is as follows:

	Notes	2019 \$'000	2018 \$'000
Financial assets/liabilities			
Cash and cash equivalents	5	164,042	208,773
Loan – secured	14	(3,300)	-
Net exposure		<u>160,742</u>	<u>208,773</u>

The Group utilises a number of financial institutions to obtain the best interest rate possible and to manage its risk. The Group does not enter into interest rate hedges.

At 30 June 2019, reasonably possible movements in variable interest rates, based on a review of historical movements and forward rate curves for forward rates would not have had a material impact on the Group.

Foreign currency risk

As a result of operations in the USA, Papua New Guinea, China, Mongolia and New Zealand the Group's statement of financial position can be affected by movements in the US\$/A\$, PGK/A\$, RMB/A\$, MNT/A\$ and NZ\$/A\$ exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency. Where possible, Monadelphous does not take on foreign exchange risk. At 30 June 2019, the Group had no forward contracts.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

Foreign currency risk (continued)

The Group also mitigates its exposure to foreign currency risk by minimising excess foreign currency balances in overseas jurisdictions not required for working capital.

At 30 June 2019, the Group had the following exposure to foreign currency:

Year ended 30 June 2019	PGK AUD\$'000	USD AUD\$'000	EURO AUD\$'000
Financial assets			
Cash and cash equivalents	5,835	32,974	229
Trade and other receivables	5,826	15,771	-
Financial liabilities			
Trade and other payables	(1,250)	(1,615)	-
Net Exposure	10,411	47,130	229
Year ended 30 June 2018	PGK AUD\$'000	USD AUD\$'000	EURO AUD\$'000
Financial assets			
Cash and cash equivalents	6,041	15,290	5,176
Trade and other receivables	3,545	9,272	-
Financial liabilities			
Trade and other payables	(2,017)	(3,784)	-
Net Exposure	7,569	20,778	5,176

At 30 June 2019, reasonably possible movements in PGK and Euro foreign exchange rates, based on a review of historical movements, would not have had a material impact on the Group.

At 30 June 2019, if the USD foreign exchange rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements relating to financial assets and liabilities denominated in USD:	Post Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
+5% (2018: +5%)	(1,650)	(727)	-	-
-5% (2018: -5%)	1,650	727	-	-

The reasonably possible movements have been based on review of historical movements.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's maximum exposure to credit risk is its cash, trade and other receivables and contract assets representing \$516,263,000 at 30 June 2019 (2018: \$497,144,000).

Following the adoption of AASB 9, the Group considers the probability of default upon initial recognition of a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period.

Except for trade receivables, contract assets and other short-term receivables (see below), expected credit losses (ECL's) are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. In making this assessment, the Group considers information that is reasonable and supportable, including historical experience and forward-looking information. Forward-looking information considered includes consideration of external sources of economic information. In particular, the Group takes into account the counterparties external credit rating (as far as available), actual or expected significant changes in the operating results of the counterparty and macroeconomic when assessing significant movements in credit risk.

In the prior period, impairment losses were recognised when there was objective evidence of impairment.

Trade receivables and contract assets

The Group trades with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Publicly available credit information from recognised providers is utilised for this purpose where available.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group minimises concentrations of credit risk in relation to accounts receivable and contract assets by undertaking transactions with a number of customers within the resources, energy and infrastructure industry sector. There are multiple contracts with our significant customers, across a number of their subsidiaries, divisions within those subsidiaries and locations.

For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Chairman, Managing Director or Chief Financial Officer.

Since the Group trades with recognised third parties, there is no requirement for collateral.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

Credit risk (continued)

With effect from 1 July 2018, the Group applies a simplified approach in calculating ECLs for trade receivables and contract assets. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due ageing for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

A receivable is considered to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a receivable is credit-impaired includes observable data about significant financial difficulty of the debtor or a breach of contract, such as a default or past due event.

Set out below is the information about the credit risk exposure at 30 June 2019 on the Group's trade receivables and contract assets, for which lifetime expected credit losses are recognised, using a provision matrix:

	Trade receivables						Total
	Contract assets	Days past due				Total	
		Current	<31 days	31-60 days	61-90 days		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2019							
Expected credit loss rate	0.93%	0.78%	0.78%	1.32%	2.01%	13.56%	
Total estimated gross carrying amount at default	29,661	202,152	26,770	7,325	4,023	12,366	252,636
Expected credit loss	275	1,570	209	97	81	1,677	3,634

At 30 June 2018, the ageing of trade receivables, past due but not considered impaired was as follows:

	2018 \$'000
1-30 Days	33,706
31-60 Days	9,054
61+ Days	19,332
TOTAL	62,092

Other balances within trade and other receivables at 30 June 2019 did not contain impaired assets and were not past due. It was expected that these other balances would be received when due.

Financial instruments and cash deposits

With respect to credit risk arising from the other financial assets of the Group, which comprises cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. The Group minimises its exposure to credit risk for cash and cash equivalents, by investing funds with counter parties rated A+ or higher by Standard & Poor's where possible. Term deposits typically have an original maturity of three months or less and other bank deposits are on call. These financial assets are considered to have low credit risk.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

Credit risk (continued)

Write off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Liquidity risk

Financing facilities available	2019	2018
	\$'000	\$'000

At balance date the following financing facilities had been negotiated and were available

Total facilities:

- Bank guarantee and performance bonds	490,000	460,000
- Revolving credit	90,300	64,559
	580,300	524,559

Facilities used at balance date:

- Bank guarantee and performance bonds	209,925	181,759
- Revolving credit	38,229	20,971
	248,154	202,730

Facilities unused at balance date:

- Bank guarantee and performance bonds	280,075	278,241
- Revolving credit	52,071	43,588
	332,146	321,829

Nature of bank guarantees and performance bonds

The contractual term of the bank guarantees and performance bonds match the underlying obligation to which it relates.

Nature of revolving credit

The revolving credit includes hire purchase/leasing facilities. Refer to note 14 for terms and conditions.

The Group's objective is to manage the liquidity of the business by monitoring project cash flows and through the use of financing facilities. The Group currently utilises financing facilities in the form of hire purchase liabilities and secured loans. The liquidity of the group is managed by the Group's Finance and Accounting department.

The table below reflects all contractually fixed pay-offs, repayments and interest resulting from financial liabilities as of 30 June 2019.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

Liquidity risk (continued)

Maturity analysis of financial liabilities:

Year ended 30 June 2019	6 months or less \$'000	6 months to 1 year \$'000	1 year to 5 years \$'000	Total Contractual Cash Flows \$'000	Total Carrying Amount \$'000
Financial liabilities					
Trade and other payables	184,341	-	-	184,341	184,341
Hire purchase liability	6,053	4,738	26,917	37,708	34,929
Bank Loans	654	644	2,172	3,470	3,300
Net maturity	<u>191,048</u>	<u>5,382</u>	<u>29,089</u>	<u>225,519</u>	<u>222,570</u>
Year ended 30 June 2018					
Financial liabilities					
Trade and other payables	164,008	-	-	164,008	164,008
Hire purchase liability	3,920	4,705	14,269	22,894	20,971
Net maturity	<u>167,928</u>	<u>4,705</u>	<u>14,269</u>	<u>186,902</u>	<u>184,979</u>

Net fair values of financial assets and liabilities

The carrying amounts and estimated fair values of financial assets and financial liabilities at balance date are materially the same.

Interest bearing liabilities with fixed interest rates: The fair value includes the value of contracted cash flows, discounted at market rates.

Cash and cash equivalent: The carrying amount approximates fair value because of their short-term maturity.

Receivables and payables: The carrying amount approximates fair value due to short term maturity.

Listed equity investments measured at fair value through other comprehensive income (2018 – Available for Sale Financial Assets): The carrying amount is equal to the fair value calculated using quoted prices in active markets (level 1 – see below).

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1: The fair value is calculated using quoted prices in active markets.
- Level 2: The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3: The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

There were no material financial assets or liabilities measured at fair value at 30 June 2019 or 30 June 2018.

	Notes	2019 \$'000	2018 \$'000
23. COMMITMENTS AND CONTINGENCIES			
Hire purchase commitments			
Payable:			
- Within one year		10,791	8,625
- Later than one year but not later than five years		26,917	14,269
Minimum lease payments		37,708	22,894
Less future finance charges		(2,779)	(1,923)
Present value of minimum lease payments		34,929	20,971
Current liability	14	9,668	7,944
Non-current liability	14	25,261	13,027
		<u>34,929</u>	<u>20,971</u>

Hire purchase agreements have an average term of three years.

Operating lease commitments	2019	2019	2019	2018
	Properties	Other	Total	Total
	\$'000	\$'000	\$'000	\$'000
Minimum lease payments				
- Within one year	9,465	190	9,655	13,692
- Later than one year but not later than five years	23,695	188	23,883	33,744
- Later than five years	19,616	-	19,616	-
Aggregate lease expenditure contracted for at balance date but not provided for	<u>52,776</u>	<u>378</u>	<u>53,154</u>	<u>47,436</u>

Other operating leases includes motor vehicles. Properties include the Victoria Park office lease, the Brisbane office lease and other rental properties. Other operating leases have an average lease term remaining of 16 months. Properties under operating leases have an average lease term remaining of less than one year.

Capital commitments

The consolidated group has capital commitments of \$4,355,277 at 30 June 2019 (2018: \$9,618,122).

Guarantees

	2019 \$'000	2018 \$'000
Guarantees given to various clients for satisfactory contract performance	<u>209,925</u>	<u>181,759</u>

Monadelphous Group Limited and all controlled entities marked # in note 20 have entered into a deed of cross guarantee. Refer to note 30 for details.

Contingent Liabilities

During the period, Monadelphous received a claim for property damage and associated losses arising from a fire which occurred while the Company was performing shutdown services for a customer. No legal proceedings have been commenced. Liability for the claim has not yet been established and the Company intends to defend the matter. Monadelphous has not made any admission of liability, and is working with its insurers to respond to the claim.

23. COMMITMENTS AND CONTINGENCIES (continued)

Contingent Liabilities (continued)

The Group is subject to various other actual and pending claims arising in the normal course of business. The Group has regular claims reviews to assess the need for accounting recognition or disclosure. The Directors are of the opinion that there is no material exposure to the Group arising from these various actual and pending claims.

24. SUBSEQUENT EVENTS

Dividends declared

On 19 August 2019, the directors of Monadelphous Group Limited declared a final dividend on ordinary shares in respect of the 2019 financial year. The total amount of the dividend is \$21,687,732 which represents a fully franked final dividend of 23 cents per share. This dividend has not been provided for in the 30 June 2019 financial statements. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the dividend.

Acquisition of iPipe Services assets

On 5 July 2019, Monadelphous Group Limited completed the purchase of assets of iPipe Services, a provider of technology solutions, construction and maintenance services to the coal seam gas sector. Total consideration of the acquisition was approximately \$3,000,000. The acquisition was not material to the group.

Other than the items noted above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

	Notes	2019 \$'000	2018 \$'000
25. PARENT ENTITY INFORMATION			
Information relating to Monadelphous Group Limited parent entity			
Current assets		140,758	185,199
Total assets		2,064,004	1,848,312
Current liabilities		(1,842,800)	(1,643,210)
Total liabilities		(1,870,677)	(1,656,557)
Net assets		193,327	191,755
Contributed equity		128,723	125,703
Share-based payment reserve		32,293	28,675
Fair value reserve for financial asset at FVOCI (previously available-for-sale reserve)		902	821
Retained earnings		31,409	36,556
Total equity		193,327	191,755
Profit after tax		48,526	52,676
Total comprehensive income of the parent entity		48,607	53,310
Contingent liabilities			
Guarantees	23	209,925	181,759

Guarantees entered into by the Group are via the parent entity. Details are contained in note 23.

Capital commitments

The parent entity has capital commitments of \$nil at 30 June 2019 (2018: \$nil).

26. SHARE BASED PAYMENT EXPENSE

During the year, 257,379 performance rights were granted by Monadelphous Group Limited under the Combined Reward Plan ("CR Plan") in respect of the 2018 award. The performance rights vest into shares in equal instalments, one, two and three years subsequent to award, subject to the employee remaining in the employ of the company at those particular dates.

The fair value of each performance right issued during the period was estimated on the date of grant using a discounted cash flow calculation. Specifically, the Monadelphous Group Limited share price has been discounted at the dividend yield in order to account for the dividends that the rights holder forgoes over the life of the rights. A dividend yield of 3.96% to 4.44% has been used in the calculation.

The weighted average fair value of performance rights granted in the period was \$13.90. The weighted average remaining contractual life for the performance rights outstanding at 30 June 2019 was 1 year.

26. SHARE BASED PAYMENT EXPENSE (continued)

The following table illustrates the number and weighted average exercise prices of and movements in options granted, exercised and forfeited during the year.

	2019		2018	
	Number of Performance Rights	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance at the beginning of the year	-	-	30,000	17.05
Issued during the year	257,379	nil	-	-
Forfeited during the year	(8,972)	nil	(30,000)	17.05
Balance at the end of the year	248,407	nil	-	-
Exercisable during the next year	82,771	nil	-	-

Subsequent to 30 June 2019, the Board has approved the issue of additional performance rights relating to the 2018/19 financial year, to certain employees to the value of approximately \$4,000,000. The rights will be issued based on the dividend reinvestment plan price for the 2019 final dividend to be determined in October 2019. It is estimated that approximately 220,000 performance rights will be granted under the terms of the CR Plan for the year ended 30 June 2019.

The share-based payment expense relating to the Monadelphous Group Limited Combined Reward Plan for the year ended 30 June 2019 was \$3,513,531 (2018: \$nil) for the consolidated entity. \$2,167,803 relates to performance rights issued in 2018. \$1,345,728 relates to performance rights to be awarded subsequent to 30 June 2019, calculated based on an estimate of the fair value using the 30 June 2019 share price. The performance rights were approved by the Board on 30 July 2019, except for those relating to the CEO which will be subject to approval at the Annual General Meeting in November 2019.

For the year ended 30 June 2019, the Group has recognised \$80,000 of share-based payment expense in the Income Statement (2018: \$800,000) relating to shares to be issued as part of the acquisition of Arc West Group Pty Ltd. \$640,000 (2018: \$1,280,000) was satisfied as a cash payment during the year.

Recognition and measurement

The Group provides benefits to employees (including Key Management Personnel) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). These benefits are provided through the Monadelphous Group Limited Combined Reward Plan.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date on which they are granted. The fair value is determined by an external valuer. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Monadelphous Group Limited (market conditions), if applicable. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

26. SHARE BASED PAYMENT EXPENSE (continued)

Recognition and measurement (continued)

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

	2019	2018
	\$	\$

27. AUDITORS' REMUNERATION

The auditor of Monadelphous Group Limited is Ernst & Young.

*Amounts received or due and receivable by Ernst & Young
Australia for:*

- An audit or review of the financial report of the entity and any other entity in the consolidated entity	296,053	254,534
- Other services in relation to the entity and any other entity in the consolidated entity		
- tax compliance	36,089	30,411
- assurance related	-	31,000
	332,142	315,945

Ernst & Young has provided an auditor's independence declaration to the Directors of Monadelphous Group Limited confirming that the provision of the other services has not impaired their independence as auditors.

28. RELATED PARTY DISCLOSURES

Compensation of key management personnel

	2019	2018
	\$	\$
Short term benefits	3,952,777	4,088,037
Post-employment	146,296	141,888
Long term benefits	71,081	114,159
Share-based payments	696,245	-
Total compensation	4,866,399	4,344,084

28. RELATED PARTY DISCLOSURES (continued)

Zenviron

The group had sales to the joint venture during the year totalling \$12,954,834 (2018: \$10,213,000)

Mondium

At 30 June 2019, an amount totalling \$1,264,000 (2018: \$1,864,000) had been loaned to Mondium Pty Ltd. The loan is included in the statement of financial position within Investment in Joint Venture. Interest is payable on the loan at a rate of 3.25% per annum.

The group had sales to the joint venture during the year totalling \$5,799,662 (2018: \$1,266,335)

29. OPERATING SEGMENTS

Revenue is derived by the consolidated entity from the provision of engineering services to the resources, energy and infrastructure industry sector. For the year ended 30 June 2019, the Engineering Construction division contributed revenue of \$622.9 million (2018: \$949.9 million) and the Maintenance and Industrial Services division contributed revenue of \$998.4 million (2018: \$841.1 million). Included in these amounts is \$13.0 million (2018: \$7.0 million) of inter-entity revenue and \$131.0 million (2018: \$49.1 million) of revenue of joint ventures, which is eliminated on consolidation. The operating divisions are exposed to similar risks and rewards from operations, and are only segmented to facilitate appropriate management structures.

The directors believe that the aggregation of the operating divisions is appropriate for segment reporting purposes as they:

- have similar economic characteristics in that they have similar gross margins;
- perform similar services for the same industry sector;
- have similar operational business processes;
- provide a diversified range of similar engineering services to a large number of common clients;
- utilise a centralised pool of engineering assets and shared services in their service delivery models, and the services provided to customers allow for the effective migration of employees between divisions; and
- operate predominately in one geographical area, namely Australia.

Accordingly all services divisions have been aggregated to form one segment.

The Group has a number of customers to which it provides services. The largest customer represented 19% (2018: 28%) of the Group's revenue. Two other customers individually contributed 17% and 12% of the Group's revenue. There are multiple contracts with these customers, across a number of their subsidiaries, divisions within those subsidiaries and locations.

Geographical Information

	2019	2018
	\$'000	\$'000
Revenue from external customers		
Australia	1,308,515	1,607,987
New Zealand	29,484	51,473
Mongolia	80,622	16,173
Other overseas locations	58,648	59,248
	1,477,269	1,734,881

30. DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, relief has been granted to these controlled entities of Monadelphous Group Limited from the *Corporations Act 2001* requirements for preparation, audit and publication of accounts.

As a condition of the Class Order, Monadelphous Group Limited and the controlled entities subject to the Class Order, entered into a deed of indemnity on 9 June 2011, 1 June 2012, 9 June 2014 and 8 June 2016. The effect of the deed is that Monadelphous Group Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities. The controlled entities have also given a similar guarantee in the event that Monadelphous Group Limited is wound up.

The consolidated income statement and statement of financial position of the entities that are members of the 'Deed' are as follows:

	2019 \$'000	2018 \$'000
Consolidated Income Statement and Comprehensive Income		
Profit before income tax	61,949	117,063
Income tax expense	(23,251)	(31,422)
Net profit after tax for the period	<u>38,698</u>	<u>85,641</u>
Reconciliation of Retained Earnings		
Retained earnings at the beginning of the period	243,195	213,927
Opening balance adjustment on application of AASB 9	(245)	-
Dividends paid	(53,673)	(56,373)
Net profit after tax for the period	<u>38,698</u>	<u>85,641</u>
Retained earnings at the end of the period	<u><u>227,975</u></u>	<u><u>243,195</u></u>
Consolidated Statement of Financial Position		
ASSETS		
Current assets		
Cash and cash equivalents	129,277	173,927
Trade and other receivables	326,156	297,046
Contract assets	30,566	33,363
Total current assets	<u>485,999</u>	<u>504,336</u>
Non-current assets		
Investments in subsidiaries	7,872	7,639
Property, plant and equipment	106,220	92,458
Deferred tax assets	28,021	32,262
Intangible assets and goodwill	3,120	3,120
Other non-current assets	2,921	2,806
Total non-current assets	<u>148,154</u>	<u>138,285</u>
TOTAL ASSETS	<u>634,153</u>	<u>642,621</u>
LIABILITIES		
Current liabilities		
Trade and other payables	153,318	128,526
Interest bearing loans and borrowings	10,868	7,944
Income tax payable	198	7,092
Provisions	48,693	83,077
Total current liabilities	<u>213,077</u>	<u>226,639</u>
Non-current liabilities		
Interest bearing loans and borrowings	27,361	13,027
Provisions	3,822	4,561
Total non-current liabilities	<u>31,183</u>	<u>17,588</u>
TOTAL LIABILITIES	<u>244,260</u>	<u>244,227</u>
NET ASSETS	<u>389,893</u>	<u>398,394</u>
EQUITY		
Contributed equity	128,723	125,703
Reserves	33,195	29,496
Retained earnings	227,975	243,195
TOTAL EQUITY	<u>389,893</u>	<u>398,394</u>

31. OTHER ACCOUNTING STANDARDS

Other accounting policies

Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI, and fair value through profit or loss.

With the exception of trade receivables, that do not have a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under AASB 15.

Financial assets at amortised cost

The Group measures financial assets at amortised cost where the objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables.

Financial assets at fair value

For financial assets at fair value, gains and losses will either be reported in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity instruments at fair value through OCI.

Gains and losses on financial assets designated at fair value through OCI are not recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Impairment of financial assets

The Group recognises an allowance for ECLs for trade receivables, contract assets and other debt financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contracted cash flows due in accordance with the contract and all the cash flows the Group expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses and recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

31. OTHER ACCOUNTING STANDARDS (continued)

Definition of default

The Group considers a financial asset to be in default when contractual payments are 90 days past due or when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

Write off policy

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

New and amended Accounting Standards and Interpretations adopted during the year

Monadelphous Group Limited and its subsidiaries ('the Group') has adopted all new and amended Australian Standards and Interpretations mandatory for reporting periods beginning on or before 1 July 2018.

The Group applies, for the first time, AASB 15 *Revenue from Contracts with Customers* ("AASB 15") and AASB 9 *Financial Instruments* ("AASB 9") and the consequential amendments to other Accounting Standards. In accordance with elections available under these new accounting standards (see below for further details), the new accounting policies are effective from 1 July 2018 and comparative information continues to be prepared in line with the accounting policies as disclosed in the 30 June 2018 Financial Report. The cumulative effect of initially applying the Standards has been recognised as an adjustment to the opening balance of retained earnings.

Other revised Standards and Interpretations which apply from 1 July 2018 did not have any material effect on the financial position or performance of the Group.

AASB 15 Revenue from contracts with customers

AASB 15 supersedes AASB 118 'Revenue', AASB 111 'Construction Contracts' and related interpretations. The new standard establishes a five-step model to account for revenue arising from contracts with its customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to the customer.

The Group adopted AASB 15 using the modified retrospective method of adoption with the date of initial application being 1 July 2018. Under this approach, the Group has elected to apply the standard only to contracts that are not completed contracts at the initial date of application.

31. OTHER ACCOUNTING STANDARDS (continued)

Changes in accounting policies (continued)

AASB 15 Revenue from contracts with customers (continued)

The cumulative impact of applying AASB 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under AASB 118, AASB 111 and related interpretations. On transition, the Group has also elected to use the contract modification practical expedient and applied the expedient to all modifications that occurred before the date of initial application.

The nature of adjustments required on adoption of AASB 15 is as follows:

(a) *Variable consideration*

Under AASB 15, the transaction price reflects the Group's expectations about the consideration to which it will be entitled to receive from the customer. If the consideration promised in a contract includes a variable amount due to enforceable claims, the Group is obliged to estimate the amount of consideration receivable. Before recognising any amount of variable consideration in the transaction price, the Group is required to consider whether the amount of variable consideration is constrained. To include variable consideration in the estimated transaction price under AASB 15, the Group has to conclude that it is highly probable that a significant revenue reversal will not occur in future periods. Revenue was previously recognised to the extent it was probable that future economic benefits would flow to the Group and was measured at the fair value of consideration received or receivable.

(b) *Presentation of contract assets and liabilities*

In accordance with AASB 15, when either party to the contract has performed, the Group is required to present a contract in the Statement of Financial Position as a contract asset or contract liability depending on the relationship between the Group's performance and the customer's payment. The Group is obliged to present any unconditional right to payment as a receivable. A contract asset is considered to be unconditional if the right to receive payment is only conditional on the passage of time. Under AASB 111, amounts due from customers were previously included in inventories as construction work in progress.

AASB 9 Financial Instruments

AASB 9 replaces parts of AASB 139 *Financial Instruments: Recognition and Measurement* and brings together three aspects of accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied AASB 9 retrospectively with the initial application date being 1 July 2018. The Group has not restated comparative information which continues to be reported under AASB 139. Differences arising from the adoption of AASB 9 has been recognised directly in retained earnings.

The nature of the adjustments is described below:

(a) *Classification and measurement*

Under AASB 9 debt instruments are subsequently measured at fair value through profit or loss, amortised cost or fair value through other comprehensive income (OCI). The classification is based on two criterion: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

31. OTHER ACCOUNTING STANDARDS (continued)

Changes in accounting policies (continued)

AASB 9 Financial Instruments (continued)

(a) Classification and measurement (continued)

The assessment of the Group's business model was performed on the date of initial application, 1 July 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the financial asset.

The classification and measurement requirements of AASB 9 did not have a significant impact on the Group. The Group continued measuring at fair value all financial instruments previously held at fair value under AASB 139. The following are the changes in the classification of the Group's financial assets:

- Trade and other receivables, classified as Loans and Receivables as at 30 June 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 July 2018.
- The listed equity investment at 30 June 2018, previously classified as available-for-sale financial asset, is now classified as an equity instrument designated at fair value through OCI (FVOCI) as this investment was not held for trading.

The changes in classifications have not resulted in any measurement difference on adoption of AASB 9. As a result of the change in classification of the Group's listed equity investment, the Available for Sale Reserve of \$821,000 at 1 July 2018 has been reclassified to the Fair Value Reserve for Financial Assets at FVOCI.

(b) Impairment

The adoption of AASB 9 has also changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to recognise an allowance for ECL for all debt instruments not held at fair value through profit and loss and contract assets. For trade receivables and contract assets, the Group has applied the standard's simplified approach and has calculated the expected credit loss based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment.

As at 1 July 2018, the Group reviewed and assessed the existing financial assets for impairment using reasonable and supportable information. In accordance with AASB 9, where the Group concluded that it would require undue cost and effort to determine the credit risk of a financial asset on initial recognition, the Group recognised lifetime ECL.

With respect to the Group's on demand and term deposits at 30 June 2018, no material adjustments were required on adoption of the ECL approach. These balances were assessed as having low probability of default as they are either on demand or have relatively short maturity dates and it is the Group's policy that these balances are held with reputable financial institutions with high credit ratings.

With respect to the Group's trade receivables and contract assets, the Group trades with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Publicly available credit information from recognised providers is utilised for this purpose where available. As a result, no material adjustment was required on the adoption of the ECL approach.

31. OTHER ACCOUNTING STANDARDS (continued)

Changes in accounting policies (continued)

AASB 9 Financial Instruments (continued)

The following table shows the changes to the classification of the Groups significant financial assets and liabilities on adoption of AASB 9 at 1 July 2018.

	Original Classification under AASB 139	New Classification under AASB 9	Original Carrying Value \$'000	Carrying Value under AASB 9 \$'000
Cash and term deposits	Loans and receivables	Amortised cost	208,773	208,773
Equity investments	Available for sale	Designated at fair value through OCI	2,806	2,806
Trade and other receivables	Loans and receivables	Amortised cost	288,371	288,190
Trade and other payables	Financial liabilities at amortised cost	Amortised cost	164,008	164,008
Interest bearing loans and borrowings	Financial liabilities at amortised cost	Amortised cost	20,971	20,971

Impact on Application

The impact of the application of the new standards are analysed by financial statement line items below.

	Notes	30 June 2018 \$'000	AASB 9 Transition Adjustments \$'000	AASB 15 Transition Adjustments \$'000	Opening Balance 1 July 2018 \$'000
Trade and other receivables	3	288,371	(181)	-	288,190
Contract assets	1,2,3	-	(169)	21,304	21,135
Inventories	2	47,200	-	(27,199)	20,001
Deferred tax assets	4	35,304	105	1,768	37,177
Total assets		688,994	(245)	(4,127)	684,622
Trade and other payables		164,008	-	-	164,008
Total liabilities		292,866	-	-	292,866
Net Assets		396,128	(245)	(4,127)	391,756
Retained Earnings	1,3,4	238,486	(245)	(4,127)	234,114
Total Equity		396,128	(245)	(4,127)	391,756

1 Adjustment for variable consideration receivable at the date of initial application of AASB 15. The application of the constraint resulted in a reduction in contract assets of \$5,895,000.

2 Adjustment relating to the presentation of Contract assets. Contract assets amounting to \$27,199,000 have been reclassified from Inventories (construction work in progress) to Contract assets.

3 Adjustment for additional impairment losses under AASB 9 amounting to \$181,000 in respect of Trade receivables and \$169,000 in respect of Contract assets.

4 Tax impact of adjustments 1 and 3 above.

There has been no material impact on cash flow or other financial statements items on transition.

31. OTHER ACCOUNTING STANDARDS (continued)

Impact on the consolidated Income Statement and Statement of Financial Position at 30 June 2019 of adopting AASB 15

The following table summarises the impact of adoption of AASB 15 on the Group's Consolidated Income Statement and Statement of Financial Position for the current year in comparison to the results that would have been reported had AASB 15 not been applied.

30 June 2019	As reported	Adjustments	Amounts without adoption of AASB 15
	\$'000	\$'000	\$'000
Trade and other receivables	322,849	8,200	331,049
Contract assets	29,661	(29,661)	-
Inventories	4,607	27,356	31,963
Deferred tax assets	34,164	(1,768)	32,396
Total assets	684,986	4,127	689,113
Trade and other payables	184,341	-	184,341
Total liabilities	290,305	-	290,305
Net Assets	394,681	4,127	398,808
Retained Earnings	231,006	4,127	235,133
Total Equity	394,681	4,127	398,808

For the year ended 30 June 2019, there has been no material impact on profit after tax, other comprehensive income or the consolidated statement of cash flows on transition to AASB 15.

31. OTHER ACCOUNTING STANDARDS (continued)

New accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective (including those below) have not been adopted by the Group for the annual reporting period ended 30 June 2019.

AASB 16 Leases

The application date of AASB 16 for the Group is 1 July 2019. The key features of AASB 16 are as follows:

Lessee accounting

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

Lessor accounting

- AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
- AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

The Group will adopt AASB 16 using the modified retrospective method, recognising right of use assets equivalent to the lease liability at transition. The Group will elect to use the exemptions allowed for lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The timing of recognition of costs will be brought forward as a result of higher interest expense in the earlier years of the leases.

Based on the current assessment a lease liability with a value of approximately \$50 - \$60 million will be recognised at 1 July 2019.

31. OTHER ACCOUNTING STANDARDS (continued)

New accounting standards and interpretations (continued)

An assessment of the impact of other relevant new or amended accounting standards and interpretations set out below has yet to be completed:

Reference	Summary	Application date of standard	Application date for Group
AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	This Standard amends AASB 9 Financial Instruments to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss. The Standard also clarifies in the Basis for Conclusion that, under AASB 9, gains and losses arising on modifications of financial liabilities that do not result in derecognition should be recognised in profit or loss.	1 January 2019	1 July 2019
AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	This Standard amends AASB 128 Investments in Associates and Joint Ventures to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128.	1 January 2019	1 July 2019
AASB 2018-1 Annual Improvements to IFRS Standards 2015-2017 Cycle	The amendments clarify certain requirements in: <ul style="list-style-type: none"> ▶ AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation ▶ AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity ▶ AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation. 	1 January 2019	1 July 2019
AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement	This Standard amends AASB 119 <i>Employee Benefits</i> to specify how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments: <ul style="list-style-type: none"> ▶ Require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event occurs ▶ Clarify that when such an event occurs, an entity recognises the past service cost or a gain or loss on settlement separately from its assessment of the asset ceiling. 	1 January 2019	1 July 2019
AASB Interpretation 23, and relevant amending standards Uncertainty over Income Tax Treatments	The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: <ul style="list-style-type: none"> ▶ Whether an entity considers uncertain tax treatments separately ▶ The assumptions an entity makes about the examination of tax treatments by taxation authorities ▶ How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates ▶ How an entity considers changes in facts and circumstances. 	1 January 2019	1 July 2019

31. OTHER ACCOUNTING STANDARDS (continued)

New accounting standards and interpretations (continued)

Reference	Summary	Application date of standard	Application date for Group
AASB 2018-6 <i>Amendments to Australian Accounting Standards – Definition of a Business</i>	The Standard amends the definition of a business in AASB 3 <i>Business Combinations</i> . The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.	1 January 2020	1 July 2020
AASB 2018-7 <i>Amendments to Australian Accounting Standards – Definition of Material</i>	This Standard amends AASB 101 <i>Presentation of Financial Statements</i> and AAS 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.	1 January 2020	1 July 2020
AASB 2014-10 <i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 <i>Business Combinations</i> . Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. AASB 2015-10 deferred the mandatory effective date (application date) of AASB 2014-10 so that the amendments were required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. AASB 2017-5 further defers the effective date of the amendments made in AASB 2014-10 to periods beginning on or after 1 January 2022.	1 January 2022	1 July 2022