MONADELPHOUS GROUP LIMITED

ABN 28 008 988 547

CONDENSED CONSOLIDATED FINANCIAL REPORT

HALF-YEAR ENDED 31 DECEMBER 2019

MONADELPHOUS GROUP LIMITED
ABN 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
Philip Trueman
Kristy Glasgow

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

Westpac Banking Corporation
109 St George's Terrace
Perth
Western Australia 6000

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

Auditors
Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
Perth
Western Australia 6000

Solicitors
Johnson, Winter and 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 Workforce Pty Ltd
M&ISS Pty Ltd
Monadelphous Engineering NZ Pty Ltd
M Maintenance Services Pty Ltd
MGJV Pty Ltd
Monadelphous Inc.
Monadelphous Marcellus LLC
MKT Pipelines Limited
Monadelphous Investments Pty Ltd
MWOG Pty Ltd
Arc West Group Pty Ltd
MOAG Pty Ltd
Monadelphous International Holdings Pty Ltd
Evo Access Pty Ltd
Monadelphous Sdn Bhd
RIG Installations (Newcastle) Pty Ltd
R E & M Services Pty Ltd
Pilbara Rail Services Pty Ltd
EC Projects Pty Ltd
Monadelphous Chile SpA
Maq Rent SpA
Buildtek SpA

MONADELPHOUS GROUP LIMITED
DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2019.

DIRECTORS

The names and details of the directors of the Company in office during the half-year and until the date of this report are:-

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 46 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, Honorary Fellow of Engineers Australia 40 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

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), Manila (Philippines), and Santiago (Chile) 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, Mudgee and Rutherford.

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.

OPERATING RESULTS

The consolidated entity's profit attributable to equity holders of the parent after providing for income tax for the half-year was $28.456 million (2018: $30.726 million).

DIVIDENDS PAID OR PROPOSED

A 22 cent fully franked interim dividend has been approved by the directors payable on 27 March 2020 (2019: 25 cent interim dividend). A final fully franked dividend of $21,687,732 was paid during the period in respect of the financial year ended 30 June 2019.

REVIEW OF OPERATIONS

	Half-year ended 31 December 2019 $'000	**Half-year ended 31 December 2018 $'000**
Revenue from contracts with customers	**776,805**	777,195
Profit after income tax attributable to equity holders of the parent	**28,456**	30,726

MONADELPHOUS GROUP LIMITED
DIRECTORS' REPORT

The Directors of Monadelphous Group Limited are pleased to report the Company's financial results for the six months ended 31 December 2019.

Revenue

Monadelphous recorded revenue for the half year of $852.0 million[1] in line with guidance, a 2.6 per cent increase on the previous corresponding period and up 9.5 per cent on the second half of the 2019 financial year. Statutory revenue, which excludes Monadelphous' share of revenue from joint ventures, was $776.8 million.

The Company's Maintenance and Industrial Services division achieved a record half year revenue performance of $584.5 million, up 16.2 per cent on the prior corresponding period, on the back of an increase in shutdown and maintenance work across the resources sector and a ramp up in offshore oil and gas service activity.

The Engineering Construction division reported revenue of $273.4 million for the six months, a 17.6 per cent reduction compared to the prior corresponding period, impacted by delays in the commencement of a number of construction projects.

Earnings

Earnings before interest, tax, depreciation and amortisation (EBITDA) was $59.1 million[2], delivering an EBITDA margin of 6.94 per cent.

The adoption of the new accounting standard AASB 16 *Leases* from 1 July 2019 resulted in additional depreciation and interest expenses on other lease liabilities of $4.8 million for the period, with a corresponding $4.4 million reduction in operating lease expenses.

Net profit after tax for the period was $28.5 million, down 7.4 per cent on the prior corresponding period. The result was impacted by a lower revenue contribution from construction work, and an increase in the Company's depreciation and financing charges resulting from its plant and equipment fleet renewal process over recent years.

Earnings per share (EPS) was 30.17 cents.

Dividend

The Board of Directors has declared an interim dividend of 22 cents per share fully franked. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the interim dividend.

Strong balance sheet

Monadelphous ended the year with a cash balance of $163.3 million, a cash flow from operations of $38.6 million and a cash flow conversion rate of 78 per cent.

Since the beginning of the financial year, the Company completed a number of strategic acquisition investments, in total valued at $14.3 million, enabling it to expand the breadth of services provided to customers in the coal seam gas and rail sectors, and facilitating the expansion of core services into South America.

The Company's balance sheet remains strong and provides the necessary capacity to invest in suitable future business opportunities.

[1] Includes Monadelphous' share of joint venture revenue – refer to page 10 for reconciliation
[2] Refer to page 10 for reconciliation of EBITDA

Strategic Progress

Monadelphous continued to progress its markets and growth strategy of maximising growth and returns from its core markets, broadening its service offering, growing its presence in infrastructure markets and expanding core services to overseas locations.

The Company's proven track record of reliably and safely delivering construction and maintenance projects culminated in the award of approximately $850 million of new contracts and contract extensions since the beginning of the financial year. Monadelphous secured a number of new major construction contracts, including work at Rio Tinto's West Angelas Deposits C and D Project in the Pilbara and at Albemarle Lithium's new Kemerton lithium hydroxide plant, as well as a long-term fixed plant maintenance contract with Rio Tinto across their iron ore assets.

The Company's EPC joint venture, Mondium, continued to establish itself as a preferred and trusted provider of EPC services, with the strategically important award in early 2020 of its largest contract to date. The contract with Rio Tinto, valued at approximately $400 million, includes the design and construction of the Western Turner Syncline Phase 2 (WTS2) mine located in the Pilbara region of Western Australia. Work commenced in the first quarter of 2020 and is due for completion in 2021.

Monadelphous expanded its service offering in the coal seam gas sector with the acquisition early in the period of iPipe Services, a specialist provider of pipeline, maintenance and construction solutions. The specialist services provided by iPipe complement the division's existing services, enabling further expansion of its core offering to customers.

The Company strengthened its presence in the rail sector with the award of a long-term contract for the provision of rail maintenance services to Rio Tinto on its privately-owned rail network in the Pilbara and, subsequent to the period, further expanded its rail capability, acquiring the business and assets of Harbinger Infrastructure, a New South Wales-based maintenance service provider.

In the infrastructure market, Zenviron continued to develop its reputation in the renewable energy sector, successfully completing work on the Moorabool North, Moorabool South and Cherry Tree wind farms, and progressing work on the Crudine Ridge and Dundonell wind farms.

To enable the strategic expansion of core services into South America, the Company acquired Chile-based maintenance and construction services contractor, Buildtek. Buildtek provides multidisciplinary maintenance and construction services to the mining sector, as well as a range of plant, machinery and equipment hire to the mining and construction sectors. The acquisition supports Monadelphous' entry into the growing Chilean resources market through an established and well-recognised operator, and enables the Company to explore further opportunities for growth in the region.

The Company also progressed its international growth strategy through its work in Mongolia, Papua New Guinea and New Zealand, and through its fabrication business, SinoStruct, in China and the US.

Health and Safety

The Company's 12-month total recordable injury frequency rate (TRIFR) increased from 4.02 incidents per million man-hours worked at the end of the previous financial year to 4.28 at 31 December 2019.

During the period the Company undertook a comprehensive review of actual and potential health, safety and environmental (HSE) incidents that had occurred in the business in aggregate during the previous 12-month period. The purpose of the review was to identify emerging HSE trends and identify common contributing factors in order to enhance the Company's HSE strategy and management systems accordingly.

As a consequence, Monadelphous is implementing a range of improvement actions including a targeted campaign to prevent hand and finger injuries, improvements in subcontractor management, progressing the Company's safety leadership development program and rolling out its safety behavioural standard framework.

With the emergence of the coronavirus (COVID-19) early in 2020, Monadelphous established a dedicated team to monitor, assess and provide guidance to its business daily, taking advice from government agencies and the World Health Organisation, and working in partnership with its customers globally. As part of this process, Monadelphous has developed and continues to review and update its strategy in response to the coronavirus (COVID-19) outbreak, with the health and wellbeing of its people as the priority.

People

Monadelphous' success is underpinned by the capability and dedication of its people, and their collective knowledge, values and experience. As such, the Company remains focused on retaining, attracting and developing the right people.

At the end of the reporting period, the Company directly employed 6,514 employees, an increase of almost 10 per cent from 30 June 2019 which was largely due to the acquisition of Buildtek. Subcontractor numbers reduced over the same period as the Company's scopes of work in Mongolia approached completion. Total workforce numbers, including subcontractors, were 7,167 at 31 December 2019.

With increasing demand for personnel in the resources sector, Monadelphous continued to implement a number of strategic sourcing initiatives, including the use of its specialist, in-house resourcing team, which is focused on mapping and targeting potential candidates for senior, strategic roles and positions in high demand across the industry. In addition, the Company leveraged new technologies, including augmented learning technologies, as a means for proactively identifying candidates.

The Company continued to encourage employee equity participation in the business through its employee equity incentive programs, aligning the interests of employees and shareholders. These programs also act as an effective employee retention mechanism, ensuring key talent remains in the business.

A continued focus on diversity and inclusion led to the Company achieving its stretch goal of three per cent Indigenous employment, and actions aimed at sustaining this level longer-term will continue to be implemented. Other major diversity highlights included the provision of employment opportunities to more than 50 Indigenous jobseekers and maintaining this employment for a period of more than six months (through Monadelphous' participation in the Australian Government's Employment Parity Initiative), and the signing of a major partnership with the Polly Farmer Foundation.

To support Monadelphous' gender diversity initiatives, the Company participated in a large number of events throughout the 2019 calendar year promoting science, technology, engineering and maths (STEM) pathways for young women.

Productivity and Innovation

Monadelphous remains 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.

A key initiative of the Company's productivity and innovation strategy is to use proven technologies to improve the efficiency of its own, as well as those of its customers', operations.

During the period, the Company established a virtual reality (VR) room in the Perth office, facilitating the evaluation of virtual reality technology, particularly for 3D model interpretation. In addition, Monadelphous obtained a remotely piloted aircraft operator's certificate (ReOC) which enables the use of drone technology commercially across the organisation to improve the productivity and safety of current scopes of work.

Work on systems optimisation continued, with a view to consolidate legacy systems and better integrate data capture, and automation activities. The use of data analytics for improving operational performance and productivity levels remains a focus.

OPERATIONAL ACTIVITY

Engineering Construction

The Engineering Construction division, which provides large-scale, multidisciplinary project management and construction services, reported revenue of $273.4 million[1], down 17.6 per cent on the previous corresponding period. The performance was impacted by a number of project delays, partially offset by solid revenue in its renewable energy business.

Reflecting the improving outlook and confidence in the resources sector, the division successfully secured contracts with a combined value of approximately $500 million since the beginning of the financial year. These include:

- a major construction contract with Rio Tinto associated with the West Angelas Deposits C and D Project, valued in excess of $100 million;
- a major construction contract at Albemarle Lithium's new Kemerton lithium hydroxide plant in the south-west of Western Australia; and
- a contract with thyssenkrupp Industrial Solutions (Australia) for the construction of a reclaimer and two stackers at BHP's South Flank Project.

The Company's joint venture Mondium, was awarded a major contract in early 2020 with Rio Tinto valued at approximately $400 million. The contract includes the design and construction of the Western Turner Syncline Phase 2 (WTS2) mine, located in the Pilbara region of Western Australia.

Mondium also commenced work on its contract with Talison Lithium for the design and construction of a new tailing retreatment processing plant at its Greenbushes mine site in the south-west of Western Australia.

Work continued on two major multi-disciplinary construction contracts at BHP's South Flank Project in the Pilbara, which are expected to be completed by mid-2021.

Monadelphous continued work on a number of projects under its BHP Western Australian Iron Ore panel agreement, which includes the provision of structural, mechanical, piping and electrical and instrumentation works across BHP's Pilbara-based mines and assets.

After two years onsite, and with an outstanding safety performance, Monadelphous' work on two packages at Rio Tinto's Oyu Tolgoi Underground Project in Mongolia is expected to be completed in 2020. Additional packages of work for this project are expected to provide further opportunities in 2020 and beyond.

While the east coast market remains challenging, the business was awarded a contract with Origin for the construction of the Talinga Orana Gas Gathering Station, located near Chinchilla, Queensland. The contract, which is expected to be completed by March 2020, includes the fabrication, preassembly and site construction of two gas compression trains and supporting utilities and infrastructure.

The renewable energy joint venture Zenviron recorded a 20 per cent increase in revenue compared to the prior corresponding period. Since establishment, the joint venture has been involved in the construction of eight wind farms, including the Salt Creek, Sapphire, Moorabool South, Moorabool North, Lal Lal, Crudine Ridge, Cherry Tree and Dundonnell wind farms.

In the water sector Monadelphous progressed its first package of work under the Hunter Water Corporation Complex Capital Works Design and Construct Panel program at the Dungog Water Treatment Plant. Work also continued on the Company's contracts for Sydney Water's Network and Facilities Renewal Program, on the Kawana Sewerage Treatment Plant on the Sunshine Coast, Queensland and the Kurow Duntroon Irrigation project in New Zealand.

Demand for the division's heavy lift services strengthened as it builds on its reputation as a leader in the market. During the period, the scope of work on its Fortescue Metals Group Crane Services contract was expanded and extended, and work at Woodside's Karratha Gas Plant continued. 2020 will see demand for these services strengthen further as activity in the resources sector increases.

[1] Includes share of joint venture revenue

The Company's fabrication business, SinoStruct, continued to support the delivery of a number of key construction projects, including Rio Tinto's West Angelas Project and Origin's Talinga Orana Gas Gathering Station. SinoStruct also completed work associated with the Oyu Tolgoi project in Mongolia and continued the fabrication and supply of wellhead skids for Australia Pacific LNG.

Maintenance and Industrial Services

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

The division achieved a record revenue performance of $584.5 million for the half year, up 16.2 per cent on its previous half year, on the back of strong demand for its services across resources and energy.

Monadelphous experienced a significant increase in maintenance and shutdown activity in the iron ore sector across the Pilbara. The Company secured a five-year contract with Rio Tinto for the provision of mechanical and electrical fixed plant maintenance and shutdown services at its coastal iron ore operations in the Pilbara, valued at more than $100 million in aggregate. In addition, it secured a further contract with Rio Tinto for the refurbishment of the high-grade iron ore screenhouse at Tom Price mine, and, subsequent to the end of the period was awarded a contract with BHP at Mining Area C mine for upgrades to existing conveyor equipment, power switching and stackers. These contracts are in addition to a major three-year contract with BHP for general maintenance services for shutdowns, outages and minor capital works across BHP's Mt Whaleback, Jimblebar, Eastern Ridge, Mining Area C and Yandi mine sites in the Pilbara, which was secured last financial year. These contracts are supported by local facilities in Karratha, Port Hedland and Newman.

In Western Australia more broadly, the Company was awarded a three-year contract for the supply of shutdown and mechanical services at South32's Worsley Alumina Refinery in Collie, and a 12-month extension to its existing contract with Nickel West for the provision of maintenance, shutdowns and off-site repair services at Kalgoorlie Nickel Smelter.

In the east, Monadelphous secured an order under an existing panel contract with BHP Mitsubishi Alliance to perform major shutdown works at the Hay Point Coal Terminal in Mackay, with work commencing in early August and substantially complete by mid-December. In addition, the Company secured a three-year contract to provide rope access and tank inspection services at Rio Tinto's Yarwun alumina refinery near Gladstone and was awarded a three-year contract for the provision of general mechanical and maintenance services as part of Incitec Pivot's scheduled turnarounds for its Queensland operations.

Following the completion of hookup and commissioning activities on Shell's Prelude FLNG (floating liquefied natural gas) facility and the INPEX-operated Ichthys LNG offshore processing facilities, oil and gas maintenance activities continued to ramp up during the period. Monadelphous, through its offshore maintenance activities, supported INPEX's 100th LNG shipment from Ichthys LNG, and completed two major shutdowns at the Woodside-operated North West Shelf Project. This is in addition to supporting Shell as they achieved their first shipment of LNG from Prelude earlier in 2019. In support of its customers, the Company continued to grow its service offering, enhancing preservation services in Darwin and providing support from its logistics operations in Perth. It also established a stand-alone industrial services team, which provides a number of services to customers including fabric maintenance and ultra-high pressure blasting services, and continued to grow its rope access capability, which is now market leading.

Monadelphous continued to strengthen its position in the rail sector with the award of a rail maintenance contract with Rio Tinto on its privately-owned rail network in the Pilbara, valued at approximately $60 million over three years. The contract, which includes a further two three-year extension options, is for the provision of general track maintenance and renewals services on the coastal component of the rail network, resurfacing services across Rio Tinto's entire rail network and rail workshop services. Monadelphous commenced providing rail infrastructure and rolling stock maintenance support services in Western Australia in 2017, and further expanded its services into the east coast through the purchase of Harbinger Infrastructure's business and assets. Harbinger Infrastructure is a NSW-based rail infrastructure maintenance service provider which was established in 2015 to provide rail track resurfacing (track tamping and regulating works), as well as track machine labour support.

Overseas, the Company acquired Chile-based maintenance and construction services contractor, Buildtek. The acquisition enables Monadelphous to enter the Chilean market through an established, well recognised operator, which has strong relationships with major customers. The services provided by Buildtek are similar to those provided by Monadelphous and provide a foundation for growth in Latin America.

Other significant contract activity undertaken during the period included:

- Maintenance and shutdown services for BHP's Olympic Dam copper-uranium operation at Roxby Downs, South Australia;
- 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 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; and
- Maintenance and turnaround services in the Hunter Valley, NSW, for Glencore and Yancoal.

Markets and Outlook

Favourable market conditions over coming years are expected to provide a solid pipeline of opportunities within the resources and energy sectors.

Ongoing project development activity in iron ore will support a steady stream of construction opportunities, and prospects from renewed development in the LNG market are also expected to be positive. Investment in renewable energy projects is expected to slow in the shorter term as the industry focuses on the development of improved grid access and transmission capacity.

The demand for maintenance services is forecast to be strong as production rates in the resources and oil and gas sectors remain at record levels. Customer focus on maintaining and improving the productivity of operating assets will continue to provide ongoing opportunities for maintenance services and sustaining capital work.

The retention and attraction of high performing talent remains a key priority for the Company with the industry likely to experience capacity and capability constraints from increasing demand for skilled labour.

With activity levels expected to ramp up on secured resource construction projects and demand for maintenance services remaining strong, the Company is forecasting around 10 per cent revenue growth for the 2019/2020 financial year. Margins will continue to be challenged as levels of market competition remain high and customers remain price sensitive and focussed on cost containment.

The financial performance of the business for the 2019/20 financial year is, however, dependent on the extent and duration of project and supply chain delays resulting from the outbreak of the coronavirus (COVID-19).

Monadelphous, with its industry leading position and its longstanding commitment to the delivery of safe, reliable and cost competitive services, is uniquely positioned to capitalise on the opportunities and deal with the 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.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Dividends Declared

On 17 February 2020, Monadelphous Group Limited declared an interim dividend on ordinary shares in respect of the 2020 financial year. The total amount of the dividend is $20,766,898 which represents a fully franked interim dividend of 22 cents per share. This dividend has not been provided for in the 31 December 2019 Financial Statements. The Monadelphous Group Limited Dividend Reinvestment plan will apply to the dividend.

Other than the items noted above, there are no matters or circumstances that have arisen since the end of the half-year ended 31 December 2019 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.

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The auditor's independence declaration is set out on page 11 and forms part of the Directors' Report for the half-year ended 31 December 2019.

ROUNDING

The amounts contained in this report and the half-year financial report have been rounded to the nearest $1,000 (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.

Signed in accordance with a resolution of the directors.

C. G. B. Rubino
Chairman
Perth, 17 February 2020

Revenue including joint ventures is a non-IFRS earnings 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 Total Revenue from Contracts with Customers including joint ventures to Statutory Revenue from Contracts with Customers (unaudited)

	31 December 2019 $'000	31 December 2018 $'000
Total revenue from contracts with customers including joint ventures	**851,980**	830,533
Share of revenue from joint ventures [1]	**(75,175)**	(53,338)
Statutory revenue from contracts with customers	**776,805**	777,195

[1] Represents Monadelphous' proportionate share of the revenue from joint ventures accounted for using the equity method.

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)

	31 December 2019 $'000	31 December 2018 $'000
Profit before income tax	**42,205**	45,554
Interest expense on loans and hire purchase finance charges	**738**	456
Interest expense on other lease liabilities [2]	**977**	-
Interest revenue	**(645)**	(1,203)
Depreciation of owned and hire purchase assets	**10,771**	9,466
Depreciation of other lease assets [2]	**3,777**	-
Amortisation expense	**323**	614
Share of interest, depreciation, amortisation and tax of joint ventures [3]	**986**	871
EBITDA	**59,132**	55,758

[2] The new accounting standard AASB 16 Leases was adopted from 1 July 2019. Comparatives have not been restated.

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

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

As lead auditor for the review of the half-year financial report of Monadelphous Group Limited for the half-year ended 31 December 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.

Ernst & Young

Ernst & Young

D S Lewsen

D S Lewsen
Partner
17 February 2020

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Independent auditor's review report to the members of Monadelphous Group Limited

Report on the 31 December 2019 half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Monadelphous Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2019, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Building a better working world

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
Perth
17 February 2020

DIRECTORS' DECLARATION

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

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the financial position as at 31 December 2019 and the performance for the half-year ended on that date of the consolidated entity; and

   (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

C. G. B. Rubino
Chairman
Perth, 17 February 2020

MONADELPHOUS GROUP LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Notes	Half-year ended 31 December 2019 $'000	Half-year ended 31 December 2018 $'000
CONTINUING OPERATIONS			
REVENUE	3	**777,543**	778,507
Cost of services rendered		**(710,724)**	(710,355)
GROSS PROFIT		**66,819**	68,152
Other income	3	**2,823**	2,008
Business development and tender costs		**(9,285)**	(9,779)
Occupancy costs		**(1,802)**	(1,970)
Administrative costs		**(15,983)**	(14,996)
Finance costs	3	**(1,715)**	(456)
Profit from joint ventures		**1,545**	2,557
Unrealised foreign currency (loss)/gain		**(197)**	38
PROFIT FOR THE PERIOD BEFORE TAX		**42,205**	45,554
Income tax expense		**(13,309)**	(13,769)
PROFIT FOR THE PERIOD AFTER TAX		**28,896**	31,785
ATTRIBUTABLE TO			
EQUITY HOLDERS OF THE PARENT		**28,456**	30,726
NON-CONTROLLING INTERESTS		**440**	1,059
		28,896	31,785
Earnings per share:			
• Basic, profit for the period attributable to ordinary equity holders of the parent (cents per share)		**30.17**	32.66
• Diluted, profit for the period attributable to ordinary equity holders of the parent (cents per share)		**30.07**	32.63

MONADELPHOUS GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Half-year ended 31 December 2019 $'000	Half-year ended 31 December 2018 $'000
NET PROFIT FOR THE PERIOD	**28,896**	31,785
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation	**(490)**	157
Items that will not be reclassified subsequently to profit or loss:		
Gain on equity instruments designated at fair value through other comprehensive income	**446**	97
Income tax effect	**(134)**	(30)
	312	67
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**(178)**	224
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**28,718**	32,009
ATTRIBUTABLE TO		
EQUITY HOLDERS OF THE PARENT	**28,278**	30,950
NON-CONTROLLING INTERESTS	**440**	1,059
	28,718	32,009

MONADELPHOUS GROUP LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	31 December 2019 $'000	30 June 2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**163,260**	164,042
Trade and other receivables		**328,248**	322,849
Contract assets		**31,660**	29,372
Inventories		**4,195**	4,607
Income tax receivable		**-**	205
Total current assets		**527,363**	521,075
Non-current assets			
Contract assets		**207**	289
Property, plant and equipment *	5, 3(b)	**155,094**	115,437
Deferred tax assets		**30,539**	34,164
Intangible assets and goodwill		**4,245**	3,120
Investment in joint venture		**8,895**	7,980
Other financial assets	6	**3,367**	2,921
Total non-current assets		**202,347**	163,911
TOTAL ASSETS		**729,710**	684,986
LIABILITIES			
Current liabilities			
Trade and other payables		**183,519**	184,341
Interest bearing loans and borrowings *		**1,602**	10,868
Lease liabilities *	7	**17,072**	-
Income tax payable		**1,092**	-
Provisions		**54,021**	63,053
Total current liabilities		**257,306**	258,262
Non-current liabilities			
Interest bearing loans and borrowings *		**2,805**	27,361
Lease liabilities *	7	**63,397**	-
Provisions		**4,487**	4,542
Other financial liability	15	**6,210**	-
Deferred tax liabilities		**503**	140
Total non-current liabilities		**77,402**	32,043
TOTAL LIABILITIES		**334,708**	290,305
NET ASSETS		**395,002**	394,681
EQUITY			
Issued capital	8	**130,268**	128,723
Reserves		**31,909**	33,707
Retained earnings		**232,804**	231,006
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**394,981**	393,436
Non-Controlling Interests		**21**	1,245
TOTAL EQUITY		**395,002**	394,681

* The new accounting standard AASB 16 *Leases* was adopted from 1 July 2019. Comparatives have not been restated. Refer to note 2b for details.

MONADELPHOUS GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Attributable to equity holders							
	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 $'000**	**Equity Reserve $'000**	**Total $'000**
At 1 July 2019 as previously stated	128,723	32,721	84	231,006	1,245	902	-	394,681
Opening balance adjustment on application of AASB 16*	**-**	**-**	**-**	**(4,970)**	**-**	**-**	**-**	**(4,970)**
At 1 July 2019 as restated	**128,723**	**32,721**	**84**	**226,036**	**1,245**	**902**	**-**	**389,711**
Other comprehensive (loss)/income	**-**	**-**	**(490)**	**-**	**-**	**312**	**-**	**(178)**
Profit for the period	**-**	**-**	**-**	**28,456**	**440**	**-**	**-**	**28,896**
Total comprehensive income for the period	**-**	**-**	**(490)**	**28,456**	**440**	**312**	**-**	**28,718**
Transactions with owners in their capacity as owners								
Recognition of non-controlling interest at the date of acquisition of controlled entities (note 15)	**-**	**-**	**-**	**-**	**2,891**	**-**	**-**	**2,891**
Reclassification of non controlling interest to liabilities (note 15)	**-**	**-**	**-**	**-**	**(3,009)**	**-**	**(2,984)**	**(5,993)**
Share-based payments	**-**	**1,498**	**-**	**-**	**-**	**-**	**-**	**1,498**
Adjustment to deferred tax asset recognised on employee share trust	**-**	**83**	**-**	**-**	**-**	**-**	**-**	**83**
Dividend reinvestment plan	**1,545**	**-**	**-**	**-**	**-**	**-**	**-**	**1,545**
Dividends paid	**-**	**-**	**-**	**(21,688)**	**(1,650)**	**-**	**-**	**(23,338)**
Foreign currency movements	**-**	**-**	**-**	**-**	**104**	**-**	**(217)**	**(113)**
At 31 December 2019	**130,268**	**34,302**	**(406)**	**232,804**	**21**	**1,214**	**(3,201)**	**395,002**

	Attributable to equity holders						
	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 $'000**	**Total $'000**
At 1 July 2018	125,703	29,662	(191)	234,114	1,647	821	391,756
Other comprehensive income	-	-	157	-	-	67	224
Profit for the period	-	-	-	30,726	1,059	-	31,785
Total comprehensive income for the period	**-**	**-**	**157**	**30,726**	**1,059**	**67**	**32,009**
Transactions with owners in their capacity as owners							
Share-based payments	-	511	-	-	-	-	511
Dividend reinvestment plan	2,112	-	-	-	-	-	2,112
Dividends paid	-	-	-	(30,112)	(900)	-	(31,012)
At 31 December 2018	**127,815**	**30,173**	**(34)**	**234,728**	**1,806**	**888**	**395,376**

* Refer to note 2b for details of the opening balance adjustment made on application of the new accounting standard applicable for the Group from 1 July 2019.

MONADELPHOUS GROUP LIMITED`
CONSOLDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Notes	Half-year ended 31 December 2019 $'000	Half-year ended 31 December 2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**893,045**	859,202
Payments to suppliers and employees		**(850,655)**	(822,937)
Income tax paid		**(4,266)**	(22,728)
Other income		**1,422**	1,073
Interest received		**645**	1,203
Dividends received		**93**	109
Finance costs		**(1,715)**	(456)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**38,569**	15,466
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		**2,224**	1,130
Purchase of property, plant and equipment		**(5,093)**	(5,213)
Purchase of intangible assets		**(720)**	-
Repayment of loans from joint venture		**630**	-
Acquisition of controlled entities	15	**(681)**	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(3,640)**	(4,083)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**(21,793)**	(28,000)
Repayment of borrowings		**(5,373)**	4,431
Repayment of hire purchase leases		**(5,257)**	(4,136)
Repayment of other lease liabilities *		**(3,425)**	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(35,848)**	(27,705)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(919)**	(16,322)
Opening cash and cash equivalents brought forward		**164,042**	208,773
Net foreign exchange difference		**137**	1,054
CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD		**163,260**	193,505

* The new accounting standard AASB 16 *Leases* was adopted from 1 July 2019. Comparatives have not been restated. Refer to note 2b for details.

1. CORPORATE INFORMATION

The half-year condensed consolidated financial report of Monadelphous Group Limited for the six months ended 31 December 2019 was authorised for issue in accordance with a resolution of directors on 17 February 2020.

Monadelphous Group Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

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

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

a) Basis of Preparation

The half-year financial report is a general-purpose condensed financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year condensed consolidated financial report does not include all information and disclosures required in the annual financial report and should be read in conjunction with the annual financial report of Monadelphous Group Limited as at 30 June 2019 together with any public announcements made during the half year.

b) New and amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019, except for the adoption of new standards effective as of 1 July 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The Group applies, for the first time, AASB 16 *Leases* (AASB 16). The nature and effect of these changes are disclosed below.

Other revised Standards and Interpretations which apply from 1 July 2019 did not have a material effect on the financial position or performance of the Group.

AASB 16

AASB 16, which supersedes AASB 117 *Leases* (AASB 117) and related interpretations, sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application, with no restatement to comparative information. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying AASB 117 and IFRIC 4 at the date of initial application.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

b) New and amended Accounting Standards and Interpretations (continued)

Impact on Application

The Group has lease contracts for properties and items of plant and equipment. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. For operating leases, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Upon adoption of AASB 16, the Group has applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets (refer below).

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised lease assets and liabilities at the date of initial application for leases previously classified as finance leases. Lease assets and lease liabilities equal the lease assets and liabilities recognised under AASB 117.

On adoption of AASB 16 at 1 July 2019 lease liabilities of $34,929,000 were reclassified from interest bearing loans and borrowings to lease liabilities. The Group continues to present lease assets within Property, Plant and Equipment.

Leases previously accounted for as operating leases

Effective from 1 July 2019 the Group recognised lease assets and lease liabilities for those leases previously classified as operating leases. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Lease assets for the two largest leases were recognised based on the carrying amount as if the standard had always been applied, apart from applying the incremental borrowing rate at the date of initial application. For all other leases, the lease assets were recognised based on the amount equal to the lease liabilities. There were no related prepaid and accrued lease payments previously recognised that required the lease assets to be adjusted. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. As a result of adopting AASB 16 additional lease liabilities of $47,261,000 and lease assets of $40,161,000 were recognised at 1 July 2019.

The principal component of lease payments is now recognised as a financing activity in the statement of cashflow (previously presented as an operating activity).

On transition the Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemption to leases with lease terms that end within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the lease asset at the date of initial application
- Used hindsight with regards to determination of the lease term.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

b) New and amended Accounting Standards and Interpretations (continued)

Impact on Application (continued)

The impact on the balance sheet of adoption of AASB 16 at 1 July 2019 is as follows:

	$'000 Increase /(Decrease)
Balance Sheet at 1 July 2019	
Property, plant and equipment	40,161
Deferred tax asset	2,130
Total assets impact	**42,291**
Current interest bearing loans and borrowings	(9,668)
Non-current interest bearing loans and borrowings	(25,261)
Current lease liabilities	16,748
Non-current lease liabilities	65,442
Total liabilities impact	**47,261**
Net Assets impact	**(4,970)**
Retained Earnings	(4,970)
Total Equity impact	**(4,970)**

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	$'000
Operating lease commitments disclosed as at 30 June 2019	53,154
Less:	
Present value discounting of lease liabilities	(4,616)
Commitments relating to short-term leases and low value assets	(1,277)
Add:	
Present value of existing hire purchase leases at 1 July 2019	34,929
Lease liabilities as at 1 July 2019	82,190

Lease liabilities, for leases that were previously classified as operating leases, were discounted using a weighted average incremental borrowing rate as at 1 July 2019 of 4.41%.

The Group recognised rent expense from short-term leases and leases of low-value assets of $1,642,276 for the six months ended 31 December 2019.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

b) New and amended Accounting Standards and Interpretations (continued)

Accounting policies applied from 1 July 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and lease assets representing the right to use the underlying assets.

Lease assets

The Group recognises lease assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Lease assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of lease assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised lease assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

- Property 1 to 8 years
- Plant and equipment 1 to 10 years

If ownership of leases assets transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

b) New and amended Accounting Standards and Interpretations (continued)

Accounting policies applied from 1 July 2019 (continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption for those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of plant and equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of one to six years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew and considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

	31 December 2019 $'000	31 December 2018 $'000
3. REVENUE AND EXPENSES		
(a) Specific Items		
Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:		
(i) Revenue		
Revenue from contracts with customers		
Services revenue	**584,544**	503,224
Construction revenue	**192,261**	273,971
	776,805	777,195
Other revenue		
Dividend income	**93**	109
Interest	**645**	1,203
	777,543	778,507
Disaggregation of revenue from contracts with customers by end customer industry:		
Oil and gas	**251,337**	348,132
Other minerals	**158,892**	139,615
Iron Ore	**232,277**	146,119
Infrastructure	**114,919**	143,949
Coal	**94,555**	52,718
	851,980	830,533
Less share of revenue from joint ventures accounted for using the equity method	**(75,175)**	(53,338)
	776,805	777,195
(ii) Other income		
Gain on disposal of property, plant and equipment	**1,401**	935
Other income	**1,422**	1,073
	2,823	2,008
(b) Expenses		
Depreciation of owned property, plant and equipment	**7,702**	7,191
Depreciation of hire purchase assets	**3,069**	2,275
Depreciation of other lease assets	**3,777**	-
	14,548	9,466
Amortisation	**323**	614
Finance costs		
Loans and overdrafts	**52**	-
Finance charges payable under hire purchase contracts	**686**	456
Interest on other lease liabilities	**977**	-
	1,715	456

4. DIVIDENDS PAID AND PROPOSED

	31 December 2019 $'000	31 December 2018 $'000
(a) Fully franked dividends declared and paid during the half-year	**21,688**	30,112
(b) Dividends proposed and not yet recognised as a liability	**20,767**	23,561

5. PROPERTY, PLANT AND EQUIPMENT

During the half-year the consolidated entity acquired assets with a cost of $10,918,371 (2018: $12,468,610), including assets purchased by means of hire purchase contracts of $5,824,939 (2018: $5,791,106). Assets with a written down value of $822,801 (2018: $194,651) were disposed of during the period.

At 31 December 2019, Property, plant and equipment includes lease assets under hire purchase contracts of $42,646,766 and other lease assets, following the adoption of AASB 16 *Leases*, of $36,646,935 (refer note 2b for details).

6. OTHER NON-CURRENT ASSETS

Other non-current assets include ordinary shares at fair value in Lycopodium Limited (ASX Code: LYL). The investment is classified as a financial asset at fair value through OCI.

7. LEASE LIABILITIES

	31 December 2019 $'000
CURRENT	
Hire purchase lease liabilities	**9,657**
Other lease liabilities	**7,415**
	17,072
NON-CURRENT	
Hire purchase lease liabilities	**26,747**
Other lease liabilities	**36,650**
	63,397

Other lease liabilities arise following the adoption of AASB 16 *Leases*. Prior to the adoption of AASB 16, hire purchase liabilities were classified as finance leases and disclosed within interest bearing loans and borrowings. Refer note 2b for details.

8. ISSUED CAPITAL

	Notes	31 December 2019 $'000	30 June 2019 $'000
Ordinary shares – Issued and fully paid	8(a)	**131,537**	129,992
Reserved shares	8(b)	**(1,269)**	(1,269)
		130,268	128,723

(a) Movement in ordinary shares

	31 December 2019		31 December 2018	
	Number of Shares	$'000	Number of Shares	$'000
Beginning of the period	94,294,487	129,992	94,108,311	126,972
Dividend reinvestment plan	**100,502**	**1,545**	**134,217**	**2,112**
End of the period	**94,394,989**	**131,537**	**94,242,528**	**129,084**

(b) Movement in reserved shares

	31 December 2019		31 December 2018	
	Number of Shares	$'000	Number of Shares	$'000
Beginning of the period	92,375	(1,269)	85,500	(1,269)
Conversion of performance rights	**(82,771)**	**-**	-	-
Acquisition of reserved shares	**-**	**-**	6,875	-
End of the period	**9,604**	**(1,269)**	92,375	(1,269)

92,375 of the Group's own equity instruments had been acquired for later use in employee share-based payment arrangements (reserved shares) and have been deducted from equity. 82,771 restricted shares were utilised on conversion of performance rights during the period.

9. 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 half-year ended 31 December 2019 the Engineering Construction division contributed revenue of $273.4 million (2018: $331.6 million) and the Maintenance and Industrial Services division contributed revenue of $584.5 million (2018: $503.2 million). Included in the Engineering Construction division revenue is $5.9 million (2018: $4.3 million) of inter-entity revenue and $75.2 million (2018: $53.3 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;
- 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 service divisions have been aggregated to form one reporting segment.

10. CONTINGENT ASSETS AND LIABILITIES

Contingent assets and liabilities

There have been no changes in contingent assets and liabilities since the date of the last annual report.

Guarantees

	31 December 2019 $'000	30 June 2019 $'000
Guarantees given to various clients for satisfactory contract performance	**256,277**	209,925

11. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value hierarchy

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

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.

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

There were no material financial assets or liabilities measured at fair value at 31 December 2019 or 30 June 2019.

12. CAPITAL COMMITMENTS

The group has capital commitments related to the acquisition of plant and equipment of $10,774,457 at 31 December 2019 (2018: $17,908,207).

13. EVENTS AFTER BALANCE DATE

Dividends declared

On 17 February 2020, Monadelphous Group Limited declared an interim dividend on ordinary shares in respect of the 2020 financial year. The total amount of the dividend is $20,766,898 which represents a fully franked interim dividend of 22 cents per share. This dividend has not been provided for in the 31 December 2019 Financial Statements. The Monadelphous Group Limited Dividend Reinvestment plan will apply to the dividend.

Other than the items noted above, there are no matters or circumstances that have arisen since the end of the half-year ended 31 December 2019 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.

14. SHARE BASED PAYMENT

Performance Rights

During the period, 265,438 performance rights were granted by Monadelphous Group Limited under the Combined Reward Plan ("CR Plan"). 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 3.59% to 4.13% has been used in the calculation.

The weighted average fair value of performance rights granted in the period was $14.28.

For the half-year ended 31 December 2019, the Group has recognised $1,152,715 of share-based payment expense in the Income Statement (2018: $1,071,111) relating to performance rights issued under the CR Plan.

Options

During the period, 2,450,000 options were granted by Monadelphous Group Limited under the Employee Option Plan at an exercise price of $14.84. The exercise price of the options granted under the Employee Option Plan was calculated as the average closing market price of the shares for the five trading days up to and including 14 October 2019. The fair value of each option issued during the half-year was estimated on the date of grant using a Binomial option-pricing model. The following weighted average assumptions were used for grants during the half-year:

Dividend yield	3.72%
Expected volatility	25.0% - 30.0%
Historical volatility	25.0% - 30.0%
Risk-free interest rate	0.72%
Expected life of option	25% - 2 years
	25% - 3 years
	50% - 4 years

The dividend yield reflects an analysis of past dividends and future dividend expectations. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which also may not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The weighted average fair value of options granted in the period was $2.12.

For the half-year ended 31 December 2019, the Group has recognised $344,974 of share-based payment expense in the Income Statement (2018: $nil) relating to options issued under the Employee Option Plan.

15. BUSINESS COMBINATION

Acquisition of Buildtek SpA and Maq Rent SpA

On 14 November 2019, Monadelphous Group Limited acquired 75% of Chile-based construction and maintenance services contractor, Buildtek SpA ("Buildtek") and plant and equipment hire company, Maq Rent SpA ("Maq Rent"). The acquisitions form part of Monadelphous' market growth strategy.

The consideration comprised a cash payment for existing shares of $3,964,000 and a subscription for new shares of $5,343,000.

The provisional fair values of the identifiable assets and liabilities acquired from Buildtek and Maq Rent as of the date of acquisition were:

	Provisional fair value at acquisition date $'000
Cash	8,626
Trade and other receivables	13,077
Property, plant and equipment	3,611
Other	2,196
Total assets	27,510
Trade and other payables	6,340
Lease liabilities	908
Interest bearing loans and borrowings	6,481
Provisions	2,218
Total liabilities	15,947
Fair value of identifiable net assets	11,563
Attributable to non controlling interest (25%)	(2,891)
Goodwill arising on acquisition	635
Purchase consideration	9,307
Acquisition-date fair-value of consideration transferred:	
Cash paid	9,307
Total consideration	9,307
The cash outflow on acquisition is as follows:	
Net cash acquired with the business including cash contribution for subscription to new shares	8,626
Cash paid	(9,307)
Net consolidated cash outflow	(681)

Sales revenue and net profit from Buildtek and Maq Rent for the period since acquisition were not material.

Acquisition costs of $416,477 have been expensed in the period and are included in administrative costs in the Income Statement and are part of operating cashflows in the Statement of Cash Flows.

Key factors contributing to the $635,000 of goodwill are the synergies existing within the acquired business, and synergies expected to be achieved as a result of combining Buildtek and Maq Rent with the rest of the Group. The goodwill is not deductible for income tax purposes.

The non controlling interest has been determined based on a proportionate share of the net assets.

15. BUSINESS COMBINATION (continued)

At the date of acquisition, the Group obtained an option to acquire the remaining 25% of the shares on issue of Buildtek and Maq Rent in three years' time. Similarly, the existing holders of the remaining 25% have the option to require the Group to purchase the remaining shares on the same terms and conditions as the option held by the Group.

In relation to the option held by the minority shareholders, the Group has made an accounting policy choice to reclassify the non-controlling interest in these controlled entities as a liability at each reporting date until such time as the option is exercised or expires. The financial liability, representing the minority put and call option, has been recognised on the balance sheet with a corresponding adjustment to equity. Subsequent to initial recognition, changes to the carrying amount of the financial liability are also recognised directly in equity.

The financial liability was initially measured at fair value, being the present value of the estimated amount payable in three years time. The amount payable will be determined based on a multiple of the average annual earnings for the three years ending 31 December 2022.