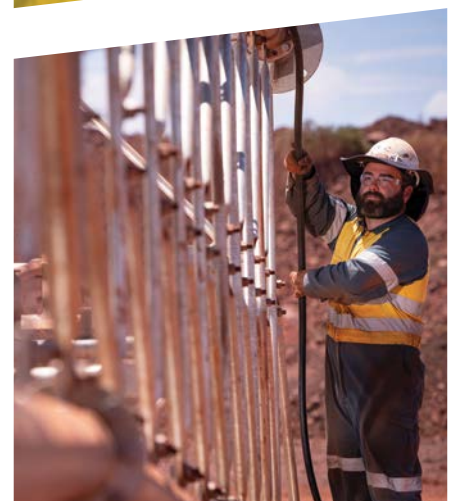


ANNUAL REPORT 2020

TOGETHER WE DELIVER



OUR PURPOSE



To build, maintain and improve our customers' operations through the reliable delivery of safe, cost-effective and customer-focused solutions.

Our Vision

Monadelphous will achieve long-term sustainable growth by being recognised as a leader in our chosen markets and a truly great company to work for, to work with and invest in.

We are committed to the safety, wellbeing and development of our people, the delivery of outstanding service to our customers and the provision of superior returns to our shareholders.

Our Competitive Advantage

We deliver what we promise.

Our Values

Safety and Wellbeing

We show concern and actively care for others. We always think and act safely.

Integrity

We are open and honest in what we say and what we do. We take responsibility for our work and our actions.

Achievement

We are passionate about achieving success for our customers, our partners and each other. We seek solutions, learn and continually improve.

Teamwork

We work as a team in a cooperative, supportive and friendly environment. We are open-minded and share our knowledge and achievements.

Loyalty

We develop long-term relationships, earning the respect, trust and support of our customers, partners and each other. We are dependable, take ownership and work for the Company as our own.

Cover Images

Top left: Monadelphous and BHP employees commemorating ANZAC Day 2020 at BHP's Mining Area C, Newman, Western Australia.

Middle left: A Monadelphous employee opening a valve at the Dungog Water Treatment Plant, Hunter Valley, New South Wales.

Bottom left: A Monadelphous employee at the Company's Employee Development Centre, a registered training organisation, Bibra Lake, Western Australia.

Middle: Monadelphous employees working at the Woodside-operated Karratha Gas Plant, Karratha, Western Australia.

Top right: A Monadelphous employee with a Mondium employee at Galaxy Resources' Mt Cattlin Yield Optimisation Project, Ravensthorpe, Western Australia.

Bottom right: A Monadelphous employee installing communication cables to the long-term evolution (LTE) tower at BHP's Jinglebar, Newman, Western Australia.



*This page
A Monadelphous employee installing
equipment to the long-term evolution
(LTE) tower at BHP's Jimblebar,
Newman, Western Australia.*

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About this Report

The purpose of this Annual Report is to provide Monadelphous' stakeholders, including shareholders, customers, employees, suppliers and the wider community, with information about the Company's performance during the 2020 financial year.

References in this Report to 'the year', 'the reporting period' and 'the period' relate to the financial year 1 July 2019 to 30 June 2020, unless otherwise stated. All dollar figures are expressed in Australian currency, unless otherwise stated.

Monadelphous Group Limited (ABN 28 008 988 547) is the parent company of the Monadelphous group of companies. In this Report, unless otherwise stated, references to 'Monadelphous', 'the Company', 'we', 'its', 'us' and 'our' refer to Monadelphous Group Limited and its subsidiaries.

Annual General Meeting

Shareholders are advised that the Monadelphous Group Limited 2020 Annual General Meeting will be held in person at The University Club, University of Western Australia, Crawley, Western Australia, and online via the Lumi software platform, on Tuesday, 24 November 2020 at 10am (AWST). Further details are included in the Notice of Meeting available on the Company's website at www.monadelphous.com.au.



Monadelphous employees on their way to the coal bunkers at Synergy's Muja Power Station, Collie, Western Australia.

ABOUT MONADELPHOUS

Monadelphous is an Australian engineering group headquartered in Perth, Western Australia, providing construction, maintenance and industrial services to the resources, energy and infrastructure sectors.

The Company builds, maintains and improves its customers' operations through safe, reliable, innovative and cost-effective service solutions. It aims to be recognised as a leader in its chosen markets and a truly great company to work for, work with and invest in.

Our History

Monadelphous emerged from a business which started in 1972 in Kalgoorlie, Western Australia, providing general mechanical contracting services to the mining industry.

The name Monadelphous was adopted in 1978 and by the mid-1980s the Company had expanded into a number of markets, both interstate and overseas, and its shares were traded on the second board of the Australian Stock Exchange.

In the late 1980s, a major restructure of the Company took place with the business refocusing on maintenance and construction services in the resources industry.

Monadelphous' shares were relisted on the main board of the stock exchange during the 1990 financial year and the Company established the foundation for sustained growth with a new management team.

The Company has continued to diversify and extend its reputation as a supplier of multidisciplinary construction, maintenance and industrial services to many of the largest companies in the resources, energy and infrastructure sectors.

Monadelphous' shares are included in the S&P/ASX 200 index.

Our Operations

Monadelphous has two operating divisions working predominately in Australia, with overseas operations in New Zealand, China, Papua New Guinea, Mongolia, the Philippines and Chile.

Engineering Construction

The Engineering Construction division provides large-scale multidisciplinary project management and construction services. These include fabrication, modularisation, procurement and installation of structural steel, tankage, mechanical and process equipment, piping, commissioning, demolition, water asset construction and maintenance, heavy lift, electrical and instrumentation, and engineering, procurement and construction services.

Maintenance and Industrial Services

The Maintenance and Industrial Services division specialises in the planning, management and execution of mechanical and electrical maintenance services, shutdowns, sustaining capital works, fixed plant maintenance services, access solutions, specialist coatings and rail maintenance services.

OUR SERVICES AND LOCATIONS

Monadelphous operates predominantly in Australia, with overseas operations in New Zealand, China, Papua New Guinea, Mongolia, the Philippines and Chile.

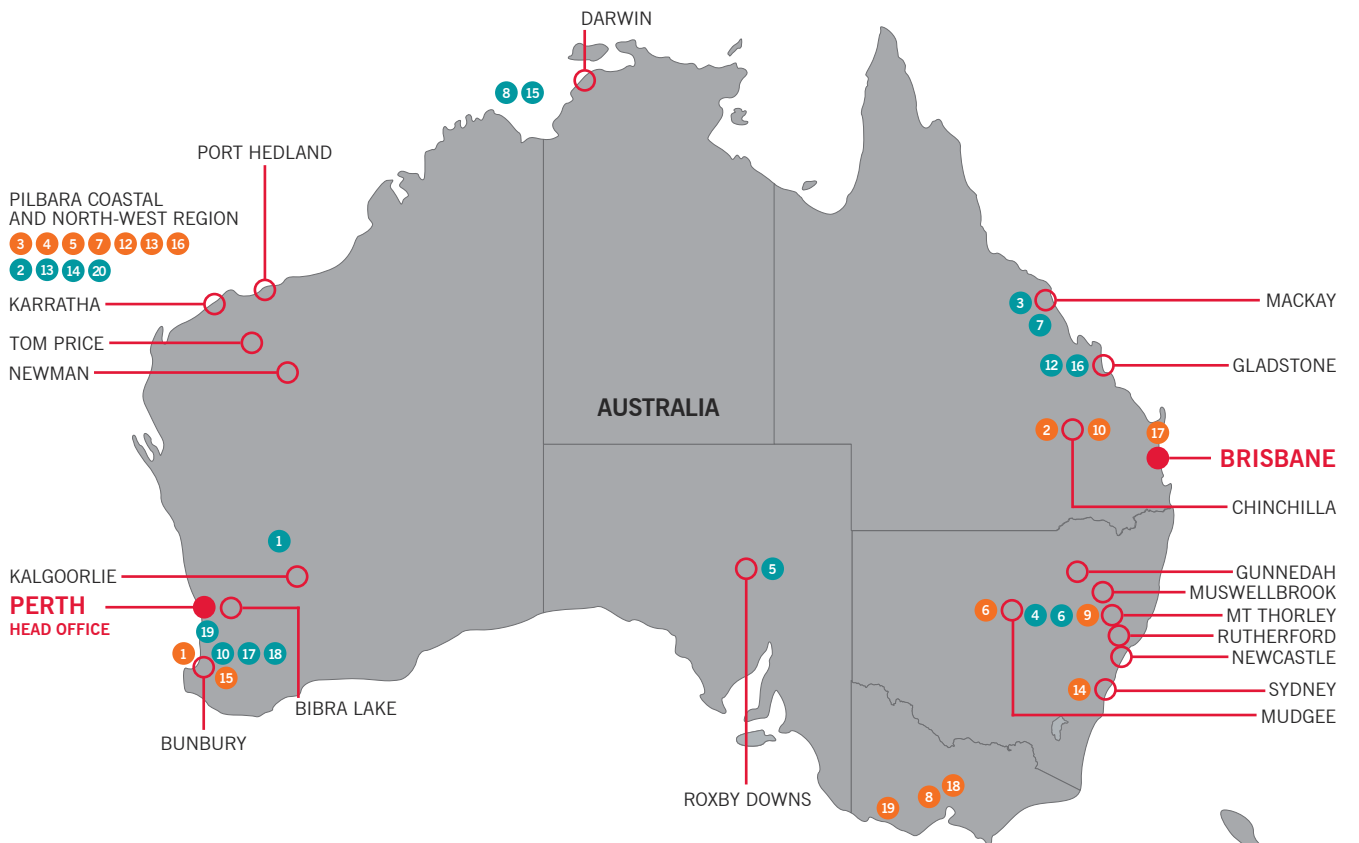
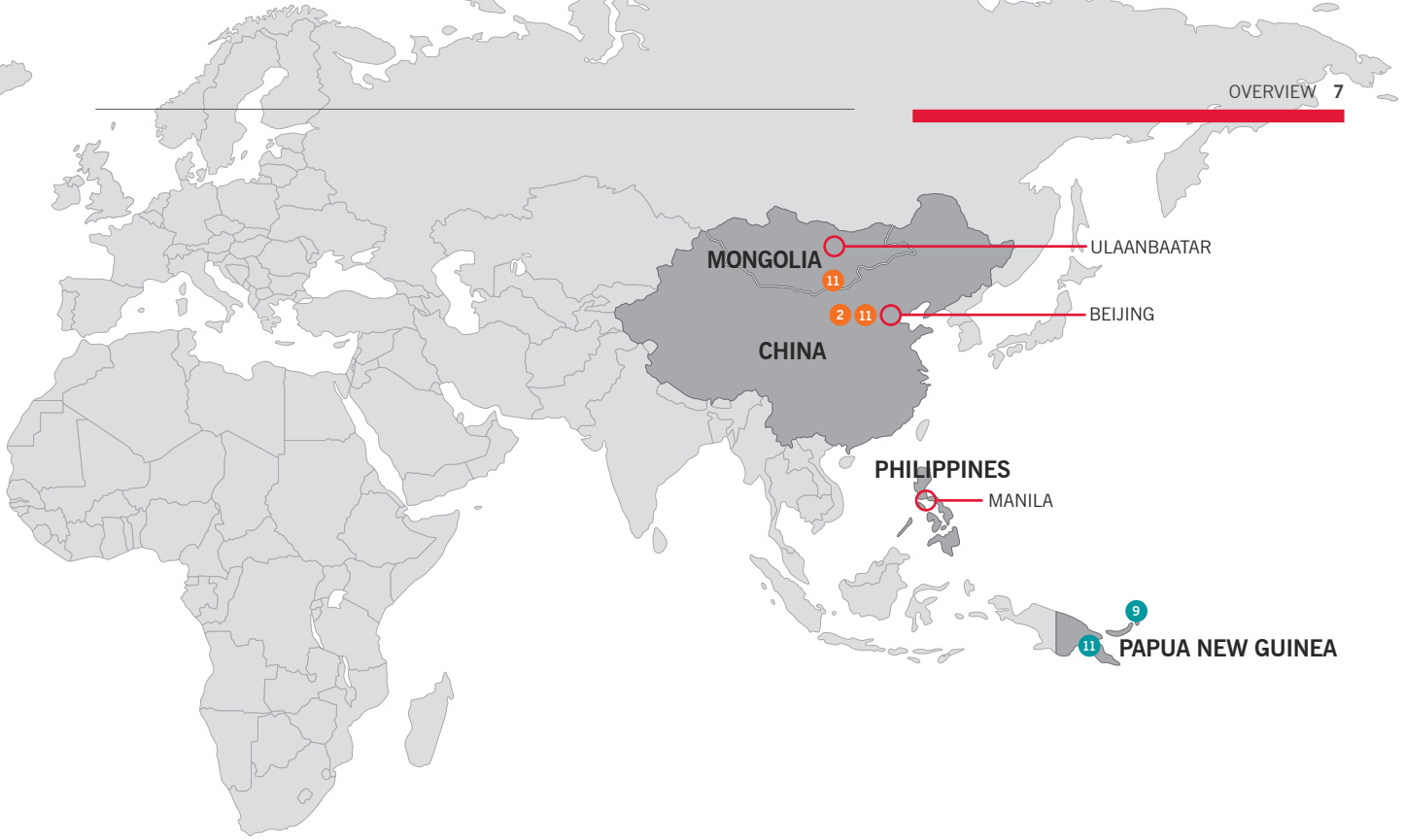


ENGINEERING CONSTRUCTION

| | | Market Sector |
|----|------------------------------------------------------------------------------------------------------------|------------------------------------|
| 1 | Albermarle Lithium - SMP and piping works | Lithium |
| 2 | Australia Pacific LNG - Skids supply, fabrication and assembly | Fabrication Services |
| 3 | BHP - South Flank - SMPE&I works for inflow infrastructure | Iron Ore |
| 4 | BHP - South Flank - SMPE&I works for outflow infrastructure | Iron Ore |
| 5 | BHP - WAI0 Asset Projects Panel - Various SMPE&I packages | Iron Ore |
| 6 | CWP Asset Management - Crudine Ridge Wind Farm - BOP works | Renewable Energy |
| 7 | Fortescue Metals Group - Crane services | Iron Ore |
| 8 | Goldwind Australia - Moorabool Wind Farm - BOP works | Renewable Energy |
| 9 | Hunter Water Corporation - Capital Works Design and Construct Panel | Water |
| 10 | Origin - Construction of Taliga Orana Gas Gathering Station | Oil and Gas |
| 11 | Oyu Tolgoi LLC - Oyu Tolgoi Underground Project - SMPE&I works, supply and fabrication of structural steel | Copper, Gold, Fabrication Services |
| 12 | Rio Tinto - West Angelas Deposits C & D Project - SMPE&I works | Iron Ore |
| 13 | Rio Tinto - Western Turner Syncline Phase 2 mine - D&C | Iron Ore |
| 14 | Sydney Water - Network delivery management and panel works | Water |
| 15 | Talison Lithium - D&C tailings retreatment processing plant | Lithium |
| 16 | thyssenkrupp Industrial Solutions (Australia) - South Flank - Construction of reclaimers and stackers | Iron Ore |
| 17 | Unitywater - Kawana Sewage Treatment Plant upgrade | Water |
| 18 | Vestas - Australian Wind Technology - Cherry Tree Wind Farm - EPC | Renewable Energy |
| 19 | Vestas - Australian Wind Technology - Dundonnell Wind Farm - EPC | Renewable Energy |

MAINTENANCE AND INDUSTRIAL SERVICES

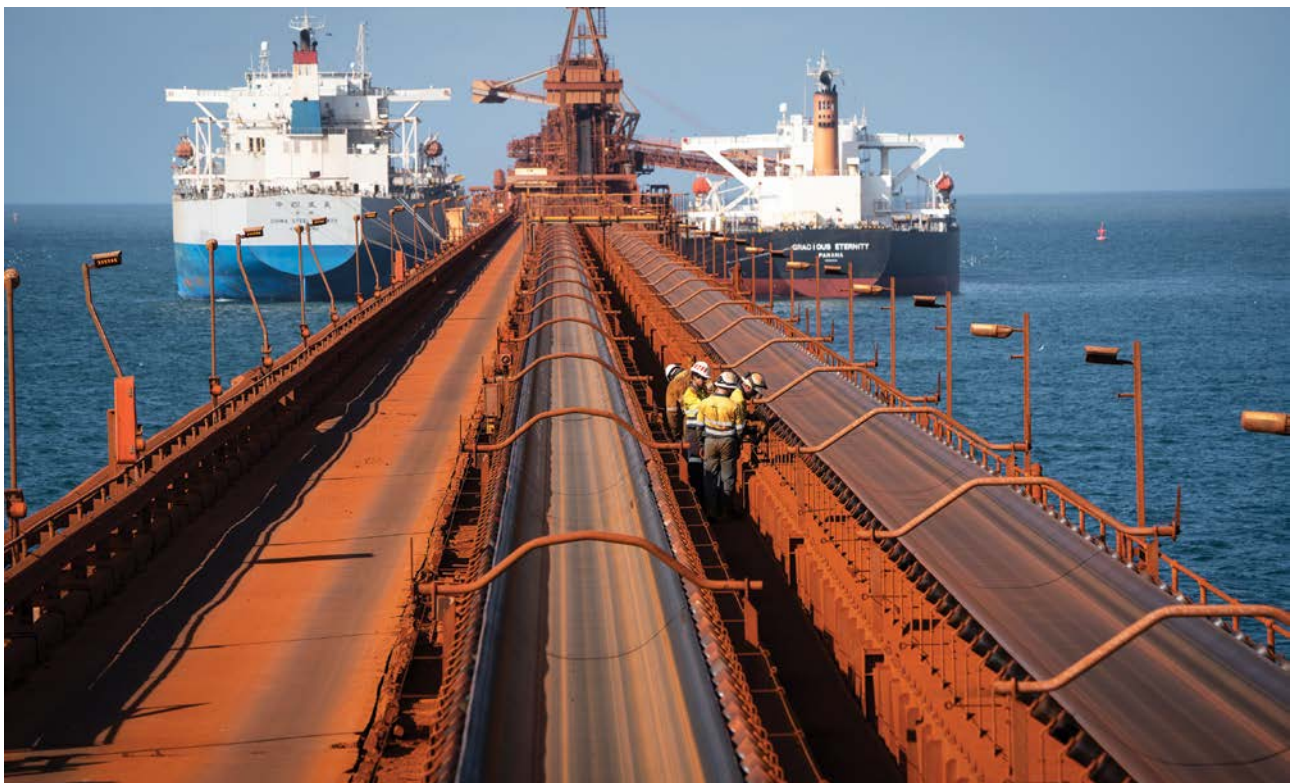
| | | Market Sector |
|----|----------------------------------------------------------------------------------|-----------------------|
| 1 | BHP - Maintenance and shutdowns | Nickel |
| 2 | BHP - Maintenance, shutdowns and sustaining capital works | Iron Ore |
| 3 | BHP Mitsubishi Alliance - Hay Point shutdown; maintenance and dragline shutdowns | Coal |
| 4 | BHP - Mount Arthur Coal - Shutdown maintenance and minor projects | Coal |
| 5 | BHP - Olympic Dam - Maintenance and shutdowns | Copper, Uranium, Gold |
| 6 | Glencore - Maintenance and dragline shutdowns | Coal |
| 7 | Incitec Pivot Limited - General mechanical and maintenance services | Ammonia |
| 8 | INPEX Operations Australia - Offshore maintenance services | Oil and Gas |
| 9 | Newcrest Mining - Maintenance works | Gold |
| 10 | Newmont Boddington - Mechanical shutdown and tank maintenance and refurbishments | Gold |
| 11 | Oil Search Limited - EPC services | Oil and Gas |
| 12 | Queensland Alumina Limited - Maintenance and projects | Alumina |
| 13 | Rio Tinto - Fixed plant maintenance and sustaining capital works | Iron Ore |
| 14 | Rio Tinto - Maintenance services for rail network | Iron Ore |
| 15 | Shell - Provision of services | Oil and Gas |
| 16 | Shell - Provision of services | Oil and Gas |
| 17 | South32 - Worsley Alumina Refinery - Shutdown and mechanical services | Alumina |
| 18 | Synergy - Collie Basin Coal Plant Infrastructure operation and maintenance | Power |
| 19 | Tronox - KMK - Cogeneration Plant operation and maintenance | Power |
| 20 | Woodside - Offshore and onshore maintenance services | Oil and Gas |



- MAJOR OFFICES & WORKSHOP LOCATIONS
- ENGINEERING CONSTRUCTION
- MAINTENANCE & INDUSTRIAL SERVICES

2019/20 HIGHLIGHTS

Monadelphous made good progress on its markets and growth strategy during the period, with the award of approximately \$1.2 billion of new contracts and contract extensions, while continuing to grow its service offering and geographical footprint.



Record revenue in Maintenance & Industrial Services

The Maintenance and Industrial Services division achieved record annual revenue for the third consecutive year, with strong demand for shutdown and maintenance services within the resources sector.

Entered the South American market

Acquired Chile-based maintenance and construction services contractor, Buildtek, an established operator with strong relationships with major customers in South America.



Engineering Construction achieved outstanding safety performance

Engineering Construction recorded its strongest safety performance in history, achieving zero recordable injuries in its resources business for 12 consecutive months, extending over more than three million hours worked.



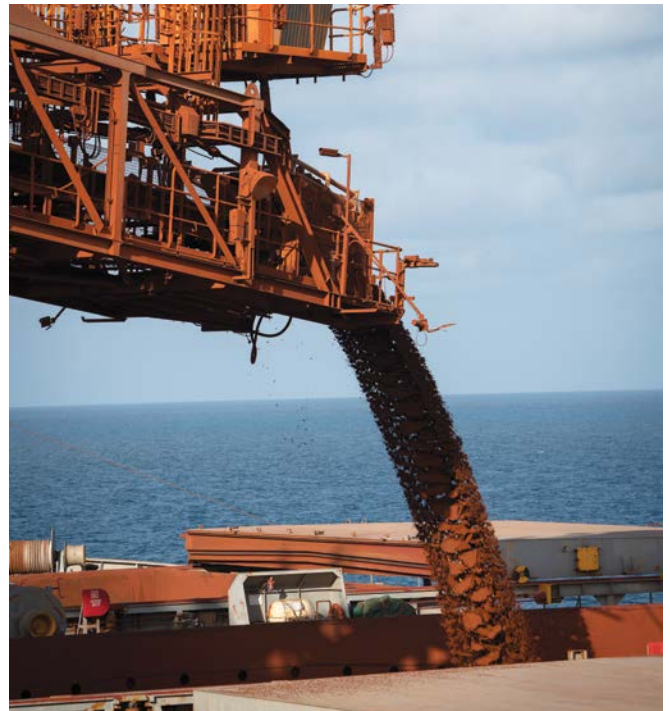
Broadened rail services

Extended its rail maintenance offering, securing a contract with Rio Tinto on its rail network in the Pilbara and expanding into the east coast of Australia.



Mondium secured strategically important contract win

Mondium secured a \$400 million engineering, procurement and construction contract with Rio Tinto for the Western Turner Syncline Phase 2 mine.

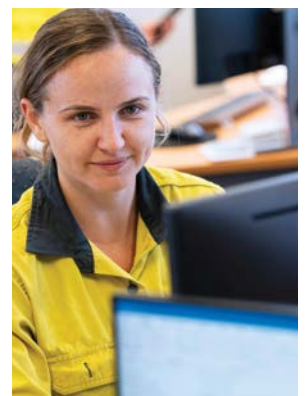


Significant contracts secured in iron ore

The Company secured a number of major construction contracts during the year, including Rio Tinto's West Angelas Deposits C and D Project and BHP's South Flank Project, as well as a long-term maintenance and turnaround contract at Rio Tinto's coastal iron ore operations.

Enhanced diversity and inclusion

Strong focus on improving female participation across the business through a number of key initiatives, and achieved and maintained the Company's Stretch Reconciliation Action Plan goal for Aboriginal and Torres Strait Islander employment.



PERFORMANCE AT A GLANCE

Revenue¹

\$1,650.8m

Net profit after tax

\$36.5m

Full year dividend

35.0c

Earnings per share

38.7c

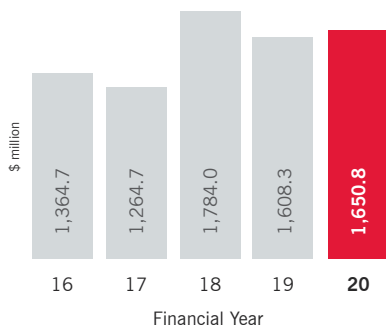
Contracts secured since beginning of 2020 financial year

\$1.2b

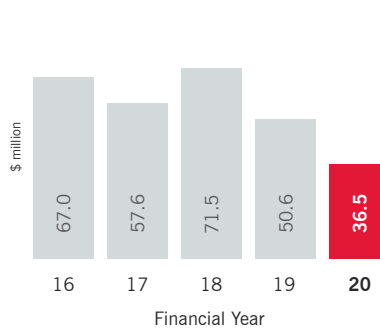
¹ Includes Monadelphous' share of joint venture revenue. Refer to reconciliation on page 20.

The financial information contained in this section should be read in conjunction with the Financial Statements and accompanying notes. Financial Statements are prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards Board and other relevant standards, as outlined on page 75.

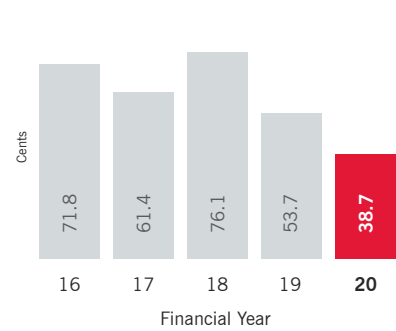
Revenue¹



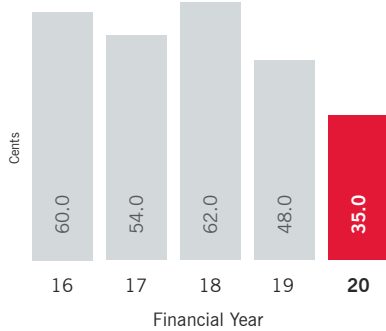
Net profit after tax



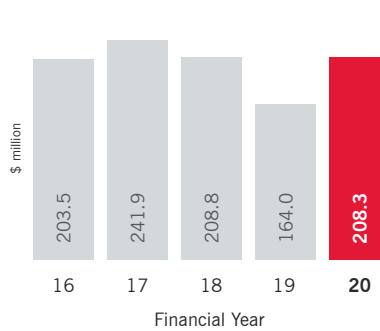
Earnings per share



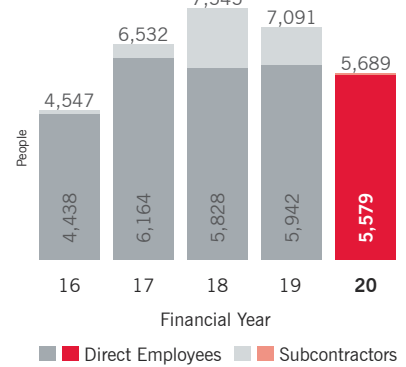
Dividends per share



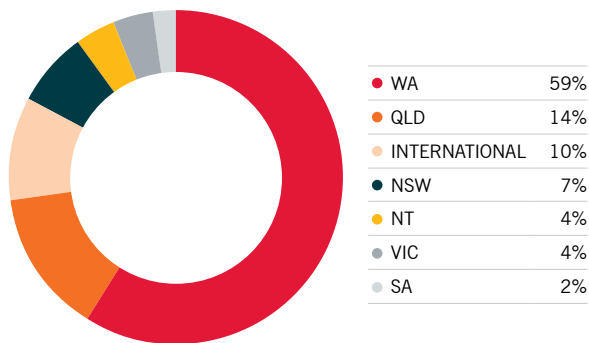
Cash



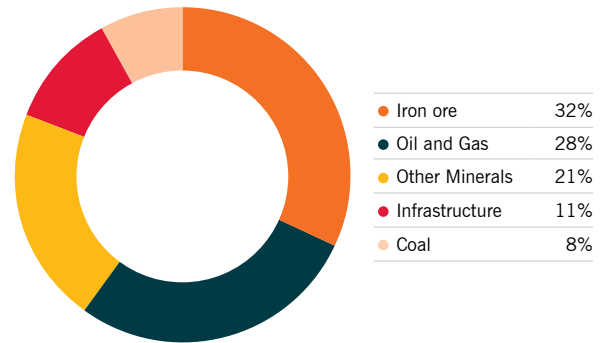
Workforce numbers



Revenue by geography



Revenue by end customer



Operations

- Maintenance and Industrial Services achieved a record revenue result, exceeding \$1 billion for the first time in the Company's history.
- Secured more than \$1.2 billion in new contracts and contract extensions.
- Strategic acquisition of Chile-based maintenance and construction services contractor, Buildtek.
- Mondium secured strategically important \$400 million engineering, procurement and construction contract with Rio Tinto.
- Expanded breadth of services in coal seam gas and rail.

Safety and wellbeing

- 12 month total recordable injury frequency rate improved 7.5 per cent to 3.72 incidents per million hours worked.
- Engineering Construction recorded its strongest safety performance in history in its resources business.
- Detailed assessment of safety governance practices, including reviewing minimum standards for control of fatal risks and further enhancing Health and Safety Management Standards.
- Developed and launched tailored COVID-19 safety, health and wellbeing campaigns.

People and culture

- Continued to focus on retention of key talent to support long-term, sustainable growth.
- Progressed gender diversity and Indigenous engagement initiatives.
- Implemented strategic sourcing initiatives.
- Reviewed succession planning activities to ensure future skill and capability requirements are met.

MARKETS AND GROWTH STRATEGY

Monadelphous will maximise growth and returns from its core markets, broaden its service offering, grow its presence in infrastructure markets and expand core services to overseas locations.

Maximise growth and returns from core markets

Progress

- Secured \$1.2 billion of new contracts and extensions since the beginning of the financial year.
- Mondium awarded \$400 million engineering, procurement and construction (EPC) contract with Rio Tinto.
- Progressed work on a number of major resource construction projects.
- Increased levels of maintenance services activity in the resources sector.

Priorities

- Capitalise on opportunities in iron ore and copper.
- Focus on innovation and productivity to deliver value for Monadelphous and its customers.
- Develop position in EPC market.

Broaden service offering

Progress

- Acquired coal seam gas specialist maintenance services provider, iPipe Services.
- Strengthened position in rail sector, acquiring Harbinger Infrastructure and securing Rio Tinto rail maintenance contract.
- Established stand-alone industrial services team in oil and gas.

Priorities

- Broaden service offering to existing customers.
- Pursue maintenance opportunities in light industrial sector.

Grow presence in infrastructure markets

Progress

- Strengthened Zenviron's reputation as a market leader in renewable energy.
- Progressed packages under Hunter Water Panel.
- Restructured Company's Water Infrastructure business.

Priorities

- Further enhance Zenviron's position in the Australian renewable energy market.

Expand core services overseas

Progress

- Expanded into Chile through the acquisition of maintenance and construction services company, Buildtek.
- Successfully completed packages of work at Oyu Tolgoi Underground Project in Mongolia.
- Continued to provide maintenance services to the resources and energy markets in Papua New Guinea.

Priorities

- Develop market presence in Chile and seek opportunities for expansion in Latin America.
- Assess further opportunities at Oyu Tolgoi Underground Project in Mongolia.
- Expand construction offering in Papua New Guinea.

*A Monadelphous employee
electrical fault finding a deluge
valve at Synergy's Muja Power
Station, Collie, Western Australia.*



CHAIRMAN'S REPORT

Total revenue for the financial year was \$1,650.8 million¹, a 2.6 per cent increase on the prior year, as a result of strong demand for maintenance, shutdown and sustaining capital services within the resources sector, particularly in the first half of the financial year, and the commencement of a number of large resource construction projects.



*Rio Tinto's West Angelas mine,
Newman, Western Australia.
Image courtesy of Rio Tinto.*

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$92.1 million². EBITDA for the first half of the financial year was \$59.1 million, with earnings for the second half significantly impacted by both the disruption caused by COVID-19, as well as disappointing levels of profitability experienced in the Water Infrastructure business. In May 2020, the Company announced several water projects approaching completion had experienced an escalation in contract disputes and declining profitability, resulting in a provision of \$14 million before tax for project underperformance and costs relating to a restructuring of the Company's Water Infrastructure business.

Net profit after tax for the period was \$36.5 million, with earnings per share of 38.7 cents.

The Board of Directors declared a final dividend of 13 cents per share, taking the full year dividend to 35 cents per share fully franked. This equates to a dividend payout ratio of approximately 91 per cent of reported net profit after tax. The Monadelphous Group Limited Dividend Reinvestment Plan applied to both interim and final dividend payments.

Monadelphous' balance sheet remains strong despite the recent challenging economic and operating conditions, ending the year with a cash balance of \$208.3 million. Cash flow from operations was \$119.1 million, resulting in a cash flow conversion rate of 151 per cent, with the Company experiencing a material improvement in its working capital position during the second half of the financial year.

¹ Includes Monadelphous' share of joint venture revenue. Refer to reconciliation on page 20.

² EBITDA – refer to reconciliation on page 20.



Monadelphous made good progress on its markets and growth strategy despite the interruption caused by COVID-19. The Company continued to maximise growth and returns from its core markets, broaden its service offering, grow its presence in infrastructure markets and expand core services to overseas locations.

In total, approximately \$1.2 billion of new contracts and contract extensions were secured since the beginning of the financial period, including major construction and maintenance contracts within the Company's core resources and energy markets.

The Company expanded its service offering through a number of strategic acquisitions totalling \$14.3 million, including iPipe Services, a specialist provider of pipeline solutions to the coal seam gas sector, Harbinger Infrastructure, a rail infrastructure maintenance service provider, and Buildtek, a Chile-based maintenance and construction services contractor. The strength of the Company's balance sheet enables it to invest in suitable business opportunities aligned to its markets and growth strategy as they arise.

Mondium, the Company's engineering, procurement and construction (EPC) joint venture, was awarded its largest contract to date, advancing its position in the Australian minerals processing sector. The Mondium EPC delivery model encompasses full project development and direct execution, significantly reducing interface risks between EPC disciplines and providing a more cost-effective solution to customers.

Since inception in 2016, the Company's renewable energy business, Zenviron, has completed work on six wind farms, with a further two currently in progress. Additionally, subsequent to year end, Zenviron secured a contract to deliver the Murra Warra Stage II Wind Farm in regional Victoria.

Internationally, the Company continued to provide services to customers in Papua New Guinea, Mongolia, Chile and New Zealand.

Monadelphous entered the South American market through the acquisition of Buildtek, an established, well recognised service provider, which has strong relationships with major resources and energy customers. The services provided by Buildtek are similar to those provided by Monadelphous, and the acquisition delivers a foundation for growth in Latin America.

On behalf of the Board, I would like to thank our stakeholders for their ongoing support, including our shareholders and customers. I would also like to commend our team which has shown great understanding, resilience and loyalty throughout the COVID-19 pandemic. Even in these uncertain times, our team has proven collectively, we deliver what we promise.

John Rubino
Chairman

MANAGING DIRECTOR'S REPORT



The Company continues to be recognised as a leader in its chosen markets, securing more than \$1.2 billion in new contracts and contract extensions since the beginning of the 2020 financial year, ensuring a strong pipeline of work for 2021 and beyond.

The Maintenance and Industrial Services division achieved a record revenue performance for the third year in a row and exceeded \$1 billion of annual revenue for the first time in the Company's history. Activity levels in the resources sector remained strong, particularly in the first half, falling in the second half due to the outbreak of COVID-19 and a softening of commodity prices.

The second half of the financial year was significantly affected by the economic and social impact resulting from the spread of COVID-19, as well as the necessary measures implemented by the Company, its customers and governments across the globe to manage the risk posed to human life.

The measures implemented to prevent the spread of COVID-19 significantly impacted the Company's operating environment, resulting in the delay, suspension, deferral and reduction of services across a broad range of the Company's projects and worksites, and the temporary deferral of potential new contract awards. The Company estimates that approximately ten per cent of its annual revenue has been deferred into subsequent financial periods.

Customers reduced non-essential work and delayed discretionary expenditure, particularly in fly-in, fly-out operations, with supply chain issues causing delays on several large construction projects. Continuing operations progressed slower than expected due to the implementation of a wide variety of health risk management practices and,

combined with an underutilisation of the Company's fleet of plant and equipment, resulted in materially disrupted productivity levels.

Monadelphous has taken, and continues to take, a significant number of proactive measures to ensure its long-term sustainability and to protect the safety and wellbeing of its employees and the communities in which it operates.

Early in 2020, the Company established a dedicated team to monitor, assess and provide daily guidance to the business on the ever-changing course of events relating to COVID-19 and the impact that it was having on the business. The taskforce, working in partnership with customers globally, took advice from government agencies and recognised health organisations. Detailed health risk management protocols were prepared and implemented across the business in response to the risk posed by the virus, and to assist in the management of any potential or active cases which may arise.

A significant number of financial sustainability measures were implemented, including a targeted cost reduction and cash protection plan to ensure the Company operated as productively and profitably as possible during such challenging times. To support this initiative, the Chairman, Non-Executive Directors and I agreed to a 30 per cent salary and fee reduction for a six month period, with the Executive and General Management teams agreeing to salary reductions between ten and 20 per cent for the same period.



The Company's disciplined and prudent financial management practices resulted in a strong cash flow from operations for the financial year and a strengthening of the balance sheet.

With precautionary measures gradually being lifted by governments in some parts of Australia, and demand from customers steadily improving, the business has seen a stabilisation and slow recovery over recent months. The Company continues to monitor the situation and adapt its response plans accordingly.

On 31 July 2020, Monadelphous was notified that Rio Tinto had filed a Writ of Summons in the Supreme Court of Western Australia against one of Monadelphous' wholly owned subsidiaries, Monadelphous Engineering Associates Pty Ltd (MEA). The claim has been made by Robe River Mining Co Pty Ltd and Pilbara Iron Pty Ltd (on behalf of the Robe River joint venture) in respect of a fire incident which occurred at Rio Tinto's iron ore processing facility at Cape Lambert, Western Australia (WA), on 10 January 2019.

MEA had been performing maintenance shutdown services prior to the fire commencing, and Rio Tinto has alleged that MEA was in breach of the maintenance contract, thereby causing the fire. Although the writ does not specify any damages, Rio Tinto has separately informed MEA that its claim is for \$493 million in loss and damage. This amount comprises \$35 million in material damage costs associated with the re-construction of the Sinter Fines processing facility, and \$458 million for a

temporary operating solution and business interruption losses arising from the alleged inability to process iron ore during the period of re-construction of the facility.

MEA denies Rio Tinto's allegations and claimed losses (which MEA considers have not been substantiated). Further, the contract between Rio Tinto and MEA, which governed the maintenance work performed by MEA, contains exclusions and limitations of liability which will be relied upon by MEA in defence of the claim. MEA has public liability insurance in place with a total limit of \$150 million which provides cover for property damage claims and associated losses. Monadelphous is unaware of any reason why the insurance policies would not respond to indemnify MEA for liability it may have to Rio Tinto. Along with its insurers and their legal representatives, MEA intends to fully defend Rio Tinto's legal action.

The Company remains committed to working with Rio Tinto to seek a satisfactory outcome in this matter.

On 7 March 2020, we announced with great sadness that our teammate and colleague Haydyn Grubb had been fatally injured following a serious incident at the Company's Kalgoorlie services facility. The Company has taken a range of measures since the incident to understand what happened and has implemented actions to prevent a similar incident in future. Monadelphous continues to provide support to Haydyn's family, friends and colleagues. Haydyn will live long in our memory.

Monadelphous' 12-month total recordable injury frequency rate at 30 June 2020 had improved 7.5 per cent to 3.72 incidents per million hours worked.

Engineering Construction

The Engineering Construction division reported revenue of \$615.9 million¹, in line with the previous period, with supply chain issues resulting from COVID-19 causing delays on several large construction projects.

With an improved outlook and confidence in the resources sector, especially towards the end of 2019, the division secured approximately \$640 million in new contracts and contract extensions since the beginning of the financial year, including approximately \$80 million subsequent to year end.

In the Pilbara region of WA, Monadelphous commenced a major construction contract with Rio Tinto associated with the West Angelas Deposits C and D Project, as well as a contract with thyssenkrupp Industrial Solutions (Australia) at BHP's world-class US\$3.6 billion South Flank Project, adding to its two existing multidisciplinary construction contracts at the Project.

Mondium was awarded a strategically important \$400 million engineering, procurement and construction (EPC) contract with Rio Tinto for the Western Turner Syncline Phase 2 Project, in the Pilbara.

Monadelphous commenced work on a major construction contract at MARBL Lithium Joint Venture's Kemerton lithium hydroxide plant in the south-west region of WA, which includes the delivery of structural, mechanical and piping work. The work is expected to be completed in 2021.

The Company's renewable energy joint venture, Zenviron, continued to strengthen its position in the market, completing works during the year on the Moorabool North, Moorabool South, Cherry Tree and Lal Lal wind farms in regional Victoria.

The division's unrelenting commitment to safety resulted in its resources business achieving its strongest safety performance in history.

Maintenance and Industrial Services

The Maintenance and Industrial Services division achieved a record revenue performance of \$1,049.8 million, up 5.1 per cent on the previous year, on the back of a significant increase, especially in the first half, in shutdown and maintenance work across the resources sector.

The division continued to build on its long-term relationships with major iron ore producers in the Pilbara, securing a number of maintenance contracts with both Rio Tinto and BHP, including a major five-year contract with Rio Tinto at its coastal operations, and the appointment for a further two years to BHP's Western Australian Iron Ore Site Engineering Panel to provide services at its mine and port operations.

In the oil and gas sector, Monadelphous continued to provide services under its existing onshore and offshore maintenance contracts at the Woodside-operated gas production facilities on the Burrup Peninsula and offshore, WA, on the INPEX-operated Ichthys LNG offshore processing facilities, as well as in joint operation with Worley for EPC services to Oil Search at the oil and gas production and support facilities in the Highland region of Papua New Guinea. The Company also continued to provide services to Shell in Queensland and WA.

The division broadened its maintenance service offering and strengthened its capabilities to provide customers with a full turnkey maintenance service solution. To support this strategy, the Company acquired iPipe Services early in the period, and established a stand-alone industrial services team to provide specialist services to oil and gas customers.

It also continued to build its rail maintenance capability, expanding to the east coast of Australia with the acquisition of Harbinger Infrastructure's business and assets, and securing a three-year rail maintenance contract with Rio Tinto on its Pilbara rail network.

Overseas, the division expanded its geographical footprint with the purchase of Chile-based maintenance and construction services contractor, Buildtek, providing opportunities for growth in Latin America.

¹ Includes Monadelphous' share of joint venture revenue.

Outlook

While the global economic outlook in the wake of COVID-19 remains uncertain, the resources sector is expected to provide a steady flow of opportunities over coming years.

With a strong iron ore price and demand from China actively ramping back up, the outlook for Australian iron ore investment remains solid.

The resumption of a number of Chilean copper projects, which were suspended or deferred due to the outbreak of COVID-19, are expected to provide opportunities for the Company to grow its position in the South American market.

The effect of declining global demand on the oil and gas sector has resulted in delays in the development of new LNG projects, with customers reducing operating costs and deferring non-essential work in the short-term.

The long-term outlook for renewable projects is positive. Investment in this sector has eased in the short-term however, as the industry focuses on the development of improved grid access and transmission capacity.

Maintenance activity is expected to recover slowly from the effects of COVID-19 and will continue to be impacted by domestic travel restrictions and physical distancing requirements in the short-term, particularly in the oil and gas sector. In the longer-term, demand for maintenance services is expected to grow on the back of aging assets and customers deferring non-essential work in prior periods.

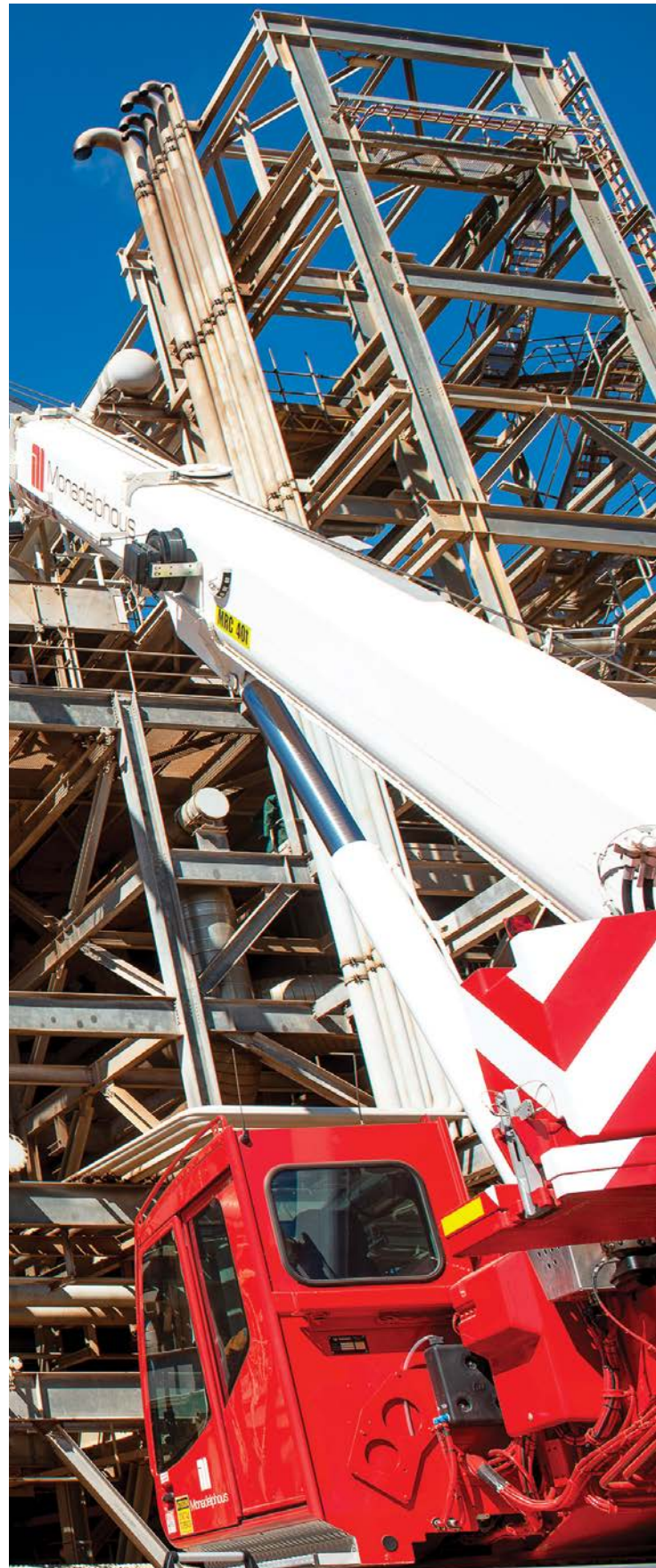
The Company has entered the new financial year with a solid forward workload. The short to medium-term financial performance of the business will be dependent on the extent and duration of the impact to the Company's operational activity and productivity levels resulting from the spread of COVID-19.

Monadelphous' reputation as a leader in its chosen markets, its long-standing commitment to the delivery of safe, reliable and cost competitive service solutions, as well as its swift and decisive response to the outbreak of COVID-19 means the Company is well positioned to capitalise on opportunities and deal with the challenges ahead.



Rob Velletri
Managing Director

*Monadelphous all-terrain crane
working at the Woodside-operated
Karratha Gas Plant, Karratha,
Western Australia.*



COMPANY PERFORMANCE

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

| | 2020 \$'000 | 2019 \$'000 | 2018 \$'000 | 2017 \$'000 | 2016 \$'000 |
|------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 1,488,749 | 1,479,737 | 1,737,632 | 1,249,085 | 1,368,849 |
| EBITDA | 92,077 | 106,791 | 119,046 | 98,184 | 113,630 |
| Profit before income tax expense | 55,086 | 83,426 | 102,845 | 82,664 | 95,610 |
| Income tax expense | 17,860 | 31,313 | 30,570 | 24,144 | 28,702 |
| Profit after income tax expense attributable to equity holders of the parent | 36,483 | 50,565 | 71,479 | 57,563 | 67,014 |
| Basic earnings per share | 38.65c | 53.72c | 76.11c | 61.41c | 71.77c |
| Interim dividends per share (fully franked) | 22.00c | 25.00c | 30.00c | 24.00c | 28.00c |
| Final dividends per share (fully franked) | 13.00c | 23.00c | 32.00c | 30.00c | 32.00c |
| Net tangible asset backing per share | 402.43c | 413.93c | 415.86c | 398.23c | 390.64c |
| Total equity and reserves attributable to equity holders of the parent | 384,433 | 393,436 | 394,481 | 377,393 | 368,995 |
| Depreciation | 30,570 | 19,490 | 17,222 | 17,892 | 21,094 |
| Debt to equity ratio | 11.9% | 9.7% | 5.3% | 3.6% | 4.8% |
| Return on equity | 9.5% | 12.9% | 18.1% | 15.3% | 18.2% |
| EBITDA margin | 5.6% | 6.6% | 6.7% | 7.8% | 8.3% |

The comparative information has not been restated following the adoption of AASB 16 and continues to be reported under the previous accounting policy. Refer to note 33 to the financial statements for further details.

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 Total Revenue from Contracts with Customers including Joint Ventures to Statutory Revenue from Contracts with Customers (unaudited): | 2020 \$'000 | 2019 \$'000 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Total revenue from contracts with customers including joint ventures | 1,650,768 | 1,608,277 |
| Share of revenue from joint ventures ¹ | (163,375) | (131,008) |
| Statutory revenue from contracts with customers | 1,487,393 | 1,477,269 |

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): | 2020 \$'000 | 2019 \$'000 |
|--------------------------------------------------------------------------------------|----------------|----------------|
| Profit before income tax | 55,086 | 83,426 |
| Interest expense on loans and hire purchase finance charges | 1,753 | 1,930 |
| Interest expense on other lease liabilities ² | 1,941 | - |
| Interest revenue | (1,171) | (2,269) |
| Depreciation of owned and hire purchase assets | 22,608 | 19,490 |
| Depreciation of right of use assets ² | 7,962 | - |
| Amortisation expense | 644 | 1,306 |
| Share of interest, depreciation, amortisation and tax of joint ventures ³ | 3,254 | 2,908 |
| EBITDA | 92,077 | 106,791 |

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.



Woodside-operated Pluto LNG Plant, onshore gas plant, Karatha, Western Australia. Image courtesy of Woodside.

BOARD OF DIRECTORS



Left to right: Helen Gillies, Dietmar Voss, John Rubino, Chris Michelmore, Rob Velletri, Peter Dempsey, Sue Murphy AO.



John Rubino Chairman

John was appointed to the Board on 18 January 1991. John was the founder of United Construction which later became diversified services company UGL.

Initially serving as Managing Director and Chairman of Monadelphous Group Limited, John resigned as Managing Director on 30 May 2003 and continued as Chairman. John has 54 years of experience in the construction and engineering services industry.



Rob Velletri Managing Director

Rob was appointed to the Board on 26 August 1992 and commenced as Managing Director on 30 May 2003. He joined Monadelphous in 1989 as General Manager after serving a ten year career in engineering and management roles at Alcoa. Rob is a mechanical engineer with 41 years of experience in the construction and engineering services industry and is a Corporate Member of the Institution of Engineers Australia.



Peter Dempsey Lead Independent Non-Executive Director

Peter was appointed to the Board on 30 May 2003. During his 30 year career at Baulderstone, now part of the multinational group Lendlease, Peter held several management positions prior to serving as Managing Director for five years. He is a civil engineer with 48 years of experience in the construction and engineering services industry throughout Australia, Papua New Guinea, Indonesia and Vietnam. Peter is a Fellow of the Institution of Engineers Australia and a member of the Australian Institute of Company Directors. Peter is also currently a Director of Service Stream Limited (ASX: SSM).



Helen Gillies Independent Non-Executive Director

Helen was appointed to the Board on 5 September 2016 and has previously served as a Director of global engineering company Sinclair Knight Merz and the Australian Civil Aviation Safety Authority. She has a strong background in risk, law, governance and finance, as well as extensive experience in mergers and acquisitions, and has 24 years of experience in the construction and engineering services industry. Helen holds a Master of Business Administration and a Master of Construction Law, as well as degrees in commerce and law. She is a Fellow of the Australian Institute of Company Directors. Helen is also currently a Director of Yancoal Australia Limited (ASX: YAL).



Chris Michelmore Independent Non-Executive Director

Chris was appointed to the Board on 1 October 2007. He was formerly a Director of Connell Wagner, having served 36 years with the company, which now trades globally as Aurecon. Chris is a civil and structural engineer with 48 years of experience in the construction and engineering services industry throughout Australia, South East Asia and the Middle East. Chris is a Fellow of the Institution of Engineers Australia.



Sue Murphy AO Independent Non-Executive Director

Sue was appointed to the Board on 11 June 2019. During her 25 year career at Clough, she held a wide range of operational and leadership roles before being appointed to the Board as a Director in 1998. Sue joined the Water Corporation of Western Australia in 2004 as General Manager of Planning and Infrastructure, before being appointed as Chief Executive Officer, a role she held for over a decade. Sue has 41 years of experience in the resources and infrastructure industries. She holds a Bachelor of Civil Engineering and is an Honorary Fellow of the Institution of Engineers Australia.



Dietmar Voss Independent Non-Executive Director

Dietmar was appointed to the Board on 10 March 2014. During his career, Dietmar has worked for a number of global mining and engineering businesses, including BHP, Bechtel and Hatch throughout Australia, the United States, Europe, the Middle East and Africa. He is a chemical engineer with 46 years of experience in the oil and gas, and mining and minerals industries. Dietmar holds a Master of Business Administration in addition to chemical engineering and law degrees and is a member of the Australian Institute of Company Directors.




ENGINEERING CONSTRUCTION

Our Progress

Recorded revenue of \$615.9 million and secured \$640 million of new contracts since beginning of financial year.

Work continued on several large resources construction projects.

Mondium secured strategically important \$400 million EPC contract.



Monadelphous' 600 tonne and 400 tonne crawler cranes lifting the stacker conveyor boom into final position, supported by the gantry system, at BHP's South Flank Project, Newman, Western Australia.

The Engineering Construction division provides large-scale multidisciplinary project management and construction services.

The division reported revenue of \$615.9 million¹, in line with the previous year, with supply chain issues resulting from COVID-19 causing delays on several large construction projects. Well established relationships and a track record for delivering large-scale multidisciplinary projects assisted the division in securing approximately \$640 million worth of new contracts since the beginning of the financial year, including approximately \$80 million subsequent to year end.

Strong progress was made on the Company's markets and growth strategy; capitalising on iron ore opportunities, expanding its engineering, procurement and construction (EPC) delivery through Mondium, and delivering a strong performance from its renewable energy business, Zenviron.

Work continued on the division's two construction contracts at BHP's South Flank Project associated with the inflow and outflow infrastructure, and during the year the division secured a further contract at South Flank with thyssenkrupp for multidisciplinary works

associated with the assembly of the world's largest ore handling stockyard machines, comprising a reclaimer and two stackers.

Mondium accelerated its growth, securing its largest EPC contract to date, a \$400 million contract with Rio Tinto for the Western Turner Syncline Phase 2 mine, in the Pilbara region of Western Australia (WA).

During the year, the division's resources business recorded its strongest safety performance in its history with a consistent and focused approach to safety culture, targeted frontline engagement and supervisor training and resources.

The division continued to progress its digitalisation strategy, implementing construction materials tracking to ensure its project teams have access to the right materials at the right time, as well as establishing a purpose-built virtual reality room to inspect construction models in an interactive environment and collaborate in real-time with customers.



A Zenviron employee at Lal Lal Wind Farm in regional Victoria.

¹ Includes Monadelphous' share of joint venture revenue.



Major lifts completed by Monadelphous' 750 tonne crawler crane at BHP's South Flank Project, Newman, Western Australia.

CASE STUDY

BHP's South Flank

The South Flank Project will be BHP's single largest iron ore mine, by production, that has ever been developed, with the largest iron ore mining and processing facility BHP has built in its more than 50 years of mining in the Pilbara. It will also be one of the world's most technologically advanced mines.

With three separate construction packages awarded to date, Monadelphous will help create history in partnership with BHP, delivering structural, mechanical, piping and electrical and instrumentation works associated with the Project's inflow and outflow infrastructure, and on the world's largest rail mounted stackers and reclaimer. The contracts, which have a combined value of more than \$240 million, are expected to be completed in mid-2021.

Resources

The division made good progress on its resources projects during the year, despite experiencing supply chain delays resulting from COVID-19.

In August 2019, Monadelphous was awarded a major construction contract with Rio Tinto, including offshore fabrication through SinoStruct, associated with the West Angelas Deposits C and D Project, located in the Pilbara. The contract, valued in excess of \$100 million, includes the supply and installation of structural, mechanical, piping and electrical and instrumentation works associated with the construction of new iron ore facilities, as well as modifications to existing plant. Work commenced during the year, with the scope extended to include local fabrication in light of COVID-19 related supply chain issues, and is expected to be completed in 2021.

The division also secured a major construction contract at MARBL Lithium Joint Venture's Kemerton lithium hydroxide plant in the south-west region of WA. Under the contract, Monadelphous will deliver the pyromet structural, mechanical

and piping package of work, as well as associated piping fabrication. Since award, the division has made significant progress on the scope of work which is expected to be completed in 2021. The division's safety performance on the project has been commended by the customer with two safety awards secured to date.

Monadelphous executed a number of projects under the BHP Western Australian Iron Ore panel agreement, providing structural, mechanical, piping and electrical and instrumentation works across BHP's Pilbara-based mines and assets. Three projects were completed during the period, including Jimblebar Stretch Assist 2, CD2 Dust Collector Replacement Project and Jimblebar Screens Replacement, and a further four contracts were awarded. Post year end, the Company secured a contract for the Port Availability Improvement Project to provide multidisciplinary brownfield modification works to conveyers and transfer chutes across the Nelson Point and Finucane Island facilities, with work expected to be completed in the second half of the 2021 calendar year.



A 250 tonne crawler crane unloading module 153 at Origin's Talinga Orana Gas Gathering Station, Chinchilla, Queensland.

After two years onsite, Monadelphous' work at Rio Tinto's Oyu Tolgoi Underground Project in Mongolia was completed in early 2020. The Oyu Tolgoi Project remains strategically important for Monadelphous, with the Company continuing to operate its office in Ulaanbaatar, with further project opportunities expected to come to market in the near future.

Mondium

Mondium, the division's EPC joint venture with Lycopodium, continued to establish itself as a preferred and trusted provider of EPC services with the award of a major contract with Rio Tinto for the design and construction of the Western Turner Syncline Phase 2 mine in WA.

Mondium also commenced work on its contract with Talison Lithium for the design and construction of a new tailings retreatment processing plant at its Greenbushes mine site in the south-west region of WA, completing earthworks and civil works during the year.

The Mondium EPC delivery model encompasses full project development and direct execution, significantly reducing interface risks between EPC disciplines and providing a more cost-effective solution to customers.

Energy

At the beginning of the financial year, the division secured a contract for the construction of the Talinga Orana Gas Gathering Station for Origin near Chinchilla, Queensland. The project was successfully completed in March, ahead of schedule. The strategically important project showcased Monadelphous' fully integrated delivery capability, encompassing fabrication, earthworks, civils, structural, mechanical, piping and electrical and instrumentation for the dual train gas gathering station.

Heavy Lift

Demand for the Company's specialist heavy lift service offering remained high, securing scope expansions and one-year extensions to two existing Fortescue Metals Group fixed plant maintenance and shutdown crane services contracts at its Solomon Hub and Port operations in the Pilbara.

The Heavy Lift business also provided equipment and services on several major Monadelphous construction projects and supported the delivery of Maintenance and Industrial Services contracts, including a crane services contract at several Woodside-operated gas production facilities on the Burrup Peninsula and offshore, WA.

Fabrication Services

SinoStruct, the Company's fabrication business, delivered a number of packages for repeat customers, including under a long-standing service agreement with Origin for the supply and fabrication of wellhead skids, and for works associated with Rio Tinto's Oyu Tolgoi Underground Project in Mongolia.

SinoStruct also supported the delivery of a number of key Monadelphous and Mondium construction projects, including Rio Tinto's West Angelas Project and Western Turner Syncline Phase 2 mine, as well as Origin's Talinga Orana Gas Gathering Station.

At the end of the financial year, SinoStruct closed its fabrication workshop in Houston, United States, due to a reduction in opportunities resulting from a decline in the oil price and the impact of COVID-19. SinoStruct continues to pursue global fabrication opportunities where value from its local and offshore capability and capacity can be realised.

Infrastructure

Zenviron

Zenviron continued to grow its presence in the renewable energy market and is now firmly established as a full service balance of plant contractor of choice for wind farms in Australia.

During the period, work was completed on four wind farms across regional Victoria, including balance of plant works for Goldwind Australia's Moorabool North and Moorabool South wind farms and for Vestas - Australian Wind Technology at the Cherry Tree and Lal Lal wind farms.

In addition, significant progress was made on the Dundonnell Wind Farm for Vestas - Australian Wind Technology near Mortlake, Victoria, and on CWP Renewables' Crudine Ridge Wind Farm, south of Mudgee, New South Wales (NSW).

Subsequent to year end, Zenviron secured a contract with General Electric International Inc to deliver the Murra Warra Stage II Wind Farm in regional Victoria. It is expected that Zenviron will perform approximately \$80 million of works under the contract, delivering balance of plant civil and electrical works.

Water Infrastructure

Under the Hunter Water Corporation Complex Capital Works Design and Construct Panel program in NSW, construction was completed on a package of work at the Dungog Water Treatment Plant, with work progressing well on the Wyee Backlog Sewer Scheme which is expected to be completed by the end of 2020. Work continued on Sydney Water's Network and Facilities Renewal Program in NSW and on the Kawana Sewage Treatment Plant on the Sunshine Coast, Queensland.

During the second half, Monadelphous experienced an escalation in contract disputes and disappointing levels of profitability on several water projects approaching completion. After undertaking a strategic review of its Water Infrastructure business in Australia and New Zealand, the Company decided to discontinue its operations in New Zealand and consolidate its east coast engineering construction operations to reduce costs and improve the quality of earnings from the water sector.

Outlook

The resources sector is expected to provide a solid pipeline of construction opportunities over coming years. With a strong iron ore price and demand from China actively ramping back up, the outlook for Australian iron ore investment remains solid.

Mondium continues to establish itself as an EPC leader in the Australian minerals processing sector. Its performance to date, and backing from both joint venture partners, ensures it is well-placed to capitalise on EPC projects within its core markets as they come to market.

Growth in international markets remains a key strategic focus, particularly in Mongolia, China, South America and Papua New Guinea.




MAINTENANCE AND INDUSTRIAL SERVICES

Our Progress

Third consecutive record annual revenue performance of \$1.05 billion.

Strong demand for maintenance, shutdown and sustaining capital work across the resources sector.

Strategic acquisitions in coal seam gas, rail and Chile.



Monadelphous employees preparing for idler changeout at Cape Lambert, Pilbara region, Western Australia.

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

Strong demand for maintenance, shutdown and sustaining capital services within the resources sector, particularly in the first half of the year, contributed to the division achieving a record revenue performance for the third consecutive year of \$1,049.8 million, up 5.1 per cent on the previous year.

Since the beginning of the financial year, the division secured approximately \$515 million of new contracts and contract extensions, including approximately \$60 million subsequent to year end. It broadened the range of services delivered to

existing and new customers and continued to expand its geographical footprint, both within Australia and overseas.

This included continuing to strengthen its marine, civil, fabrication and corrosion management capabilities in order to provide customers with a full turnkey service solution. Additionally, new workshop facilities were established in Bunbury, Western Australia (WA), and workshop facilities acquired last financial year in Newman, WA, Chinchilla, Queensland and Mudgee, New South Wales (NSW) were further embedded.



Image courtesy of Newcrest Mining Limited.

CASE STUDY

Newcrest Mining Limited's Lihir Gold Mine

Newcrest Mining Limited's Lihir Gold Mine is located on Niolam Island, 900 kilometres north-east of Port Moresby in the New Ireland Province of Papua New Guinea (PNG). The Mine, which consists of three linked open pits, Minifie, Lienetz and Kapit, uses conventional open pit mining methods.

During the period, the Company was awarded an evergreen contract, with an expanded scope, at the Mine providing minor capital project services, including civil, mechanical, structural, piping and blast and paint. Monadelphous has been providing services at Lihir Island since 2017.

The award reflects the Company's position as a leading maintenance and brownfield project service provider in PNG, with a strong safety record and local content strategy, having provided services in the region since 2007.

Monadelphous employees on their way to a work front at the Ship Loader 2 at Cape Lambert, Pilbara region, Western Australia.

Resources

The division capitalised on its strong relationships with major iron ore producers in the Pilbara.

A number of contracts were secured with Rio Tinto, including a major five-year contract for the provision of mechanical and scaffolding fixed plant maintenance and shutdown services at its coastal iron ore operations and a three-year contract for the provision of maintenance services and minor projects on its Pilbara marine infrastructure.

In addition, the division was awarded a number of contracts with BHP for upgrades to existing conveyor equipment, power switching and stackers at Mining Area C mine.

Monadelphous was appointed for a further two years to BHP's Western Australian Iron Ore Site Engineering Panel providing civil, structural, mechanical, piping and marine services at BHP's mine and port operations in the Pilbara region of WA. Subsequent to year end, the Company secured two contracts under this panel agreement, firstly for the supply and installation of the Jimblebar Transfer Station, and for the refurbishment of Car Dumper 3 at Nelson Point, Port Hedland, WA.

The division secured a further three-year contract for the supply of shutdown and mechanical services at South32's Worsley Alumina Refinery in Collie, WA, as well as 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, WA.

In the east, the division secured a three-year contract for general mechanical and maintenance services as part of Incitec Pivot's scheduled turnarounds for its Queensland manufacturing facilities, a rope access and tank inspection contract at Rio Tinto's Yarwun alumina refinery near Gladstone in Queensland and a minor capital project services contract, which includes civil, mechanical, structural, piping and blast and paint services at Newcrest Mining's gold mining operations on Lihir Island in PNG.



During the year, the Company executed a number of major shutdowns in Queensland with both BHP Mitsubishi Alliance at the Hay Point Coal Terminal in Mackay and with Incitec Pivot at Gibson Island in Brisbane.

Monadelphous continued to build its rail infrastructure and rolling stock maintenance support service offering, expanding its services into the east coast through the purchase of Harbinger Infrastructure's business and assets. The purchase secured a five-year contract with Australian Rail Track Corporation (ARTC) for services on its Hunter Valley rail network in NSW.

The division further strengthened its presence in the rail sector with the award of a three-year rail maintenance contract with Rio Tinto on its privately-owned rail network in the Pilbara. The contract includes general track maintenance and renewals services on the coastal component of the rail network and rail workshop services.

Energy

In the oil and gas sector, the division continued to provide services under its existing onshore and offshore maintenance contracts at the Woodside-operated gas production facilities on the Burrup Peninsula and offshore, WA, on the INPEX-operated Ichthys LNG offshore processing facilities, as well as in joint operation with Worley for engineering, procurement and construction services to Oil Search at the oil and gas production and support facilities in the Highland region of PNG. The Company also continued to provide services to Shell in Queensland and WA.

The Company continued to grow its oil and gas service offering, enhancing equipment preservation services in Darwin and providing support from its logistics operations in Perth, WA. It also established a stand-alone industrial services team, providing services to customers, including fabric maintenance and ultra-high-pressure blasting services, and continued to grow its rope access capability, which is now a leader in the market.

South America

Overseas, the Company acquired Chile-based maintenance and construction services contractor, Buildtek, and plant and equipment hire company, MAQrent. Buildtek provides multidisciplinary construction and maintenance services to the mining sector in Chile. It has facilities in Antofagasta, Rancagua and Calama, and a head office in Santiago. MAQrent provides a range of plant, machinery and equipment for hire to Buildtek and external customers in the construction sector.

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 offered by Monadelphous and provide a foundation for Monadelphous' growth in Latin America.

Outlook

Activity in the maintenance sector is expected to recover slowly from the impact of COVID-19 and will continue to be impacted by domestic travel restrictions and physical distancing requirements in the short-term, particularly in the oil and gas sector. In the longer-term, demand for maintenance services is expected to grow on the back of aging assets and customers deferring non-essential work in prior periods.



A Monadelphous employee installing equipment in the equipment shelter at BHP's Jimblebar, Newman, Western Australia.





A Monadelphous employee hears from students of the Graham (Polly) Farmer Foundation's Bunbury Follow the Dream Program.

SUSTAINABILITY

Our Progress

Engineering Construction division recorded its strongest safety performance in history.

Implemented strategic sourcing initiatives and reviewed succession planning.

Retention and attraction initiatives continue to be a focus as the labour market tightens across the resources sector.

Focused on improving Indigenous and female participation by proactively identifying job and development opportunities.

At Monadelphous, sustainability involves retaining and attracting a values-aligned and highly competent workforce, ensuring their safety and wellbeing, maintaining strong customer relationships, being environmentally responsible, and leaving a positive legacy within the local communities in which the Company operates.

People

The Company's unique, values-based culture, which has been built over almost 50 years, is driven by the collective experience, knowledge and behaviour of its people.

This culture influences the way things are done and how decisions are made at Monadelphous, and contributes to the Company being able to 'deliver what we promise'.

At year end, the Company directly employed 5,579 employees, a decrease of almost six per cent from 30 June 2019 and 14 per cent from December 2019. Total workforce numbers at 30 June 2020, including subcontractors, were 5,689.

Safety and wellbeing

On 7 March 2020, we announced with great sadness that our teammate and colleague Haydyn Grubb had been fatally injured following a serious incident at the Company's Kalgoorlie services facility in Western Australia (WA). The Company has taken a range of measures since the incident to understand what happened and has implemented actions to prevent a similar incident in future. Monadelphous continues to provide support to Haydyn's family, friends and colleagues. Haydyn will live long in our memory.

To support the Company's commitment to zero harm, the Company undertook a detailed assessment of its safety governance practices during the period, including reviewing its minimum standards for the control of fatal risks, and further enhancing its Health and Safety Management Standards.

The Engineering Construction division recorded its strongest safety performance in history, achieving zero recordable injuries in its resources business for 12 consecutive months, extending over more than three million hours worked. The Maintenance and Industrial Services division's performance was supported by the roll-out of the division's safety behavioural framework, with all employees expected to have participated in training by September 2020.

Overall, Monadelphous' 12-month total recordable injury frequency rate (TRIFR) improved 7.5 per cent to 3.72 incidents per million hours worked by the end of the financial year.

Monadelphous remains committed to zero harm, executing work in line with its safety philosophy of 'The Safe Way is the Only Way'.

Retention of talent

The Company continues to focus on the retention and development of its people, as well as the attraction of the right people to support its markets and growth strategy. This culture of leadership and talent development, supported by retention initiatives that foster an 'owner's mindset', are critical to the ongoing delivery of outstanding service to the Company's customers and the provision of superior returns to its shareholders.

During the year, the Company reviewed talent management and succession planning across the business to ensure it has the critical skills and capabilities required. In addition, to support key talent retention, employee equity participation was encouraged through the Company's employee equity incentive programs, aligning the interests of employees and shareholders.

The Company's retention and development initiatives will become increasingly important as the labour market tightens across the resources sector.

Developing our people

Employee Development Centre

The Company's Employee Development Centre, a registered training organisation (RTO 52582) based in Bibra Lake, WA, delivered over 4,000 high quality training interactions for trades personnel throughout the year, including high risk work licence training accreditation and verification of competency for the Company's workforce.

Certificate IV and Diploma of Leadership and Management

More than 20 employees completed their Certificate IV or Diploma of Leadership and Management during the year, a reduction in comparison to last year as a result of COVID-19. These courses aim to inspire positive change in behaviours relating to leadership and encourage creativity to develop and implement innovative solutions that address workplace challenges.

Monadelphous employees completing floor replacement work on a conveyor walkway at Newmont Boddington, Bannister, Western Australia.

Certificate IV and Diploma of Project Management

Introduced at Monadelphous in early 2019, this course provides a sound theoretical knowledge base for current and aspiring project managers who are looking to further their range of specialised technical and managerial competencies. During the year, almost 40 employees completed either their Certificate IV or Diploma of Project Management.

Live the Behaviours

The Live the Behaviours Program was introduced in late 2019, enabling participants to learn about and ultimately 'live' the key leadership behaviours critical to success at Monadelphous. The program afforded 37 employees the opportunity to practice, learn and acquire key leadership behaviours in an immersive learning environment.

Emerging Leaders Program

The Emerging Leaders Program, which centres on behavioural leadership, provides the foundation for high-performing individuals who are new to, or on the cusp of, leadership roles, to develop their leadership capabilities to match the requirements of the business. During the year, 27 emerging leaders participated in the program.

Leading at Monadelphous Program

Nominated by the Company's Executive Management Team, 14 employees participated in the Leading at Monadelphous Program during the year. Participation in the Program is intended to enhance leadership capability and ensure business sustainability through leadership self-awareness and innovative thinking.





Monadelphous employees at the Company's Employee Development Centre, a registered training organisation, Bibra Lake, Western Australia.

Attraction of future talent

Graduate Development Program

The Monadelphous Graduate Development Program provides graduates with a variety of career pathways through rotations and additional learning and development opportunities. During the year, approximately 100 graduates were engaged on the Program across various disciplines, including engineering, construction management, human resources, accounting and health, safety, environment and quality. Almost 25 per cent of engineering appointments to the 2020 Graduate Program were female.

Apprenticeship program

In late 2019, the Company launched a Group-wide apprentice attraction campaign, which contributed to an increase in apprentices across the business in 2020. Monadelphous is currently supporting almost 60 apprentices in their journey to becoming fully qualified boilermakers, mechanical fitters, electricians and heavy-duty mechanics. In support of its focus on diversity, 20 per cent of these apprentices are female and 16 per cent are Indigenous. While some apprentices work fly-in-fly-out from Perth, WA, or Brisbane, Queensland, more than 50 per cent are locally employed in regional towns, such as Karratha, Newman, Kalgoorlie and Bunbury in WA, Roxby Downs in South Australia and Gladstone in Queensland.

Strategic sourcing

Monadelphous experienced strong demand for personnel in the resources sector in the first half of the year and continued to implement a number of strategic sourcing initiatives, including the use of its specialist, in-house resourcing team to target potential candidates for senior, strategic roles and positions in high demand across the industry.

Technological workforce attraction and engagement solutions

Attracting talent remains a key priority and has seen Monadelphous invest in a range of new technologies.

Project Phoenix, a project focused on replacing the Company's recruitment and onboarding systems, commenced during the period. The Project will ensure Monadelphous can continue to source, select and mobilise new talent efficiently and effectively. Further, Project Phoenix will deliver enhanced line-of-sight to internal talent, enabling improved redeployment and development opportunities.

During the year, the Company launched an employee application (app), MonaWork. The app is designed to improve the employee experience by giving employees greater access to job and mobilisation information, as well as the ability to manage their own work schedule.

In addition, the Company continues to leverage new technologies, including augmented learning technologies, as a means for proactively identifying candidates.

Diversity and inclusion

Monadelphous remains committed to retaining and attracting a workforce where people of all backgrounds, skills and cultures are able to work together collaboratively and contribute equally, inspiring them to reach their full potential and contribute to the long-term success of the business.

Indigenous engagement

Monadelphous recognises and respects the traditional owners of the land upon which it operates and considers culture and heritage an important part of its business.

The Company continued to make significant progress on targets set out in its Stretch Reconciliation Action Plan 2017 – 2020. Significantly, the Company reached Indigenous ‘Employment Parity’, achieving its goal of three per cent Indigenous employment for the first time in August 2019. Actions aimed at sustaining this level longer-term continue to be implemented.

Another major highlight during the period was the provision of employment opportunities to more than 70 Indigenous jobseekers and maintaining this employment for a period of

more than six months as part of Monadelphous’ participation in the Australian Government’s Employment Parity Initiative. The program, which was launched in 2015, aims to increase the participation level of Indigenous employees in Australian businesses. Last financial year, Monadelphous committed to creating 200 new Indigenous jobs over four years.

Monadelphous’ commitment to developing sustainable relationships with new and existing Aboriginal and Torres Strait Islander businesses continued with the launch of the Company’s second Indigenous Business Directory, an index of the Indigenous businesses that are active within the Monadelphous enterprise resource planning system and which have completed all necessary pre-qualifications. This year around 20 new Indigenous businesses were added to the Directory, across civil, medical pre-employment, labour hire and weld integrity services.

Finally, leaders from across Monadelphous’ eastern region businesses were invited to partake in a cultural immersion program at the Mudjee waterhole in Queensland in late 2019. The program provided leaders with the opportunity to immerse themselves in Aboriginal culture, viewing historical sites and spending time participating in open and honest conversations about perceptions and challenges.

CASE STUDY

Graham (Polly) Farmer Foundation partnership

Long-term, sustainable partnerships with Indigenous businesses and community groups continue to be a key focus for Monadelphous. During the year, a new partnership was established with the Graham (Polly) Farmer Foundation for 2020. The partnership will support high school students in the south-west region of WA through the Follow the Dream program. It will also support the establishment of the Living the Dream program across Australia, supporting alumni students from all Graham (Polly) Farmer Foundation Follow the Dream programs as they enter the workforce.

In addition to the partnership agreement, Monadelphous continued to support the Foundation’s Newman Follow the Dream program, introducing an after-school engagement activity for students. The engagement activity is designed to help promote trades roles and related career avenues by allowing students to enhance their mechanical skills and gain hands-on experience in a fun and friendly environment.



A Monadelphous employee attending the launch of the Company's partnership with the Graham (Polly) Farmer Foundation.

Gender diversity and inclusion

Monadelphous' commitment to gender diversity and inclusion saw a continued focus on the retention and attraction of women throughout the year, in line with targets set in its Gender Diversity and Inclusion Plan 2018 – 2020, launched last financial year.

The Plan focuses on the three core areas of retention, attraction and education in order to enable strategic, sustainable and meaningful change at Monadelphous.

Actions include the promotion of science, technology, engineering and mathematics (STEM) as a career path, and education to challenge stereotypes that exist within the industries in which the Company operates. The Plan also details the Company's ongoing commitment to targets of no greater than ten per cent attrition of key female talent per annum and an intake of at least 20 per cent female engineers into the Company's Graduate Development Program.

To support gender diversity and inclusion, the Company focused on the promotion of job opportunities to female candidates. In addition, more than 20 per cent of participants in the Company's key development programs, its Emerging Leaders and Leading at Monadelphous programs, were female. This was supported externally by the Company's participation in a number of women in leadership, mining, oil and gas and technology events, encouraging female participation within the sectors.

Monadelphous presented its 2019/20 Workplace Gender Equality Report, which can be found on the Workplace Gender Equality Agency and Monadelphous websites.

Innovation and productivity

The Company remained focused on enhancing productivity and safety through process standardisation, system optimisation and the implementation of robotics and automated solutions.

The Company continues to build on its Innovation Framework, leveraging insights from learnings across the business and ongoing monitoring of the external technology landscape. The Framework guides Monadelphous' approach to innovation, providing strategic direction and governance structures to direct and focus the Company's efforts.

To support collaboration, the Company hosted quarterly senior leadership innovation sessions and monthly innovation forums and continued to utilise and promote engagement in its Innovation Ideas Hub, including to aid in the collation of cost reduction ideas during the COVID-19 response.

Remaining focused on delivering value for Monadelphous and its customers through innovation and the application of technology, the Company extended the use of data visualisation tools across the business. These included linking multiple data sources to provide enhanced, real-time reporting and measurement with high levels of accuracy, developing and launching a digital employee application to improve engagement with its workforce, establishing a virtual reality room in the Perth office to support 3D model interpretation, and expanding its in-house drone capability by obtaining a remote operator certificate (ReOC).



A Monadelphous employee mechanically inspecting a Franna Boom at BHP's South Flank.

During the year, the Company's in-house developed remote-controlled vehicle, known as 'The Prospector', which was designed to conduct skirt inspections and detect wear, damage or faults to the skirts and chute liners, was nominated as a finalist in the 2019 Pinnacles Award for Innovation Excellence.

Community

Monadelphous remains committed to contributing positively to society and the communities in which it operates. Its social value activities focus on four strategically important areas: diversity, community, education and environment.

During the period, the Company participated in more than 50 community initiatives, including establishing a major partnership with the Graham (Polly) Farmer Foundation and continuing its partnership with the University of Western Australia's Girls in Engineering program in support of its commitment to workforce diversity. In addition, sponsorships, donations and employee volunteering activities included supporting the Neon Fun Run in Port Hedland, WA, the GWABA Football Carnival in Bunbury, WA, the Deadly Jobs Expo in Perth, WA, the Shire of East Pilbara NAIDOC Week concert in Newman, WA, the World Festival of Magic in Kalgoorlie, WA, the Sarina Rugby League Football Club in Mackay, Queensland, and Arid Recovery in Roxby Downs, South Australia.

In early 2020, Australia experienced devastating bushfires across the country. Monadelphous employees generously came together to raise funds, donate goods and services and volunteer their time in support of those affected.

Similarly, the Company and its employees rallied together through the COVID-19 pandemic, supporting the local medical community by sourcing essential personal protective equipment and donating it to frontline medical personnel.

Environment

Monadelphous understands the importance of the natural environment in which it operates and is committed to environmental sustainability through the diligent management of the activities it undertakes, including the identification and mitigation of risks to the natural environment. This is achieved through leadership, resources, processes, education and a demonstrable commitment to the Company's environmental policy.

Ensuring compliance with customer requirements and environmental legislation and regulation is critical to maintaining a reputation as a contractor of choice. The Company's history of zero serious environmental incidents continued this year, in line with its commitment to zero harm.

The move towards a low-carbon economy will continue to influence change in a number of industries within which the Company operates. Monadelphous remains committed to the ongoing monitoring of its environmental risk profile, taking into consideration the impacts of climate change on its business and strategy and developing innovative climate change solutions in an effort to reduce emissions and energy consumption within its operations and those of its customers. The Company is undertaking a review of its exposure to climate change risks with reference to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

Recognising the importance of alternative sources of energy, Monadelphous continued to grow its footprint in the renewable energy sector through Zenviron. Since its establishment, Zenviron has been involved in the construction of nine wind farms, comprising a total of 425 wind turbines with generation capacity of 1,601 MW. This represents power for 927,000 homes and the displacement of 5.1 million tonnes of carbon dioxide each year. To date, 294 turbines are complete and in operation, with 131 turbines under construction.

During the period, Monadelphous completed its scope of work on the Malpas Dam project in Armidale, New South Wales (NSW), which forms part of the NSW Government's and Armidale Regional Council's drought proofing plan.

CASE STUDY

Automated welding machine

It's part of Monadelphous' innovation culture for teams to come together to identify better ways of undertaking work tasks, particularly those which are highly manual and time consuming. In previous years, this has resulted in innovations such as the Company's remote-controlled, skirt inspection vehicle, The Prospector, and conveyor idler change out equipment, the Idler Slider.

During the year, a similar approach was undertaken at the Company's Gladstone operations in Queensland. The team developed an innovative solution for welding pure nickel overlay in pipework elbows, a task which previously took almost 200 hours to complete. The solution, an automated welding machine, is fondly known as 'Boris' and saves the team almost 160 hours of work each time they complete the task. Importantly, it also reduces manual handling risks and prevents employees from being exposed to heat for extended periods of time.

Carbon footprint

Monadelphous recognises the need to conduct its operations in an environmentally responsible manner. The Company's overall carbon footprint is deemed small, but it continues to look for ways to reduce its emissions.

Carbon emissions data is monitored for environmental planning, legislative requirements and sustainability reporting purposes. This involves the collection of data relating to fuel use, energy consumption and indirect emissions. The Company has voluntarily engaged in greenhouse gas monitoring and reporting, highlighting efforts to minimise its carbon footprint.

Energy usage is predominantly in the areas of gases for welding processes and fuel used in vehicles, and plant and equipment required for the execution of services.

Monadelphous undertakes greenhouse and energy reporting under the National Greenhouse and Energy Reporting Act. For the year ended 30 June 2020, reportable scope 1 and 2 carbon emissions (CO₂e) were equivalent to 15.5kt, down 20 per cent compared to the prior year, and significantly below the legislative reporting threshold of 50kt of CO₂e. Total scope 1, 2 and 3 emissions were 22.1kt of CO₂e, down 31 per cent on the prior year. The Company routinely collects and monitors carbon reporting data and has assessed that its current reporting is appropriate for all stakeholders in consideration of the risks, impacts and costs of reporting, and is consistent with the principles of the ESG Reporting Guide for Australian Companies (2015).

Governance

The Board of Directors of Monadelphous Group Limited is responsible for establishing the Company's corporate governance framework with regard to the ASX Corporate Governance Council Principles and Recommendations. The Board guides and monitors the business and affairs of Monadelphous on behalf of its shareholders, by whom they are elected and to whom they are accountable. The Company has in place charters, policies and procedures which support the framework to ensure a high standard of governance is maintained.

Monadelphous' full Corporate Governance Statement, Board and Sub-Committee charters and the Company's governance policies, are published on the Company's website.

Monadelphous has exposure to a number of material economic, environmental and social sustainability risks which are identified and managed within the Group's Risk Management Framework. These risks, and the Company's approach to their management, are disclosed in the Company's Corporate Governance Statement.

Monadelphous has been certified to ISO 9001 quality management systems, and AS/NZS 4801 and ISO 45001 for occupational health and safety management systems.

Mitigation of environmental risks includes the maintenance and implementation of a certified environmental management system (ISO 14001) to ensure sustainable work practices and monitoring and minimising environmental impacts as far as practicable.

Code of Conduct

The Monadelphous values form the foundation of a way of life that stands the Company apart from all others. They represent what the Company stands for and provide a basis for appropriate standards of behaviour. The Company's Code of Conduct is underpinned by the Company values and provides guidance on the expected behaviour of all employees, so that decisions and actions reflect the highest standards of conduct.

During the year, the Code of Conduct was reviewed and enhanced for updates associated with the whistleblower protection regime and the Australian Modern Slavery Act. The Company also formalised its policy on human rights, articulating its commitment to operating in accordance with the United Nations (UN) Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights. Monadelphous does not accept any form of modern slavery in the conduct of its own operations and its supply chain and is committed to ensuring that all workers are treated fairly, ethically and with respect. This is also reflected in the Monadelphous Supplier Code of Conduct, which outlines minimum expectations of the conduct of its suppliers in the areas of human rights, including compliance with laws on employment practices, zero use of forced or compulsory labour and equal opportunity in employment, as well as health and safety, environmental impacts, business integrity and ethics. A number of processes were updated during the year to address the requirements of the Australian Modern Slavery Act and improve the identification and mitigation of modern slavery risks in the Company's operations and supply chain. The Company is committed to monitoring and improving these processes on an ongoing basis.

The Company has an integrity hotline service, facilitated by an independent service provider, where employees, contractors and members of the public can report instances of actual or suspected unethical or unlawful conduct associated with Monadelphous operations.

A Monadelphous employee and all-terrain crane working at the Woodside-operated Karratha Gas Plant, Karratha, Western Australia.



A Monadelphous employee contacting operations to discuss coal movements at Synergy's Muja Power Station, Collie, Western Australia.

FINANCIAL REPORT

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DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2020.

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 54 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 41 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 48 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 48 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 24 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 41 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 20 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 15 years experience in the construction and engineering services industry |

DIRECTORS' REPORT

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 | 2,119,776 | 19,545 |
| P. J. Dempsey | 78,000 | Nil |
| C. P. Michelmores | 50,000 | Nil |
| D. R. Voss | 2,852 | Nil |
| H. J. Gillies | 8,571 | Nil |
| S. L. Murphy AO | Nil | Nil |

EARNINGS PER SHARE

| | Cents |
|----------------------------|-------|
| Basic Earnings Per Share | 38.65 |
| Diluted Earnings Per Share | 38.52 |

DIVIDENDS

| | Cents | \$'000 |
|---------------------------------|-------|--------|
| Final dividends declared | | |
| – on ordinary shares | 13.00 | 12,303 |
| Dividends paid during the year: | | |
| <i>Current year interim</i> | | |
| – on ordinary shares | 22.00 | 20,767 |
| <i>Final for 2019</i> | | |
| – on ordinary shares | 23.00 | 21,688 |

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 21 in the financial report).

The registered office of Monadelphous Group Limited is located at:

59 Albany Highway
Victoria Park
Western Australia 6100

DIRECTORS' REPORT

CORPORATE INFORMATION (continued)

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
- Engineering, procurement and construction 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
- Specialist coatings
- Rail maintenance services

General

Monadelphous operates from major offices in Perth and Brisbane, with regional offices in Sydney, Newcastle, Beijing (China), 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.

Employees

The consolidated entity employed 5,579 employees as of 30 June 2020 (2019: 5,942 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 Operating and Financial Review section.

Operating results for the year

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------------------------------------------------------|----------------|----------------|
| Revenue from contracts with customers | 1,487,393 | 1,477,269 |
| Profit after income tax expense attributable to equity holders of the parent | 36,483 | 50,565 |

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.

DIRECTORS' REPORT

SIGNIFICANT EVENTS AFTER REPORTING PERIOD

Notification of filing of writ of summons

On 31 July 2020, Monadelphous was notified that Rio Tinto had filed a Writ of Summons in the Supreme Court of Western Australia against one of Monadelphous' wholly owned subsidiaries, Monadelphous Engineering Associates Pty Ltd (MEA). The claim has been made by Robe River Mining Co Pty Ltd and Pilbara Iron Pty Ltd (on behalf of the Robe River joint venture) in respect of a fire incident which occurred at Rio Tinto's iron ore processing facility at Cape Lambert, Western Australia on 10 January 2019. The writ has not yet been served on MEA.

MEA had been performing maintenance shutdown services prior to the fire commencing, and Rio Tinto has alleged that MEA was in breach of the maintenance contract, thereby causing the fire. Although the writ does not specify any damages, Rio Tinto has separately informed MEA that its claim is for \$493 million in loss and damage. This amount comprises \$35 million in material damage costs associated with the re-construction of the Sinter Fines processing facility, and \$458 million for a temporary operating solution and business interruption losses arising from the alleged inability to process iron ore during the period of reconstruction of the facility.

MEA denies Rio Tinto's allegations and claimed losses (which MEA considers have not been substantiated). Further, the contract between Rio Tinto and MEA, which governed the maintenance work performed by MEA, contains exclusions and limitations of liability which will be relied upon by MEA in defence of the claim. MEA has public liability insurance in place with a total limit of \$150 million which provides cover for property damage claims and associated losses. Monadelphous is unaware of any reason why the insurance policies would not respond to indemnify MEA for liability it may have to Rio Tinto. Along with its insurers and their legal representatives, MEA intends to fully defend Rio Tinto's legal action.

Dividends declared

On 17 August 2020, the directors of Monadelphous Group Limited declared a final dividend on ordinary shares in respect of the 2020 financial year. The total amount of the dividend is \$12,303,392 which represents a fully franked final dividend of 13 cents per share. This dividend has not been provided for in the 30 June 2020 financial statements. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the dividend.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Refer to the Operating and Financial Review section 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 244,892 performance rights and 2,400,000 options on issue as follows:

- 161,307 performance rights to take up one ordinary share in Monadelphous Group Limited. The performance rights have a vesting date 1 July 2021
- 83,585 performance rights to take up one ordinary share in Monadelphous Group Limited. The performance rights have a vesting date 1 July 2022
- 600,000 options to take up one ordinary share in Monadelphous Group Limited. The options have a vesting date 1 September 2021
- 600,000 options to take up one ordinary share in Monadelphous Group Limited. The options have a vesting date 1 September 2022
- 1,200,000 options to take up one ordinary share in Monadelphous Group Limited. The options have a vesting date 1 September 2023

Performance rights and options holders do not have any right, by virtue of the performance right or option, 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

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

On 1 July 2020, 161,250 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:

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

DIRECTORS' REPORT

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 2020 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.

DIRECTORS' REPORT

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. |

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 57 and 58 of this report detail the proportion of fixed and variable remuneration for each of the executive directors and the senior executives of the Company.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

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 57 and 58 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 2020, the Board determined that no award would be made under the CR Plan.

For the year ended 30 June 2019, 100 per cent of the award under the CR Plan was issued in the form of Performance Rights granted in August 2019 (except for those issued to the Managing Director which were granted at the AGM in November 2019). 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 FY19 Final Dividend; in other words, the dividend reinvestment plan price of \$15.37.

On 1 November 2019, 246,128 performance rights were issued under the terms of the CR Plan for the year ended 30 June 2019 and subject to the Monadelphous Group Limited Performance Rights Plan Rules. 27,975 performance rights were issued to Key Management Personnel.

On 19 November 2019, following approval by shareholders at the Company's AGM, 19,310 performance rights were issued to the Managing Director, Robert Velletri, under the terms of the CR Plan for the year ended 30 June 2019 and subject to the Monadelphous Group Limited Performance Rights Plan Rules.

The Performance Rights component for the 2019 award vests 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 granted.

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.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

Variable remuneration – Combined Reward Plan (continued)

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 2020, 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

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.

The Board has reviewed the financial performance for the year ended 30 June 2020 and determined that no award would be made under the CR Plan.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

Variable remuneration – Combined Reward Plan (continued)

Performance Requirements (continued)

The following table sets out the awards under the CR Plan for each executive for the financial years ended 30 June 2019 and 30 June 2020:

| Executive | 2020 Total Award \$ | 2019 Total Award \$ | 2020 % of Maximum Opportunity Earned | 2019 % of Maximum Opportunity Earned |
|-------------|---------------------------|---------------------------|--------------------------------------------|--------------------------------------------|
| R. Velletri | - | 296,800 | Not applicable | 49% |
| P. Trueman | - | 118,400 | Not applicable | 51% |
| D. Foti | - | 154,800 | Not applicable | 43% |
| Z. Bebic | - | 156,800 | Not applicable | 52% |

Tables 1 and 2 on pages 57 and 58 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 2020 and 30 June 2019.

The deferred performance right component of the awards relating to the years ended 30 June 2018 and 2019 are being amortised over three and four years respectively.

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.

On 1 July 2020, 161,250 performance rights representing the first tranche of the award under the terms of the CR Plan for the year ended 30 June 2019 and the second 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.

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.

On 14 October 2019, 560,000 options were issued to Key Management Personnel under the terms of the Monadelphous Group Limited Employee Option Plan and subject to the Monadelphous Group Limited Employee Option Plan Rules.

In accordance with the terms of the offer and the rules of the Monadelphous Group Limited Employee Option Plan, the options can only be exercised in specified window periods (or at the discretion of the Board in particular circumstances) and are subject to the financial performance of the Company during the option vesting period (measurement period).

Earnings Per Share (EPS) growth is the means for measuring the performance of the Company over the measurement period. In order for 100 per cent of the options to be exercisable EPS growth of 10 per cent per annum (compounded over the measurement period) is required. If EPS growth of 5 per cent per annum (compounded) is achieved, 50 per cent of the options will be exercisable and if EPS growth of between 5 per cent and 10 per cent per annum (compounded) is achieved, a pro-rata number of options will be exercisable.

In subsequent window periods, performance will be re-tested and any options that were incapable of exercise in earlier window periods will become available for exercise to the extent that EPS performance has 'caught up' and the EPS growth hurdle is met over the longer measurement period. At the end of the final window period, any options remaining that are not capable of exercise, as a result of the performance hurdle not being achieved, will be forfeited. No options will be exercisable if an EPS growth rate is achieved that is less than 5 per cent per annum (compounded).

Subject to the satisfaction of the EPS performance hurdle, the options may be exercised in the following window periods:

- Up to a maximum of 25% during the window period commencing 1 September 2021;
- Up to a maximum of 25%, plus any options rolled over from the previous window period, during the window period commencing 1 September 2022; and
- Up to a maximum of 50%, plus any options rolled over from the previous window period, during the window period commencing 1 September 2023.

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.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

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 19 November 2019 when shareholders approved an aggregate remuneration of \$850,000 in the 'not to exceed sum' paid to non-executive directors.

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.

In March 2020, the Directors agreed to a 30 per cent salary and fee reduction for a six month period to support the cost reduction measures implemented by the Company in response to COVID-19.

The table below summarises Board and Committee fees payable to non-executive directors for the financial year ended 30 June 2020 (inclusive of superannuation):

| | Annualised Fee Applicable July 2019 to March 2020 \$ | Annualised Fee Applicable April 2020 to September 2020 \$ |
|-------------------------------------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------------|
| Board Fees | | |
| Non-executive Director fee | 118,000 | 82,600 |
| Board Deputy Chair and Lead Independent Non-executive Director additional fee | 20,000 | 20,000 |
| Committee Chair Fees | | |
| Audit | 15,000 | 15,000 |
| Remuneration | 15,000 | 15,000 |
| 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 2020 is detailed in Table 1 on page 57 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:

| | 2020 \$'000 | 2019 \$'000 | 2018 \$'000 | 2017 \$'000 | 2016 \$'000 |
|------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Profit after income tax expense attributable to equity holders of the parent | 36,483 | 50,565 | 71,479 | 57,563 | 67,014 |
| Basic earnings per share | 38.65c | 53.72c | 76.11c | 61.41c | 71.77c |
| Share price as at 30 June | \$10.82 | \$18.81 | \$15.06 | \$13.99 | \$7.46 |

The comparative information has not been restated following the adoption of AASB 16 and continues to be reported under the previous accounting policy. Refer to note 33 for further details.

A review of the Company's performance and returns to shareholders over the last five years has been provided on page 20 of this report.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Management Personnel

Table 1: Remuneration for the year ended 30 June 2020

As mentioned earlier, during the period, the Board agreed to a 30 per cent salary and fee reduction for a six month period in response to the impact of COVID-19 on the Company's business and operations, with the Executive and General Management teams agreeing to salary reductions of between 10 and 20 per cent for the same period.

| | Short Term Benefits | | | Cash Award | Post Employment Superannuation | Long Term Benefits Leave | Share-Based Payments ³ Performance Rights and Options | Total | Total Performance Related % | Total Performance Rights and Options Related % |
|------------------------------------------------|---------------------|--------------------|---------------------------|------------|--------------------------------|--------------------------|------------------------------------------------------------------|------------------|-----------------------------|------------------------------------------------|
| | Salary & Fees | Leave ¹ | Non-Monetary ² | | | | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| <i>Non-Executive Directors</i> | | | | | | | | | | |
| P. J. Dempsey | 133,509 | - | - | - | 12,683 | - | - | 146,192 | - | - |
| C. P. Michelmore | 115,244 | - | - | - | 10,948 | - | - | 126,192 | - | - |
| D. R. Voss | 101,545 | - | - | - | 9,647 | - | - | 111,192 | - | - |
| H. J. Gillies | 101,545 | - | - | - | 9,647 | - | - | 111,192 | - | - |
| S. L. Murphy | 101,545 | - | - | - | 9,647 | - | - | 111,192 | - | - |
| Subtotal Non-Executive Directors | 553,388 | - | - | - | 52,572 | - | - | 605,960 | - | - |
| <i>Executive Directors</i> | | | | | | | | | | |
| C. G. B. Rubino | 388,231 | 35,097 | - | - | 21,003 | 8,095 | - | 452,426 | - | - |
| R. Velletri | 946,494 | 24,444 | 17,850 | - | 21,003 | 22,669 | 176,236 | 1,208,696 | 14.58 | 14.58 |
| Subtotal Executive Directors | 1,334,725 | 59,541 | 17,850 | - | 42,006 | 30,764 | 176,236 | 1,661,122 | 10.61 | 10.61 |
| <i>Other Key Management Personnel</i> | | | | | | | | | | |
| D. Foti | 756,731 | 18,057 | 7,965 | - | 21,003 | 30,487 | 99,309 | 933,552 | 10.64 | 10.64 |
| Z. Bebic | 652,500 | 31,419 | 15,270 | - | 21,003 | 29,865 | 96,554 | 846,611 | 11.40 | 11.40 |
| P. Trueman | 494,550 | 8,176 | 12,690 | - | 21,003 | (10,616) | 73,442 | 599,245 | 12.26 | 12.26 |
| Subtotal Other Key Management Personnel | 1,903,781 | 57,652 | 35,925 | - | 63,009 | 49,736 | 269,305 | 2,379,408 | 11.32 | 11.32 |
| Total | 3,791,894 | 117,193 | 53,775 | - | 157,587 | 80,500 | 445,541 | 4,646,490 | 9.59 | 9.59 |

1. Leave reflects annual leave accrual less annual leave taken.

2. Non-monetary benefits consist of Life and Salary Continuance insurance premiums.

3. Relates to both the 2018 and 2019 awards under the CR Plan.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Management Personnel (continued)

Table 2: Remuneration for the year ended 30 June 2019

| | Short Term Benefits | | | Cash Award | Post Employment Superannuation | Long Term Benefits Leave | Share-Based Payments ³ Performance Rights | Total | Total Performance Related % | Total Performance Rights Related % |
|------------------------------------------------|---------------------|-----------------------|------------------------------|------------|--------------------------------|--------------------------|------------------------------------------------------|------------------|-----------------------------|------------------------------------|
| | Salary & Fees \$ | Leave ¹ \$ | Non-Monetary ² \$ | | | | | | | |
| <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 | 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 |

1. Leave reflects annual leave accrual less annual leave taken.

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

3. Relates to both the 2018 and 2019 awards under the CR Plan.

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

Table 3: Performance Rights: Granted during the year ended 30 June 2020

| | 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 | |
| Executive Directors | | | | | | | | |
| R. Velletri | 19,310 | 19/11/2019 | \$14.51 | Nil | 1/7/2022 | 1/7/2020 | 1/7/2022 | |
| Other Key Management Personnel | | | | | | | | |
| D. Foti | 10,071 | 27/8/2019 | \$14.26 | Nil | 1/7/2022 | 1/7/2020 | 1/7/2022 | |
| Z. Bebic | 10,201 | 27/8/2019 | \$14.26 | Nil | 1/7/2022 | 1/7/2020 | 1/7/2022 | |
| P. Trueman | 7,703 | 27/8/2019 | \$14.26 | Nil | 1/7/2022 | 1/7/2020 | 1/7/2022 | |
| Total | 47,285 | | | | | | | |

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Management Personnel (continued)

Table 4: Options: Granted during the year ended 30 June 2020

| | Terms and Conditions for Each Grant | | | | | | |
|---------------------------------------|-------------------------------------|------------|-----------------------------------------------------|--------------------------|-------------|---------------------|--------------------|
| | Granted Number | Grant Date | Weighted Average Fair Value per Right at Grant Date | Exercise Price per Right | Expiry Date | First Exercise Date | Last Exercise Date |
| Executive Directors | | | | | | | |
| R. Velletri | - | - | - | - | - | - | - |
| Other Key Management Personnel | | | | | | | |
| D. Foti | 200,000 | 14/10/2019 | \$2.12 | \$14.84 | 14/9/2023 | 1/9/2021 | 14/9/2023 |
| Z. Bebic | 200,000 | 14/10/2019 | \$2.12 | \$14.84 | 14/9/2023 | 1/9/2021 | 14/9/2023 |
| P. Trueman | 160,000 | 14/10/2019 | \$2.12 | \$14.84 | 14/9/2023 | 1/9/2021 | 14/9/2023 |
| Total | 560,000 | | | | | | |

Table 5: Shares issued on exercise of performance rights during the year ended 30 June 2020

| | Performance Rights Vested | Performance Rights Exercised | Shares Issued | Paid Per Share \$ |
|--------------------------|---------------------------|------------------------------|---------------|-------------------|
| Directors | | | | |
| R. Velletri [^] | 6,670 | 6,670 | 6,670 | Nil |
| Executives | | | | |
| D. Foti [^] | 4,000 | 4,000 | 4,000 | Nil |
| Z. Bebic [^] | 3,793 | 3,793 | 3,793 | Nil |
| P. Trueman [^] | 2,911 | 2,911 | 2,911 | Nil |
| Total | 17,374 | 17,374 | 17,374 | |

[^] On 1 July 2019, the date of exercise of the above performance rights, the closing share price was \$18.96.

Additional disclosures relating to options and shares

Table 6: Performance rights holdings of Key Management Personnel

| Performance Rights held in Monadelphous Group Limited | Balance at Beginning of Period 1 July 2019 | Granted as Remuneration | Rights Exercised and Lapsed | Net Change | Other | Balance at End of Period 30 June 2020 |
|-------------------------------------------------------|--------------------------------------------|-------------------------|-----------------------------|------------|----------|---------------------------------------|
| Directors | | | | | | |
| C. G. B. Rubino | - | - | - | - | - | - |
| R. Velletri | 20,011 | 19,310 | (6,670) | - | - | 32,651 |
| P. J. Dempsey | - | - | - | - | - | - |
| C. P. Michelmore | - | - | - | - | - | - |
| D. R. Voss | - | - | - | - | - | - |
| H. J. Gillies | - | - | - | - | - | - |
| S. L. Murphy | - | - | - | - | - | - |
| Executives | | | | | | |
| D. Foti | 12,000 | 10,071 | (4,000) | - | - | 18,071 |
| Z. Bebic | 11,381 | 10,201 | (3,793) | - | - | 17,789 |
| P. Trueman | 8,734 | 7,703 | (2,911) | - | - | 13,526 |
| Total | 52,126 | 47,285 | (17,374) | - | - | 82,037 |

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

Additional disclosures relating to options and shares (continued)

Table 7: Options holdings of Key Management Personnel

| Options held in Monadelphous Group Limited | Balance at Beginning of Period 1 July 2019 | Granted as Remuneration | Options Exercised and Lapsed | Net Change Other | Balance at End of Period 30 June 2020 |
|--------------------------------------------|--------------------------------------------|-------------------------|------------------------------|------------------|---------------------------------------|
| Directors | | | | | |
| C. G. B. Rubino | - | - | - | - | - |
| R. Velletri | - | - | - | - | - |
| P. J. Dempsey | - | - | - | - | - |
| C. P. Michelmore | - | - | - | - | - |
| D. R. Voss | - | - | - | - | - |
| H. J. Gillies | - | - | - | - | - |
| S. L. Murphy | - | - | - | - | - |
| Executives | | | | | |
| D. Foti | - | 200,000 | - | - | 200,000 |
| Z. Bebic | - | 200,000 | - | - | 200,000 |
| P. Trueman | - | 160,000 | - | - | 160,000 |
| Total | - | 560,000 | - | - | 560,000 |

Table 8: Shareholdings of Key Management Personnel

| Shares held in Monadelphous Group Limited | Balance at Beginning of Period 1 July 2019 | Granted as Remuneration | On Exercise of Performance Rights | Net Change Other | Balance at End of Period 30 June 2020 |
|-------------------------------------------|--------------------------------------------|-------------------------|-----------------------------------|------------------|---------------------------------------|
| Directors | | | | | |
| C. G. B. Rubino | 1,022,653 | - | - | - | 1,022,653 |
| R. Velletri | 2,100,000 | - | 6,670 | - | 2,106,670 |
| P. J. Dempsey | 78,000 | - | - | - | 78,000 |
| C. P. Michelmore | 40,000 | - | - | 10,000 | 50,000 |
| D. R. Voss | 2,852 | - | - | - | 2,852 |
| H. J. Gillies | 8,278 | - | - | 293 | 8,571 |
| S. L. Murphy | - | - | - | - | - |
| Executives | | | | | |
| D. Foti | 54,316 | - | 4,000 | - | 58,316 |
| Z. Bebic | - | - | 3,793 | - | 3,793 |
| P. Trueman | - | - | 2,911 | - | 2,911 |
| Total | 3,306,099 | - | 17,374 | 10,293 | 3,333,766 |

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' 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: | 15 | 7 | 3 | 2 |
| Number of meetings attended: | | | | |
| C. G. B. Rubino | 15 | - | - | 2 |
| R. Velletri | 15 | - | - | - |
| P. J. Dempsey | 15 | 7 | - | 2 |
| C. P. Michelmore | 13 | - | 3 | 2 |
| D. R. Voss | 14 | 7 | 3 | 2 |
| H. J. Gillies | 15 | 7 | 3 | 2 |
| S. L. Murphy [^] | 15 | 5 [^] | 3 [^] | 1 [^] |

[^] S. L. Murphy was appointed to the Audit, Nomination and Remuneration Committees on 2 September 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 |
| S. L. Murphy (appointed 2 September 2019) | S. L. Murphy (appointed 2 September 2019) | H. J. Gillies |
| | | D. R. Voss |
| | | S. L. Murphy (appointed 2 September 2019) |

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.

DIRECTORS' REPORT

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors have received an independence declaration from the auditor of Monadelphous Group Limited, as shown on page 63.

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>101,332</u> |

Signed in accordance with a resolution of the directors.



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

AUDITOR'S INDEPENDENCE DECLARATION



**Building a better
working world**

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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 2020, 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

A handwritten signature in black ink, appearing to read 'D S Lewsen', is written over a light grey rectangular background.

D S Lewsen
Partner
17 August 2020

INDEPENDENT AUDIT REPORT



Ernst & Young
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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 2020, 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 2020 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 judgment, 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.

INDEPENDENT AUDIT 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>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>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 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>For a sample of contracts in progress at 30 June 2020, 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. |

INDEPENDENT AUDIT REPORT



Provisions, contingent liabilities and contingent assets arising from claims, counterclaims, disputes and litigation associated with contracts.

Why significant

At times, the Group is exposed to risks associated with claims, counterclaims, disputes and litigation arising from its contracts with customers that may be material.

The assessment of potential assets and liabilities associated with such matters can require significant judgment to be exercised. Such judgements are based upon the information available to the Group at the time, whilst the ultimate outcomes of the matters may be dependent upon future legal and/or regulatory processes that cannot be predicted with certainty. The matters may be complex and significant judgement may be required to determine an estimate of the potential impact on the Group, in the event of an unfavorable outcome.

Note 25 to the financial statements describes a material contingent liability. Accordingly, our consideration of this matter and the related disclosures was considered a key audit matter.

How our audit addressed the key audit matter

Our procedures in respect of provisions, contingent liabilities and contingent assets associated with claims, counterclaims, disputes and litigation included the following:

- ▶ We read the minutes of the Group's key governance meetings (i.e. Audit and Risk Committee and Board of Directors), attended the Group's Audit and Risk Committee meetings and considered key correspondence with relevant regulatory bodies.
- ▶ We obtained an understanding of and assessed the internal control environment relating to the identification, recognition and measurement of provisions, contingent liabilities and contingent assets in relation to disputes, potential claims and litigation, and contingent liabilities.
- ▶ We discussed ongoing legal and regulatory matters with management and the Board, obtained written representations regarding management's judgements and obtained access to relevant documents in order to develop our understanding of the matters.
- ▶ We obtained written confirmations and held discussions with internal and external legal representatives of the Group who act for the Group on such matters.
- ▶ We read correspondence between the Group and its customers, internal and external legal representatives, insurers and their legal representatives related to claims, counterclaims, disputes and litigation.
- ▶ We considered management's judgements as to the existence and quantification of potential material financial exposures to the Group related to claims, counterclaims, disputes and litigation.
- ▶ In relation to matters identified, we also assessed the adequacy of related disclosures.

INDEPENDENT AUDIT REPORT



Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2020 Annual Report, but does not include the financial report and our auditor's report thereon. We obtained the sections on the Chairman's Report, Company Performance, Director's Report and Remuneration Report prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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 judgment 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

INDEPENDENT AUDIT REPORT



- ▶ 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 within the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Monadelphous Group Limited for the year ended 30 June 2020, 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

D S Lewsen
Partner
Perth
17 August 2020

DIRECTOR'S DECLARATION

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 2020 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 75.
- 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 2020.
- 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 21 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, 17 August 2020

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|-----------------------------------------------------|-------|--------------------|----------------|
| Continuing Operations | | | |
| REVENUE | 1 | 1,488,749 | 1,479,737 |
| Cost of services rendered | | (1,386,327) | (1,351,482) |
| GROSS PROFIT | | 102,422 | 128,255 |
| Other income | 1 | 4,778 | 5,737 |
| Business development and tender expenses | | (17,196) | (20,755) |
| Occupancy expenses | | (3,663) | (3,675) |
| Administrative expenses | | (32,351) | (31,759) |
| Finance costs | 2 | (3,694) | (1,930) |
| Share of profit from joint ventures | 11 | 4,932 | 7,144 |
| Unrealised foreign currency (loss)/gain | | (142) | 409 |
| PROFIT BEFORE INCOME TAX | | 55,086 | 83,426 |
| Income tax expense | 3 | (17,860) | (31,313) |
| PROFIT AFTER INCOME TAX | | 37,226 | 52,113 |
| ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | 36,483 | 50,565 |
| NON-CONTROLLING INTERESTS | | 743 | 1,548 |
| | | 37,226 | 52,113 |
| Basic earnings per share (cents per share) | 4 | 38.65 | 53.72 |
| Diluted earnings per share (cents per share) | 4 | 38.52 | 53.62 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------------------------------------------------------------------------------|----------------|----------------|
| NET PROFIT FOR THE YEAR | 37,226 | 52,113 |
| OTHER COMPREHENSIVE INCOME | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Foreign currency translation | (1,244) | 275 |
| | (1,244) | 275 |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Net (loss)/gain on equity instruments designated at fair value through other comprehensive income | (48) | 115 |
| Income tax effect | 13 | (34) |
| | (35) | 81 |
| OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR, NET OF TAX | (1,279) | 356 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | 35,947 | 52,469 |
| ATTRIBUTABLE TO: | | |
| EQUITY HOLDERS OF THE PARENT | 35,204 | 50,921 |
| NON-CONTROLLING INTERESTS | 743 | 1,548 |
| | 35,947 | 52,469 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|------------------------------------------------------------|-------|----------------|----------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 5 | 208,292 | 164,042 |
| Trade and other receivables | 6 | 262,437 | 322,849 |
| Contract assets | 7 | 27,379 | 29,372 |
| Inventories | 8 | 4,786 | 4,607 |
| Income tax receivable | 3 | - | 205 |
| Total current assets | | 502,894 | 521,075 |
| Non-current assets | | | |
| Property, plant and equipment* | 9 | 163,666 | 115,437 |
| Contract assets | 7 | 124 | 289 |
| Intangible assets and goodwill | 10 | 4,181 | 3,120 |
| Investment in joint venture | 11 | 11,649 | 7,980 |
| Deferred tax assets | 3 | 28,775 | 34,164 |
| Other non-current assets | 12 | 2,873 | 2,921 |
| Total non-current assets | | 211,268 | 163,911 |
| TOTAL ASSETS | | 714,162 | 684,986 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 13 | 165,752 | 184,341 |
| Interest bearing loans and borrowings* | 14 | 1,580 | 10,868 |
| Lease liabilities* | 15 | 18,733 | - |
| Income tax payable | 3 | 3,766 | - |
| Provisions | 16 | 59,365 | 63,053 |
| Total current liabilities | | 249,196 | 258,262 |
| Non-current liabilities | | | |
| Interest bearing loans and borrowings* | 14 | 1,943 | 27,361 |
| Lease liabilities* | 15 | 69,636 | - |
| Provisions | 16 | 4,340 | 4,542 |
| Other financial liability | 22 | 4,480 | - |
| Deferred tax liabilities | 3 | 125 | 140 |
| Total non-current liabilities | | 80,524 | 32,043 |
| TOTAL LIABILITIES | | 329,720 | 290,305 |
| NET ASSETS | | 384,442 | 394,681 |
| EQUITY | | | |
| Contributed equity | 19 | 131,307 | 128,723 |
| Reserves | 20 | 33,062 | 33,707 |
| Retained earnings | 20 | 220,064 | 231,006 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | 384,433 | 393,436 |
| Non-Controlling Interests | | 9 | 1,245 |
| TOTAL EQUITY | | 384,442 | 394,681 |

*The new accounting standard AASB 16 Leases was adopted from 1 July 2019. Comparatives have not been restated. Refer to note 33 for details.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

| | Attributable to equity holders | | | | | | | Total \$'000 |
|-----------------------------------------------------------------------------------------------------|--------------------------------|-------------------------------------------------|---------------------------------------------------------|--------------------------------|--------------------------------------------|------------------------------------------------------------|-----------------------------|-----------------|
| | 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 | |
| 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 income | - | - | (1,244) | - | - | (35) | - | (1,279) |
| Profit for the period | - | - | - | 36,483 | 743 | - | - | 37,226 |
| Total comprehensive income for the period | - | - | (1,244) | 36,483 | 743 | (35) | - | 35,947 |
| Transactions with owners in their capacity as owners | | | | | | | | |
| Recognition of non-controlling interest at the date of acquisition of controlled entities (note 22) | - | - | - | - | 2,831 | - | - | 2,831 |
| Reclassification of non controlling interest to liabilities (note 22) | - | - | - | - | (3,026) | - | (1,455) | (4,481) |
| Share-based payments | - | 2,186 | - | - | - | - | - | 2,186 |
| Adjustment to deferred tax asset recognised on employee share trust | - | (97) | - | - | - | - | - | (97) |
| Dividend reinvestment plan | 2,584 | - | - | - | - | - | - | 2,584 |
| Dividends paid | - | - | - | (42,455) | (1,650) | - | - | (44,105) |
| Foreign currency movements | - | - | - | - | (134) | - | - | (134) |
| At 30 June 2020 | 131,307 | 34,810 | (1,160) | 220,064 | 9 | 867 | (1,455) | 384,442 |

*Refer to note 33 for details of the opening balance adjustments made on application of the new accounting standards applicable for the Group from 1 July 2019.

| | Attributable to equity holders | | | | | | | Total \$'000 |
|---------------------------------------------------------------------|--------------------------------|-------------------------------------------------|---------------------------------------------------------|--------------------------------|--------------------------------------------|------------------------------------------------------------|--|-----------------|
| | 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 | | |
| At 1 July 2018 | 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 |

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|-------------------------------------------------------------|-------|-----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers (inclusive of GST) | | 1,734,620 | 1,596,337 |
| Payments to suppliers and employees (inclusive of GST) | | (1,610,556) | (1,546,389) |
| Interest received | | 1,171 | 2,269 |
| Finance costs paid | | (3,694) | (1,930) |
| Other income | | 2,306 | 2,295 |
| Income tax paid | | (4,954) | (36,816) |
| Dividends received | | 185 | 199 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 5 | 119,078 | 15,965 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of property, plant and equipment | | 3,770 | 4,970 |
| Purchase of property, plant and equipment | | (12,126) | (19,707) |
| Repayment of loans to joint ventures and associates | | 1,230 | 600 |
| Purchase of intangible assets | | (460) | - |
| Acquisition of controlled entities | | (681) | - |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | | (8,267) | (14,137) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividend paid | | (41,521) | (52,603) |
| Proceeds from borrowings | | 594 | 15,054 |
| Repayment of borrowings | | (6,256) | (300) |
| Payment of principal portion of hire purchase liabilities | | (12,398) | (9,995) |
| Payment of principal portion of other lease liabilities* | | (7,322) | - |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | | (66,903) | (47,844) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| Net foreign exchange differences | | 342 | 1,285 |
| Cash and cash equivalents at beginning of period | | 164,042 | 208,773 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 5 | 208,292 | 164,042 |

*The new accounting standard *AASB 16 Leases* was adopted from 1 July 2019. Comparatives have not been restated. Refer to note 33 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

GENERAL INFORMATION

FOR THE YEAR ENDED 30 JUNE 2020

GENERAL INFORMATION

The consolidated financial report of Monadelphous Group Limited (the Group) and its subsidiaries for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of directors on 17 August 2020.

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 2019 (Refer to note 33).
- 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 2020. 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 21. 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.

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). The functional currency of the Chilean subsidiaries (Monadelphous Chile SpA, Buildtek SpA and MAQrent SpA) is Chilean Pesos (CLP).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: GENERAL INFORMATION

FOR THE YEAR ENDED 30 JUNE 2020

GENERAL INFORMATION (continued)

Foreign currency translation (continued)

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 33.

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.

Consolidation of MGJV Pty Ltd

Refer to note 21 for details.

Workers' Compensation

Refer note 16 for details.

Determination of the lease term of contracts with renewal options

Refer to note 33 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|-----------------------------------------------------------------------------------------------------------------|------------------|----------------|
| 1. REVENUE AND OTHER INCOME | | |
| Revenue from contracts with customers | | |
| Services revenue | 1,049,801 | 998,435 |
| Construction revenue | 437,592 | 478,834 |
| | 1,487,393 | 1,477,269 |
| Finance revenue | 1,171 | 2,269 |
| Dividends received | 185 | 199 |
| | 1,488,749 | 1,479,737 |
| Net gains on disposal of property, plant and equipment | 2,472 | 3,442 |
| Other income | 2,306 | 2,295 |
| | 4,778 | 5,737 |
| Disaggregation of revenue from contracts with customers by end customer industry: | | |
| Oil and gas | 460,915 | 594,868 |
| Other minerals | 339,231 | 219,918 |
| Iron Ore | 528,397 | 368,164 |
| Infrastructure | 181,837 | 282,090 |
| Coal | 140,388 | 143,237 |
| | 1,650,768 | 1,608,277 |
| Less share of revenue from joint ventures accounted for using the equity method | (163,375) | (131,008) |
| | 1,487,393 | 1,477,269 |
| The following amounts are included in revenue from contracts with customers: | | |
| Revenue recognised as a contract liability in the prior period | 11,988 | 24,872 |
| Revenue from performance obligations satisfied in prior periods | 10,944 | 8,500 |
| Unsatisfied performance obligations | | |
| Transaction price expected to be recognised in future years for unsatisfied performance obligations at 30 June: | | |
| Services revenue | 1,607,339 | 2,137,094 |
| Construction revenue | 384,544 | 405,869 |
| Total | 1,991,883 | 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

1. REVENUE AND OTHER INCOME (continued)

Recognition and measurement

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 or 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|-------------------------------------------------------------------------------------------|----------------|----------------|
| 2. EXPENSES | | |
| Finance costs | | |
| Loans and overdrafts | 254 | 62 |
| Finance charges payable under hire purchase contracts | 1,499 | 1,048 |
| Interest on other lease liabilities | 1,941 | - |
| Tax shortfall interest charge | - | 820 |
| | 3,694 | 1,930 |
| Depreciation and amortisation | | |
| Depreciation expense of owned property, plant and equipment | 15,589 | 14,350 |
| Depreciation expense of right of use hire purchase assets | 7,019 | 5,140 |
| Depreciation expense of right of use assets | 7,962 | - |
| Amortisation of intangible assets | 479 | - |
| Amortisation of deferred contract fulfilment costs | 165 | 1,306 |
| | 31,214 | 20,796 |
| Employee benefits expense | | |
| Employee benefits expense | 801,907 | 772,161 |
| Defined contribution superannuation expense | 56,479 | 53,871 |
| | 858,386 | 826,032 |
| Lease payments and other expenses | | |
| Expense relating to short-term leases and low value leases (included in cost of sales) | 2,318 | |

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 16 for employee benefits expense and note 28 for share-based payments expense.

Contributions to defined contribution superannuation plans are recognised as an expense as they become payable.

Lease Payments

Refer to note 33 for details on lease payments.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| 3. INCOME TAX | | |
| The major components of income tax expense are: | | |
| Income statement | | |
| <i>Current income tax</i> | | |
| Current income tax charge | 11,704 | 26,338 |
| Adjustments in respect of previous years | (2,779) | 1,757 |
| <i>Deferred income tax</i> | | |
| Temporary differences | 5,728 | 4,985 |
| Adjustments in respect of previous years | 3,207 | (1,767) |
| Income tax expense reported in the income statement | 17,860 | 31,313 |
| Statement of Comprehensive Income | | |
| Deferred tax related to items recognised in Statement of Comprehensive income during the year: | | |
| Unrealised (loss)/gain on equity instrument designated at fair value through other comprehensive income | (13) | 34 |
| | (13) | 34 |
| Amounts credited directly to equity | | |
| Share based payment | 97 | (106) |
| Income tax expense/(benefit) reported in equity | 97 | (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 | 55,086 | 83,426 |
| Income tax rate of 30% (2019: 30%) | 16,526 | 25,028 |
| - Share based payment expense | 382 | 389 |
| - R&D repayment | - | 6,311 |
| - Other | 952 | (415) |
| Aggregate income tax expense | 17,860 | 31,313 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 Current Income Tax | 2020 \$'000 Deferred Income Tax | 2019 \$'000 Current Income Tax | 2019 \$'000 Deferred Income Tax |
|-------------------------------------------------------------------------|-----------------------------------------|------------------------------------------|-----------------------------------------|------------------------------------------|
| 3. INCOME TAX (continued) | | | | |
| Recognised deferred tax assets and liabilities | | | | |
| Opening balance | 205 | 34,024 | (8,522) | 37,177 |
| Opening balance adjustment on application of AASB 16 (refer note 33) | - | 2,130 | - | - |
| Acquisition of subsidiaries | - | 1,667 | - | - |
| Charged to income | (8,925) | (8,935) | (28,095) | (3,218) |
| Charged to equity | - | (84) | - | 72 |
| Other / payments | 4,954 | (152) | 36,822 | (7) |
| Closing balance | (3,766) | 28,650 | 205 | 34,024 |
| Amounts recognised on the consolidated statement of financial position: | | | | |
| Deferred tax asset | | 28,775 | | 34,164 |
| Deferred tax liability | | (125) | | (140) |
| | | 28,650 | | 34,024 |
| | | | 2020 \$'000 | 2019 \$'000 |
| Deferred income tax at 30 June relates to the following: | | | | |
| <i>Deferred tax assets</i> | | | | |
| Provisions | | | 22,523 | 28,842 |
| Other | | | 8,691 | 6,148 |
| Gross deferred tax assets | | | 31,214 | 34,990 |
| Set-off of deferred tax liabilities | | | (2,439) | (826) |
| Net deferred tax assets | | | 28,775 | 34,164 |
| <i>Deferred tax liabilities</i> | | | | |
| Accelerated depreciation | | | (1,097) | (288) |
| Other | | | (1,467) | (678) |
| Gross deferred tax liabilities | | | (2,564) | (966) |
| Set-off against deferred tax assets | | | 2,439 | 826 |
| Net deferred tax liabilities | | | (125) | (140) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

3. INCOME TAX (continued)

Unrecognised temporary differences

At 30 June 2020, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'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 | 36,483 | 50,565 |
| Earnings used in calculation of basic and diluted earnings per share | 36,483 | 50,565 |
| | Number | Number |
| Number of shares | | |
| Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share | 94,383,189 | 94,127,723 |
| Effect of dilutive securities | | |
| Performance Rights | 321,459 | 166,737 |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share | 94,704,648 | 94,294,460 |

Conversions, calls, subscriptions or issues after 30 June 2020:

On 1 July 2020, 161,250 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'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 | 178,292 | 161,173 |
| Short term deposits | 30,000 | 2,869 |
| | 208,292 | 164,042 |
| Reconciliation of net profit after tax to the net cash flows from operating activities | | |
| Net profit | 37,226 | 52,113 |
| Adjustments for | | |
| Depreciation of non-current assets | 30,570 | 19,490 |
| Amortisation of intangible assets and fulfilment costs | 644 | 1,306 |
| Net profit on sale of property, plant and equipment | (2,472) | (3,442) |
| Share-based payment expense | 2,186 | 2,953 |
| Unrealised foreign exchange loss/(gain) | 142 | (409) |
| Share of profits from joint ventures | (4,932) | (7,144) |
| Other | (474) | (2,101) |
| Changes in assets and liabilities | | |
| Decrease/(increase) in receivables | 73,708 | (34,659) |
| Decrease/(increase) in inventories | (179) | 36,698 |
| Decrease/(increase) in contract assets | 1,870 | (31,136) |
| Decrease/(increase) in deferred tax assets | 9,102 | 3,085 |
| (Decrease)/increase in payables | (26,068) | 19,568 |
| (Decrease)/increase in provisions | (6,201) | (31,770) |
| (Decrease)/increase in income tax payable | 3,971 | (8,727) |
| (Decrease)/increase in deferred tax liabilities | (15) | 140 |
| Net cash flows from operating activities | 119,078 | 15,965 |

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 \$18,470,751 (2019: \$12,498,577).

Reconciliation of liabilities arising from financing activities

| | 2019 \$'000 | On adoption of AASB 16 \$'000 | Cash flows \$'000 | Non-cash changes New leases/ terminations \$'000 | Other \$'000 | 2020 \$'000 |
|---------------------------|----------------|-------------------------------------|----------------------|-----------------------------------------------------------|-----------------|----------------|
| Hire purchase liabilities | 34,929 | - | (11,804) | 18,471 | 730 | 42,326 |
| Other lease liabilities | - | 47,261 | (7,322) | 5,438 | 666 | 46,043 |
| Loan | 3,300 | - | (6,256) | 6,481 | (2) | 3,523 |
| | 38,229 | 47,261 | (25,382) | 30,390 | 1,394 | 91,892 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------------------------------------------|----------------|----------------|
| 6. TRADE AND OTHER RECEIVABLES | | |
| CURRENT | | |
| Trade receivables | 191,105 | 252,636 |
| Less allowance account for expected credit losses | (3,581) | (3,634) |
| | 187,524 | 249,002 |
| Other debtors | 75,369 | 74,117 |
| Less allowance account for expected credit losses | (456) | (270) |
| | 262,437 | 322,849 |
| 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 - restated | 3,634 | 3,462 |
| (Decrease)/increase in loss allowance | (53) | 172 |
| Balance at the end of the year | 3,581 | 3,634 |

Recognition and measurement

Trade receivables

Refer to accounting policies of financial assets in note 33 financial assets.

Other debtors

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------|----------------|----------------|
| 7. CONTRACT ASSETS | | |
| CURRENT | | |
| Contract assets | 27,379 | 29,372 |
| NON CURRENT | | |
| Contract assets | 124 | 289 |

Contract assets are net of expected credit losses of \$152,000. Included in contract assets are deferred project fulfilment costs of \$289,000.

Recognition and measurement

Contract assets

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

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.

| | 2020 \$'000 | 2019 \$'000 |
|-------------------------------|----------------|----------------|
| 8. INVENTORIES | | |
| Raw materials and consumables | 4,786 | 4,607 |

Recognition and measurement

Raw materials and consumables

Raw materials and consumables are stated at the lower of cost and net realisable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

9. PROPERTY, PLANT AND EQUIPMENT

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

| | Freehold Land \$'000 | Buildings \$'000 | Plant and Equipment \$'000 | Right of Use Assets | | | Total \$'000 |
|------------------------------------------------------|-------------------------|---------------------|-------------------------------|---------------------------------------------------|------------------------------|-------------------------------|-----------------|
| | | | | Plant and Equipment Under Hire Purchase \$'000 | Land and Buildings \$'000 | Plant and Equipment \$'000 | |
| Year ended 30 June 2020 | | | | | | | |
| Net carrying amount at 1 July 2019 | 14,811 | 17,611 | 41,062 | 41,953 | - | - | 115,437 |
| Opening balance adjustment on application of AASB 16 | - | - | - | - | 38,940 | 1,221 | 40,161 |
| Additions | - | 64 | 12,062 | 18,471 | 6,528 | - | 37,125 |
| Additions through business combinations | - | - | 1,822 | 1,663 | 981 | - | 4,466 |
| Assets transferred | - | - | 4,910 | (4,910) | - | - | - |
| Disposals | - | (112) | (1,186) | - | (940) | (150) | (2,388) |
| Depreciation charge | - | (1,063) | (14,526) | (7,019) | (7,477) | (485) | (30,570) |
| Exchange differences | - | - | (36) | (253) | (276) | - | (565) |
| Net carrying amount at 30 June 2020 | 14,811 | 16,500 | 44,108 | 49,905 | 37,756 | 586 | 163,666 |
| At 30 June 2020 | | | | | | | |
| Gross carrying amount – at cost | 14,811 | 28,340 | 170,819 | 62,498 | 44,972 | 1,071 | 322,511 |
| Accumulated depreciation | - | (11,840) | (126,711) | (12,593) | (7,216) | (485) | (158,845) |
| Net carrying amount | 14,811 | 16,500 | 44,108 | 49,905 | 37,756 | 586 | 163,666 |
| Year ended 30 June 2019 | | | | | | | |
| Net carrying amount at 1 July 2018 | 13,411 | 16,425 | 46,762 | 46,762 | 25,385 | - | 101,983 |
| Additions | 1,400 | 2,276 | 18,260 | 18,260 | 12,499 | - | 34,435 |
| Assets transferred | - | - | - | (9,209) | 9,209 | - | - |
| Disposals | - | (5) | (1,523) | (1,523) | - | - | (1,528) |
| Depreciation charge | - | (1,085) | (13,265) | (13,265) | (5,140) | - | (19,490) |
| Exchange differences | - | - | 37 | 37 | - | - | 37 |
| Net carrying amount at 30 June 2019 | 14,811 | 17,611 | 41,062 | 41,062 | 41,953 | - | 115,437 |
| At 30 June 2019 | | | | | | | |
| Gross carrying amount – at cost | 14,811 | 28,647 | 166,842 | 166,842 | 51,436 | - | 261,736 |
| Accumulated depreciation | - | (11,036) | (125,780) | (125,780) | (9,483) | - | (146,299) |
| Net carrying amount | 14,811 | 17,611 | 41,062 | 41,062 | 41,953 | - | 115,437 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

9. PROPERTY, PLANT AND EQUIPMENT (continued)

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.

Right of use assets

Refer to note 33 for details.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

| | Intangible Assets \$'000 | Goodwill \$'000 | Total \$'000 |
|-------------------------------------------|-----------------------------|--------------------|-----------------|
| 10. INTANGIBLE ASSETS AND GOODWILL | | | |
| Year ended 30 June 2020 | | | |
| At 1 July 2019 | - | 3,120 | 3,120 |
| On business combination | - | 815 | 815 |
| Purchased | 759 | - | 759 |
| Amortisation | (479) | - | (479) |
| Exchange differences | - | (34) | (34) |
| At 30 June 2020 | 280 | 3,901 | 4,181 |
| Year ended 30 June 2019 | | | |
| At 1 July 2018 | - | 3,120 | 3,120 |
| At 30 June 2019 | - | 3,120 | 3,120 |

Description of the Group's intangible assets

Intangible assets relate to the fair value of contracts acquired from iPipe Services on 5 July 2019. Intangible assets have been assessed as having a finite life and are amortised using the straight line method over a period of 21 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, the entity R.I.G. Installations (Newcastle) Pty Ltd and the entity Buildtek SpA. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

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

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

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------------------------------|----------------|----------------|
| Summarised statement of financial position | | |
| Cash and cash equivalents | 63,213 | 5,267 |
| Current assets | 80,915 | 6,150 |
| Non-current assets | 452 | 78 |
| Current liabilities | (76,213) | (6,465) |
| Non-current liabilities | (2) | (2) |
| Equity | 5,152 | (239) |
| Group's share of Mondium Pty Ltd net assets | 3,091 | (143) |
| Summarised statement of financial performance | | |
| Revenue from contracts with customers | 134,563 | 33,679 |
| Cost of sales | (118,093) | (29,626) |
| Profit before tax | 7,610 | 1,182 |
| Income tax expense | (2,218) | - |
| Profit after tax | 5,392 | 1,182 |
| Profit and total comprehensive income for the year | 5,392 | 1,182 |
| Depreciation expense | (63) | (14) |
| Interest income | 113 | 70 |
| Interest expense | (14) | (2) |
| Group's share of profit for the year | 3,190 | 868 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

11. INTEREST IN JOINT VENTURES (continued)

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 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:

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------------------------------|----------------|----------------|
| Summarised statement of financial position | | |
| Cash and cash equivalents | 14,244 | 23,272 |
| Current assets | 37,378 | 73,127 |
| Non-current assets | 5,882 | 4,574 |
| Current liabilities | (24,070) | (61,486) |
| Current financial liabilities | (1,161) | (735) |
| Non-current liabilities | (3,630) | (3,824) |
| Non-current financial liabilities | (2,777) | (2,037) |
| Equity | 15,560 | 12,392 |
| Group's share of Zenviron Pty Ltd net assets | 8,558 | 6,815 |
| Summarised statement of financial performance | | |
| Revenue from contracts with customers | 175,695 | 220,618 |
| Cost of sales | (163,388) | (197,171) |
| Profit before tax | 4,528 | 16,326 |
| Income tax expense | (1,360) | (4,915) |
| Profit after tax | 3,168 | 11,411 |
| Profit and total comprehensive income for the year | 3,168 | 11,411 |
| Depreciation expense | (2,073) | (770) |
| Interest income | 99 | 362 |
| Interest expense | (202) | (23) |
| Group's share of profit for the year | 1,742 | 6,276 |

Commitments and contingent liabilities relating to Joint Ventures

The Group's share of insurance bond guarantees issued by Joint Ventures at 30 June 2020 was \$92,033,477 (2019: \$9,782,482).

Joint ventures had no capital commitments at 30 June 2020 (2019: \$nil).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|-------------------------------------|----------------|----------------|
| 12. OTHER NON-CURRENT ASSETS | | |
| Other non-current assets | 2,873 | 2,921 |

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. Fair value is calculated using quoted prices in active markets.

| | 2020 \$'000 | 2019 \$'000 |
|-------------------------------------|----------------|----------------|
| 13. TRADE AND OTHER PAYABLES | | |
| CURRENT | | |
| Trade payables | 73,640 | 113,661 |
| Contract liabilities | 61,322 | 33,579 |
| Sundry creditors and accruals | 30,790 | 37,101 |
| | 165,752 | 184,341 |

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.

Contract liability

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------------------------------|----------------|----------------|
| 14. INTEREST BEARING LOANS AND BORROWINGS | | |
| CURRENT | | |
| Hire purchase lease liabilities – secured | - | 9,668 |
| Loan – secured | 1,580 | 1,200 |
| | 1,580 | 10,868 |
| NON-CURRENT | | |
| Hire purchase lease liabilities – secured | - | 25,261 |
| Loan – secured | 1,943 | 2,100 |
| | 1,943 | 27,361 |

Defaults and breaches

During the current and prior year, there were no defaults and 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.

From 1 July 2019, hire purchase liabilities have been reclassified as lease liabilities (refer note 15).

Leases - policy applied prior to 1 July 2019

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.

Finance leases - policy applied prior to 1 July 2019

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 |
|------------------------------------------------------------------------------------------------|----------------|
| 15. LEASE LIABILITIES | |
| CURRENT | |
| Hire purchase lease liabilities | 12,535 |
| Other lease liabilities | 6,198 |
| | 18,733 |
| NON-CURRENT | |
| Hire purchase lease liabilities | 29,791 |
| Other lease liabilities | 39,845 |
| | 69,636 |
| Set out below are the carrying amounts of lease liabilities and the movements during the year: | |
| Opening balance adjustment on application of AASB 16 | 82,190 |
| Additions through business combinations | 1,889 |
| Additions | 24,999 |
| Accretion of interest | 3,440 |
| Payments | (22,566) |
| Terminations | (1,090) |
| Foreign currency movement | (493) |
| Carrying amount at the end of the financial year | 88,369 |

Terms and conditions

Hire purchase agreements have an average term of three years. The average discount rate implicit in the hire purchase liability is 3.09% (2019: 3.35%).

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 33 for details.

The maturity analysis of lease liabilities is set out in note 24.

Recognition and measurement

Refer to note 33 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OPERATING ASSETS AND LIABILITIES

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------------------------------|----------------|----------------|
| 16. PROVISIONS | | |
| CURRENT | | |
| Employee benefits | 46,869 | 44,690 |
| Workers' compensation | 9,349 | 18,363 |
| Other | 3,147 | - |
| | 59,365 | 63,053 |
| NON-CURRENT | | |
| Employee benefits – long service leave | 4,340 | 4,542 |
| Movements in provisions | | |
| <i>Workers' compensation</i> | | |
| Carrying amount at the beginning of the year | 18,363 | |
| Additional provision | 635 | |
| Amounts utilised during the year | (9,649) | |
| Carrying amount at the end of the financial year | 9,349 | |

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 year 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: CAPITAL STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2020

17. 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 2020, the Group is in a net cash position of \$162,443,000 (2019: \$125,813,000) and has a debt to equity ratio of 11.9% (2019: 9.7%) which is within the Group's net cash and debt to equity target levels.

During the year ended 30 June 2020, management paid dividends of \$42,455,000. 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.

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| 18. DIVIDENDS PAID AND PROPOSED | | |
| Declared and paid during the year | | |
| <i>Current year interim</i> | | |
| Interim franked dividend for 2020 (22 cents per share) (2019: 25 cents per share) | 20,767 | 23,561 |
| <i>Previous year final</i> | | |
| Final franked dividend for 2019 (23 cents per share) (2018: 32 cents per share) | 21,688 | 30,112 |
| Unrecognised amounts | | |
| <i>Current year final</i> | | |
| Final franked dividend for 2020 (13 cents per share) (2019: 23 cents per share) | 12,303 | 21,688 |
| 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 | 40,475 | 58,351 |
| 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 | (5,273) | (9,295) |
| | 35,202 | 49,056 |

Tax rates

The tax rate at which paid dividends have been franked is 30% (2019: 30%). Dividends payable will be franked at the rate of 30% (2019: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: CAPITAL STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|-----------------------------------------|----------------|----------------|
| 19. CONTRIBUTED EQUITY | | |
| Ordinary shares – Issued and fully paid | 132,576 | 129,992 |
| Reserved shares | (1,269) | (1,269) |
| | 131,307 | 128,723 |

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.

| | 2020 | | 2019 | |
|---------------------------------|-------------------|----------------|------------------|---------|
| | Number of Shares | \$'000 | Number of Shares | \$'000 |
| Beginning of the financial year | 94,294,487 | 129,992 | 94,108,311 | 126,972 |
| Dividend reinvestment plan | 195,346 | 2,584 | 186,176 | 3,020 |
| End of the financial year | 94,489,833 | 132,576 | 94,294,487 | 129,992 |

During the year ended 30 June 2020, 82,771 performance rights were exercised through the issue of reserved shares.

Reserved shares

| | 2020 | | 2019 | |
|----------------------------------|------------------|----------------|------------------|---------|
| | Number of Shares | \$'000 | Number of Shares | \$'000 |
| Beginning of the financial year | 92,375 | (1,269) | 85,500 | (1,269) |
| Conversion of performance rights | (82,771) | - | - | - |
| Acquisition of reserved shares | - | - | 6,875 | - |
| End of the financial year | 9,604 | (1,269) | 92,375 | (1,269) |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: CAPITAL STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------------------------------------|-----------------|-----------------|
| 20. RESERVES AND RETAINED EARNINGS | | |
| Foreign currency translation reserve | (1,160) | 84 |
| Share-based payment reserve | 34,810 | 32,721 |
| Fair value reserve for financial assets | 867 | 902 |
| Equity reserve | (1,455) | - |
| | 33,062 | 33,707 |
| Retained earnings | 220,064 | 231,006 |
| Movements in retained earnings | | |
| Balance at the beginning of the year | 231,006 | 234,114 |
| Opening balance adjustment of AASB 16 | (4,970) | - |
| Balance at the beginning of the year – restated | 226,036 | 234,114 |
| Net profit attributable to equity holders of the parent | 36,483 | 50,565 |
| Total available for appropriation | 262,519 | 284,679 |
| Dividends paid | (42,455) | (53,673) |
| Balance at the end of the year | 220,064 | 231,006 |

Movements in reserves

| | Foreign Currency Translation Reserve \$'000 | Share-Based Payment Reserve \$'000 | Fair Value Reserve for Financial Assets \$'000 | Equity Reserve \$'000 | Total \$'000 |
|------------------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------|---------------------------------------------------------|-----------------------------|-----------------|
| 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 |
| Foreign currency translation | (1,244) | - | - | - | (1,244) |
| Share-based payment | - | 2,186 | - | - | 2,186 |
| Adjustment to deferred tax asset recognised on employee share trust | - | (97) | - | - | (97) |
| Reclassification of non-controlling interest to liabilities | - | - | - | (1,455) | (1,455) |
| Net fair value gain of financial assets | - | - | (35) | - | (35) |
| At 30 June 2020 | (1,160) | 34,810 | 867 | (1,455) | 33,062 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: CAPITAL STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2020

20. RESERVES AND RETAINED EARNINGS (continued)

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 28 for further details of these plans.

Fair value reserve for financial assets

The fair value reserve for financial assets is used to record the movement in fair value of financial assets.

Equity reserve

The equity reserve is used to record the changes in the carrying amount of the financial liability representing the minority put and call option over the remaining 25% of the shares on issue of Buildtek SpA and MAQrent SpA. Refer to note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: GROUP STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2020

21. SUBSIDIARIES

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

| Name | Country of Incorporation | Percentage Held by Consolidated Entity | |
|-------------------------------------------------------------------|--------------------------|----------------------------------------|-----------------|
| | | 2020 % | 2019 % |
| Parent: | | | |
| Monadelphous Group Limited | | | |
| Controlled entities of Monadelphous Group Limited: | | | |
| Monadelphous Engineering Associates Pty Ltd [#] | Australia | 100 | 100 |
| Monadelphous Properties Pty Ltd [#] | Australia | 100 | 100 |
| Monadelphous Engineering Pty Ltd [#] | Australia | 100 | 100 |
| Genco Pty Ltd [#] | Australia | 100 | 100 |
| Monadelphous Workforce Pty Ltd [#] | Australia | 100 | 100 |
| Monadelphous Electrical & Instrumentation Pty Ltd [#] | Australia | 100 | 100 |
| Monadelphous KT Pty Ltd [#] | Australia | 100 | 100 |
| Monadelphous Energy Services Pty Ltd [#] | Australia | 100 | 100 |
| 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 |
| 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 |
| R.I.G. Installations (Newcastle) Pty Ltd | Australia | 100 | 100 |
| RE&M Services Pty Ltd | Australia | 100 | 100 |
| Pilbara Rail Services Pty Ltd | Australia | 100 | 100 |
| EC Projects Pty Ltd | Australia | 100 | 100 |
| Monadelphous PNG Ltd | Papua New Guinea | 100 | 100 |
| Moway International Limited | Hong Kong | 100 | 100 |
| Moway AustAsia Steel Structures Trading (Beijing) Company Limited | China | 100 | 100 |
| Monadelphous Singapore Pte Ltd | Singapore | 100 | 100 |
| Monadelphous Mongolia LLC | Mongolia | 100 | 100 |
| Monadelphous Inc. | USA | 100 | 100 |
| Monadelphous Marcellus LLC | USA | 100 | 100 |
| MKT Pipelines Ltd | Canada | - | 100 |
| Monadelphous Engineering NZ Pty Ltd | New Zealand | 100 | 100 |
| Monadelphous Chile SpA [*] | Chile | 100 | - |
| MAQrent SpA | Chile | 75 | - |
| Buildtek SpA | Chile | 75 | - |
| Monadelphous Sdn Bhd | Malaysia | 100 | 100 |

[#] Controlled entities subject to the Class Order (Refer to note 32).

^{*} Incorporated during the year.

[^] The Group considers that it controls these companies 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: GROUP STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2020

22. BUSINESS COMBINATION

Acquisition of Buildtek SpA and MAQrent 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, MAQrent SpA ("MAQrent"). 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 MAQrent as of the date of acquisition were:

| | Provisional fair value at acquisition date \$'000 |
|------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| Cash | 8,626 |
| Trade and other receivables | 13,399 |
| Property, plant and equipment | 4,466 |
| Other | 2,994 |
| Total assets | 29,485 |
| Trade and other payables | 7,481 |
| Lease liabilities | 1,889 |
| Interest bearing loans and borrowings | 6,481 |
| Provisions | 2,311 |
| Total liabilities | 18,162 |
| Fair value of identifiable net assets | 11,323 |
| Attributable to non-controlling interest (25%) | (2,831) |
| Goodwill arising on acquisition | 815 |
| Purchase consideration | 9,307 |
| Acquisition-date fair-value of consideration transferred: | |
| Cash paid | 9,307 |
| Total consideration | 9,307 |
| <i>The cash outflow on acquisition is as follows:</i> | |
| 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) |

Adjustments to the provisional fair value of net assets at acquisition date, as disclosed in the financial statements for the six months ended 31 December 2019 totalled \$240,000, resulting in an increase in goodwill.

Sales revenue of \$30,339,000 and net profit of \$711,000 has been recognised from Buildtek and MAQrent for the period since acquisition. If the acquisition date had been 1 July 2019, Buildtek and MAQrent would have contributed revenue of \$55,789,000 and net profit of \$2,024,000.

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 \$815,000 of goodwill are the synergies existing within the acquired business, and synergies expected to be achieved as a result of combining Buildtek and MAQrent 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.

At the date of acquisition, the Group obtained an option to acquire the remaining 25% of the shares on issue of Buildtek and MAQrent 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: GROUP STRUCTURE

FOR THE YEAR ENDED 30 JUNE 2020

22. BUSINESS COMBINATION (continued)

Acquisition of Buildtek SpA and MAQrent SpA (continued)

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.

At 30 June 2020, the financial liability associated with the option held by the minority shareholders was \$4,480,811.

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 \$3,649,151. The acquisition was not material to the group.

23. 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 | |
|-------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-----------------------------|----------------|--------|
| | | | 2020 % | 2019 % |
| 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 | 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 2020 (2019: \$nil).

Impairment

There were no assets employed in the joint operations during the year ended 30 June 2020 (2019: \$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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2020

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, loans, 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, 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 | 2020 \$'000 | 2019 \$'000 |
|-------------------------------------|-------|----------------|----------------|
| Financial assets/liabilities | | | |
| Cash and cash equivalents | 5 | 208,292 | 164,042 |
| Loan - secured | | (2,100) | (3,300) |
| Net exposure | | 206,192 | 160,742 |

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 2020, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2020

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

Foreign currency risk

As a result of operations in the USA, Papua New Guinea, China, Mongolia, New Zealand and Chile the Group's statement of financial position can be affected by movements in the US\$/A\$, PGK/A\$, RMB/A\$, MNT/A\$, NZ\$/A\$ and CLP/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 2020, the Group had no forward contracts.

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 2020, the Group had the following exposure to foreign currency:

| | PGK AUD \$'000 | USD AUD \$'000 |
|--------------------------------|-------------------|-------------------|
| Year ended 30 June 2020 | | |
| Financial assets | | |
| Cash and cash equivalents | 6,825 | 26,088 |
| Trade and other receivables | 6,684 | 11,439 |
| Financial liabilities | | |
| Trade and other payables | (872) | (2,218) |
| Net Exposure | 12,637 | 35,309 |
| Year ended 30 June 2019 | | |
| Financial assets | | |
| Cash and cash equivalents | 5,835 | 32,974 |
| Trade and other receivables | 5,826 | 15,771 |
| Financial liabilities | | |
| Trade and other payables | (1,250) | (1,615) |
| Net Exposure | 10,411 | 47,130 |

At 30 June 2020, reasonably possible movements in PGK foreign exchange rates, based on a review of historical movements, would not have had a material impact on the Group.

At 30 June 2020, 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) | |
|--------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------|----------------------------------------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| +5% (2019: +5%) | (1,236) | (1,650) | - | - |
| -5% (2019: -5%) | 1,236 | 1,650 | - | - |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2020

24. 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 \$498,232,000 at 30 June 2020 (2019: \$516,263,000).

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 indicators when assessing significant movements in credit risk.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2020

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

Credit risk (continued)

Set out below is the information about the credit risk exposure 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 | Current | Days past due | | | | |
| | | | <31 days | 31-60 days | 61-90 days | >91 days | |
| 30 June 2020 | | | | | | | |
| Expected credit loss rate | 0.55% | 0.52% | 0.74% | 1.60% | 4.55% | 23.8% | |
| Total estimated gross carrying amount at default (\$'000) | 27,503 | 142,695 | 30,532 | 5,305 | 2,459 | 10,114 | 191,105 |
| Expected credit loss (\$'000) | 152 | 749 | 225 | 85 | 112 | 2,410 | 3,581 |

| | Trade receivables | | | | | | Total |
|-----------------------------------------------------------|-------------------|---------|---------------|------------|------------|----------|---------|
| | Contract assets | Current | Days past due | | | | |
| | | | <31 days | 31-60 days | 61-90 days | >91 days | |
| 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 (\$'000) | 29,661 | 202,152 | 26,770 | 7,325 | 4,023 | 12,366 | 252,636 |
| Expected credit loss (\$'000) | 275 | 1,570 | 209 | 97 | 81 | 1,677 | 3,634 |

Other balances within trade and other receivables 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 counterparty, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2020

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

Liquidity risk

Financing facilities available

| | 2020 \$'000 | 2019 \$'000 |
|-------------------------------------------------------------------------------------------|----------------|----------------|
| At balance date the following financing facilities had been negotiated and were available | | |
| Total facilities: | | |
| - Bank guarantee and performance bonds | 490,000 | 490,000 |
| - Revolving credit | 96,112 | 90,300 |
| | 586,112 | 580,300 |
| Facilities used at balance date: | | |
| - Bank guarantee and performance bonds | 229,388 | 209,925 |
| - Revolving credit | 45,849 | 38,229 |
| | 275,237 | 248,154 |
| Facilities unused at balance date: | | |
| - Bank guarantee and performance bonds | 260,612 | 280,075 |
| - Revolving credit | 50,263 | 52,071 |
| | 310,875 | 332,146 |

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 and 15 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: FINANCIAL RISK MANAGEMENT

FOR THE YEAR ENDED 30 JUNE 2020

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

Liquidity risk (continued)

The table below reflects all contractually fixed pay-offs, repayments and interest resulting from financial liabilities as of 30 June 2020.

Maturity analysis of financial liabilities:

| | 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 |
|--------------------------------|-------------------------------|---------------------------------|--------------------------------|----------------------------------------------|---------------------------------------|
| Year ended 30 June 2020 | | | | | |
| Financial liabilities | | | | | |
| Trade and other payables | 165,752 | - | - | 165,752 | 165,752 |
| Hire purchase liability | 6,640 | 7,129 | 31,213 | 44,982 | 42,326 |
| Other lease liabilities | 4,100 | 3,842 | 45,646 | 53,588 | 46,043 |
| Bank loans | 911 | 904 | 2,220 | 4,035 | 3,523 |
| Other financial liability | - | - | 4,848 | 4,848 | 4,480 |
| Net maturity | 177,403 | 11,875 | 83,927 | 273,205 | 262,124 |
| Year ended 30 June 2019 | | | | | |
| 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 | 191,048 | 5,382 | 29,089 | 225,519 | 222,570 |

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. 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 2020 or 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: UNRECOGNISED ITEMS

FOR THE YEAR ENDED 30 JUNE 2020

25. COMMITMENTS AND CONTINGENCIES

Capital commitments

The consolidated group has capital commitments of \$1,436,867 at 30 June 2020 (2019: \$4,355,277).

Guarantees

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------------------------------------------------------|----------------|----------------|
| Guarantees given to various clients for satisfactory contract performance | 229,388 | 209,925 |

Monadelphous Group Limited and all controlled entities marked # in note 21 have entered into a deed of cross guarantee. Refer to note 32 for details.

Contingent Liabilities

On 31 July 2020, Monadelphous was notified that Rio Tinto had filed a Writ of Summons in the Supreme Court of Western Australia against one of Monadelphous' wholly owned subsidiaries, Monadelphous Engineering Associates Pty Ltd (MEA). The claim has been made by Robe River Mining Co Pty Ltd and Pilbara Iron Pty Ltd (on behalf of the Robe River joint venture) in respect of a fire incident which occurred at Rio Tinto's iron ore processing facility at Cape Lambert, Western Australia on 10 January 2019. The writ has not yet been served on MEA.

MEA had been performing maintenance shutdown services prior to the fire commencing, and Rio Tinto has alleged that MEA was in breach of the maintenance contract, thereby causing the fire. Although the writ does not specify any damages, Rio Tinto has separately informed MEA that its claim is for \$493 million in loss and damage. This amount comprises \$35 million in material damage costs associated with the re-construction of the Sinter Fines processing facility, and \$458 million for a temporary operating solution and business interruption losses arising from the alleged inability to process iron ore during the period of reconstruction of the facility.

MEA denies Rio Tinto's allegations and claimed losses (which MEA considers have not been substantiated). Further, the contract between Rio Tinto and MEA, which governed the maintenance work performed by MEA, contains exclusions and limitations of liability which will be relied upon by MEA in defence of the claim. MEA has public liability insurance in place with a total limit of \$150 million which provides cover for property damage claims and associated losses. Monadelphous is unaware of any reason why the insurance policies would not respond to indemnify MEA for liability it may have to Rio Tinto. Along with its insurers and their legal representatives, MEA intends to fully defend Rio Tinto's legal action.

Recent court decisions, not involving Monadelphous, in respect of the correct application of certain employee entitlements may have a financial impact on the Group. The Group does not consider the majority of the principles relating to these Court decisions directly apply to the Group's employment arrangements. No provision has therefore been recognised in relation to these matters at 30 June 2020.

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 based on information currently available there is no material exposure to the Group arising from these various actual and pending claims.

26. SUBSEQUENT EVENTS

Notification of filing of writ of summons

On 31 July 2020, Monadelphous was notified that Rio Tinto had filed a Writ of Summons in the Supreme Court of Western Australia against one of Monadelphous' wholly owned subsidiaries, Monadelphous Engineering Associates Pty Ltd (MEA). The claim has been made by Robe River Mining Co Pty Ltd and Pilbara Iron Pty Ltd (on behalf of the Robe River joint venture) in respect of a fire incident which occurred at Rio Tinto's iron ore processing facility at Cape Lambert, Western Australia on 10 January 2019. The writ has not yet been served on MEA.

Refer to note 25 for further details.

Dividends declared

On 17 August 2020, the directors of Monadelphous Group Limited declared a final dividend on ordinary shares in respect of the 2020 financial year. The total amount of the dividend is \$12,303,392 which represents a fully franked final dividend of 13 cents per share. This dividend has not been provided for in the 30 June 2020 financial statements. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the dividend.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|-------------------------------------------------------------------------|-------|----------------|----------------|
| 27. PARENT ENTITY INFORMATION | | | |
| Information relating to Monadelphous Group Limited parent entity | | | |
| Current assets | | 173,899 | 140,758 |
| Total assets | | 2,597,568 | 2,064,004 |
| Current liabilities | | (2,335,491) | (1,842,800) |
| Total liabilities | | (2,405,409) | (1,870,677) |
| Net assets | | 192,159 | 193,327 |
| Contributed equity | | 131,307 | 128,723 |
| Share-based payment reserve | | 32,690 | 32,293 |
| Fair value reserve for financial asset at FVOCI | | 867 | 902 |
| Retained earnings | | 27,295 | 31,409 |
| Total equity | | 192,159 | 193,327 |
| Profit after tax | | 43,311 | 48,526 |
| Total comprehensive income of the parent entity | | 43,276 | 48,607 |
| Contingent liabilities | | | |
| Guarantees | 25 | 229,388 | 209,925 |

Guarantees entered into by the Group are via the parent entity. Details are contained in note 25.

Capital commitments

The parent entity has capital commitments of \$nil at 30 June 2020 (2019: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

28. SHARE BASED PAYMENT EXPENSE

The share-based payment expense for the year ended 30 June 2020 was \$2,186,390 (2019: \$3,513,531) for the consolidated entity.

Performance Rights

During the year, 265,438 performance rights were granted by Monadelphous Group Limited under the Combined Reward Plan ("CR Plan") in respect of the 2019 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 3.59% to 4.13% has been used in the calculation.

The weighted average fair value of performance rights granted in the period was \$14.28. The weighted average remaining contractual life for the performance rights outstanding at 30 June 2020 was 1 year.

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

| | 2020 | | 2019 | |
|--------------------------------------|------------------------------|------------------------------------|------------------------------|------------------------------------|
| | Number of Performance Rights | Weighted Average Exercise Price \$ | Number of Performance Rights | Weighted Average Exercise Price \$ |
| Balance at the beginning of the year | 248,407 | nil | - | - |
| Issued during the year | 265,438 | nil | 257,379 | nil |
| Exercised during the year | (82,771) | nil | - | nil |
| Forfeited during the year | (24,932) | nil | (8,972) | nil |
| Balance at the end of the year | 406,142 | nil | 248,407 | nil |
| Exercisable during the next year | 161,250 | nil | 82,771 | nil |

Options

In October 2019, a total of 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 prior to the invitation date to apply for the options of 14 October 2019. The fair value of each option issued during the 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 year:

| | |
|-------------------------|-------------------------------------------------|
| Dividend yield | 3.72% |
| 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

28. SHARE BASED PAYMENT EXPENSE (continued)

Options (continued)

The resulting weighted average fair values for options outstanding at 30 June 2020 are:

| Number | Grant Date | Final Vesting Date | Fair Value Per Option at Grant Date |
|-----------|------------|--------------------|----------------------------------------|
| 600,000 | 14/10/2019 | 14/09/2023 | \$1.84 |
| 600,000 | 14/10/2019 | 14/09/2023 | \$2.10 |
| 1,200,000 | 14/10/2019 | 14/09/2023 | \$2.27 |

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

| | 2020 | | 2019 | |
|--------------------------------------|----------------------|------------------------------------------|----------------------|------------------------------------------|
| | Number of Options | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ |
| Balance at the beginning of the year | - | - | - | - |
| Granted during the year | 2,450,000 | 14.84 | - | - |
| Forfeited during the year | (50,000) | 14.84 | - | - |
| Balance at the end of the year | 2,400,000 | 14.84 | - | - |
| Exercisable during the next year | - | - | - | - |

No options were exercised during the period.

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 and the Monadelphous Group Limited Employee Option 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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$ | 2019 \$ |
|------------------------------------------------------------------------------------------------------------|----------------|----------------|
| 29. AUDITORS' REMUNERATION | | |
| The auditor of Monadelphous Group Limited is Ernst & Young. | | |
| <i>Amounts received or due and receivable by Ernst & Young Australia for:</i> | | |
| - An audit or review of the financial report of the entity and any other entity in the consolidated entity | 289,692 | 296,053 |
| - Other services in relation to the entity and any other entity in the consolidated entity | | |
| - tax compliance | 101,332 | 36,089 |
| | 391,024 | 332,142 |

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.

| | 2020 \$ | 2019 \$ |
|-------------------------------------------------|------------------|------------------|
| 30. RELATED PARTY DISCLOSURES | | |
| Compensation of key management personnel | | |
| Short term benefits | 3,962,862 | 3,952,777 |
| Post-employment | 157,587 | 146,296 |
| Long term benefits | 80,500 | 71,081 |
| Share-based payments | 445,541 | 696,245 |
| Total compensation | 4,646,490 | 4,866,399 |

Zenviron

The group had sales to the joint venture during the year totalling \$8,285,352 (2019: \$12,954,834).

Mondium

At 30 June 2020, an amount totalling \$nil (2019: \$1,264,000) had been loaned to Mondium Pty Ltd. The loan is included in the statement of financial position within Investment in Joint Venture.

The group had sales to the joint venture during the year totalling \$14,040,100 (2019: \$5,799,662).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

31. 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 2020, the Engineering Construction division contributed revenue of \$615.9 million (2019: \$622.9 million) and the Maintenance and Industrial Services division contributed revenue of \$1,049.8 million (2019: \$998.4 million). Included in these amounts is \$14.9 million (2019: \$13.0 million) of inter-entity revenue and \$163.4 million (2019: \$131.0 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 28% (2019: 19%) of the Group's revenue. Two other customers individually contributed 15% and 13% 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

| | 2020 \$'000 | 2019 \$'000 |
|----------------------------------------|------------------|------------------|
| Revenue from external customers | | |
| Australia | 1,324,475 | 1,308,515 |
| New Zealand | 20,328 | 29,484 |
| Chile | 30,339 | - |
| Mongolia | 46,490 | 80,622 |
| Other overseas locations | 65,761 | 58,648 |
| | 1,487,393 | 1,477,269 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

32. 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:

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------------------------------------------|----------------|----------------|
| Consolidated Income Statement and Comprehensive Income | | |
| Profit before income tax | 30,667 | 61,949 |
| Income tax expense | (9,673) | (23,251) |
| Net profit after tax for the period | 20,994 | 38,698 |
| Reconciliation of Retained Earnings | | |
| Retained earnings at the beginning of the period | 227,975 | 242,950 |
| Opening balance adjustment on application of AASB 16 | (4,970) | - |
| Dividends paid | (42,455) | (53,673) |
| Net profit after tax for the period | 20,994 | 38,698 |
| Retained earnings at the end of the period | 201,544 | 227,975 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

| | 2020 \$'000 | 2019 \$'000 |
|-----------------------------------------------------|----------------|----------------|
| 32. DEED OF CROSS GUARANTEE (continued) | | |
| Consolidated Statement of Financial Position | | |
| ASSETS | | |
| <i>Current assets</i> | | |
| Cash and cash equivalents | 169,005 | 129,277 |
| Trade and other receivables | 316,057 | 326,156 |
| Contract assets | 16,287 | 30,566 |
| Total current assets | 501,349 | 485,999 |
| <i>Non-current assets</i> | | |
| Investments in subsidiaries | 17,179 | 7,872 |
| Property, plant and equipment | 150,415 | 106,220 |
| Deferred tax assets | 22,144 | 28,021 |
| Intangible assets and goodwill | 3,400 | 3,120 |
| Other non-current assets | 2,872 | 2,921 |
| Total non-current assets | 196,010 | 148,154 |
| TOTAL ASSETS | 697,359 | 634,153 |
| LIABILITIES | | |
| <i>Current liabilities</i> | | |
| Trade and other payables | 198,277 | 153,318 |
| Interest bearing loans and borrowings | 1,200 | 10,868 |
| Lease liabilities | 17,189 | - |
| Income tax payable | 438 | 198 |
| Provisions | 41,775 | 48,693 |
| Total current liabilities | 258,879 | 213,077 |
| <i>Non-current liabilities</i> | | |
| Interest bearing loans and borrowings | 900 | 27,361 |
| Lease liabilities | 67,477 | - |
| Provisions | 3,695 | 3,822 |
| Total non-current liabilities | 72,072 | 31,183 |
| TOTAL LIABILITIES | 330,951 | 244,260 |
| NET ASSETS | 366,408 | 389,893 |
| EQUITY | | |
| Contributed equity | 131,307 | 128,723 |
| Reserves | 33,557 | 33,195 |
| Retained earnings | 201,544 | 227,975 |
| TOTAL EQUITY | 366,408 | 389,893 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

33. 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 rate (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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

33. OTHER ACCOUNTING STANDARDS (continued)

New and amended Accounting Standards and Interpretations

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 2019.

The Group applies, for the first time, AASB 16 *Leases* (AASB 16). The nature and effect of these changes are disclosed below. In accordance with elections available under these new accounting standards (see below for further details), the new accounting policies are effective from 1 July 2019 and comparative information continues to be prepared in line with the accounting policies as disclosed in the 30 June 2019 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 2019 did not have any material effect on the financial position or performance of the Group.

AASB 16 Leases

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.

Impact on Application

The Group has lease contracts for properties and items of plant, vehicles 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 carrying amounts of recognised lease assets and liabilities at the date of initial application for leases previously classified as finance leases. The carrying values of the lease assets and lease liabilities under AASB 117 became the carrying values of the right of use assets and lease liabilities at transition.

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 recognised as a financing activity in the statement of cashflow (previously presented as an operating activity).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

33. OTHER ACCOUNTING STANDARDS (continued)

New and amended Accounting Standards and Interpretations (continued)

AASB 16 Leases (continued)

Impact on Application (continued)

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.

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

| | Increase / (Decrease) \$'000 |
|---------------------------------------------------|---------------------------------------------|
| 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 |
| <i>Less:</i> | |
| Present value discounting of lease liabilities | (4,616) |
| Commitments relating to short-term leases and low value assets | (1,277) |
| <i>Add:</i> | |
| 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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

33. OTHER ACCOUNTING STANDARDS (continued)

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.

Right of use 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.

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 five 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

33. 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 2020.

| Reference | Summary | Application date of standard | Application date for Group |
|---------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------|
| <i>Conceptual Framework AASB 2019-1</i> | <p>The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.</p> <p>AASB 2019-1 has also been issued, which sets out the amendments to other pronouncements for references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the Framework for the Preparation and Presentation of Financial Statements (July 2004), and not the definitions in the revised Conceptual Framework.</p> | 1 January 2020 | 1 July 2020 |
| <i>AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business</i> | <p>The Standard amends the definition of a business in AASB 3 Business Combinations. 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.</p> | 1 January 2020 | 1 July 2020 |
| <i>AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material</i> | <p>This Standard amends AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors 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.</p> | 1 January 2020 | 1 July 2020 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS: OTHER

FOR THE YEAR ENDED 30 JUNE 2020

33. OTHER ACCOUNTING STANDARDS (continued)

New accounting standards and interpretations issued but not yet effective (continued)

| Reference | Summary | Application date of standard | Application date for Group |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------|
| <i>AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia</i> | This Standard amends AASB 1054 by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 on the potential effect of an IFRS Standard that has not yet been issued by the AASB so that such entity complying with Australian Accounting Standards can assert compliance with IFRS Standards. | 1 January 2020 | 1 July 2020 |
| <i>AASB 2014-10 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 Business Combinations. 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. | 1 January 2022 | 1 July 2022 |
| <i>AASB 2020-1 Amendments to AASs – Classification of Liabilities as current or non-current</i> | <p>A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 to clarify the requirements for classifying liabilities as current or non-current. Specifically:</p> <ul style="list-style-type: none"> • The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. • Management intention or expectation does not affect classification of liabilities. • In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. | 1 January 2022 | 1 July 2022 |

INVESTOR INFORMATION

FOR THE YEAR ENDED 30 JUNE 2020

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows. The information is current at 14 September 2020.

a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of share is:

| Range | Total holders | Number of Ordinary Shares | % of Issued Capital |
|------------------|---------------|---------------------------|---------------------|
| 1 - 1,000 | 6,501 | 2,947,579 | 3.11 |
| 1,001 - 5,000 | 4,030 | 9,620,183 | 10.17 |
| 5,001 - 10,000 | 744 | 5,561,174 | 5.88 |
| 10,001 - 100,000 | 562 | 13,934,494 | 14.72 |
| 100,001 Over | 40 | 62,578,049 | 66.12 |
| Total | 11,877 | 94,641,479 | 100.00 |

The number of shareholders holding less than marketable parcels is 468.

b) Twenty largest shareholders

The names of the twenty largest holders of quoted shares are:

| Rank | Name | Number of Ordinary Shares | % of Issued Capital |
|-------|--------------------------------------------------------------|---------------------------|---------------------|
| 1. | HSBC Custody Nominees (Australia) Limited | 24,315,585 | 25.69 |
| 2. | J P Morgan Nominees Australia Pty Limited | 13,269,295 | 14.02 |
| 3. | Citicorp Nominees Pty Limited | 5,338,571 | 5.64 |
| 4. | National Nominees Limited | 2,910,544 | 3.08 |
| 5. | BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 2,619,375 | 2.77 |
| 6. | BNP Paribas Noms Pty Ltd <DRP> | 2,379,258 | 2.51 |
| 7. | Velham Nominees Pty Ltd <The Velletri Family A/C> | 2,100,000 | 2.22 |
| 8. | Wilmar Enterprises Pty Ltd | 1,320,000 | 1.39 |
| 9. | Rubi Holdings Pty Ltd <John Rubino S/F A/C> | 1,022,653 | 1.08 |
| 10. | Citicorp Nominees Pty Limited <Colonial First State Inv A/C> | 820,154 | 0.87 |
| 11. | HSBC Custody Nominees (Australia) Limited-GSCO ECA | 512,152 | 0.54 |
| 12. | Brispot Nominees Pty Ltd <House Head Nominee A/C> | 508,305 | 0.54 |
| 13. | Mr Arif Erdash | 480,000 | 0.51 |
| 14. | UBS Nominees Pty Ltd | 416,232 | 0.44 |
| 15. | Neale Edwards Pty Ltd | 385,085 | 0.41 |
| 16. | AMP Life Limited | 301,716 | 0.32 |
| 17. | 3rd Wave Investors Ltd | 300,000 | 0.32 |
| 18. | CPU Share Plans Pty Ltd <MND CRV Control A/C> | 240,604 | 0.25 |
| 19. | Borromini Pty Ltd | 224,000 | 0.24 |
| 20. | Marsden Holdings (Canberra) Pty Ltd | 219,423 | 0.23 |
| Total | | 59,682,952 | 63.07 |

c) Substantial shareholders

The following shareholders have declared a relevant interest in the number of voting shares at the date of giving notice under Part 6C.1 of the *Corporations Act 2001*.

| Shareholder | Ordinary Shares | % Held |
|------------------------------------------------|-----------------|--------|
| Pendal Group Limited | 9,794,803 | 10.35 |
| The Vanguard Group Inc. (and its subsidiaries) | 4,955,614 | 5.24 |

d) Voting rights

Each ordinary shareholder present at a general meeting (whether in person, online, by proxy or by representative) is entitled to one vote on a show of hands, or on a poll, one vote for each fully paid ordinary share subject to any voting restrictions that may apply.

e) Securities exchange listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Securities Exchange Limited.

INVESTOR INFORMATION

FOR THE YEAR ENDED 30 JUNE 2020

ANNUAL GENERAL MEETING

The Annual General Meeting will be held in person at The University Club, University of Western Australia, Crawley, WA, and online via the Lumi software platform, on Tuesday 24 November 2020 at 10.00am (AWST). Full details of the meeting are contained in the Notice of Annual General Meeting available on the Company's website at www.monadelphous.com.au.

DIVIDENDS

The following options are available regarding payment of dividends.

- (i) By cheque payable to the shareholder; or
- (ii) By direct deposit to a bank, building society or credit union account.

Lost or stolen cheques should be reported immediately to the Share Registry, in writing. Electronic payments are credited on the dividend payment date and confirmed by a payment advice sent to the shareholder. Request forms for this service are available from the Company's Share Registry at the address shown below.

SHAREHOLDER ENQUIRIES

All enquires should be directed to the Company's Share Registry at:

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
Perth Western Australia 6000

Telephone: 1300 364 961 (Australia)
+61 3 9946 4415 (Overseas)

Email: web.queries@computershare.com.au
Website: www.investorcentre.com

All written enquires should include your Security Holder Reference Number or Holder Identification Number as it appears on your Holding Statement along with your current address.

CHANGE OF ADDRESS

It is very important that shareholders notify the Share Registry immediately, in writing, if there is any change to their registered address.

LOST HOLDING STATEMENTS

Shareholders should inform the Share Registry immediately, in writing, so that a replacement statement can be arranged.

CHANGE OF NAME

Shareholders who change their name should notify the Share Registry, in writing, and attach a copy of a relevant marriage certificate or deed poll.

TAX FILE NUMBER (TFN)

Although it is not compulsory for each shareholder to provide a TFN or exemption details, for those shareholders who do not provide the necessary details, the Company will be obliged to deduct tax from any unfranked portion of their dividends at the top marginal rate. TFN application forms can be obtained from the Share Registry, any Australian Post Office or the Australian Taxation Office.

MONADELPHOUS PUBLICATIONS

In an effort to reduce its impact on the environment Monadelphous will only post printed copies of this Annual Report to those shareholders who elect to receive one through the share registry. Shareholders may alternatively elect to receive an electronic copy of the Annual Report. Monadelphous Group Limited financial reports are also available on its website.

INFORMATION ABOUT MONADELPHOUS

Requests for specific information on the Company can be directed to the Company Secretary at the following address:

Monadelphous Group Limited
PO Box 600
Victoria Park, WA 6979

Telephone: +61 8 9316 1255
Facsimile: +61 8 9316 1950

MONADELPHOUS WEBSITE

Further information about Monadelphous Group Limited is available on the Company website: www.monadelphous.com.au

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 Limited

Level 11, 172 St George's Terrace
Perth
Western Australia 6000
Telephone: 1300 364 961 (Australia)
+61 3 9946 4415 (Overseas)
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

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
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
Monadelphous Chile SpA
MAQrent SpA
Buildtek SpA

PERTH HEAD OFFICE

59 Albany Highway
Victoria Park
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Western Australia 6979

T +61 8 9316 1255
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BRISBANE OFFICE

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Queensland 4064

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Queensland 4064

T +61 7 3368 6700
F +61 7 3368 6777

MONADELPHOUS.COM.AU

Monadelphous Group Limited
ABN 28 008 988 547