

MONADELPHOUS GROUP LIMITED
A.B.N. 28 008 988 547
CONSOLIDATED FINANCIAL REPORT
30 JUNE 2013

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

CORPORATE DIRECTORY

Directors

Calogero Giovanni Battista Rubino
Chairman

Robert Velletri
Managing Director

Irwin Tollman
Non-Executive Director

Peter John Dempsey
Lead Independent Non-Executive Director

Christopher Percival Michelmore
Independent Non-Executive Director

Company Secretaries

Zoran Bebic
Philip Trueman

Principal Registered Office in Australia

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

Postal Address

PO Box 600
Victoria Park
Western Australia 6979

Share Registry

Computershare Investor Services Pty Ltd

Level 2, 45 St George's Terrace
Perth
Western Australia 6000
Telephone: 1300 364 961
Facsimile: +61 8 9323 2033

ASX Code

MND – Fully Paid Ordinary Shares

Bankers

National Australia Bank Limited

50 St George's Terrace
Perth
Western Australia 6000

Westpac Banking Corporation

109 St George's Terrace
Perth
Western Australia 6000

Bankers (cont'd)

HSBC

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

Auditors

Ernst & Young

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

Solicitors

Clifford Chance

190 St George's Terrace
Perth
Western Australia 6000

King and Wood Mallesons

152 St George's Terrace
Perth
Western Australia 6000

Controlled Entities

Monadelphous Engineering Associates Pty Ltd
Monadelphous Engineering Pty Ltd
Skystar Airport Services Pty Ltd
Monadelphous Properties Pty Ltd
Monadelphous Workforce Pty Ltd
Genco Pty Ltd
Monadelphous Electrical & Instrumentation Pty Ltd
(formerly M I & E Holdings Pty Ltd)
Monadelphous PNG Ltd
Skystar Airport Services Holdings Pty Ltd
Skystar Airport Services NZ 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 (formerly KT Pty Ltd)
Monadelphous Energy Services Pty Ltd
Monadelphous Singapore Pte Ltd (incorporated 2
November 2012)
Monadelphous Mongolia LLC (incorporated 5 February
2013)

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FINANCIAL OVERVIEW

The Directors of Monadelphous Group Limited are pleased to report the Company achieved another record sales and earnings result for shareholders.

Revenue

Sales revenue for the year was \$2,614 million, up 37.8 per cent. An extraordinary level of construction activity led to this outstanding result.

Earnings

Net profit after tax (NPAT) was also a record \$156.3 million, up 24.1 per cent on the previous year's underlying[^] NPAT, marking the Company's twelfth consecutive year of earnings growth.

Earnings before interest, tax, depreciation, and amortisation (EBITDA) was \$247 million, an increase of 25.7 per cent on an underlying[^] basis. Margins were impacted by tightening market conditions together with underperformance across several transmission pipeline projects. Earnings per share was 173 cents, up 21.5 per cent on the previous year's underlying[^] result.

Dividend

The Board of Directors has declared a final dividend of 75 cents per share fully franked. This takes the full-year dividend to 137 cents per share fully franked, a 9.6 per cent increase on the previous year. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the final dividend.

Surge in Engineering Construction Activity

The 2012/13 financial year was a period of abnormal growth for Monadelphous which reflected an unprecedented volume of construction contracts from the record level of resources and energy developments in execution phase. Activity was particularly intense, with a number of projects on accelerated schedules ramping up concurrently. Workforce numbers peaked at 8,700 people, placing significant demands on the Company's operational and financial resources.

Continued to Secure New Work

During the year, Monadelphous was awarded approximately \$1.3 billion in new contracts for major construction work in the iron ore and coal sectors and new and extended contracts for maintenance in oil and gas markets.

Working Capital and Capital Expenditure

Working capital* increased by approximately \$80 million during the year as a result of rapid growth in the scale of the business from a significant surge in construction activity, several large projects approaching completion concurrently at year end and the increasing trend of customers lengthening the duration of the contract claim and payment cycle. Notably, no major construction contracts were closed out during the period.

Bond facilities were increased by \$85 million to support higher levels of construction activity and prospective new work. Undrawn bond facilities stood at \$105.6 million at 30 June 2013. The Company's balance sheet remained strong with a net cash position of \$140 million at year end.

Following a year of substantial investment in the heavy lift fleet and specialised pipe-laying equipment, capital expenditure in 2012/13 was down by 37.5 per cent to \$46.4 million. The reduction reflects a return to a more typical level of capital expenditure. Capital commitments totalled \$1.6 million at 30 June 2013, compared with \$19.6 million at the end of the previous year.

[^] Refer to page 8 for definition of "underlying" and reconciliation of underlying EBITDA

* Refer to page 8 for definition of "working capital"

Consolidation after Extraordinary Growth

A strategic review of the effectiveness and efficiency of the Company's divisional operating structure was completed during the second half of the year. As a result of this review, the Infrastructure division was consolidated into the operating structure of the two service-based divisions, Engineering Construction (EC) and Maintenance and Industrial Services (M&IS).

The new structure, which was effective from 1 July 2013, will provide more effective delivery of services through common execution methods and skills capability, and drive the expansion of opportunities in newer markets through excellence in service delivery. In addition, it will provide greater flexibility in resourcing variable workloads within divisions, improve efficiency and reduce fixed costs.

The structure is aligned with the core competencies of EC and M&IS and will help to maximise the Company's competitive advantage and to achieve strategic goals of market leadership and diversification.

OPERATIONAL OVERVIEW

Markets

The Company maintained its position in core markets and strengthened its position as a leading maintenance services provider in the rapidly growing oil and gas market by securing two significant new liquefied natural gas (LNG) services contracts. Monadelphous is now providing maintenance services for all four of Australia's major onshore LNG plants.

The Company also continued to develop its overseas expansion strategy, establishing a support office in Mongolia to pursue opportunities in this emerging resource development market over the longer term.

Health and Safety

Monadelphous achieved a record safety performance for the year, an outstanding outcome given the challenges presented by the rapid growth in activity and workforce numbers. The total case injury frequency rate (TCIFR) improved by 31.6 per cent to 4.1 incidents per million man-hours worked, the Company's best annual result.

Development of the Company's Safety Management Program continued throughout the year with the launch of company-wide Life Saving Rules, a program focused on the management of fatal risks.

People

The Company's total workforce increased 21.5 per cent, to 7,418 in the 12 months to 30 June 2013. Highlights for the period included a successful recruitment campaign to meet extraordinarily high project demands and an improving trend in overall employee retention and permanent staff turnover.

In January 2013, the Company opened a new employee training facility at Belmont, in Western Australia. The Monadelphous Employee Development Centre is a purpose-built facility providing pre-mobilisation and nationally-accredited construction skills and competency training services for the Company's projects and operations.

Monadelphous also made a public commitment to the implementation of its Indigenous engagement strategy through a Reconciliation Action Plan (RAP) approved by Reconciliation Australia.

Efficiency and Productivity Focus

In response to a significant tightening in market conditions, a comprehensive cost reduction program aimed at maintaining profitability and improving productivity was initiated in the second half of the year. The program includes consolidation of support structures, improvements in project execution productivity and reductions to fixed overheads, procurement and plant and equipment costs.

OPERATIONAL ACTIVITY

Monadelphous provided a broad range of services to the resources, energy and infrastructure markets.

Engineering Construction

The Engineering Construction division, which provides large-scale, multidisciplinary project management and construction services, reported sales revenue of \$1.78 billion, an increase of 55.9 per cent on a like-for-like basis compared with the previous year.

The division began the financial year with a healthy workload and experienced extraordinary levels of construction activity driven by a wave of new resources and energy construction projects. Iron ore and coal projects dominated the division's revenue for the period.

During the year major contract activity included:

- Structural, mechanical and piping work associated with the materials handling and processing facilities at the port operations for BHP Billiton Iron Ore's Port Hedland Inner Harbour Project at Finucane Island and Nelson Point in Western Australia (WA);
- Construction of an approach jetty and ship berth through the Monadelphous Muhibbah Marine (MMM) joint venture, and a further contract to construct and commission a ship loader, associated with the Wiggins Island Coal Export Terminal Pty Ltd (WICET) project at Gladstone in Queensland (Qld);
- The supply of fabricated steelwork for stacker bridges and runway support gantries for WICET's coal stockyard at Gladstone (Qld);
- Structural and mechanical works associated with coarse iron ore stockpiles, installation of a screen house and a new car dumper for Rio Tinto at Cape Lambert (WA);
- Structural, mechanical, piping, electrical and instrumentation works as part of the Rio Tinto-managed Kestrel Mine near Emerald (Qld);
- Structural, mechanical and piping works for a greenfield mine processing plant at Rio Tinto's and Hancock Prospecting's Hope Downs 4 Iron Ore Project near Newman (WA);
- Structural, mechanical and piping installation works for BHP Billiton Petroleum associated with the construction of the onshore gas plant at the Macedon Gas Project near Onslow (WA);
- A construction general services contract for Bechtel (Western Australia) at the Chevron Australia-operated Wheatstone Project near Onslow (WA);
- Installation of onshore pipelines, cables and tubes for the Chevron Australia-operated Gorgon Project on Barrow Island (WA);
- Pipeline remediation works for OK Tedi Mining at Tabubil, Western Province, Papua New Guinea;
- Construction of the onshore DomGas pipeline for SapuraClough Sea Trucks Joint Venture associated with the Chevron-operated Gorgon project on Barrow Island (WA);
- Construction of a CO₂ injection pipeline for the Chevron Australia-operated Gorgon project on Barrow Island (WA); and
- Design and construction, in joint venture with OSD Projects Pty Ltd, of a gas transmission pipeline and associated facilities for Rio Tinto's Hamersley Iron at West Angelas, near Newman (WA).

New contracts, with a combined value of approximately \$700 million, awarded during the year included:

- Construction of stacking, reclaiming, train load out, product sampling and water infrastructure facilities for BHP Billiton Iron Ore's Jimblebar Mine, east of Newman (WA);
- Structural, mechanical, piping, and electrical works for Rio Tinto's Marandoo Mine Phase 2 Expansion Project, east of Tom Price (WA);
- Civil, structural, mechanical, piping, and electrical and instrumentation works for a coal handling plant for BHP Billiton Mitsubishi Alliance's Caval Ridge Mine Project, south-east of Moranbah (Qld);
- Engineering, procurement and construction, with JKC, of the gas export pipeline works for the onshore facilities of the Ichthys Project in the Northern Territory;
- Design and construction, in joint venture with OSD Projects Pty Ltd, of approximately two kilometres of pipeline and a delivery station for Rio Tinto's Cape Lambert Petroleum Gas Pipeline (WA); and
- Structural, mechanical, piping, electrical and instrumentation works for the construction of Rio Tinto's Western Turner Brockman iron ore plant near Tom Price (WA).

During the period, M I & E Holdings Pty Ltd, trading as MIE, was renamed Monadelphous Electrical & Instrumentation Pty Ltd to leverage the strength of the Monadelphous brand and generate market growth. The name of the Company's transmission pipeline business, KT Pty Ltd was also changed to Monadelphous KT Pty Ltd to reflect its existing customer relationships and market position.

Maintenance and Industrial Services

The Maintenance and Industrial Services division, which specialises in the planning, management and execution of multidisciplinary maintenance services and shutdowns, delivered sales revenue of \$644 million, an increase of 1.5 per cent over the previous year. This result is pleasing given the division's sales grew 58 per cent in the previous financial year.

Strong growth in oil and gas maintenance activity during 2012/13 was offset by lower volumes in the mining and minerals sector, as customers across the board focused on cost reduction and discretionary capital spending in response to changing market conditions.

The consolidation and restructuring of the east and west businesses within the division was completed during the year, and included several key managerial appointments. The new structure laid the foundation for further growth.

During the year major contract activity included:

- Facilities management services at the Chevron-operated Gorgon Project on Barrow Island in Western Australia (WA);
- Shutdown and maintenance services for Rio Tinto's coastal and inland west operations in the Pilbara (WA);
- Maintenance and shutdown services for BHP Billiton's Nickel West operations in the Goldfields (WA);
- Maintenance and shutdown services at the Woodside-operated Karratha Gas Plant at Karratha (WA);
- Multidisciplinary services at the Darwin LNG facility, operated by ConocoPhillips, in the Northern Territory;
- The associated gas-related project for Oil Search Limited at the oil and gas production support facilities in the Southern Highlands Province of Papua New Guinea; and
- General maintenance services and projects for Chevron Australia at its Barrow Island and Thevenard Island operations in WA.

The division was awarded approximately \$600 million in new maintenance contracts and contract extensions during the period, including two new LNG services contracts. The award by QGC of a six-and-a-half year contract for the provision of maintenance services at its Queensland Curtis LNG plant, near Gladstone, followed a new three-year contract for maintenance and shutdown services at the Woodside-operated Karratha Gas Plant in WA.

Contract extensions awarded during the year included:

- Three-year extensions to two shutdown and maintenance services contracts for Rio Tinto's coastal and inland west Pilbara operations (WA);
- A one-year extension to the facilities management services contract associated with the Gorgon Project, operated by Chevron Australia on Barrow Island (WA); and
- A 12-month extension to the general maintenance services and projects contract with Chevron Australia at its LNG facilities on Barrow Island and Thevenard Island (WA).

Infrastructure

The Infrastructure division recorded sales revenue of \$199.8 million, an increase of 50 per cent on a like-for-like basis, compared with the previous year.

Following the transfer of Monadelphous KT Pty Ltd to the Engineering Construction division in 2012, the remainder of the Infrastructure division was consolidated into the operating structures of the two service-based divisions of EC and Maintenance and Industrial Services. Power asset management business Monadelphous Energy Services has since transitioned into M&IS and the water business into EC.

The water business, which provides innovative construct, operate and maintain service solutions for essential service assets, experienced very strong growth. Its most significant project was works on the construction of a potable water supply system with Rio Tinto's Coastal Waters Project at Bungaroo Valley in the Pilbara region of WA. The business was awarded a new contract with Unitywater to upgrade the Maleny Sewage Treatment Plant in Queensland.

Other major contract activity during the period included the construction of the Toowoomba Wastewater Infrastructure Projects program, in joint venture with Transfield Services, for the Toowoomba Regional Council in Queensland.

Construction of the DiCOM Waste Processing Facility in Shenton Park, WA, for the Western Metropolitan Regional Council (WMRC), was substantially completed during the year. The project with joint venture partner, AnaeCo Limited (ASX: ANQ) ("Anaeco") is to design and construct an alternative waste management solution for the WMRC. During the year, Monadelphous also increased its shareholding in AnaeCo to 15.72 per cent.

Monadelphous Energy Services continued to strengthen its operations and maintenance capabilities and recorded pleasing growth during the year.

Skystar Airport Services, which offers complete ground handling services to the aviation industry in Australia and New Zealand, recorded strong revenue growth of 20 per cent. Skystar has operated for 12 years and has more than doubled in size in the past four years.

Subsequent to the reporting period, the Group entered into an agreement to sell its wholly owned Skystar operating subsidiaries, Skystar Airport Services Pty Ltd and Skystar Airport Services NZ Pty Ltd. The agreement with Menzies Aviation, a division of John Menzies plc, is subject to regulatory approvals and completion is expected to occur around the end of September 2013.

OUTLOOK

The Company has experienced an extraordinary surge in growth with revenue increasing more than 80 per cent over two years and more than doubling over three years. During this period of unprecedented demand, the Company has capitalised on its strong position across a broadening range of customer and service markets.

Over the past year, market conditions in the mining and minerals sector progressively and significantly tightened as customers pulled back and reassessed their capital expenditure plans and focused on optimising asset performance and reducing costs. Customer sentiment has changed from an aggressive growth focus to an efficiency focus as commodity prices have normalised in a rising cost environment.

With market conditions softening and after an abnormal surge in revenue in the past two years, 2013/14 will be a year of consolidation with revenue levels moderating and not expected to reach those achieved in the previous year.

The Company has consolidated its fixed cost structure and is implementing a comprehensive group-wide program of cost reductions and efficiency improvements in response to this changing and volatile market environment.

Committed and planned resource developments in the iron ore and oil and gas sectors will continue to provide construction opportunities for Monadelphous in the new financial year and beyond. In particular, the large volume of committed LNG projects moving into the mechanical and electrical phase will provide significant construction prospects over the next few years.

The maintenance services market remains robust as new resource development operations come on stream. While maintenance services volumes are under pressure from mining and minerals customers, volumes in the oil and gas market are expected to grow as new LNG projects move to the operating phase.

Monadelphous has entered the new financial year with a steady forward workload with \$1.3 billion of new contracts and contract extensions secured in 2012/13. While a number of construction contracts will ramp down in the first half of the year, the current level of bidding activity is very high, with more than \$3 billion of tenders in progress. Construction revenue flows in the new financial year will be dependent on the size and timing of new contract decisions.

The Company's leadership position in resources and energy markets and continued development of its diversification strategy will support long-term growth. Opportunities to expand into existing infrastructure markets of water and power and longer-term market diversification, including new services and overseas expansion for existing customers, will continue to be pursued.

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



John Rubino
Monadelphous Chairman
19 August 2013

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

	2013	2012	2011	2010	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	2,617,459	1,904,984	1,449,252	1,279,862	1,127,474	958,966
Profit before income tax expense	216,578	187,259	131,576	115,148	104,149	99,749
Income tax expense	60,264	49,924	36,509	31,931	29,908	30,206
Profit after income tax expense	156,314	137,335	95,067	83,217	74,241	69,543
Basic earnings per share	173.03c	155.24c	108.84c	96.86c	87.48c	83.21c
Interim dividends per share (fully franked)	62.00c	50.00c	40.00c	35.00c	30.00c	29.00c
Final dividends per share (fully franked)	75.00c	75.00c	55.00c	48.00c	44.00c	43.00c
Net tangible asset backing per share	333.45c	270.34c	214.54c	164.74c	139.84c	117.73c
Total equity and reserves	308,034	245,642	193,234	144,286	122,565	101,817
Depreciation	28,726	26,541	23,341	16,789	15,066	12,718
Return on equity	50.75%	55.9%	49.2%	57.7%	60.6%	68.3%
EBITDA margin	9.4%	11.2%	10.6%	10.1%	10.3%	11.5%

^The word "underlying" used within the Chairman's Report, refers to the statutory result for the year ended 30 June 2012 excluding the one-off gain from the sale of Norfolk Group Limited shares. This measure is important to management as an additional way to evaluate the Company's performance. Underlying measures are unaudited.

Underlying 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 is important to management as an additional way to evaluate the Company's performance.

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

	2013	2012
	\$'000	\$'000
Profit before income tax	216,578	187,259
Gain from sale of Norfolk Group Limited shares	-	(16,262)
Interest expense	3,971	3,447
Interest revenue	(3,386)	(6,717)
Depreciation expense	28,726	26,541
Amortisation expense	1,121	2,195
Underlying EBITDA	247,010	196,463

*Working capital is a non-IFRS financial measure which does not have any standardised meaning prescribed by IFRS and therefore may not be comparable to working capital presented by other companies. This measure is important to management when used as an additional means to evaluate the Company's performance.

Working capital movement includes the change in cash and cash equivalents, trade and other receivables, inventories, trade and other payables and current provisions.

Your directors submit their report for the year ended 30 June 2013.

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
47 years experience in the construction and engineering services industry

Robert Velletri

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

Irwin Tollman

Non-Executive Director
Appointed 26 August 1992
Chartered Accountant, Member Institute of Chartered Accountants in Australia
21 years experience in the construction and engineering services industry
Retired as Executive Director on 25 July 2003 and continued as a Non-Executive Director

Peter John Dempsey

Lead Independent Non-Executive Director
Appointed 30 May 2003
Civil Engineer, Fellow of the Institution of Engineers Australia
41 years experience in the construction and engineering services industry
Also a non-executive director of the following other publicly listed entities, Service Stream Limited (ASX: SSM) – appointed 1 November 2010 and Becton Property Group Limited (ASX: BEC) – appointed 25 July 2008, resigned 26 February 2013.

Christopher Percival Michelmore

Independent Non-Executive Director
Appointed 1 October 2007
Civil Engineer, Fellow of the Institution of Engineers Australia
Member Institution of Structural Engineers, UK
41 years experience in the construction and engineering services industry

COMPANY SECRETARIES

Zoran Bebic

Company Secretary and Chief Financial Officer
Appointed 24 August 2009
Certified Practising Accountant, Member of CPA Australia
20 years experience in the construction and engineering services industry

Philip Trueman

Company Secretary and General Manager, Human Resources
Appointed 21 December 2007
Chartered Accountant, Member Institute of Chartered Accountants in Australia and the South African Institute of Chartered Accountants
13 years experience in the construction and engineering services industry

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

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

	Ordinary Shares	Options over Ordinary Shares
C. G. B. Rubino	2,014,816	Nil
R. Velletri	2,500,000	400,000
I. Tollman	579,614	Nil
P. J. Dempsey	78,000	Nil
C. P. Michelmore	18,597	Nil

EARNINGS PER SHARE

	Cents
Basic Earnings Per Share	173.03
Diluted Earnings Per Share	170.55

DIVIDENDS

	Cents	\$'000
Final dividends declared		
▪ on ordinary shares	75.00	68,205
Dividends paid during the year:		
<i>Current year interim</i>		
▪ on ordinary shares	62.00	56,211
<i>Final for 2012</i>		
▪ on ordinary shares	75.00	67,969

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 26 in the financial report).

The registered office of Monadelphous Group Limited is located at:

59 Albany Highway
 Victoria Park
 Western Australia 6100

Nature of operations and principal activities

Engineering Services

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

Services provided include:

- Fabrication, modularisation, offsite pre-assembly, procurement and installation of structural steel, tankage, mechanical and process equipment, piping, demolition and remediation works
- Multi-disciplined construction services
- Plant commissioning
- Specialist electrical and instrumentation services
- Fixed plant maintenance services
- Shutdown planning, management and execution
- Water and waste water asset construction and maintenance
- Construction of transmission pipelines and facilities
- Operation and maintenance of assets in the power sector

Skystar Airport Services

Provides aviation support services.

General

The Monadelphous Group operates from major offices in Perth and Brisbane, with regional offices in Beijing (China) and Adelaide, and a network of workshop facilities in Kalgoorlie, Karratha, Darwin, Roxby Downs, Gladstone, Hunter Valley and Mackay.

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 7,418 employees as of 30 June 2013 (2012: 6,105 employees).

OPERATING AND FINANCIAL REVIEW

Review

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

Operating results for the year

Operating results for the year were:

	2013	2012
	\$'000	\$'000
Revenue from services	2,614,073	1,897,490
Profit after income tax expense	156,314	137,335

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On 19 August 2013, the directors of Monadelphous Group Limited declared a final dividend on ordinary shares in respect of the 2013 financial year. The total amount of the dividend is \$68,205,193 which represents a fully franked final dividend of 75 cents per share. This dividend has not been provided for in the 30 June 2013 financial statements. The Monadelphous Group Limited Dividend Reinvestment plan will apply to the dividend.

On 19 August 2013, the Group entered into an agreement to sell its wholly owned Skystar operating subsidiaries, Skystar Airport Services Pty Ltd and Skystar Airport Services NZ Pty Ltd. The agreement with Menzies Aviation, a division of John Menzies plc, is subject to regulatory approvals and completion is expected to occur around the end of September 2013. The financial impact of this transaction is not expected to be material to the results of the Group for the year ending 30 June 2014.

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in this report, further information as to likely developments in the operations of the consolidated entity would, in the opinion of the directors, be likely to result in unreasonable prejudice to the consolidated entity.

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 aims to continually improve its environmental performance.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 5,305,750 unissued ordinary shares under options as follows:

- 180,000 options to take up one ordinary share in Monadelphous Group Limited at an issue price of \$12.22. The options expire on 30 September 2013.
- 355,750 options to take up one ordinary share in Monadelphous Group Limited at an issue price of \$14.84. The options expire between 30 September 2013 and 30 September 2014.
- 4,190,000 options to take up one ordinary share in Monadelphous Group Limited at an issue price of \$17.25. The options expire between 10 September 2013 and 14 September 2015.
- 40,000 options to take up one ordinary share in Monadelphous Group Limited at an issue price of \$19.31. The options expire between 10 September 2013 and 14 September 2015.
- 540,000 options to take up one ordinary share in Monadelphous Group Limited at an issue price of \$19.70. The options expire between 14 September 2014 and 14 September 2016.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

Shares issued as a result of the exercise of options

During or since the end of the financial year, employees and directors have exercised the option to acquire 2,120,250 fully paid ordinary shares at a weighted average exercise price of \$10.41. As a result of the exercise of 2,120,250 options, 1,989,216 new fully paid ordinary shares were issued.

No options have been exercised since the end of the financial year.

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 of Monadelphous Group Limited against a liability incurred in their role as directors of the Company, except where:

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

The total amount of insurance contract premiums paid during the financial year was \$89,599 (2012: \$nil). The premium for the year ended 30 June 2012 was paid prior to 1 July 2011.

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)

This Remuneration Report for the year ended 30 June 2013 outlines the Key Management Personnel remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having 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 and senior General Managers of the Parent and the Group.

Details of Key Management Personnel

(i) *Directors*

C. G. B. Rubino	Chairman
R. Velletri	Managing Director
I. Tollman	Non-Executive Director
P. J. Dempsey	Lead Independent Non-Executive Director
C. P. Michelmore	Independent Non-Executive Director

(ii) *Executives*

D. Foti	Executive General Manager, Engineering Construction
A. Erdash	Executive General Manager, Maintenance & Industrial Services
Z. Bebic	Chief Financial Officer and Company Secretary
S. Murray	General Manager, Infrastructure (resigned 24 June 2013)

Remuneration Philosophy

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

To this end, the Company embodies the principles of providing competitive rewards to attract high calibre executives, and the linking of executive rewards to shareholder value, in its remuneration framework.

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 salary 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 levels of remuneration of directors and executives, the remuneration committee takes into consideration the performance of the Group, business unit and the individual.

REMUNERATION REPORT (Audited) (cont'd)

Remuneration Structure

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

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. An amount not exceeding the amount determined is then divided between the directors as agreed. The most recent determination was at the Annual General Meeting held on 27 November 2007 when shareholders approved an aggregate remuneration of \$400,000 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 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.

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 period ending 30 June 2013 is detailed in Table 1 on page 19 of this report.

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

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.

REMUNERATION REPORT (Audited) (cont'd)

Executive remuneration (cont'd)

Remuneration consists of a fixed remuneration element and variable remuneration elements in the form of Short Term and Long Term Incentives.

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 19 and 20 of this report detail the proportion of fixed and variable remuneration for each of the executive directors and the members of the executive management team of the Company.

Fixed remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and competitive in the market.

Fixed remuneration is reviewed annually by the remuneration committee and the process consists of a review of Company-wide, business unit and individual performance and relevant comparative remuneration in the market and internally.

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.

Structure

Executive team members are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe 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 19 and 20 of this report.

Variable remuneration – Short term incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Company's targets with the performance of the employee charged with meeting those targets. The total STI for executives is set at a level so as to remunerate the executives for achieving the operational targets and such that the cost to the Company is reasonable in the circumstances.

Structure

On an annual basis at the end of the financial year, after consideration of performance against KPIs, an overall performance rating for the Company and each individual business unit is approved by the remuneration committee. The individual performance of each executive is also rated and all three are taken into account when determining the amount, if any, of the short-term incentive payment made to each individual.

REMUNERATION REPORT (Audited) (cont'd)

Executive remuneration (cont'd)

Variable remuneration – Short term incentive (STI) (cont'd)

The KPIs considered in the assessment process adopt a balanced scorecard approach to measuring performance. The following categories of performance measures are considered:

- Financial Measures: including revenue, contribution and financial administration metrics,
- Safety Measures: including lost time and total case injury frequency metrics,
- Customer Satisfaction Measures: including customer performance feedback,
- Employee Retention and Development Metrics and
- Progress being made in terms of specific long-term strategic initiatives.

The KPIs have been selected to underpin the Company's core values and ensuring performance is aligned to the strategic direction of the business.

The aggregate of annual STI payments available for executives across the Company is subject to the approval of the remuneration committee. Payments made are usually delivered as a cash bonus.

100% of the cash bonus previously accrued in the 2011 financial year vested and was paid in the 2012 financial year. The amount payable for the 2013 financial year in relation to Key Management Personnel is \$360,000 which has been fully accrued at 30 June 2013. This amount vested and was fully paid subsequent to the year end on approval by the remuneration committee. No amounts were forfeited.

Variable remuneration – Long term incentive (LTI)

Objective

The objective of the LTI plan is to retain and reward key employees in a manner which aligns this element of remuneration with the creation of shareholder wealth.

Structure

LTI grants to executives are delivered at the discretion of the remuneration committee in the form of options. The individual performance rating of each executive and the annual cost to the Company, on an individual basis, of any issue is taken into account when determining the amount, if any, of options granted. During the year ended 30 June 2013, there were 560,000 options granted under the Monadelphous Group Limited Employee Plan – October 2012. No Directors or Key Management Personnel received options during the year ended 30 June 2013. 75,000 options were forfeited by a departing Key Management Personnel during the year. All executives are eligible to participate in the Monadelphous Group Limited Employee Option Plan.

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

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

REMUNERATION REPORT (Audited) (cont'd)

Executive remuneration (cont'd)

Variable remuneration – Long term incentive (LTI) (cont'd)

In addition, the ability to exercise options during each applicable window period is subject to the financial performance of the Company during the option vesting period. The options shall only be capable of exercise during that window period where the Company's Earnings Per Share (EPS) metric is growing at a rate of at least 10% per year on average. If, however, this hurdle is not achieved for a particular window period, rather than lapsing, the options will be re-tested during all later window periods in respect of that issue and may become exercisable at that later date.

Hedging of equity awards

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

Adherence to the policy is monitored on an annual basis and involves each KMP signing an annual declaration of compliance with the hedging policy.

Employment contracts

All executives have non-fixed term employment contracts. The Company or executive may terminate the employment contract by providing 1 or 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 six years is as follows:

	2013	2012	2011	2010	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit after income tax expense	156,314	137,335	95,067	83,217	74,241	69,543
Basic earnings per share	173.03c	155.24c	108.84c	96.86c	87.48c	83.21c

A review of the Company's performance and returns to shareholders over the last six years has been provided on page 8 of this report.

REMUNERATION REPORT (Audited) (cont'd)

Remuneration of Key Management Personnel

Table 1: Remuneration for the year ended 30 June 2013

	Short Term Benefits			Post Employment		Long Term Benefits	Share-Based Payments	Total	Total Performance Related	Total Options Related
	Salary & Fees	Non Monetary	Cash STI	Super-annuation	Retirement Benefits	Long Service Leave	Options LTI			
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<i>Non-Executive Directors</i>										
I. Tollman	80,000	975	-	-	-	-	-	80,975	-	-
P. J. Dempsey	121,101	1,477	-	10,899	-	-	-	133,477	-	-
C. P. Michelmore	115,000	1,402	-	-	-	-	-	116,402	-	-
Subtotal Non-Executive Directors	316,101	3,854	-	10,899	-	-	-	330,854	-	-
<i>Executive Directors</i>										
C. G. B. Rubino	449,872	4,868	-	16,470	-	14,833	-	486,043	-	-
R. Velletri	856,554	17,988	110,000	16,470	-	56,143	587,655	1,644,810	42.42	35.73
Subtotal Executive Directors	1,306,426	22,856	110,000	32,940	-	70,976	587,655	2,130,853	32.74	27.58
<i>Other Key Management Personnel</i>										
D. Foti	692,560	12,624	110,000	16,470	-	52,198	318,082	1,201,934	35.62	26.46
A. Erdash	542,587	11,998	70,000	16,470	-	20,338	190,149	851,542	30.55	22.33
Z. Bebic	504,739	9,190	70,000	16,470	-	26,509	190,149	817,057	31.84	23.27
S. Murray #	350,527	6,370	-	15,837	-	3,203	(32,722)	343,215	-	-
Subtotal Other Key Management Personnel	2,090,413	40,182	250,000	65,247	-	102,248	665,658	3,213,748	28.49	20.71
Total	3,712,940	66,892	360,000	109,086	-	173,224	1,253,313	5,675,455	28.43	22.08

S. Murray ceased to meet the definition of Key Management Personnel on 24 June 2013 following his resignation from the Company. Remuneration receivable for the period up to the date of resignation is disclosed in Table 1.

REMUNERATION REPORT (Audited) (cont'd)

Remuneration of Key Management Personnel (cont'd)

Table 2: Remuneration for the year ended 30 June 2012

	Short Term Benefits			Post Employment		Long Term Benefits	Share-Based Payments	Total	Total Performance Related	Total Options Related
	Salary & Fees	Non Monetary	Cash STI	Super-annuation	Retirement Benefits	Long Service Leave	Options LTI			
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<i>Non- Executive Directors</i>										
I. Tollman	66,000	830	-	-	-	-	-	66,830	-	-
P. J. Dempsey	109,951	1,383	-	9,908	-	-	-	121,242	-	-
C. P. Michelmore	100,000	1,258	-	-	-	-	-	101,258	-	-
Subtotal Non-Executive Directors	275,951	3,471	-	9,908	-	-	-	289,330	-	-
<i>Executive Directors</i>										
C. G. B. Rubino	409,260	4,521	-	15,775	-	13,618	-	443,174	-	-
R. Velletri	837,978	17,801	300,000	15,775	-	48,460	466,892	1,686,906	45.46	27.68
Subtotal Executive Directors	1,247,238	22,322	300,000	31,550	-	62,078	466,892	2,130,080	36.00	21.92
<i>Other Key Management Personnel</i>										
D. Foti	643,863	12,130	200,000	15,775	-	39,927	253,247	1,164,942	38.91	21.74
A. Erdash	506,924	11,818	100,000	15,775	-	19,031	147,274	800,822	30.88	18.39
C. Tabrett #	160,627	4,058	8,634	6,674	-	5,685	21,443	207,121	14.52	10.35
Z. Bebic	454,756	8,593	100,000	15,775	-	22,957	147,274	749,355	33.00	19.65
S. Murray	343,450	6,689	35,000	15,775	-	9,310	94,288	504,512	25.63	18.69
Subtotal Other Key Management Personnel	2,109,620	43,288	443,634	69,774	-	96,910	663,526	3,426,752	32.31	19.36
Total	3,632,809	69,081	743,634	111,232	-	158,988	1,130,418	5,846,162	32.06	19.34

C. Tabrett ceased to meet the definition of Key Management Personnel in December 2011 following the consolidation of the Eastern and Western regions of the Maintenance & Industrial Services division and the appointment of an Executive General Manager for the consolidated Maintenance & Industrial Services division. Remuneration receivable for the period up to the date of consolidation is disclosed in Table 2.

REMUNERATION REPORT (Audited) (cont'd)

Remuneration of Key Management Personnel (cont'd)

Table 3: Compensation options: Granted during the year ended 30 June 2013

During the financial year ended 30 June 2013, no options were granted as equity compensation benefits to Key Management Personnel.

On 24 June 2013, S. Murray ceased to meet the definition of Key Management Personnel following his resignation from the company. 75,000 options held by S. Murray were forfeited. The remaining 25,000 options are exercisable between 1 September 2013 and 10 September 2013.

Table 4: Compensation options: Granted during the year ended 30 June 2012

During and year ended 30 June 2012, an aggregate 1,150,000 options were granted to the following Key Management Personnel of the Company and its controlled entities as part of their remuneration.

	Terms and conditions for each Grant						
	Granted Number	Grant Date	Weighted Average Fair Value per Option at Grant Date	Exercise Price per Option	Expiry Date	First Exercise Date	Last Exercise Date
<i>Executive Directors</i>							
R. Velletri	400,000	23/11/2011	\$4.05	\$17.25	14/09/2015	1/09/2013	14/09/2015
<i>Other Key Management Personnel</i>							
D. Foti	250,000	3/11/2011	\$3.49	\$17.25	14/09/2015	1/09/2013	14/09/2015
A. Erdash	150,000	3/11/2011	\$3.49	\$17.25	14/09/2015	1/09/2013	14/09/2015
C. Tabrett	100,000	3/11/2011	\$3.49	\$17.25	14/09/2015	1/09/2013	14/09/2015
Z. Bebic	150,000	3/11/2011	\$3.49	\$17.25	14/09/2015	1/09/2013	14/09/2015
S. Murray	100,000	3/11/2011	\$3.49	\$17.25	14/09/2015	1/09/2013	14/09/2015
Total	1,150,000						

REMUNERATION REPORT (Audited) (cont'd)

Remuneration of Key Management Personnel (cont'd)

Table 5: Shares issued on exercise of compensation options during the year ended 30 June 2013

30 June 2013	Options Vested Number	Options Exercised Number	Shares Issued Number	Paid \$ per Share
Directors				
R. Velletri ^	250,000	250,000	250,000	10.00
Executives				
D. Foti ^	140,000	140,000	140,000	10.00
A. Erdash ^	70,000	70,000	70,000	10.00
Z. Bebic ^	70,000	70,000	70,000	10.00
S. Murray ^	35,000	35,000	35,000	10.00
Total	565,000	565,000	565,000	

^ On 12 September 2012, the date of exercise of the above options, the closing share price was \$19.89.

Table 6: Shares issued on exercise of compensation options during the year ended 30 June 2012

30 June 2012	Options Vested Number	Options Exercised Number	Shares Issued Number	Paid \$ per Share
Directors				
R. Velletri ^	125,000	125,000	125,000	10.00
Executives				
D. Foti ^	70,000	70,000	70,000	10.00
A. Erdash ^	35,000	35,000	35,000	10.00
C. Tabrett ^	35,000	35,000	35,000	10.00
Z. Bebic ^	35,000	35,000	35,000	10.00
S. Murray ^	17,500	17,500	17,500	10.00
Total	317,500	317,500	317,500	

^ On 7 September 2011, the date of exercise of the above options, the closing share price was \$19.49.

END OF REMUNERATION REPORT

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Directors' Meetings	Meetings of Committees		
		Audit	Remuneration	Nomination
Number of meetings held:	17	6	3	1
Number of meetings attended:				
C. G. B. Rubino	15	-	-	-
R. Velletri	16	-	-	-
I. Tollman	16	6	2	-
P. J. Dempsey	17	6	3	1
C. P. Michelmore	17	6	3	1

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)
I. Tollman	P. J. Dempsey	C. P. Michelmore
C. P. Michelmore	I. Tollman	P. J. Dempsey

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 Class Order 98/0100. The Company is an entity to which the Class Order 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 page 87 of this report.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the following declaration from the auditor of Monadelphous Group Limited.



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

In relation to our audit of the financial report of Monadelphous Group Limited for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

G H Meyerowitz
Partner
19 August 2013

Non-Audit Services

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

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	25,711
Assurance related	5,665
	<u>31,376</u>

Signed in accordance with a resolution of the directors.

C. G. B. Rubino
Chairman
Perth, 19 August 2013



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Independent audit report to members of Monadelphous Group Limited

Report on the financial report

We have audited the accompanying financial report of Monadelphous Group Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.



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Opinion

In our opinion:

- a. the financial report of Monadelphous Group Limited is 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 2013 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion, the Remuneration Report of Monadelphous Group Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

G H Meyerowitz
Partner
Perth
19 August 2013

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 2013 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 in note 2.

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 2013.

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 26 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



C. G. B. Rubino
Chairman
Perth, 19 August 2013

MONADELPHOUS GROUP LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2013

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	Notes	2013 \$'000	2012 \$'000
Continuing Operations			
REVENUE			
REVENUE	3(a)	2,617,459	1,904,984
Cost of services rendered		<u>(2,341,895)</u>	<u>(1,675,069)</u>
GROSS PROFIT		275,564	229,915
Other income	3(b)	3,114	2,837
Profit on sale of available-for-sale financial assets		-	16,262
Business development and tender expenses		(18,770)	(18,262)
Occupancy expenses		(2,935)	(3,035)
Administrative expenses		(36,251)	(35,650)
Finance costs	3(c)	(3,971)	(3,447)
Other expenses	3(d)	(173)	(1,361)
PROFIT BEFORE INCOME TAX		<u>216,578</u>	187,259
Income tax expense	4	<u>(60,264)</u>	(49,924)
PROFIT AFTER INCOME TAX		<u>156,314</u>	137,335
PROFIT ATTRIBUTABLE TO MEMBERS OF MONADELPHOUS GROUP LIMITED	17(a)	<u><u>156,314</u></u>	137,335
Basic earnings per share (cents per share)	22	173.03	155.24
Diluted earnings per share (cents per share)	22	170.55	152.05

MONADELPHOUS GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

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	2013	2012
	\$'000	\$'000
NET PROFIT FOR THE PERIOD	156,314	137,335
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Net fair value loss on available-for-sale financial assets	-	(1,444)
Income tax effect	-	433
	-	(1,011)
Reclassification adjustment relating to the disposal of available-for-sale investments included in the income statement	-	(16,262)
Income tax effect	-	4,878
	-	(11,384)
Foreign currency translation	272	69
Income tax effect	-	-
	272	69
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	272	(12,326)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF MONADELPHOUS GROUP LIMITED	156,586	125,009

MONADELPHOUS GROUP LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

30

	Notes	2013 \$'000	2012 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	18(b)	195,341	203,556
Trade and other receivables	6	223,221	239,595
Inventories	7	173,732	72,090
Derivative financial instruments	8	263	433
Total current assets		592,557	515,674
Non-current assets			
Available-for-sale financial assets	9	3,511	-
Property, plant and equipment	10	135,656	141,102
Deferred tax assets	4	33,730	29,215
Intangible assets and goodwill	11	4,797	5,918
Total non-current assets		177,694	176,235
TOTAL ASSETS		770,251	691,909
LIABILITIES			
Current liabilities			
Trade and other payables	13	231,636	280,686
Interest bearing loans and borrowings	14	22,547	18,783
Income tax payable	4	27,269	15,678
Provisions	15	140,311	93,578
Total current liabilities		421,763	408,725
Non-current liabilities			
Interest bearing loans and borrowings	14	32,596	31,838
Provisions	15	7,858	5,427
Deferred tax liabilities	4	-	277
Total non-current liabilities		40,454	37,542
TOTAL LIABILITIES		462,217	446,267
NET ASSETS		308,034	245,642
EQUITY			
Contributed equity	16	83,448	57,876
Reserves	17	30,917	26,231
Retained earnings	17	193,669	161,535
TOTAL EQUITY		308,034	245,642

MONADELPHOUS GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

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Consolidated	<i>Attributable to equity holders</i>					Total \$'000
	Issued Capital \$'000	Net Unrealised Gains Reserve \$'000	Share- Based Payment Reserve \$'000	Foreign Currency Translation Reserve \$'000	Retained Earnings \$'000	
At 1 July 2012	57,876	-	26,441	(210)	161,535	245,642
Other comprehensive income	-	-	-	272	-	272
Profit for the period	-	-	-	-	156,314	156,314
Total comprehensive income for the period	-	-	-	272	156,314	156,586
Transactions with owners in their capacity as owners						
Share-based payments	-	-	6,069	-	-	6,069
Exercise of employee options	19,229	-	-	-	-	19,229
Dividend reinvestment plan	6,343	-	-	-	-	6,343
Deferred tax asset recognised on Employee Share Trust	-	-	(1,655)	-	-	(1,655)
Dividends paid	-	-	-	-	(124,180)	(124,180)
At 30 June 2013	83,448	-	30,855	62	193,669	308,034

Consolidated	<i>Attributable to equity holders</i>					Total \$'000
	Issued Capital \$'000	Net Unrealised Gains Reserve \$'000	Share- Based Payment Reserve \$'000	Foreign Currency Translation Reserve \$'000	Retained Earnings \$'000	
At 1 July 2011	46,612	12,395	17,210	(279)	117,296	193,234
Other comprehensive income	-	(12,395)	-	69	-	(12,326)
Profit for the period	-	-	-	-	137,335	137,335
Total comprehensive income for the period	-	(12,395)	-	69	137,335	125,009
Transactions with owners in their capacity as owners						
Share-based payments	-	-	4,678	-	-	4,678
Exercise of employee options	11,264	-	-	-	-	11,264
Deferred tax asset recognised on Employee Share Trust	-	-	4,553	-	-	4,553
Dividends paid	-	-	-	-	(93,096)	(93,096)
At 30 June 2012	57,876	-	26,441	(210)	161,535	245,642

MONADELPHOUS GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

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	Notes	2013 \$'000	2012 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		2,826,393	2,029,173
Payments to suppliers and employees (inclusive of GST)		(2,659,132)	(1,849,459)
Interest received		3,386	6,667
Borrowing costs		(3,971)	(3,447)
Other income		1,678	1,954
Income tax paid		(55,114)	(46,244)
NET CASH FLOWS FROM OPERATING ACTIVITIES	18(a)	113,240	138,644
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		23,775	20,880
Purchase of property, plant and equipment		(33,887)	(54,564)
Proceeds from disposal of available-for-sale financial assets		-	24,431
Purchase of available-for-sale financial assets		(6,266)	-
Dividends received		-	777
Acquisition of subsidiary		-	(4,434)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(16,378)	(12,910)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(117,837)	(93,096)
Proceeds from issue of shares		19,229	11,264
Proceeds from borrowings		12,850	5,207
Repayment of borrowings		(1,524)	(716)
Payment of finance leases		(19,290)	(16,421)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(106,572)	(93,762)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Net foreign exchange differences		(9,710)	31,972
Cash and cash equivalents at beginning of period		1,495	(895)
		203,556	172,479
CASH AND CASH EQUIVALENTS AT END OF PERIOD	18(b)	195,341	203,556

1. CORPORATE INFORMATION

The consolidated financial report of Monadelphous Group Limited (the Company) and its subsidiaries for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of directors on 19 August 2013.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 as applicable to a for-profit entity. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale investments, which have been measured at fair value.

The financial report 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 Class Order 98/100. The Company is an entity to which the class order applies.

a) Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

b) Changes in accounting policies

Australian Accounting Standards and Interpretations that have recently been issued or amended and are effective 1 July 2012 have resulted in no material changes in accounting policies and therefore no material impact on Monadelphous Group Limited's financial performance or position for the year ended 30 June 2013.

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 after 1 July 2012, including:

- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2013. Relevant standards and interpretations are outlined below:

Reference	Title	Application date of standard	Application date for Group	Impact on the Group financial report
AASB 10	Consolidated Financial Statements	1 January 2013	1 July 2013	No material impact on the Group expected based on analysis to date.
AASB 11	Joint Arrangements	1 January 2013	1 July 2013	No material impact on the Group expected based on analysis to date.
AASB 12	Disclosure of Interests in Other Entities	1 January 2013	1 July 2013	No material impact on the financial performance or position of the Group expected based on analysis to date. Changes to disclosures expected.
AASB 13	Fair Value Measurement	1 January 2013	1 July 2013	No material impact on the Group expected based on analysis to date.
AASB 119	Employee Benefits	1 January 2013	1 July 2013	The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether benefits are expected to be settled wholly within 12 months after the reporting date. This may affect the measurement of some employee benefit provisions in the statement of financial position.
AASB 1053	Application of Tiers of Australian Accounting Standards	1 July 2013	1 July 2013	No material impact on the Group expected based on analysis to date.
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	1 July 2013	This standard amends disclosure requirements only. No material impact on the Group expected based on analysis to date.
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	1 January 2013	1 July 2013	No material impact on the Group expected based on analysis to date.
AASB 2012-9	Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039	1 January 2013	1 July 2013	No material impact on the Group expected based on analysis to date.
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 January 2013	1 July 2013	No material impact on the Group expected based on analysis to date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) New accounting standards and interpretations (cont'd)

Reference	Title	Application date of standard	Application date for Group	Impact on the Group financial report
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 January 2014	1 July 2014	The Group has not yet determined the extent of the impact of the amendments, if any.
Interpretation 21	Levies *	1 January 2014	1 July 2014	The Group has not yet determined the extent of the impact of the amendments, if any.
AASB 9	Financial Instruments	1 January 2015	1 July 2015	The Group has not yet determined the extent of the impact of the amendments, if any.

* The AASB have not yet issued the Australian equivalent of this Interpretation

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Monadelphous Group Limited and its subsidiaries as at 30 June each year ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies.

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

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired and the liabilities assumed. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note 2(e)).

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

e) Business combinations

Subsequent to 1 July 2009

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.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be a financial asset or liability will be recognised in accordance with AASB 139 whether in the income statement or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

Prior to 1 July 2009

The purchase method of accounting was used to account for all business combinations. Cost was measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination at the date of exchange.

f) 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 of the New Zealand subsidiary (Skystar Airport Services NZ Pty Ltd) is New Zealand dollars (NZ\$), the Hong Kong subsidiary (Moway International Limited) is United States dollars (US\$), the Chinese subsidiary (Moway AustAsia Steel Structures Trading (Beijing) Company Limited) is Chinese Renminbi (RMB), the Singapore subsidiary (Monadelphous Singapore Pte Ltd) is United States dollars and the Mongolian subsidiary (Monadelphous Mongolia LLC) is United States dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) Foreign currency translation (cont'd)

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 New Zealand, Hong Kong, Chinese, Singaporean and Mongolian subsidiaries 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.

g) Cash and cash equivalents

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.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

h) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An allowance for impairment loss is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

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

i) Inventories

Construction work-in-progress is stated at the aggregate of contract costs incurred to date plus profits recognised to date less recognised losses and progress billings. Costs include all costs directly related to specific contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Derivative financial instruments

The Group uses derivative financial instruments (including forward currency contracts) to manage its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered and are subsequently remeasured to fair value. These derivatives do not qualify for hedge accounting and changes in fair value are recognised immediately in the income statement.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement for the year.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

k) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through the profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. The group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through the profit or loss, directly attributable transaction costs.

Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or been transferred.

(i) Financial assets at fair value through the profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through the profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement and the related assets are classified as current assets in the consolidated statement of financial position.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

k) Investments and other financial assets (cont'd)

(iii) Available-for-sale securities

Available-for-sale securities are those non-derivative financial assets, principally equity securities that are designated as available-for-sale, or are not classified in any of the two preceding categories or held to maturity. After initial recognition, available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the income statement.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

l) 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.

Major depreciation periods are:

	2013	2012
▪ Buildings	40 years	40 years
▪ Plant and equipment	3 to 15 years	3 to 15 years

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

Derecognition

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

m) Impairment of non-financial assets other than goodwill

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.

n) Leases

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

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

Finance leases

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

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

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

Operating leases

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

o) Interest in jointly controlled operations

The group has interests in joint ventures that are jointly controlled operations. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than the establishment of a separate entity. The Group recognises its interest in the jointly controlled operation by recognising the assets it controls and the liabilities it incurs in respect of the joint venture. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods and services by the jointly controlled operation.

p) Interest in jointly controlled assets

The Group's interests in jointly controlled assets are accounted for by recognising its proportionate share of assets and liabilities from joint ventures.

Joint venture expenses and income from the use of its share of output of jointly controlled assets are recognised on a pro-rata basis according to the Group's joint venture interest.

q) Goodwill and intangibles

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 cash-generating units or groups of cash generating units 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 cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

The recoverable amount of each cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are not used in the calculation.

When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

q) Goodwill and intangibles (cont'd)

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. 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. They 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.

r) 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 and are usually paid within 30 to 45 days of recognition.

Monadelphous Group Limited and the controlled entities subject to Class Order 98/1418 (refer to note 26 for further details), entered into a deed of indemnity on 9 June 2011 and 1 June 2012. 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.

s) 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.

The Group does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with the asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing). All other borrowing costs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

t) 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.

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

u) Employee benefits

(i) Wages, salaries, annual leave, rostered days off, sick leave, project incentives and project redundancies
Liabilities for wages and salaries, annual leave, rostered days off, vesting sick leave, project incentives and project redundancies due to be 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.

(ii) Long service leave

The liability for long service leave 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 national government bonds, which have terms to maturity approximating the estimated future cash outflows.

(iii) Defined contribution superannuation plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

(iv) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

v) Share-based payment transactions

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).

Monadelphous Group Limited provides benefits to employees through the Monadelphous Group Limited Employee Option Plan and the Monadelphous Group Limited Employee Option Prospectus.

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 using a binomial model. 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.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of an original award, as described in the previous paragraph.

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

Shares in the Group reacquired on-market and held by Monadelphous Group Limited Employee Share Trust are classified and disclosed as reserved shares and deducted from equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

w) 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.

x) Revenue recognition

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

Rendering of Services

Where the contract outcome can be reliably measured:

- revenue is recognised as services have been rendered to the customer for maintenance contracts or for construction contracts refer to the accounting policy for construction contracts, for method of revenue recognition.

Where the contract outcome cannot be reliably measured:

- contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised only to the extent that costs have been incurred.

Dividends

Revenue is recognised when the Group's right to receive the dividend payment is established.

Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

y) Construction contracts

When accounting for construction contracts, the contracts are either combined or segmented if this is deemed necessary to reflect the substance of the agreement.

Revenue arising from fixed price contracts is recognised in accordance with the percentage of completion method. Stage of completion is agreed with the customer on a work certified to date basis, as a percentage of the overall contract.

Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred plus a percentage of fees earned during the financial year. The percentage of fee earned during the financial year is based on the stage of completion of the contract.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

z) Taxation

Income tax

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 income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates and interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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 to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

z) Taxation (cont'd)

Tax consolidation legislation

Monadelphous Group Limited and its wholly-owned Australian controlled entities formed a tax consolidated group on 1 July 2003. 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 separate taxpayer within group method 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 recognised 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. Details of the tax funding agreement are disclosed in note 4.

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.

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.

aa) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

ab) Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. 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.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined.

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 11.

Impairment of available-for-sale assets

After initial recognition available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the income statement.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instrument at the date on which they are granted. The fair value is determined by an external valuer using a binomial model, using the assumptions detailed in note 23. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amount of assets and liabilities within the next annual reporting period but may impact expenses and equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

ab) Significant accounting judgements, estimates and assumptions (cont'd)

Taxation

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on 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 on 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.

Construction contracts

When accounting for construction contracts, the contracts are either combined or segmented if this is deemed necessary to reflect the substance of the agreement. Revenue arising from fixed price contracts is recognised in accordance with the percentage of completion method. Stage of completion is agreed with the customer on a work certified to date basis, as a percentage of the overall contract. Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred plus a percentage of fees earned during the financial year. The percentage of fee earned during the financial year is based on the stage of completion of the contract. Where a loss is expected to occur from a construction contract the excess of the total expected contract costs over expected contract revenue is recognised as an expense immediately.

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.

ac) Comparatives

Comparative amounts have been reclassified for consistency with current year disclosures.

MONADELPHOUS GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

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	Consolidated	
	2013	2012
	\$'000	\$'000
3. REVENUES AND EXPENSES		
(a) Revenue		
Rendering of services	2,614,073	1,897,490
Finance revenue	3,386	6,717
Dividends received	-	777
	<u>2,617,459</u>	<u>1,904,984</u>
(b) Other income		
Net gains on disposal of property, plant and equipment	1,436	883
Other income	1,678	1,954
	<u>3,114</u>	<u>2,837</u>
(c) Finance costs		
Bank loans and overdrafts	659	128
Finance charges payable under finance leases and hire purchase contracts	3,312	3,319
	<u>3,971</u>	<u>3,447</u>
(d) Other expenses		
Net foreign exchange losses	170	965
Other	3	396
	<u>173</u>	<u>1,361</u>
(e) Depreciation and amortisation		
Depreciation expense	28,726	26,541
Amortisation of intangible assets	1,121	2,195
	<u>29,847</u>	<u>28,736</u>
(f) Employee benefits expense		
Employee benefits expense	1,171,287	897,048
Defined contribution superannuation expense	57,209	46,028
Share based payment expense	6,069	4,678
	<u>1,234,565</u>	<u>947,754</u>
(g) Lease payments and other expenses included in the income statement		
Minimum lease payments – operating lease	24,796	16,127
Impairment allowance for bad and doubtful debts	64	1,111
Net (gain)\loss on held for trading foreign currency derivatives	170	(433)

	2013 \$'000	2012 \$'000
4. INCOME TAX		
(a) Income tax expense		
The major components of income tax expense are:		
<i>Income statement</i>		
<i>Current income tax</i>		
Current income tax charge	80,854	55,939
Adjustments in respect of current income tax of previous years	(8,921)	(8,767)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(11,931)	1,745
Adjustments in respect of deferred income tax of previous years	262	1,007
Income tax expense reported in the income statement	<u>60,264</u>	<u>49,924</u>
(b) Amounts charged or credited directly to equity		
<i>Deferred income tax related to items charged (credited) directly to equity – see note 17</i>		
Net unrealised gains reserve	-	(5,312)
Share-based payment reserve	1,655	(4,553)
Income tax expense /(benefit) reported in equity	<u>1,655</u>	<u>(9,865)</u>
(c) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate		
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	<u>216,578</u>	<u>187,259</u>
At the Parent Entity's statutory income tax rate of 30% (2012: 30%)	64,973	56,178
- Adjustments in respect of current and deferred income tax of previous years	(8,659)	(7,760)
- Share based payment expense	2,988	(221)
- Other	962	1,727
Aggregate income tax expense	<u>60,264</u>	<u>49,924</u>

4. INCOME TAX (cont'd)

(d) Recognised deferred tax assets and liabilities

	Consolidated			
	2013 \$'000 Current Income Tax	2013 \$'000 Deferred Income Tax	2012 \$'000 Current Income Tax	2012 \$'000 Deferred Income Tax
Opening balance	(15,678)	28,938	(17,920)	24,810
Acquisition	-	-	-	185
Charged to income	(71,933)	11,669	(47,172)	(2,752)
Charged to equity	5,228	(6,883)	3,170	6,695
Other / payments	55,114	6	46,244	-
Closing balance	(27,269)	33,730	(15,678)	28,938

Amounts recognised on the consolidated statement of financial position:

Deferred tax asset	33,730	29,215
Deferred tax liability	-	(277)
	33,730	28,938

	Consolidated	
	2013 \$'000	2012 \$'000
Deferred income tax at 30 June relates to the following:		
<i>(i) Deferred tax liabilities</i>		
Accelerated depreciation	5,397	4,528
Other	634	972
Gross deferred tax liabilities	6,031	5,500
Set-off against deferred tax assets	6,031	5,223
Net deferred tax liabilities	-	277
<i>(ii) Deferred tax assets</i>		
Provisions	39,065	25,031
Share-based payments	311	9,305
Other	385	102
Gross deferred tax assets	39,761	34,438
Set-off of deferred tax liabilities	6,031	5,223
Net deferred tax assets	33,730	29,215

(e) Unrecognised temporary differences

At 30 June 2013, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries, as the Group has no liability for additional taxation should unremitted earnings be remitted (2012: \$nil).

4. INCOME TAX (cont'd)

(f) Tax consolidation

(i) Members of the tax consolidated group and the tax sharing agreement

Monadelphous Group Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. Monadelphous Group Limited is the head entity of the tax consolidated group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

(ii) Tax effect accounting by members of the tax consolidated group

The head entity 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 separate taxpayer within group approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*.

(iii) Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement the funding of tax within the Group is based on the separate taxpayer within group method of allocation. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-company loan account.

Consolidated	
2013	2012
\$'000	\$'000

5. DIVIDENDS PAID AND PROPOSED

(a) Recognised amounts

Declared and paid during the year

(i) Current year interim

Interim franked dividend for 2013 (62 cents per share) (2012: 50 cents per share)

56,211	44,337
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(ii) Previous year final

Final franked dividend for 2012 (75 cents per share) (2011: 55 cents per share final)

67,969	48,759
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(b) Unrecognised amounts

Current year final

Final franked dividend for 2013 (75 cents per share) (2012: 75 cents per share)

68,205	66,506
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MONADELPHOUS GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

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	Consolidated	
	2013	2012
	\$'000	\$'000
5. DIVIDENDS PAID AND PROPOSED (cont'd)		
(c) Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
- franking account balance as at the end of the financial year	57,760	56,448
- franking credits that will arise from the payment of income tax payable as at the end of the financial year	25,235	12,252
	82,995	68,700
The amount of franking credits available for future reporting periods:		
- 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	(29,231)	(28,502)
	53,764	40,198

(d) Tax rates

The tax rate at which paid dividends have been franked is 30% (2012: 30%). Dividends payable will be franked at the rate of 30% (2012: 30%).

	Notes	Consolidated	
		2013	2012
		\$'000	\$'000
6. TRADE AND OTHER RECEIVABLES			
CURRENT			
Trade receivables		211,206	218,197
Less allowance for impairment loss	6(a)	(4,310)	(4,246)
		206,896	213,951
Other debtors	6(b)	16,325	25,644
		223,221	239,595

6. TRADE AND OTHER RECEIVABLES (cont'd)

a) Allowance for impairment loss

Trade receivables are generally on 30 day terms from end of month. An allowance for impairment loss is recognised when there is objective evidence that trade receivables may be impaired. An impairment loss of \$64,000 (2012: \$1,111,000) has been recognised by the Group in the current year. These amounts have been included in the administrative expenses item in the consolidated income statement.

Consolidated	
2013	2012
\$'000	\$'000

Movements in the allowance for impairment loss were as follows:

Balance at the beginning of the year	4,246	3,135
Charge for the year	64	1,111
Balance at the end of the year	4,310	4,246

Impaired trade receivables:

At 30 June 2013, the current trade receivables of the Group were \$211,206,000 (2012: \$218,197,000). The amount of the allowance for impairment loss was \$4,310,000 (2012: \$4,246,000). An impairment allowance is recognised where there is objective evidence that the Group will not be able to collect the receivables. Financial difficulties of the debtor, default payments, historical bad debt performance or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

Past due not impaired:

At 30 June 2013, the ageing of receivables past due but not considered impaired is as follows:

	Consolidated	
	2013	2012
	\$'000	\$'000
31 – 60 Days	56,356	57,647
61 – 90 Days	2,743	6,781
91+ Days	8,084	4,052
TOTAL	67,183	68,480

Payment terms on these amounts have not been re-negotiated however credit has been stopped where the credit limit has been exceeded. In this case, payment terms will not be extended. Each business unit has been in direct contact with the relevant debtor and is satisfied that payment will be received.

Receivables not impaired or past due:

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

6. TRADE AND OTHER RECEIVABLES (cont'd)

a) Allowance for impairment loss (cont'd)

The Group trades only 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.

(b) Other debtors

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

(c) Fair value, credit risk, foreign exchange risk and interest rate risk

Details regarding fair value and credit, foreign exchange and interest rate risk are disclosed in note 28.

	Notes	Consolidated	
		2013	2012
		\$'000	\$'000
7. INVENTORIES			
Construction work in progress			
Cost incurred to date plus profit recognised		4,160,096	2,481,387
Consideration received and receivable as progress billings		(4,048,692)	(2,567,499)
		111,404	(86,112)
Represented by:			
Amounts due to customers	7(a),13	62,328	158,202
Amounts due from customers		173,732	72,090

(a) Advances received for construction work not yet commenced or for committed subcontractor work not yet received are recognised as a current liability in trade and other payables. Refer note 13.

8. DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated	
	2013	2012
	\$'000	\$'000
CURRENT		
Forward currency contracts – held for trading	263	433

Derivative financial instruments are used by the Group in the normal course of business in order to manage exposure to fluctuations in foreign exchange rates.

(i) Forward currency contracts – held for trading

The Group has entered into forward exchange contracts which are economic hedges but do not satisfy the requirements for hedge accounting.

	Notional Amounts		Average Exchange Rate	
	\$AUD			
	2013	2012	2013	2012
	\$'000	\$'000	\$	\$
Buy US\$ Maturity 0-12 months				
Consolidated	3,305	26,947	0.9985	1.0124

These contracts are fair valued by comparing the contracted rate to the market rates for contracts with the same maturity date. All movements in fair value are recognised in the income statement in the period they occur. The net fair value loss on foreign currency derivatives during the year was \$170,000 for the Group (2012: \$433,000 gain).

	Notes	Consolidated	
		2013	2012
		\$'000	\$'000

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS (NON-CURRENT)

At fair value			
Shares – Australian listed	9(a)	3,511	-

At 30 June 2013, the available-for-sale investments consist of investments in ordinary shares at fair value in Anaeco Limited (ASX: ANQ).

(a) Listed shares

The fair value of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

10. PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Consolidated					Total \$'000
	Freehold land \$'000	Buildings on freehold land \$'000	Lease- hold improve- ments \$'000	Plant and equip- ment \$'000	Plant and equip- ment under hire purchase \$'000	
Year ended 30 June 2013						
At 1 July 2012						
net of						
accumulated						
depreciation	14,165	15,420	1,243	55,864	54,410	141,102
Additions	-	3,751	749	30,136	11,737	46,373
Assets						
transferred	-	-	-	3,895	(3,895)	-
Disposals						
(note 10(c))	(754)	(120)	-	(22,219)	-	(23,093)
Depreciation						
charge	-	(731)	(185)	(16,648)	(11,162)	(28,726)
At 30 June 2013						
net of						
accumulated						
depreciation	13,411	18,320	1,807	51,028	51,090	135,656
At 30 June 2013						
Cost	13,411	23,354	2,379	149,518	71,989	260,651
Accumulated						
depreciation	-	(5,034)	(572)	(98,490)	(20,899)	(124,995)
Net carrying						
amount	13,411	18,320	1,807	51,028	51,090	135,656

MONADELPHOUS GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

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10. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(a) Reconciliation of carrying amounts at the beginning and end of the period (cont'd)

	Consolidated					Total \$'000
	Freehold land \$'000	Buildings on freehold land \$'000	Lease- hold improve- ments \$'000	Plant and equip- ment \$'000	Plant and equip- ment under hire purchase \$'000	
Year ended						
30 June 2012						
At 1 July 2011						
net of						
accumulated						
depreciation	4,924	13,195	639	47,493	47,191	113,442
Additions	9,241	3,028	715	42,295	18,881	74,160
Additions						
through business						
combinations						
(note 28)	-	-	-	38	-	38
Assets						
transferred	-	-	-	2,288	(2,288)	-
Disposals						
(note 10(c))	-	(127)	-	(19,870)	-	(19,997)
Depreciation						
charge	-	(676)	(111)	(16,380)	(9,374)	(26,541)
At 30 June 2012						
net of						
accumulated						
depreciation	14,165	15,420	1,243	55,864	54,410	141,102
At 30 June 2012						
Cost	14,165	19,837	1,630	138,991	70,551	245,174
Accumulated						
depreciation	-	(4,417)	(387)	(83,127)	(16,141)	(104,072)
Net carrying						
amount	14,165	15,420	1,243	55,864	54,410	141,102

(b) Property, plant and equipment pledged as security

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

	Consolidated	
	2013 \$'000	2012 \$'000
Assets pledged as security	52,897	55,653

10. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(c) Disposals

Disposal of property, plant and equipment for the year ended 30 June 2013 totalled \$23,093,000 (2012: \$19,997,000). Included within plant and equipment disposals for the year ended 30 June 2013 is an amount of \$21,367,000 (2012: \$19,278,000) relating to cranes sold and immediately leased back under operating leases.

	Consolidated		
	Intangible Assets \$'000	Goodwill \$'000	Total \$'000
11. INTANGIBLE ASSETS AND GOODWILL			
Year ended 30 June 2013			
At 1 July 2012	2,971	2,947	5,918
Amortisation	(1,121)	-	(1,121)
At 30 June 2013	1,850	2,947	4,797
Year ended 30 June 2012			
At 1 July 2011	2,416	2,933	5,349
Acquisition of subsidiary	4,092	14	4,106
Amortisation	(2,195)	-	(2,195)
Impairment loss	(1,342)	-	(1,342)
At 30 June 2012	2,971	2,947	5,918

(a) Description of the Group's intangible assets and goodwill

(i) Intangible assets

Intangible assets have been acquired through business combinations and are carried at cost less accumulated amortisation and impairment losses. Intangible assets have been assessed as having a finite life and are amortised using the straight line method over a period of between 3 and 4 years. The amortisation and impairment loss has been recognised in the income statement in the cost of services rendered classification. Intangible assets include the fair value of contracts acquired on acquisition of PearlStreet Energy Services Pty Ltd (subsequently re-named Monadelphous Energy Services Pty Ltd) and KT Pty Ltd (subsequently re-named Monadelphous KT Pty Ltd).

(ii) Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment (refer to section (b) of this note).

(b) Impairment testing of the Group's intangible assets and goodwill

(i) Intangible assets

At 30 June 2013, no impairment loss relating to intangible assets acquired through business combinations has been recognised in the income statement (2012: \$1,342,000).

11. INTANGIBLE ASSETS AND GOODWILL (cont'd)

(b) Impairment testing of the Group's intangible assets and goodwill (cont'd)

(ii) Goodwill

Goodwill acquired through a business combination has been allocated to cash generating units for impairment testing purposes. The cash generating units are the entity Monadelphous Electrical & Instrumentation Pty Ltd (goodwill of \$2,311,000), the Hunter Valley business unit (goodwill of \$240,000), the entity Monadelphous KT Pty Ltd (goodwill of \$382,000) and the entity Monadelphous Energy Services Pty Ltd (goodwill of \$14,000). The recoverable amount of each cash generating unit 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. Cash flows beyond the five year period have not been used in the calculation.

The discount rate applied to the cash flow projections is 15% for the entity Monadelphous Electrical & Instrumentation Pty Ltd (2012: 15%), the Hunter Valley business unit (2012: 15%), the entity Monadelphous KT Pty Ltd (2012: 15%) and the entity Monadelphous Energy Services Pty Ltd (2012: 15%). The cash flows are based on the entities' and business unit's budgeted cash flows. No reasonable possible changes in key assumptions would result in the carrying amount exceeding the recoverable amount.

12. INTEREST IN JOINT VENTURES

A joint venture agreement establishing the Anaeco Monadelphous joint venture was executed on 29 March 2010. The principal activity of the joint venture is to deliver design-and-construct waste management systems for the WMRC DiCOM facility at Shenton Park in Western Australia.

Monadelphous Muhibbah Marine joint venture was established on 1 July 2011. The principal activity of the joint venture is to construct the approach jetty and ship berth associated with the Wiggins Island Coal Export Terminal project at Gladstone in Queensland.

A joint venture agreement between Skystar Airport Services Pty Ltd and Menzies Aviation (Australia) Pty Ltd was executed on 28 July 2011. The principal activity of the joint venture is to provide aviation support services at Perth International Airport.

A joint venture agreement between Monadelphous Engineering Pty Ltd and Transfield Services (Australia) Pty Ltd was executed on 5 September 2011. The principal activity of the joint venture is to undertake construction of the Toowoomba Wastewater Infrastructure Projects program for the Toowoomba Regional Council in Queensland.

A joint venture agreement between Monadelphous KT Pty Ltd and OSD Projects Pty Ltd was established on 10 November 2011. The principal activity of the joint venture is design and construction of a transmission pipeline and associated facilities for Hamersley Iron at West Angelas, near Newman in WA.

(a) Commitments relating to jointly controlled operations

There were no capital commitments relating to the jointly controlled operations at 30 June 2013 (2012: nil).

(b) Contingent liabilities relating to jointly controlled operations

There were no contingent liabilities relating to the jointly controlled operations at 30 June 2013 (2012: nil).

(c) Impairment

No assets employed in the jointly controlled operations were impaired during the year ended 30 June 2013 (2012: nil).

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
13. TRADE AND OTHER PAYABLES			
CURRENT			
Trade payables	13(a)	140,519	93,696
Advances on construction work in progress – Amounts due to customers	7	62,328	158,202
Sundry creditors and accruals	13(a)	28,789	28,788
		231,636	280,686

(a) Terms and conditions

Terms and conditions relating to the above financial instruments:

- (i) Trade payables are non-interest bearing and are normally settled on 30 day terms.
- (ii) Sundry creditors and accruals are non-interest bearing and have an average term of 45 days.

(b) Fair value, foreign exchange risk, interest rate risk and liquidity risk

Details regarding fair value and foreign exchange, interest rate and liquidity risk are disclosed in note 28.

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
14. INTEREST BEARING LOANS AND BORROWINGS			
CURRENT			
Hire purchase liability – secured	14(a),20	18,512	18,128
Bank loan – secured	14(a)	4,035	655
		22,547	18,783
NON-CURRENT			
Hire purchase liability – secured	14(a),20	25,984	30,322
Bank loan – secured	14(a)	6,612	1,516
		32,596	31,838

(a) Terms and conditions

- (i) Bank loans are repayable monthly. Interest is charged at the bank's fixed rate. Bank loans are secured either by way of registered first mortgages over land and buildings of a controlled entity, with an interlocking debenture from the parent entity and controlled entities, or by a fixed and floating charge over the assets of certain companies within the group. The average discount rate implicit in the bank loans is 5.11% (2012: 7.12%).
- (ii) Hire purchase agreements have an average term of three years. The average discount rate implicit in the hire purchase liability is 6.76% (2012: 7.30%). The hire purchase liability is secured by a charge over the hire purchase assets.

(b) Fair value and interest rate and liquidity risk

Details regarding fair value and interest rate and liquidity risk are disclosed in note 28.

(c) Defaults and breaches

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

	Notes	Consolidated	
		2013	2012
		\$'000	\$'000
15. PROVISIONS			
CURRENT			
Employee benefits	15(a)	106,168	66,067
Workers' compensation	15(b)	34,143	27,511
		<u>140,311</u>	<u>93,578</u>
NON-CURRENT			
Employee benefits – long service leave		<u>7,858</u>	<u>5,427</u>

(a) Employee benefits

Employee benefits includes liabilities for wages and salaries, annual leave, 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.

(b) 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.

	Consolidated
	2013
	\$'000
(c) Movements in provisions	
Workers compensation	
Carrying amount at the beginning of the year	27,511
Additional provision	15,098
Amounts utilised during the year	<u>(8,466)</u>
Carrying amount at the end of the financial year	<u>34,143</u>

MONADELPHOUS GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

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16. CONTRIBUTED EQUITY	Notes	Consolidated	
		2013 \$'000	2012 \$'000
Ordinary shares – Issued and fully paid	16(a)	83,448	57,876

(a) 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.

	2013		2012	
	Number of Shares	\$'000	Number of Shares	\$'000
Beginning of the financial year	88,674,327	57,876	87,576,827	46,612
Exercise of employee options	1,989,216	19,229	1,097,500	11,264
Dividend reinvestment plan	276,715	6,343	-	-
End of the financial year	90,940,258	83,448	88,674,327	57,876

During the year ended 30 June 2013, under the Monadelphous Group Limited Employee Option Plan, employees and directors have exercised the option to acquire 1,989,216 fully paid ordinary shares at a weighted average exercise price of \$10.41. All 1,989,216 shares were issued as new fully paid ordinary shares.

(b) Share options

Options over ordinary shares

During the financial year, there were 560,000 options issued over ordinary shares.

At the end of the year there were 5,305,750 (2012: 7,331,000) unissued ordinary shares in respect of which options were outstanding (note 23).

(c) Capital management

Capital is managed by the Group's Chief Financial Officer in conjunction with the Group's Finance & 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 current ratio, gearing ratio, operating leverage ratio and fixed charge coverage ratio. At 30 June 2013, the Group is in a net cash position of \$140,198,000 (2012: \$152,935,000) and has a debt to equity ratio of 17.9% (2012: 20.6%) which is within the Group's net cash and debt to equity target levels.

During the year ended 30 June 2013, management paid dividends of \$124,180,703. 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.

MONADELPHOUS GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

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	Notes	Consolidated	
		2013 \$'000	2012 \$'000
17. RESERVES AND RETAINED EARNINGS			
Foreign currency translation reserve	17(b)	62	(210)
Share-based payment reserve	17(b)	30,855	26,441
		30,917	26,231
Retained earnings	17(a)	193,669	161,535

(a) Movements in retained earnings

Balance at the beginning of the year	161,535	117,296
Net profit attributable to members of Monadelphous Group Limited	156,314	137,335
Total available for appropriation	317,849	254,631
Dividends paid	(124,180)	(93,096)
Balance at the end of the year	193,669	161,535

(b) Movements in reserves

	Consolidated			Total \$'000
	Net unrealised gains reserve \$'000	Foreign currency translation reserve \$'000	Share-based payment reserve \$'000	
At 1 July 2011	12,395	(279)	17,210	29,326
Foreign currency translation	-	69	-	69
Share-based payment	-	-	4,678	4,678
Net fair value gains on available-for-sale financial assets	(1,012)	-	-	(1,012)
Reclassification adjustment for gains included in the income statement (net of tax effect)	(11,383)	-	-	(11,383)
Deferred tax asset recognised on Employee Share Trust	-	-	4,553	4,553
At 30 June 2012	-	(210)	26,441	26,231
Foreign currency translation	-	272	-	272
Share-based payment	-	-	6,069	6,069
Deferred tax asset recognised on Employee Share Trust	-	-	(1,655)	(1,655)
At 30 June 2013	-	62	30,855	30,917

(c) Nature and purpose of reserves

Net unrealised gains reserve

This reserve records movements in the fair value of available-for-sale financial assets.

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 23 for further details of these plans.

MONADELPHOUS GROUP LIMITED
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FOR THE YEAR ENDED 30 JUNE 2013

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	Consolidated	
	2013	2012
	\$'000	\$'000
18. CASH AND CASH EQUIVALENTS		
(a) Reconciliation of net profit after tax to the net cash flows from operating activities		
Net profit	156,314	137,335
Adjustments for		
Depreciation of non-current assets	28,726	26,541
Amortisation and impairment of intangible assets	1,121	3,537
Net (profit)/loss on sale of property, plant and equipment	(1,436)	(883)
Profit on sale of available-for-sale financial assets	-	(16,262)
Dividend income classified as an investing activity	-	(777)
Impairment of available-for-sale financial assets	2,755	-
Share-based payment expense	6,069	4,678
Unrealised foreign exchange (gain)/loss	(1,223)	964
Other	754	(2)
Changes in assets and liabilities		
(Increase)/decrease in receivables	16,374	(70,112)
(Increase)/decrease in inventories	(101,642)	(45,956)
(Increase)/decrease in deferred tax assets	(11,398)	2,598
(Increase)/decrease in derivative instruments	170	(433)
Increase/(decrease) in payables	(49,050)	96,705
Increase/(decrease) in provisions	49,164	(371)
Increase/(decrease) in income tax payable	16,819	928
Increase/(decrease) in deferred tax liabilities	(277)	154
Net cash flows from operating activities	113,240	138,644
(b) 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	195,341	143,556
- Short term deposits	-	60,000
	195,341	203,556

	Notes	Consolidated	
		2013	2012
		\$'000	\$'000
18. CASH AND CASH EQUIVALENTS (cont'd)			
(c) Financing facilities available			
At balance date the following financing facilities had been negotiated and were available			
Total facilities:			
- Bank guarantee and performance bonds	(i)	506,179	421,179
- Revolving credit	(ii)	122,609	116,166
		628,788	537,345
Facilities used at balance date:			
- Bank guarantee and performance bonds		400,534	331,349
- Revolving credit		55,143	50,621
		455,677	381,970
Facilities unused at balance date:			
- Bank guarantee and performance bonds		105,645	89,830
- Revolving credit		67,466	65,545
		173,111	155,375

(i) Bank guarantees and performance bonds

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

(ii) Revolving credit

The revolving credit includes bank loans and hire purchase/leasing facilities. Refer to note 14(a) for terms and conditions.

(d) Non-cash financing and investing activities

Hire purchase transactions:

During the year the consolidated entity acquired plant and equipment by means of hire purchase agreements with an aggregate fair market value of \$12,486,059 (2012: \$19,596,302).

19. CHANGE IN COMPOSITION OF ENTITY

On 2 November 2012, Monadelphous Singapore Pte Ltd was incorporated. Monadelphous Group Limited owns 100% of the voting shares of Monadelphous Singapore Pte Ltd, a private company based in Singapore.

On 5 February 2013, Monadelphous Mongolia LLC was incorporated. Monadelphous Singapore Pte Ltd owns 100% of the voting shares of Monadelphous Mongolia LLC, a private company based in Mongolia.

MONADELPHOUS GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2013

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	Notes	Consolidated	
		2013	2012
		\$'000	\$'000
20. COMMITMENTS AND CONTINGENCIES			
(a) Hire purchase commitments			
Payable:			
- Within one year		21,198	21,024
- Later than one year but not later than five years		27,261	32,722
		<u>48,459</u>	<u>53,746</u>
Minimum lease payments		48,459	53,746
Less future finance charges		(3,963)	(5,296)
		<u>44,496</u>	<u>48,450</u>
Present value of minimum lease payments		44,496	48,450
Current liability	14	18,512	18,128
Non-current liability	14	25,984	30,322
		<u>44,496</u>	<u>48,450</u>

Hire purchase agreements have an average term of three years.

(b) Operating lease commitments	2013	2013	2013	2012
	Properties	Other	Total	Total
	\$'000	\$'000	\$'000	\$'000
Minimum lease payments				
- Within one year	15,063	14,936	29,999	21,662
- Later than one year but not later than five years	43,472	28,757	72,229	58,731
- Later than five years	45,366	-	45,366	29,712
- Aggregate lease expenditure contracted for at balance date but not provided for	<u>103,901</u>	<u>43,693</u>	<u>147,594</u>	110,105

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

(c) Capital commitments

The consolidated group has capital commitments of \$1,554,670 at 30 June 2013 (2012: \$19,618,754).

(d) Guarantees

	Consolidated	
	2013	2012
	\$'000	\$'000
Guarantees given to various clients for satisfactory contract performance	<u>400,534</u>	<u>331,349</u>

Monadelphous Group Limited and all controlled entities marked * in note 26 have entered into a deed of cross guarantee pursuant to the ASIC Class Order made on 9 June 2011 and 1 June 2012 whereby they covenant with a trustee for the benefit of each creditor, that they guarantee to each creditor payment in full of any debt in the event of any entity, including Monadelphous Group Limited, being wound up.

21. 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 2013, the Engineering Construction division contributed revenue of \$1,783.9 million (2012: \$1,144.5 million), the Maintenance and Industrial Services division contributed revenue of \$644.0 million (2012: \$634.5 million), and the Infrastructure division contributed revenue of \$199.8 million (2012: \$133.3 million). Included in these amounts is \$13.6 million (2012: \$14.8 million) of inter-entity revenue, which is eliminated on consolidation. Comparatives have been restated to allocate transmission pipelines revenue to the Engineering Construction division from the Infrastructure division. The operating divisions are exposed to similar risks and rewards from operations, and are only segmented to facilitate appropriate management structures.

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

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

Skystar Airport Services is not considered material for segment reporting purposes.

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 32% of the Group's revenue. One other customer contributed over 10% of revenue, which represented 22%. There are multiple contracts with these customers, across a number of their subsidiaries, divisions within those subsidiaries and locations.

2013	2012
\$'000	\$'000

22. 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

156,314	137,335
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Earnings used in calculation of basic and diluted earnings per share

156,314	137,335
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2013	2012
Number	Number

Number of shares

Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share

90,339,712	88,468,526
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Effect of dilutive securities

Share options

1,315,020	1,852,452
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Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share

91,654,732	90,320,978
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22. EARNINGS PER SHARE (cont'd)

Conversions, calls, subscriptions or issues after 30 June 2013:

Since the end of the financial year, no holders of employee options have exercised the rights of conversion to acquire ordinary shares.

23. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

(a) Share-based payment plan

The Monadelphous Group Limited Employee Option Plan and Employee Option Prospectus have been established where eligible directors and employees of the consolidated entity are issued with options over the ordinary shares of Monadelphous Group Limited. The options, issued for nil consideration, are issued in accordance with the guidelines established by the remuneration committee of Monadelphous Group Limited. The options issued carry various terms and exercising conditions. There is currently 1 director and 259 employees participating in these schemes.

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

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

The ability to exercise options during each applicable window period is subject to the financial performance of the Company during the option vesting period. The options shall only be capable of exercise during that window period where the Company's Earnings Per Share (EPS) metric is growing at a rate of at least 10% per year on average. If, however, this hurdle is not achieved for a particular window period, rather than lapsing, the options will be re-tested during all later window periods in respect of that issue and may become exercisable at that later date.

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

	2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at the beginning of the year	7,331,000	\$15.00	3,928,500	\$11.01
Granted during the year				
- Employee Option Plan – October 2011	-	-	40,000	19.31
- Employee Option Prospectus	-	-	4,630,000	17.25
- Employee Option Plan – October 2012	560,000	19.70	-	-
Forfeited during the year	(465,000)	16.74	(170,000)	15.55
Exercised during the year	(2,120,250)	10.41	(1,097,500)	10.26
Balance at the end of the year	5,305,750	17.18	7,331,000	15.00
Exercisable during the next year	1,402,750	16.41	2,120,250	10.41

The weighted average share price at the date of exercise during the year was \$19.51 (2012: \$19.21).

23. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (cont'd)

(a) Share-based payment plan (cont'd)

Options granted during the reporting period

In November 2012, a total of 560,000 options were granted by Monadelphous Group Limited under the Employee Option Plan – October 2012 at an exercise price of \$19.70. The exercise price of the options granted under the Employee Option Plan – October 2012 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 2 October 2012. 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	6.7%
Expected volatility	30.0% - 40.0%
Historical volatility	30.0% - 40.0%
Risk-free interest rate	2.62%
Expected life of option	25% - 2 years
	25% - 3 years
	50% - 4 years

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

The resulting weighted average fair values for options outstanding at 30 June 2013 are:

Number	Grant Date	Final Vesting Date	Fair Value Per Option at Grant Date
180,000	28/09/2009	30/09/2013	\$3.53
355,750	25/10/2010	30/09/2014	\$3.74
3,790,000	3/11/2011	14/09/2015	\$3.49
40,000	17/11/2011	14/09/2015	\$3.39
400,000	23/11/2011	14/09/2015	\$4.05
540,000	1/11/2012	14/09/2016	\$3.52

The share-based payment expense for the year ended 30 June 2013 was \$6,069,132 (2012: \$4,677,715) for the consolidated entity.

23. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (cont'd)

(a) Share-based payment plan (cont'd)

Options held as at the end of the reporting period

The following table summarises information about options held by the employees as at 30 June 2013:

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
180,000	28/09/2009	01/09/2013	30/09/2013	\$12.22
120,250	25/10/2010	01/09/2013	30/09/2014	\$14.84
235,500	25/10/2010	01/09/2014	30/09/2014	\$14.84
992,500	3/11/2011	01/09/2013	14/09/2015	\$17.25
932,500	3/11/2011	01/09/2014	14/09/2015	\$17.25
1,865,000	3/11/2011	01/09/2015	14/09/2015	\$17.25
10,000	17/11/2011	01/09/2013	14/09/2015	\$19.31
10,000	17/11/2011	01/09/2014	14/09/2015	\$19.31
20,000	17/11/2011	01/09/2015	14/09/2015	\$19.31
100,000	23/11/2011	01/09/2013	14/09/2015	\$17.25
100,000	23/11/2011	01/09/2014	14/09/2015	\$17.25
200,000	23/11/2011	01/09/2015	14/09/2015	\$17.25
135,000	1/11/2012	01/09/2014	14/09/2016	\$19.70
135,000	1/11/2012	01/09/2015	14/09/2016	\$19.70
270,000	1/11/2012	01/09/2016	14/09/2016	\$19.70

(b) Superannuation commitments

Employees and the employer contribute to a number of complying accumulation funds at varying percentages of salaries and wages. The consolidated entity's contributions are not legally enforceable other than those payable in terms of ratified award obligations required by the Occupational Superannuation Act.

24. KEY MANAGEMENT PERSONNEL

(a) Compensation for Key Management Personnel

	Consolidated	
	2013	2012
	\$	\$
Short term benefits	4,139,832	4,445,524
Post employment	109,086	111,232
Long term benefits	173,224	158,988
Share-based payments	1,253,313	1,130,418
Total compensation	5,675,455	5,846,162

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24. KEY MANAGEMENT PERSONNEL (cont'd)

(b) Option holdings of Key Management Personnel

<i>Options held in Monadelphous Group Limited</i>	Balance at Beginning of Period 1 July 2012	Granted as Remuneration	Options Vested and Exercised	Net Change Other	Balance at End of Period 30 June 2013
Directors					
C. G. B. Rubino	-	-	-	-	-
R. Velletri	650,000	-	(250,000)	-	400,000
I. Tollman	-	-	-	-	-
P. J. Dempsey	-	-	-	-	-
C. P. Michelmore	-	-	-	-	-
Executives					
D. Foti	390,000	-	(140,000)	-	250,000
A. Erdash	220,000	-	(70,000)	-	150,000
Z. Bebic	220,000	-	(70,000)	-	150,000
S. Murray#	135,000	-	(35,000)	(100,000)	-
Total	1,615,000	-	(565,000)	(100,000)	950,000

S. Murray ceased to meet the definition of Key Management Personnel on 24 June 2013 following his resignation from the Company. 75,000 options were forfeited on that date. The remaining 25,000 options are exercisable in September 2013.

<i>Options held in Monadelphous Group Limited</i>	Balance at Beginning of Period 1 July 2011	Granted as Remuneration	Options Vested and Exercised	Net Change Other	Balance at End of Period 30 June 2012
Directors					
C. G. B. Rubino	-	-	-	-	-
R. Velletri	375,000	400,000	(125,000)	-	650,000
I. Tollman	-	-	-	-	-
P. J. Dempsey	-	-	-	-	-
C. P. Michelmore	-	-	-	-	-
Executives					
D. Foti	210,000	250,000	(70,000)	-	390,000
A. Erdash	105,000	150,000	(35,000)	-	220,000
C. Tabrett ^	105,000	100,000	(35,000)	(170,000)	-
Z. Bebic	105,000	150,000	(35,000)	-	220,000
S. Murray	52,500	100,000	(17,500)	-	135,000
Total	952,500	1,150,000	(317,500)	(170,000)	1,615,000

^ C. Tabrett ceased to meet the definition of Key Management Personnel in December 2011 following the consolidation of the Eastern and Western regions of the Maintenance & Industrial Services division and the appointment of an Executive General Manager for the consolidated Maintenance & Industrial Services division. Net change other represents options held on the date of ceasing to meet the definition of Key Management Personnel.

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24. KEY MANAGEMENT PERSONNEL (cont'd)

(c) Shareholdings of Key Management Personnel

<i>Shares held in Monadelphous Group Limited</i>	Balance at Beginning of Period 1 July 2012	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance at End of Period 30 June 2013
Directors					
C. G. B. Rubino	2,004,000	-	-	10,816	2,014,816
R. Velletri	2,250,000	-	250,000	-	2,500,000
I. Tollman	667,586	-	-	(87,972)	579,614
P. J. Dempsey	78,000	-	-	-	78,000
C. P. Michelmore	18,597	-	-	-	18,597
Executives					
D. Foti	556,816	-	140,000	(400,000)	296,816
A. Erdash	405,000	-	70,000	(10,000)	465,000
Z. Bebic	110,000	-	70,000	(10,000)	170,000
S. Murray#	3,850	-	35,000	(38,850)	-
Total	6,093,849	-	565,000	(536,006)	6,122,843

S. Murray ceased to meet the definition of Key Management Personnel on 24 June 2013 following his resignation from the Company.

<i>Shares held in Monadelphous Group Limited</i>	Balance at Beginning of Period 1 July 2011	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance at End of Period 30 June 2012
Directors					
C. G. B. Rubino	2,004,000	-	-	-	2,004,000
R. Velletri	2,125,000	-	125,000	-	2,250,000
I. Tollman	667,586	-	-	-	667,586
P. J. Dempsey	78,000	-	-	-	78,000
C. P. Michelmore	18,597	-	-	-	18,597
Executives					
D. Foti	716,816	-	70,000	(230,000)	556,816
A. Erdash	370,000	-	35,000	-	405,000
C. Tabrett ^	10,000	-	35,000	(45,000)	-
Z. Bebic	80,000	-	35,000	(5,000)	110,000
S. Murray	-	-	17,500	(13,650)	3,850
Total	6,069,999	-	317,500	(293,650)	6,093,849

^ C. Tabrett ceased to meet the definition of Key Management Personnel in December 2011 following the consolidation of the Eastern and Western regions of the Maintenance & Industrial Services division and the appointment of an Executive General Manager for the consolidated Maintenance & Industrial Services division. Net change other represents shares held on the date of ceasing to meet the definition of Key Management Personnel.

24. KEY MANAGEMENT PERSONNEL (cont'd)

(d) Loans to Key Management Personnel

No directors or executives had any loans during the reporting period.

(e) Other transactions and balances with Key Management Personnel

There were no other transactions and balances with Key Management Personnel.

Consolidated	
2013	2012
\$	\$

25. AUDITORS' REMUNERATION

The auditor of Monadelphous Group Limited is Ernst & Young.

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

- An audit or review of the financial report of the entity and any other entity in the consolidated entity	180,850	168,550
- Other services in relation to the entity and any other entity in the consolidated entity		
- tax compliance	25,711	35,918
- assurance related	5,665	5,665
	212,226	210,133

Amounts received or due and receivable by other accounting firms for:

- tax compliance *	1,019,191	875,352
- other services	34,000	74,770
	1,053,191	950,122

The other services provided by Ernst & Young, as disclosed above, were performed and managed by personnel who were neither directly, nor indirectly, involved in the audit or review of the financial report of the Company and consolidated entity. 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.

* Tax compliance fees paid to other accounting firms during the financial year ended 30 June 2013 relate predominantly to the application for Research and Development Tax Concessions and overseas tax compliance services.

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26. RELATED PARTY DISCLOSURES

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

Name	Country of Incorporation	Percentage Held by Consolidated Entity		Parent Entity Investment	
		2013 %	2012 %	2013 \$'000	2012 \$'000
Parent:					
Monadelphous Group Limited					
Controlled entities of Monadelphous Group Limited:					
*Monadelphous Engineering Associates Pty Ltd					
	Australia	100	100	27,688	22,850
Skystar Airport Services Pty Ltd					
	Australia	100	100	489	451
*Monadelphous Properties Pty Ltd					
	Australia	100	100	1,941	1,941
*Monadelphous Engineering Pty Ltd					
	Australia	100	100	4,407	3,875
*Genco Pty Ltd					
	Australia	100	100	342	342
*Monadelphous Workforce Pty Ltd					
	Australia	100	100	370	370
*Monadelphous Electrical & Instrumentation Pty Ltd					
	Australia	100	100	5,403	4,970
*Monadelphous KT Pty Ltd					
	Australia	100	100	16,078	15,951
*Monadelphous Energy Services Pty Ltd					
	Australia	100	100	4,434	4,434
SinoStruct Pty Ltd					
	Australia	100	100	217	116
Monadelphous Group Limited Employee Share Trust					
	Australia	100	100	-	-
Skystar Airport Services Holdings Pty Ltd					
	Australia	100	100	-	-
Monadelphous PNG Ltd					
	Papua New Guinea	100	100	-	-
Skystar Airport Services NZ Pty Ltd					
	New Zealand	100	100	-	-
Moway International Limited					
	Hong Kong	100	100	443	443
Moway AustAsia Steel Structures Trading (Beijing) Company Limited					
	China	100	100	-	-
Monadelphous Singapore Pte Ltd					
	Singapore	100	-	144	-
Monadelphous Mongolia LLC					
	Mongolia	100	-	-	-
				61,956	55,743

* Controlled entities subject to the Class Order

Pursuant to Class Order 98/1418, 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 and 1 June 2012. 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 'Closed Group' are as follows:

	CLOSED GROUP	
	2013 \$'000	2012 \$'000
Consolidated Income Statement		
Profit before income tax	200,959	160,836
Income tax expense	(58,604)	(40,763)
Net profit after tax for the period	<u>142,355</u>	<u>120,073</u>
Retained earnings at the beginning of the period	130,390	103,413
Dividends paid	(124,180)	(93,096)
Retained earnings at the end of the period	<u>148,565</u>	<u>130,390</u>

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26. RELATED PARTY DISCLOSURES (cont'd)

	CLOSED GROUP	
	2013	2012
	\$'000	\$'000
Consolidated Statement of Financial Position		
ASSETS		
Current assets		
Cash and cash equivalents	180,943	193,690
Trade and other receivables	206,798	185,701
Inventories	131,899	63,774
Derivative financial instruments	263	433
Total current assets	519,903	443,598
Non-current assets		
Investments in subsidiaries	1,294	1,010
Available-for-sale financial assets	3,511	-
Property, plant and equipment	118,979	125,816
Deferred tax assets	31,482	27,387
Intangible assets and goodwill	4,797	5,918
Total non-current assets	160,063	160,131
TOTAL ASSETS	679,966	603,729
LIABILITIES		
Current liabilities		
Trade and other payables	196,088	232,520
Interest bearing loans and borrowings	22,547	18,783
Income tax payable	25,235	12,249
Provisions	133,490	88,826
Total current liabilities	377,360	352,378
Non-current liabilities		
Interest bearing loans and borrowings	32,596	31,838
Provisions	7,142	4,806
Total non-current liabilities	39,738	36,644
TOTAL LIABILITIES	417,098	389,022
NET ASSETS	262,868	214,707
EQUITY		
Contributed equity	83,448	57,876
Reserves	30,855	26,441
Retained earnings	148,565	130,390
TOTAL EQUITY	262,868	214,707

26. RELATED PARTY DISCLOSURES (cont'd)

Ultimate parent

Monadelphous Group Limited is the ultimate holding company.

27. EVENTS AFTER THE REPORTING PERIOD

On 19 August 2013, the directors of Monadelphous Group Limited declared a final dividend on ordinary shares in respect of the 2013 financial year. The total amount of the dividend is \$68,205,193 which represents a fully franked final dividend of 75 cents per share. This dividend has not been provided for in the 30 June 2013 financial statements. The Monadelphous Group Limited Dividend Reinvestment plan will apply to the dividend.

On 19 August 2013, the Group entered into an agreement to sell its wholly owned Skystar operating subsidiaries, Skystar Airport Services Pty Ltd and Skystar Airport Services NZ Pty Ltd. The agreement with Menzies Aviation, a division of John Menzies plc, is subject to regulatory approvals and completion is expected to occur around the end of September 2013. The financial impact of this transaction is not expected to be material to the results of the Group for the year ending 30 June 2014.

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

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

(a) Risk exposures and responses

Interest rate risk

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

	Notes	Consolidated	
		2013	2012
		\$'000	\$'000
Financial assets			
Cash and cash equivalents	18(b)	<u>195,341</u>	203,556
Net exposure		<u>195,341</u>	<u>203,556</u>

The Group's policy is to manage its exposure to movements in interest rates by fixing the interest rate on financial instruments, including bank loans, finance leases and hire purchase liabilities, where possible. In addition, 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.

The following sensitivity analysis is based on the variable interest rate risk exposures in existence at the reporting date:

At 30 June 2013, if variable interest rates moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

Judgements of reasonably possible movements relating to financial assets and liabilities at floating rates:	Post Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Consolidated				
+0.5% (2012: +0.5%)	684	712	-	-
-0.5% (2012: -0.5%)	(684)	(712)	-	-

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Risk exposures and responses (cont'd)

The reasonably possible movements have been based on review of historical movements and forward rate curves for forward rates.

The periodic effects are determined by relating the hypothetical changes in the floating interest rates to the balance of financial instruments at reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole.

Foreign currency risk

As a result of operations in New Zealand, Papua New Guinea, China, and Mongolia the Group's statement of financial position can be affected by movements in the US\$/A\$, NZ\$/A\$, PNGK/A\$, EUR/A\$ and RMB/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. The Group's policy is to manage foreign exchange exposure by purchasing foreign currency or taking out forward contracts for the amount of foreign currency required. Where possible, Monadelphous does not take on foreign exchange risk. At 30 June 2013, the Group had forward contracts to purchase US\$3,300,000 over the next 12 months. Refer to note 8 for further information.

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 2013, the Group had the following exposure to US\$ foreign currency:

	Consolidated	
	2013	2012
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	12,206	14,451
Trade and other receivables	152	7,220
Derivative financial instruments	263	433
Net exposure	12,621	22,104

At 30 June 2013, if the US\$ 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 US\$:	Post Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Consolidated				
+5% (2012: +5%)	(442)	(774)	-	-
-5% (2012: -5%)	442	774	-	-

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

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Risk exposures and responses (cont'd)

At 30 June 2013, the Group had the following exposure to Euro foreign currency:

	Consolidated	
	2013	2012
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	1,848	17,048
Net exposure	1,848	17,048

At 30 June 2013, if the Euro 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 Euro:	Post Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Consolidated				
+5% (2012: +5%)	(65)	(597)	-	-
-5% (2012: -5%)	65	597	-	-

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

At 30 June 2013, the Group had the following exposure to PGK foreign currency:

	Consolidated	
	2013	2012
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	13,327	8,384
Trade and other receivables	9,499	11,045
Net exposure	22,826	19,429

At 30 June 2013, if the PGK 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 PGK:	Post Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Consolidated				
+5% (2012: +5%)	(799)	(680)	-	-
-5% (2012: -5%)	799	680	-	-

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

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Risk exposures and responses (cont'd)

Price risk

Equity securities price risk arises from investments in equity securities. At 30 June 2013 the Group had a single equity investment which was publicly traded on the ASX. At 30 June 2012 the Group did not have any investments in equity securities.

At 30 June 2013, if the share price of the single equity investment 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 share price of equity investment:	Post Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Consolidated				
+15% (2012: +15%)	-	-	369	-
-15% (2012: -15%)	(369)	-	-	-

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

Credit risk

The Group trades only 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.

There are no significant concentrations of credit risk within the Group. The Group minimises concentrations of credit risk in relation to accounts receivable 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.

With respect to credit risk arising from the other financial assets of the Group, which comprises cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. The Group's maximum exposure to credit risk is its trade receivables which have a balance at 30 June 2013 of \$206,896,000 (2012: \$213,951,000).

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

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Risk exposures and responses (cont'd)

Liquidity risk

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 bank loans and hire purchase liabilities. The liquidity of the group is managed by the Group's Finance & Accounting department.

The table below reflects all contractually fixed pay-offs, repayments and interest resulting from financial liabilities as of 30 June 2013.

The remaining contractual maturities of the Group's derivative financial instruments and financial liabilities are:

	Consolidated	
	2013	2012
	\$'000	\$'000
Derivative financial instruments		
6 months or less	263	143
6 – 12 months	-	290
	<u>263</u>	<u>433</u>
Financial liabilities		
6 months or less	245,633	291,508
6 – 12 months	12,553	11,047
1 – 5 years	33,300	34,330
	<u>291,486</u>	<u>336,885</u>

Maturity analysis of derivative financial instruments and financial liabilities:

Year ended 30 June 2013	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
Consolidated					
Derivative financial instruments					
US\$ inflows	3,305	-	-	3,305	263
A\$ outflows	(3,042)	-	-	(3,042)	-
Net maturity	<u>263</u>	-	-	<u>263</u>	<u>263</u>
Financial liabilities					
Trade and other payables *	231,636	-	-	231,636	231,636
Bank loan	3,116	2,236	6,039	11,391	10,647
Hire purchase liability	10,881	10,317	27,261	48,459	44,496
Net maturity	<u>245,633</u>	<u>12,553</u>	<u>33,300</u>	<u>291,486</u>	<u>286,779</u>

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Risk exposures and responses (cont'd)

Year ended 30 June 2012	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
Consolidated					
Derivative financial instruments					
US\$ inflows	7,221	20,159	-	27,380	433
A\$ outflows	(7,078)	(19,869)	-	(26,947)	-
Net maturity	143	290	-	433	433
Financial liabilities					
Trade and other payables *	280,686	-	-	280,686	280,686
Bank loan	443	402	1,608	2,453	2,171
Hire purchase liability	10,379	10,645	32,722	53,746	48,450
Net maturity	291,508	11,047	34,330	336,885	331,307

(b) Net fair values of financial assets and liabilities

The aggregate net fair values of financial assets and financial liabilities at balance date are as follows:

	Carrying Amount		Aggregate Net Fair value	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Consolidated				
Financial assets				
Cash	195,341	203,556	195,341	203,556
Other debtors	16,325	25,644	16,325	25,644
Receivables – trade	206,896	213,951	206,896	213,951
Available-for-sale assets	3,511	-	3,511	-
Derivative financial instruments	263	433	263	433
Total financial assets	422,336	443,584	422,336	443,584
Consolidated				
Financial liabilities				
Payables	231,636	280,686	231,636	280,686
Bank loan	10,647	2,171	10,477	2,183
Hire purchase liability	44,496	48,450	44,172	48,490
Total financial liabilities	286,779	331,307	286,285	331,359

* Note, trade and other payables includes advances on construction work in progress of \$62,328,000 (2012: \$158,202,000). This amount is expected to be settled by the performance of work rather than via contractual cash flows.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) Net fair values of financial assets and liabilities (cont'd)

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.

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.

Recognised financial instruments valuation method

Available-for-sale assets: Level 1 - Calculated using quoted prices in active markets.

Derivative financial instruments: Level 2 - Net present value calculated using forward exchange rates at the valuation date.

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	Notes	2013 \$'000	2012 \$'000
29. PARENT ENTITY INFORMATION			
Information relating to Monadelphous Group Limited parent entity			
Current assets		182,879	194,589
Total assets		983,259	741,321
Current liabilities		(747,869)	(551,929)
Total liabilities		(773,932)	(582,382)
Net assets		<u>209,327</u>	<u>158,939</u>
Contributed equity		83,448	57,876
Share-based payment reserve		30,855	26,441
Retained earnings		95,024	74,622
Total equity		<u>209,327</u>	<u>158,939</u>
Profit after tax		<u>144,582</u>	<u>114,068</u>
Total comprehensive income of the parent entity		<u>144,582</u>	<u>101,673</u>
Contingent liabilities			
Guarantees	20(d)	<u>399,355</u>	<u>330,170</u>

Guarantees entered into by the Group are via the parent entity. Details are contained in note 20(d).

Guarantees entered into by joint ventures are via those entities directly.

Capital commitments

The parent entity has capital commitments of \$nil at 30 June 2013 (2012: \$nil).

The Board of Directors of Monadelphous Group Limited (Monadelphous) is responsible for establishing the corporate governance framework of the consolidated entity having regard to the ASX Corporate Governance Council published guidelines as well as its corporate governance principles and relevant recommendations. The Board guides and monitors the business and affairs of Monadelphous on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Group's compliance with the Corporate Governance Council's Recommendations.

Recommendation	Comply Yes / No	Reference / Explanation
Principle 1 – Lay solid foundations for management and oversight		
1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes	Page 89
1.2 Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 93
1.3 Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	
Principle 2 – Structure the Board to add value		
2.1 A majority of the Board should be independent directors.	No	Page 90
2.2 The chair should be an independent director.	No	Page 90
2.3 The roles of chair and chief executive officer should not be exercised by the same individual.	Yes	Page 90
2.4 The Board should establish a nomination committee.	Yes	Page 91
2.5 Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.	Yes	Page 93
2.6 Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	
Principle 3 – Promote ethical and responsible decision-making		
3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> • the practices necessary to maintain confidence in the Company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	Yes	Website
3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	Yes	Page 94
3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Yes	Page 94

	Recommendation (Continued)	Comply Yes / No	Reference / Explanation
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Yes	Page 95
3.5	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	
Principle 4 – Safeguard integrity in financial reporting			
4.1	The Board should establish an audit committee.	Yes	Page 92
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> • consists only of non-executive directors; • consists of a majority of independent directors; • is chaired by an independent chair, who is not chair of the Board; • has at least three members. 	Yes	Page 92
4.3	The audit committee should have a formal charter.	Yes	Website
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes	
Principle 5 – Make timely and balanced disclosure			
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Website
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	
Principle 6 – Respect the rights of shareholders			
6.1	Companies should design a communication policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Website
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	
Principle 7 – Recognise and manage risk			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Page 92
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company’s material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company’s management of its material business risks.	Yes	Page 92

Recommendation (Continued)	Comply Yes / No	Reference / Explanation
7.3 The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the <i>Corporations Act 2001</i> is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 93
7.4 Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	

Principle 8 – Remunerate fairly and responsibly

8.1 The Board should establish a remuneration committee.	Yes	Page 93
8.2 The remuneration committee should be structured so that it: <ul style="list-style-type: none"> • consists of a majority of independent directors; • is chaired by an independent chair; • has at least three members 	Yes	Page 93
8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Page 93
8.4 Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	

Monadelphous Group Limited's corporate governance practices were in place throughout the year ended 30 June 2013, unless otherwise stated. Monadelphous Group Limited complies in all material respects with the Council's best practice recommendations.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by Monadelphous Group Limited refer to our website:

www.monadelphous.com.au

Board Functions

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

The responsibility for the operation and administration of the Company is delegated, by the Board, to the Managing Director and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees:

- Audit
- Nomination
- Remuneration

The roles and responsibilities of these committees are discussed throughout this Corporate Governance Statement.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risk identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk;
- ongoing development of the strategic plan and approving initiatives and strategies designed to ensure continued growth and success of the entity; and
- implementation of budgets by management and monitoring progress against budgets – via the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- approval of the annual and half-yearly financial reports;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored;
- reporting to shareholders.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report on page 9. The Board considers that a diverse range of skills, backgrounds, knowledge and experience is required. Directors of Monadelphous are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, 'materiality' is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount.

Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence, and the materiality thresholds set, Mr P. J. Dempsey and Mr C. P. Michelmore are considered to be independent directors.

The Board believes that while the Chairman is not independent, the current composition of the Board with its combined skills and capability, best serve the interests of the shareholders.

The role of Chairman and Chief Executive Officer are not exercised by the same individual.

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each director in office at the date of this report is as follows:

C. G. B. Rubino	22 years	Executive Director
R. Velletri	21 years	Executive Director
I. Tollman	21 years	Non-Executive Director
P. J. Dempsey	10 years	Lead Independent Non-Executive Director
C. P. Michelmore	6 years	Independent Non-Executive Director

Trading Policy

Under the Company's Share Trading Policy, Key Management Personnel and other employees may only trade in securities of the Company during specific periods, and then only if they do not possess any unpublished, price-sensitive information in relation to those securities.

The trading periods in which buying and selling of the Company's securities, either directly or indirectly, by a Key Management Personnel or other employee is allowed, spans the periods between 24 hours and 30 working days after each of the following events:

- release of the annual and half-yearly results to the ASX;
- the close of the Annual General Meeting; or
- any other time as the Board of Directors of Monadelphous permits.

All other periods are "closed periods" during which Key Management Personnel and other employees are prohibited from dealing in Monadelphous securities. From time to time, the Board of Directors of Monadelphous may also declare that Key Management Personnel and other employees are prohibited from dealing in Monadelphous securities during trading periods even though those trading periods are not closed periods.

Before commencing to trade, a Key Management Personnel or other employee must first notify the Company Secretary of their intention to do so. The notification must state that the proposed purchase or sale is not as a result of access to, or being in possession of, price sensitive information that is not currently in the public domain.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by the Directors in the securities of the Company.

For a copy of the Share Trading Policy, please refer to our website.

Nomination Committee

The Board has a nomination committee which operates under a charter and meets at least annually. The nomination committee is responsible for ensuring that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. The nomination committee comprises of two independent non-executive directors and one executive director. Members of the nomination committee throughout the year were:

C. G. B. Rubino (Chairman)
C. P. Michelmore
P. J. Dempsey

For details of directors' attendance at meetings of the nomination committee, refer to page 23 of the Directors' Report.

Audit Committee

The Board has an audit committee which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the audit committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are non-executive directors. The members of the audit committee during the year were:

P. J. Dempsey (Chairman)
I. Tollman
C. P. Michelmore

Qualifications of audit committee members

P. J. Dempsey has over 41 years experience in the management of risks associated with the industry in which Monadelphous operates.

I. Tollman has significant experience in the management of Monadelphous having served as the finance director of Monadelphous for 11 years and as a non-executive director for 10 years.

C. P. Michelmore has over 41 years experience in the management of risks associated with the construction industry.

For details on the number of meetings of the audit committee held during the year and the attendees at those meetings, refer to page 23 of the Directors' Report.

Risk

In conducting its business, the Group takes commercial and business risks to achieve its objectives. The Group's exposure to risks covers areas such as tendering, execution and delivery, safety, reputation, contracts, human resources, liquidity and finance.

The Board is responsible for setting the strategic direction of the Group and for creating and maintaining the environment and structures within which risk management practices can operate effectively.

The audit committee assists the Board and is responsible for the assessment of the effectiveness of risk management procedures, internal controls, policies and procedures in identifying business and financial risks and controlling their financial impact by considering any significant matters identified by management.

The Managing Director and Chief Financial Officer have ultimate accountability to the Board for the risk management and internal control system. The Group Risk and Business Process Management function is responsible for the risk management framework. Group Assurance is responsible for providing an appraisal of the adequacy of and compliance with, the risk management and internal control system.

The Board regularly receives updates from management as to the effectiveness of the Company's management of its material business risks.

For further information on the Company's risk management plan, refer to our website.

Managing Director and CFO Certification

In accordance with section 295A of the *Corporations Act 2001*, the Managing Director and Chief Financial Officer have provided a written statement to the Board that:

- their views provided on the consolidated entity's financial reports are founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- that the consolidated entity's risk management and internal compliance and control systems are operating effectively in all material respects.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the nomination committee conducted performance evaluations which involved an assessment of the Board's and Senior Executives' performance against qualitative and quantitative performance criteria. The performance criteria against which the Board and executives are assessed are aligned with the financial and non-financial objectives of Monadelphous.

Remuneration Committee

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the remuneration committee links the nature and amount of executive directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key executives
- attraction of quality management to the Company
- performance incentives which allow executives to share in the rewards of the success of Monadelphous.

For full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report.

In relation to the issuing of options, discretion is exercised by the Board, having regard to the overall performance of Monadelphous and the performance of the individual during the period. The Monadelphous Group Limited Employee Option Plan rules have been approved by shareholders.

There is no scheme to provide retirement benefits, other than statutory superannuation, to directors. There is no scheme to provide retirement benefits to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the executive team. The Board has established a remuneration committee, comprising three non-executive directors. Members of the remuneration committee throughout the year were:

C. P. Michelmore (Chairman)
I. Tollman
P.J. Dempsey

For details on the number of meetings of the remuneration committee held during the year and the attendees at those meetings, refer to page 23 of the Directors' Report.

Diversity

At Monadelphous, we recognise that the source of our competitive advantage is our people, and our success is a reflection of their quality and skills. We focus on attracting, developing and retaining the right people who are highly competent, live our values and actively contribute to the long term success of our business. Our workforce consists of people with diverse cultures, backgrounds and skills, and this diversity enriches our breadth of knowledge, capability and experience.

On 30 June 2010, The Australian Securities Exchange Corporate Governance Council introduced a number of new recommendations in respect of diversity reporting. The changes applied to listed entities for the financial year commencing on or after 1 January 2011.

Monadelphous is committed to diversity, and we manage and recruit based on competence and performance. We believe in the principle of equal opportunity in employment for all people, regardless of any personal attributes such as gender, sexual preference, marital status, pregnancy, family responsibilities, race, political or religious belief, disability and age.

This commitment to diversity is evidenced through, among other things:

- Promoting the awareness of, and commitment to, workplace diversity principles
- Recruitment strategies that ensure we attract employees from a diverse pool of qualified candidates
- Actions and policies which ensure all employees are valued, encouraged and provided with opportunities to develop to their full potential
- Integration of workplace diversity principles into business and human resources processes and systems
- Establishing and assessing measurable objectives for achieving greater diversity

Monadelphous has established the following measurable objectives across the organisation to enhance gender diversity:

Action	Progress
Ensuring all female employees in senior management positions receive formal performance feedback with identified development opportunities, and are encouraged to enter into formal career mentoring relationships.	Formal performance feedback for employees is communicated at least once annually.
An annual executive review of development plans for female senior executives is performed by the General Manager Human Resources to ensure their appropriateness in developing and retaining Monadelphous' key female talent.	The General Manager Human Resources completes the review at least once annually.
The provision of suitable working arrangements for employees returning from maternity leave and the ongoing engagement with these employees during this period.	In place and subject to periodic review.

Action	Progress
Continued promotion of career opportunities in the resources sector including presentations at career exhibitions, universities, professional institutions and other suitable forums to amongst other things, engage females to consider engineering as a career choice.	During the year Monadelphous attended a number of universities, national career expos and employment events to continue promoting career opportunities in the resources sector. Efforts to engage female graduates in the Engineering discipline were enhanced by the sponsorship and provision of on-campus presentations to Women in Engineering Curtin Division (WICED) at Curtin University, coupled with the on-going involvement in the Monadelphous Integrated Learning Centre at UWA.
A review of the number of candidates from diverse backgrounds identified as key talent for the purposes of succession planning.	Annual review completed.
An annual pay audit across all key roles within the business to ensure gender parity in our pay levels.	A thorough pay audit was conducted during the year to ensure gender parity in the Company's pay levels.
The establishment of confidential reporting avenues to allow employees to report matters of discrimination.	In place.
Prominent communication of our Equal Employment Opportunity policy across the organisation.	In place.

These objectives, and the progress towards them, will be assessed on an annual basis.

At 30 June 2013, 12% of our workforce was female. This reflects the reality of the industry within which we operate and the generally low participation rates of women in the engineering and manual trades workforce across Australia. The available pool of female candidates for engineering and manual roles is limited and consequently constrains the ability of the Company to increase female participation through internal promotion and external recruitment both across the workforce and at the senior executive level. Across the Group's service and support functions the female participation rate increases to 51%.

At the senior level, currently 22% of our senior executives, being those who report to the Managing Director, and their direct reports, are female.

We currently have five directors on the Board of Monadelphous all of whom are male. The Board regularly reviews its composition and structure to ensure its membership is the most suitable to achieve long-term sustainable shareholder wealth. The nomination committee of the Board reviews its membership and recommends the appointment of new directors based on competency, experience and knowledge whilst being cognisant of the benefit of diversity to the Board's make-up.

Furthermore, we recognise the special place of Indigenous people, the traditional custodians of the land, and the role that they play in the success of our business, and we acknowledge the special hardship and disadvantage which they have historically experienced.

Our Reconciliation Action Plan is a commitment by Monadelphous to make Indigenous people feel welcomed, respected and valued as employees, business partners and members of the community, especially those communities in which we operate.

We are committed to offering meaningful and sustainable employment for Indigenous people, increasing the number of Indigenous people we employ and giving them genuine support to build their careers with us. Our executive team, and a number of our key site based leaders attended cultural awareness training throughout the year to facilitate improved cultural understanding. The objective of these training sessions is to enhance the experience of our Indigenous site based employees.

For further details of the Diversity Policy and Code of Conduct covering Equality of Employment (including gender) and Harassment please refer to our website.