

**MONADELPHOUS GROUP LIMITED**  
**A.B.N. 28 008 988 547**  
**CONSOLIDATED FINANCIAL REPORT**  
**30 JUNE 2016**

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

**CORPORATE DIRECTORY**

**Directors**

**Calogero Giovanni Battista Rubino**  
Chairman

**Robert Velletri**  
Managing Director

**Peter John Dempsey**  
Lead Independent Non-Executive Director

**Christopher Percival Michelmore**  
Independent Non-Executive Director

**Dietmar Robert Voss**  
Independent Non-Executive Director

**Company Secretaries**  
Kristy Glasgow  
Philip Trueman

**Principal Registered Office in Australia**

59 Albany Highway  
Victoria Park  
Western Australia 6100  
Telephone: +61 8 9316 1255  
Facsimile: +61 8 9316 1950  
Website: [www.monadelphous.com.au](http://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 (continued)**

**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

**Controlled Entities**

Monadelphous Engineering Associates Pty Ltd  
Monadelphous Engineering Pty Ltd  
Monadelphous Properties Pty Ltd  
Monadelphous Workforce Pty Ltd  
Genco Pty Ltd  
Monadelphous Electrical & Instrumentation Pty Ltd  
Monadelphous PNG Ltd  
Monadelphous Holdings Pty Ltd  
Moway International Limited  
SinoStruct Pty Ltd  
Moway AustAsia Steel Structures Trading (Beijing)  
Company Limited  
Monadelphous Group Limited Employee Share Trust  
Monadelphous KT Pty Ltd  
Monadelphous Energy Services Pty Ltd  
Monadelphous Singapore Pte Ltd  
Monadelphous Mongolia LLC  
M Workforce Pty Ltd  
M&ISS Pty Ltd  
M Maintenance Services Pty Ltd  
Monadelphous Engineering NZ Pty Ltd  
Monadelphous Inc.  
Monadelphous Marcellus LLC  
MGJV Pty Ltd  
MKT Pipelines Limited  
Evo Access Pty Ltd

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The Directors of Monadelphous Group Limited are pleased to report the Company's financial results for the year ended 30 June 2016.

### **Revenue**

Sales revenue for the year was \$1.365 billion, down 26.8 per cent on the previous corresponding period. The result reflected lower demand for engineering construction activities as customers in the resources and energy sectors maintained their focus on reducing capital expenditure and minimising operating costs. Moderate increases in maintenance service activity levels were offset by reduced pricing to customers in a highly competitive environment.

### **Earnings**

Net profit after tax (NPAT) attributable to equity holders of the parent was \$67.0 million, down 36.7 per cent compared to the previous corresponding period.

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$113.6 million, a decrease of 32.4 per cent. Margins remained under pressure with reduced levels of construction activity, surplus capacity of service providers and the continued focus by customers on cost savings.

Earnings per share (EPS) was 71.8 cents.

### **Dividend**

The Board of Directors is pleased to declare a final dividend of 32 cents per share fully franked. This takes the full-year dividend to 60 cents per share fully franked. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the final dividend.

### **Strong Balance Sheet**

Monadelphous maintained a healthy working capital position and strong balance sheet. Net cash was \$186.0 million at 30 June 2016, and cash flow from operations was \$78.0 million.

### **Secured \$1.1 billion of New Work**

New contracts and contract extensions valued at approximately \$1.1 billion were secured during the year across a broad range of industries, building upon long-term relationships with key customers in core markets.

Contracts won included a long-term maintenance and modifications services contract associated with Shell Australia's Prelude Floating Liquefied Natural Gas (FLNG) project and a new contract in joint venture with Giovenco Industries Pty Ltd, for services on the Woodside-operated Karratha Gas Plant Life Extension Program.

The contract with Shell Australia is of significant strategic importance to Monadelphous, and positions the Company as a major provider of FLNG services.

### **Productivity and Innovation**

Monadelphous has continued to work closely with customers to identify productivity improvements within their operations. The slowing in the global consumption of commodities over the past few years, particularly in resources and energy, has led to severe cost pressures for many customers.

Key initiatives implemented during the year included further reductions in staffing levels, subleasing of surplus premises, improved supply arrangements, disposal of excess plant and machinery, improvements to project management methodologies and innovative project delivery initiatives.

During the year a review was undertaken of the Company's organisational structure to ensure alignment with strategy and better position Monadelphous to deliver its strategic vision for growth and diversification.

An evaluation of the Company's support structure was also undertaken to improve the efficiency in delivery of business and project services and to support a more global business.

The Company remains focused on maximising productivity, reducing costs and maintaining its strong financial discipline.

### **Strategic Progress**

Monadelphous enhanced its business development activities across the Group, successfully capitalising on a number of opportunities in core markets and making good progress in its strategy to expand into infrastructure and extend core services overseas.

The award of three new long-term oil and gas maintenance contracts during the year reflects Monadelphous' strong delivery track record and the successful drive to implement cost-effective solutions for customers.

The Maintenance and Industrial Services division further strengthened its position in the upstream coal seam gas market securing panel service contracts for sustaining capital works. Industrial services were extended to include access solutions and mine dewatering services.

In newer markets, the Company grew its presence in water infrastructure with the award of an additional irrigation contract during the year.

In July 2016, the Company achieved a key strategic milestone establishing an agreement with renewable energy specialist, ZEM Energy, to form a new incorporated joint venture, Zenviron. Zenviron brings together the complementary strengths of Monadelphous' multidisciplinary engineering and construction capabilities and ZEM Energy's technical experience, design capabilities and long term industry relationships. Zenviron has been selected as preferred tenderer for the provision of the Balance of Plant associated with CWP Renewables' Sapphire Wind Farm, and is well-positioned to capitalise on the growing number of opportunities in the renewable energy markets in Australia and New Zealand.

The Company continues to actively pursue opportunities in the civil infrastructure market and has made good progress in developing a strategic alliance to enable the delivery of EPC services to the resources sector.

Monadelphous finalised a partnership agreement with United States (US) company Mascaro Construction, a Pittsburgh based civil contractor, to establish Monaro LLC. Monaro will deliver multidisciplinary construction services in the Marcellus and Utica gas regions of North East USA, including the states of Pennsylvania, Ohio and West Virginia. The Company opened an office in early 2016 and was recently awarded its first project. Whilst activity in the energy sector has declined due to low resource prices, Monaro is well-positioned to pursue future opportunities in its target market.

The China-based fabrication business entered the North American market, securing a number of orders to fabricate and supply process modules for various power projects in Pennsylvania.

### **Wiggins Island Coal Export Terminal**

In July 2016, Monadelphous announced that MMM, an unincorporated joint venture in which one of its subsidiaries holds a 50% interest, reached agreement with Wiggins Island Coal Export Terminal Pty Ltd, to resolve all claims relating to contracts performed on the Wiggins Island Coal Export Terminal Project in Gladstone, Queensland. The terms of this agreement are confidential and remain subject to third party approvals.

### **AnaeCo Limited (AnaeCo)**

In August 2016, Monadelphous entered into a binding agreement with Xiaoqing Environmental Protection Technology Company (XEPTC) that will result in XEPTC buying part of a convertible loan owed to Monadelphous by AnaeCo, with the remaining balance of the loan being converted to equity in AnaeCo. The transaction remains subject to AnaeCo shareholder approval. It is expected that Monadelphous will hold 30% of AnaeCo's issued share capital on conversion.

## **OPERATIONAL OVERVIEW**

### **Markets**

Global market conditions deteriorated further throughout the year against a backdrop of historically low resources and energy commodity prices. Mining and energy sector investment in Australia continued to decline as major customers scaled back capital expenditure and expansion plans and remained focused on reducing costs while improving the operating efficiency of existing assets.

Sales revenue, particularly in the Engineering Construction division, was adversely impacted by delays to existing committed projects and the slow-down in investment in new major construction projects.

Despite tough operating conditions, the Company strengthened its position in core markets by securing new work across a broad range of industries including water infrastructure, coal, alumina, base metals, oil, coal seam gas and LNG.

### **Health and Safety**

The Company finished the year with another record safety performance, demonstrating Monadelphous' reputation as industry leader in health and safety management. An emphasis on safety leadership, culture and behaviour underlies the Company's continuous improvement in this important area.

A total case injury frequency rate (TCIFR) of 2.45 incidents per million man-hours worked was attained during the year, an improvement of 22 per cent on the previous year. The lost time injury frequency rate (LTIFR) was 0.09 incidents per million man-hours worked, with only one incident recorded in the 12 months.

### **People**

The Company's total workforce at 30 June 2016 was 4,438, a slight decrease on 12 months earlier. Employee numbers are a reflection of increasing activity levels within maintenance services, offset by reductions within our construction workforce. The Company continues to experience good levels of key talent retention and a lower trend in permanent staff turnover. Productivity also continued to increase as a result of improved labour availability.

## **OPERATIONAL ACTIVITY**

Monadelphous provides 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 \$758 million, down 39.2 per cent compared to the previous year.

Slowing demand for construction work by customers in the resources and energy sectors continued to impact sales revenues. Construction activity declined due to project delays and a significantly reduced pipeline of new work as customers delayed expansion plans and shelved major new investments. The division remained focused on new markets and overseas opportunities.

New contracts secured during the year included:

- A three-year contract with APLNG for the supply of wellhead separator skids in the Surat Basin, Queensland;
- A contract with BCI for the design, construction and commissioning of a 40 km long irrigation scheme in Methven, New Zealand; and
- A contract with Nyrstar for structural, mechanical and piping works at its Port Pirie Smelter in South Australia.

Subsequent to the year end, new contracts announced included:

- A contract for the design, construction and commissioning of a liquid fuel supply system for Rio Tinto Iron Ore at its Cape Lambert Port Facility near Karratha, in WA;
- A contract for the design and construction of a potable water treatment plant for the Western Downs Regional Council in Chinchilla, Queensland; and
- Electrical and instrumentation works for the product loading jetty with JKC Australia LNG Pty Ltd at the Ichthys Project Onshore LNG Facilities in Darwin, NT.

Construction activity at Inpex's Ichthys Onshore LNG Facility in Darwin, was a major highlight of the year. The project reached a peak manning level in excess of 900 employees during the period and has an excellent safety record. Works have been successfully executed and were approximately 60 per cent complete at year end. The project is expected to reach practical completion during the 2017 financial year.

Newly established US company Monaro opened an office in Pittsburgh in January 2016, targeting construction projects in the energy, power, petrochemical and heavy industrial sectors in the Marcellus shale region. Monaro has recently commenced operations after being awarded a small pipework package and continues to pursue other business opportunities in the region.

During the period, SinoStruct secured a long-term contract to fabricate and supply wellhead separator skids for Australia Pacific LNG. The Company is in a strong position to convert a number of similar opportunities into supply contracts.

Other major contract activity during the year included:

- Structural, mechanical and piping works within concentrator lines 3 to 6 at the Sino Iron Project at Cape Preston, in Western Australia (WA);
- Engineering, procurement and construction, with JKC, of the gas export pipeline works for the Ichthys Project Onshore LNG Facility in Darwin, NT; and
- Design and construction of a 240 km irrigation scheme for Ashburton Lyndhurst Irrigation Ltd in Methven, New Zealand.

### **Maintenance and Industrial Services**

The Maintenance and Industrial Services division, which specialises in the planning, management and execution of multidisciplinary maintenance services, sustaining capital projects and shutdowns, reported sales revenue of \$608 million for the year, slightly down on the previous year.

Sales revenue for the year reflected a moderate increase in maintenance activity, offset by reduced pricing to customers in a highly competitive market. Demand remains high for cost savings, innovation and efficient brownfields production as a number of new plants under construction transition to operations.

Over \$1 billion in new contracts and contract extensions were secured during the year, demonstrating the Company's leading position in the services market. New and extended contracts included:

- A three-year contract to provide project, maintenance and shutdown works for Queensland Alumina Limited in Gladstone, Queensland;
- A three-year contract for maintenance and shutdown services for South32 Ltd at Worsley Alumina in Collie, WA;
- A three-year facilities maintenance services contract to support the Barrow Island assets, operated by Chevron Australia, in WA;
- A contract with BM Alliance Coal Operations to provide maintenance works for a major dragline shutdown at Blackwater Mine in Blackwater, Queensland;
- A three-year contract for BP at its Kwinana Refinery, for capital works and maintenance events, in WA;
- A seven-year maintenance and modification services contract associated with Shell Australia's Prelude Floating Liquefied Natural Gas (FLNG) project, in the Browse Basin;
- A new contract in joint venture with Giovenco Industries Pty Ltd for services on the Woodside-operated Karratha Gas Plant Life Extension Program, in WA; and
- A two-year contract with BM Alliance Coal Operations to provide dragline maintenance at various locations in the Bowen Basin, Queensland.

The division also recently acquired multi-disciplined IRATA certified rope access service provider, Evo Access. Evo Access delivers innovative access solutions for customers and has extensive experience providing rope access solutions for projects within the onshore and offshore oil and gas, mining, energy, petro-chemical and infrastructure sectors.

Major contract activity undertaken included:

- Facilities management and support services at the Chevron Australia-operated Barrow Island assets, WA;
- Maintenance and major shutdown services at the Woodside-operated Karratha Gas Plant at Karratha, WA;
- Shutdown and maintenance services for Rio Tinto's coastal and inland operations in the Pilbara, WA;
- Maintenance and shutdown services for BHP Billiton's Nickel West operations in the Goldfields, WA;
- Project and maintenance services for Queensland Alumina Limited in Gladstone, Queensland; and
- Maintenance and shutdown works for BM Alliance Coal Operations in Queensland.

Subsequent to the year end, the Company announced it had been awarded a five-year maintenance support contract for BHP Billiton at its Olympic Dam operations in Roxby Downs, South Australia.

Monadelphous has been providing maintenance and industrial services support at Olympic Dam for more than 25 years.

## **Outlook**

Resources and energy market conditions will remain challenging over the medium term against the backdrop of a prolonged downturn in the commodity price cycle.

Customers are expected to maintain their focus on reducing capital expenditure, improving productivity and minimising operating costs. Opportunities for new major construction contracts in the Company's core markets are likely to remain at low levels.

The outlook for maintenance and industrial services remains positive as new operations come on stream, particularly in the onshore and offshore oil and gas sector. More broadly, higher levels of production and an increasing number of aging assets in the resources sector will drive higher volumes of sustaining capital and support services.

Monadelphous has developed a leadership position in this services market and is well placed to capitalise on a growing number of opportunities.

Overall, the surplus capacity of service providers in core markets will keep margins under pressure. The Company remains focused on initiatives to reduce costs, protect margins and improve sustainability.

In the resources sector, Monadelphous will focus on expanding its range of services, progressing the establishment of an EPC service to provide more cost-effective project solutions and broadening its industrial service offering to new and existing customers' operations.

Monadelphous' position in infrastructure markets will be further strengthened. The Company will continue to grow its presence in the water infrastructure market both in Australia and New Zealand and the newly established renewable energy business provides it with another platform for growth.

The Company will continue to progress its overseas expansion strategy. It has identified a number of potential opportunities for projects in PNG and Mongolia and will develop its newly established position in the US market. Opportunities to provide China-based fabrication services to international customers will also be pursued.

Importantly, a strong balance sheet provides Monadelphous with substantial capacity to pursue investment opportunities to advance its long term market growth strategy.

On behalf of the Board, I take this opportunity to thank all our stakeholders for their loyalty and support, and particularly our dedicated team of people for their commitment and contributions during the year.



John Rubino  
Monadelphous Chairman  
22 August 2016

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

	<b>2016</b>	2015	2014	2013	2012
	<b>\$'000</b>	\$'000	\$'000	\$'000	\$'000
Revenue	<b>1,368,849</b>	1,869,505	2,332,960	2,617,459	1,904,984
EBITDA	<b>113,630</b>	167,975	221,242	251,591	203,660
Profit before income tax expense	<b>95,610</b>	147,041	205,203	221,159	194,456
Income tax expense	<b>28,702</b>	41,216	58,693	64,845	57,121
Profit after income tax expense attributable to equity holders of the parent	<b>67,014</b>	105,825	146,510	156,314	137,335
Basic earnings per share	<b>71.77c</b>	113.91c	159.05c	173.03c	155.24c
Interim dividends per share (fully franked)	<b>28.00c</b>	46.00c	60.00c	62.00c	50.00c
Final dividends per share (fully franked)	<b>32.00c</b>	46.00c	63.00c	75.00c	75.00c
Net tangible asset backing per share	<b>390.64c</b>	391.75c	387.22c	333.45c	270.34c
Total equity and reserves attributable to equity holders of the parent	<b>368,995</b>	368,098	362,665	308,034	245,642
Depreciation	<b>21,094</b>	22,932	25,656	28,726	26,541
Debt to equity ratio	<b>4.8%</b>	6.3%	10.2%	17.9%	20.6%
Return on equity	<b>18.2%</b>	28.7%	40.4%	50.7%	55.9%
EBITDA margin	<b>8.3%</b>	9.0%	9.9%	9.6%	11.6%

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 EBITDA (unaudited):

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Profit before income tax	<b>95,610</b>	147,041
Interest expense	<b>1,025</b>	1,701
Interest revenue	<b>(4,164)</b>	(4,478)
Depreciation expense	<b>21,094</b>	22,932
Amortisation expense	<b>65</b>	779
EBITDA	<b>113,630</b>	167,975

Your directors submit their report for the year ended 30 June 2016.

## **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  
50 years experience in the construction and engineering services industry  
Also a director of one other publicly listed entity, Tech Mpire Limited (formerly Fortunis Resources Limited) (ASX: TMP) – appointed 20 March 2012, resigned 29 June 2015.

#### **Robert Velletri**

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

#### **Peter John Dempsey**

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

#### **Christopher Percival Michelmore** *Independent Non-Executive Director*

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

#### **Dietmar Robert Voss**

*Independent Non-Executive Director*  
Appointed 10 March 2014  
Chemical Engineer  
42 years experience in the oil and gas, and mining and minerals industries

## **COMPANY SECRETARIES**

#### **Philip Trueman**

*Company Secretary and Chief Financial Officer*  
Appointed 21 December 2007  
Chartered Accountant, Member Chartered Accountants Australia and New Zealand and the South African Institute of Chartered Accountants  
16 years experience in the construction and engineering services industry

#### **Kristy Glasgow**

*Company Secretary*  
Appointed 8 December 2014  
Chartered Accountant, Member of Chartered Accountants Australia and New Zealand  
11 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:

	<b>Ordinary Shares</b>	<b>Options over Ordinary Shares</b>
C. G. B. Rubino	2,022,653	Nil
R. Velletri	2,100,000	Nil
P. J. Dempsey	78,000	Nil
C. P. Michelmore	45,939	Nil
D. R. Voss	2,852	Nil

**EARNINGS PER SHARE**

	<b>Cents</b>
Basic Earnings Per Share	71.77
Diluted Earnings Per Share	71.77

**DIVIDENDS**

	<b>Cents</b>	<b>\$'000</b>
Final dividends declared		
▪ on ordinary shares	32.00	29,981
Dividends paid during the year:		
<i>Current year interim</i>		
▪ on ordinary shares	28.00	26,175
<i>Final for 2015</i>		
▪ on ordinary shares	46.00	42,869

**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 19 in the financial report).

The registered office of Monadelphous Group Limited is located at:

59 Albany Highway  
Victoria Park  
Western Australia 6100

## **Nature of operations and principal activities**

### *Engineering Services*

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

Services provided include:

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

### *General*

Monadelphous operates from major offices in Perth and Brisbane, with regional offices in Sydney, Adelaide, Pittsburgh (USA), Beijing (China), Auckland and Christchurch (New Zealand) and Ulaanbaatar (Mongolia), and a network of workshop facilities in Kalgoorlie, Karratha, Darwin, Roxby Downs, Gladstone, Hunter Valley, Mackay and Bunbury.

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 4,438 employees as of 30 June 2016 (2015: 4,536 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**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Revenue from services	<b>1,364,685</b>	1,865,027
Profit after income tax expense attributable to equity holders of the parent	<b>67,014</b>	105,825

## **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**

### **Contract awards**

On 20 July 2016, Monadelphous announced it had been awarded new contracts for customers in the resources, energy and infrastructure markets, with a combined value of approximately \$140 million. The contracts included:

- Support to BHP Billiton's Olympic Dam copper-uranium operation at Roxby Downs in South Australia for a further five years. Monadelphous has been providing maintenance and industrial services support at Olympic Dam for more than 25 years;
- A contract for the design, construction and commissioning of a liquid fuel supply system for Rio Tinto Iron Ore at its Cape Lambert Port Facility near Karratha, in Western Australia. The contract follows the successful completion of petroleum pipeline installations at its West Angelas and Cape Lambert facilities;
- A contract for the design and construction of a potable water treatment plant for the Western Downs Regional Council in Chinchilla, Queensland; and
- Electrical and instrumentation works for the product loading jetty with JKC Australia LNG Pty Ltd at the Ichthys Project Onshore LNG Facilities in Darwin in the Northern Territory.

### **Zenviron**

On 26 July 2016, Monadelphous announced it had reached an agreement with renewable energy specialist, ZEM Energy Pty Ltd, to form a new incorporated joint venture, Zenviron Pty Ltd (Zenviron). Zenviron has been selected as preferred tenderer for the provision of the Balance of Plant associated with CWP Renewables' Sapphire Wind Farm.

### **Legal dispute with Wiggins Island Coal Export Terminal (WICET)**

In July 2016, Monadelphous announced that MMM, an unincorporated joint operation in which one of its subsidiaries holds a 50% interest, reached agreement with Wiggins Island Coal Export Terminal Pty Ltd to resolve all claims relating to contracts performed on the Wiggins Island Coal Export Terminal Project in Gladstone, Queensland. The terms of this agreement are confidential and remain subject to third party approvals.

### **AnaeCo Limited**

In August 2016, Monadelphous entered into a binding agreement with Xiaoqing Environmental Protection Technology Company (XEPTC) that will result in XEPTC buying part of a convertible loan owed to Monadelphous by AnaeCo, with the remaining balance of the loan being converted to equity in AnaeCo. The transaction remains subject to AnaeCo shareholder approval. It is expected that Monadelphous will hold 30% of AnaeCo's issued share capital on conversion.

### **Dividends declared**

On 22 August 2016, the directors of Monadelphous Group Limited declared a final dividend on ordinary shares in respect of the 2016 financial year. The total amount of the dividend is \$29,980,868 which represents a fully franked final dividend of 32 cents per share. This dividend has not been provided for in the 30 June 2016 financial statements. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the dividend.

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

## **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

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

## **ENVIRONMENTAL REGULATION AND PERFORMANCE**

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

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

The Company strives to continually improve its environmental performance.

## **SHARE OPTIONS**

### **Unissued shares**

As at the date of this report, there were 365,000 unissued ordinary shares under options as follows:

- 305,000 options to take up one ordinary share in Monadelphous Group Limited at an issue price of \$19.70. The options expire 14 September 2016.
- 60,000 options to take up one ordinary share in Monadelphous Group Limited at an issue price of \$17.05. The options expire between 14 September 2016 and 14 September 2017.

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

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 \$302,350 (2015: \$258,545).

## **INDEMNIFICATION OF AUDITORS**

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

## **INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS WITH THE COMPANY**

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

## **REMUNERATION REPORT (Audited)**

This Remuneration Report for the year ended 30 June 2016 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 Group.

### *Details of Key Management Personnel*

#### *(i) Directors*

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

#### *(ii) Executives*

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

### *Remuneration Philosophy*

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

To this end, the Company embodies the principles of providing competitive rewards to attract 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 Structure*

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

**REMUNERATION REPORT (Audited) (continued)**

**Non-executive director remuneration**

*Objective*

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

*Structure*

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors based on their experience, contributions to the Company and the prevailing market conditions. The most recent determination was at the Annual General Meeting held on 20 November 2014 when shareholders approved an aggregate remuneration of \$600,000 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 year ending 30 June 2016 is detailed in Table 1 on page 18 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 consists of a fixed remuneration element, and variable remuneration elements in the form of Short Term Incentives (STI) and Long Term Incentives (LTI).

As disclosed in the 2015 Financial Statements, Monadelphous undertook a review of its STI and LTI programs, to identify the most appropriate incentive plan, for both KMP and other employees, that is best aligned to the creation of shareholder wealth.

**REMUNERATION REPORT (Audited) (continued)**

**Executive remuneration (continued)**

The review led to the implementation of a combined incentive model that rewards past performance of both the Company and the employee, continues to act as a retention mechanism and motivates the employee to grow the Company through long term share ownership. Details of the simplified combined incentive model are discussed on page 17. The review also concluded that the existing Monadelphous Group Limited Employee Option Plan should be retained, as an alternative or additional incentive scheme for the executive management team, for use as appropriate at the discretion of the Board.

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 18 and 19 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 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 18 and 19 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 discretionary and 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) (continued)**

**Executive remuneration (continued)**

*Variable remuneration – Short term incentive (STI) (continued)*

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 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.

The overall performance rating for the Company was not at a level to result in the award of the STI for the 2015 or 2016 financial year. No amounts were paid or are payable in relation to Key Management Personnel.

*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. As previously mentioned, the Company has recently implemented a combined incentive model, and will retain the Monadelphous Group Limited Employee Option Plan as an alternative or additional scheme for the executive management team.

*Structure*

Monadelphous Group Limited Employee Option Plan

LTI grants to executives are at the discretion of the Remuneration Committee, and historically have been delivered 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.

No Directors or Key Management Personnel received options during the year ended 30 June 2016. 445,000 options were forfeited by 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 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

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

**REMUNERATION REPORT (Audited) (continued)**

**Executive remuneration (continued)**

Simplified combined incentive plan

Proposed awards under the simplified combined incentive plan will be comprised of cash and performance rights (effectively zero priced options). The plan rewards past performance of both the Company and the employee, continues to act as a retention mechanism and motivates the employee to grow the Company through long term share ownership, thereby aligning the incentive model with the interests of shareholders in an optimal manner. Service period and disposal restrictions will be incorporated within the plan to ensure employee retention and long term share ownership. In order to drive shareholder value any rewards provided under this plan would be based on the performance of the Company and will be comparable to the current STI and LTI plans. No awards were issued under the simplified combined incentive plan during the year ended 30 June 2016.

Performance targets will include measures that are linked to the achievement of Company strategy.

Awards under the simplified combined incentive plan may be granted annually, to allow flexibility and alignment to the business cycle and prevailing market environment, and will be at the Board's discretion.

*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 3 months written notice. The Company may terminate the contract at any time without notice if serious misconduct has occurred.

**Company performance**

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

	<b>2016</b>	2015	2014	2013	2012
	<b>\$'000</b>	\$'000	\$'000	\$'000	\$'000
Profit after income tax expense attributable to equity holders of the parent	<b>67,014</b>	105,825	146,510	156,314	137,335
Basic earnings per share	<b>71.77c</b>	113.91c	159.05c	173.03c	155.24c
Share Price as at 30 June	<b>\$7.46</b>	\$9.37	\$15.71	\$16.14	\$21.86

A review of the Company's performance and returns to shareholders over the last five years has been provided on page 7 of this report.

The Remuneration Committee of the Board of Directors has determined that market conditions and the performance of the Company have not justified amendments to the remuneration levels of the business over recent years. Apart from one inflationary increase in 2014, there has not been a companywide staff remuneration increase since 2012. Furthermore, no awards have been issued under either the Company's Short or Long Term Incentive schemes since 2013. The discipline shown by the Company, and commitment shown by our staff, has ensured the Group's underlying cost structures have adapted to the current environment, and ensured business sustainability.

REMUNERATION REPORT (Audited) (continued)

Remuneration of Key Management Personnel

Table 1: Remuneration for the year ended 30 June 2016

	Short Term Benefits			Post Employment		Long Term Benefits	Total excluding Share Based Payments	Share-Based Payments	Total	Total Performance Related	Total Options Related
	Salary & Fees	Non Monetary	Cash STI	Super-annuation	Retirement Benefits	Leave \$		Options LTI			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<i>Non-Executive Directors</i>											
P. J. Dempsey	124,201	6,306	-	11,799	-	-	142,306	-	142,306	-	-
C. P. Michelmore	103,653	5,262	-	9,847	-	-	118,762	-	118,762	-	-
D. R. Voss	91,324	4,636	-	8,676	-	-	104,636	-	104,636	-	-
<b>Subtotal Non-Executive Directors</b>	<b>319,178</b>	<b>16,204</b>	<b>-</b>	<b>30,322</b>	<b>-</b>	<b>-</b>	<b>365,704</b>	<b>-</b>	<b>365,704</b>	<b>-</b>	<b>-</b>
<i>Executive Directors</i>											
C. G. B. Rubino	366,861	20,917	-	19,308	-	8,300	415,386	-	415,386	-	-
R. Velletri	886,990	54,451	-	19,308	-	18,044	978,793	-	978,793	-	-
<b>Subtotal Executive Directors</b>	<b>1,253,851</b>	<b>75,368</b>	<b>-</b>	<b>38,616</b>	<b>-</b>	<b>26,344</b>	<b>1,394,179</b>	<b>-</b>	<b>1,394,179</b>	<b>-</b>	<b>-</b>
<i>Other Key Management Personnel</i>											
D. Foti	652,150	40,134	-	19,308	-	13,893	725,485	-	725,485	-	-
Z. Bebic	500,045	31,550	-	19,308	-	9,468	560,371	-	560,371	-	-
P. Trueman	399,306	21,901	-	19,308	-	2,391	442,906	-	442,906	-	-
<b>Subtotal Other Key Management Personnel</b>	<b>1,551,501</b>	<b>93,585</b>	<b>-</b>	<b>57,924</b>	<b>-</b>	<b>25,752</b>	<b>1,728,762</b>	<b>-</b>	<b>1,728,762</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>3,124,530</b>	<b>185,157</b>	<b>-</b>	<b>126,862</b>	<b>-</b>	<b>52,096</b>	<b>3,488,645</b>	<b>-</b>	<b>3,488,645</b>	<b>-</b>	<b>-</b>

REMUNERATION REPORT (Audited) (continued)

Remuneration of Key Management Personnel (continued)

Table 2: Remuneration for the year ended 30 June 2015

	Short Term Benefits			Post Employment		Long Term Benefits	Total excluding Share Based Payments	Share-Based Payments	Total	Total Performance Related	Total Options Related
	Salary & Fees	Non Monetary	Cash STI	Super-annuation	Retirement Benefits	Leave \$		Options LTI			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<i>Non-Executive Directors</i>											
P. J. Dempsey	124,201	4,446	-	11,799	-	-	140,446	-	140,446	-	-
C. P. Michelmore	107,777	3,858	-	4,848	-	-	116,483	-	116,483	-	-
D. R. Voss	106,604	3,817	-	10,127	-	-	120,548	-	120,548	-	-
<b>Subtotal Non-Executive Directors</b>	<b>338,582</b>	<b>12,121</b>	<b>-</b>	<b>26,774</b>	<b>-</b>	<b>-</b>	<b>377,477</b>	<b>-</b>	<b>377,477</b>	<b>-</b>	<b>-</b>
<i>Executive Directors</i>											
C. G. B. Rubino	418,717	14,740	-	18,783	-	10,894	463,134	-	463,134	-	-
R. Velletri	964,275	40,778	-	18,783	-	31,103	1,054,939	(539,655)	515,284	(104.73)	(104.73)
<b>Subtotal Executive Directors</b>	<b>1,382,992</b>	<b>55,518</b>	<b>-</b>	<b>37,566</b>	<b>-</b>	<b>41,997</b>	<b>1,518,073</b>	<b>(539,655)</b>	<b>978,418</b>	<b>(55.16)</b>	<b>(55.16)</b>
<i>Other Key Management Personnel</i>											
D. Foti	700,303	29,430	-	18,783	-	26,388	774,904	(290,387)	484,517	(59.93)	(59.93)
A. Erdash *	472,540	21,197	-	14,449	-	8,548	516,734	(174,232)	342,502	(50.87)	(50.87)
Z. Bebic	518,505	22,038	-	18,783	-	26,468	585,794	(174,232)	411,562	(42.33)	(42.33)
P. Trueman ^	224,371	9,547	-	10,837	-	10,787	255,542	-	255,542	-	-
<b>Subtotal Other Key Management Personnel</b>	<b>1,915,719</b>	<b>82,212</b>	<b>-</b>	<b>62,852</b>	<b>-</b>	<b>72,191</b>	<b>2,132,974</b>	<b>(638,851)</b>	<b>1,494,123</b>	<b>(42.76)</b>	<b>(42.76)</b>
<b>Total</b>	<b>3,637,293</b>	<b>149,851</b>	<b>-</b>	<b>127,192</b>	<b>-</b>	<b>114,188</b>	<b>4,028,524</b>	<b>(1,178,506)</b>	<b>2,850,018</b>	<b>(41.35)</b>	<b>(41.35)</b>

\* A. Erdash ceased to meet the definition of Key Management Personnel on 21 November 2014 following his resignation from the Company. Remuneration receivable for the period up to the date of resignation is disclosed in Table 2.

^ P. Trueman met the definition of Key Management Personnel from 21 November 2014 following his appointment as Chief Financial Officer. Remuneration in Table 2 is remuneration from the date of his appointment.

**REMUNERATION REPORT (Audited) (continued)**

**Remuneration of Key Management Personnel (continued)**

**Table 3: Compensation options: Granted during the years ended 30 June 2016 and 30 June 2015**

During the years ended 30 June 2016 and 30 June 2015, no options were granted as equity compensation benefits to Key Management Personnel.

**Table 4: Shares issued on exercise of compensation options during the year ended 30 June 2016**

During the year ended 30 June 2016, no shares were issued on exercise of compensation options by Key Management Personnel.

**Additional disclosures relating to options and shares**

**Table 5: Option holdings of Key Management Personnel**

<i>Options held in Monadelphous Group Limited</i>	<b>Balance at Beginning of Period 1 July 2015</b>	<b>Granted as Remuneration</b>	<b>Options Vested and Lapsed #</b>	<b>Net Change Other</b>	<b>Balance at End of Period 30 June 2016</b>
<b>Directors</b>					
C. G. B. Rubino	-	-	-	-	-
R. Velletri	200,000	-	(200,000)	-	-
P. J. Dempsey	-	-	-	-	-
C. P. Michelmore	-	-	-	-	-
D. R. Voss	-	-	-	-	-
<b>Executives</b>					
D. Foti	125,000	-	(125,000)	-	-
Z. Bebic	75,000	-	(75,000)	-	-
P. Trueman	45,000	-	(45,000)	-	-
<b>Total</b>	<b>445,000</b>	<b>-</b>	<b>(445,000)</b>	<b>-</b>	<b>-</b>

During the year ended 30 June 2016, 445,000 compensation options held by Key Management Personnel vested but were not exercised. These options lapsed on 30 September 2015. The value of options lapsed during the year was \$nil.

REMUNERATION REPORT (Audited) (continued)

Additional disclosures relating to options and shares (continued)

*Table 6: Shareholdings of Key Management Personnel*

<i>Shares held in Monadelphous Group Limited</i>	<b>Balance at Beginning of Period 1 July 2015</b>	<b>Granted as Remuneration</b>	<b>On Exercise of Options</b>	<b>Net Change Other</b>	<b>Balance at End of Period 30 June 2016</b>
<b>Directors</b>					
C. G. B. Rubino	2,022,653	-	-	-	2,022,653
R. Velletri	2,100,000	-	-	-	2,100,000
P. J. Dempsey	78,000	-	-	-	78,000
C. P. Michelmore	31,753	-	-	14,186	45,939
D. R. Voss	2,852	-	-	-	2,852
<b>Executives</b>					
D. Foti	359,316	-	-	-	359,316
Z. Bebic	27,500	-	-	(22,500)	5,000
P. Trueman	-	-	-	-	-
<b>Total</b>	4,622,074	-	-	(8,314)	4,613,760

*Loans to Key Management Personnel and their related parties*

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

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

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

**END OF REMUNERATION REPORT**

**DIRECTORS' MEETINGS**

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

	Directors' Meetings	Meetings of Committees		
		Audit	Remuneration	Nomination
<b>Number of meetings held:</b>	13	8	2	1
<b>Number of meetings attended:</b>				
C. G. B. Rubino	10	-	-	1
R. Velletri	13	-	-	-
P. J. Dempsey	13	8	2	1
C. P. Michelmore	13	8	2	1
D. R. Voss	13	8	2	-

**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:

<b>Audit</b>	<b>Remuneration</b>	<b>Nomination</b>
P. J. Dempsey (c)	C. P. Michelmore (c)	C. G. B. Rubino (c)
C. P. Michelmore	P. J. Dempsey	C. P. Michelmore
D. R. Voss	D. R. Voss	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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. 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 the company's website.

**AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES**

The directors have received an independence declaration from the auditor of Monadelphous Group Limited, as shown on page 24.

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	33,195
Assurance related	-
	<hr/>
	33,195
	<hr/> <hr/>

**MODIFICATION OF AUDITOR ROTATION REQUIREMENTS**

On 9 April 2015 the Board of Directors approved the extension of the Lead Audit Partner rotation period from five years to seven years in accordance with section 324DAB of the Corporations Act 2001 and the Corporations Legislation Amendment (Audit Enhancement) Act 2012.

The reasons why the Board of Directors approved the extension included:

- Mr Meyerowitz, the Lead Audit Partner, has a detailed understanding of the Group's business and strategies, its systems and controls. This knowledge is considered to be valuable to the Board at this point in time.
- The existing independence and service metrics in place with EY and Mr Meyerowitz, are sufficient to ensure that auditor independence would not be diminished in any way by such an extension.
- Mr Meyerowitz will continue to abide by the independence guidance provided in APES 110 'Code of Ethics for Professional Accountants' as issued by the Accounting Professional and Ethical Standards Board and EY's own independence requirements.
- The Board of Directors are of the view that Mr Meyerowitz's continued involvement with the Group as the Lead Audit Partner will not in any way diminish the audit quality provided to the Group.

Signed in accordance with a resolution of the directors.



C. G. B. Rubino  
Chairman  
Perth, 22 August 2016



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## Auditor's independence declaration to the Directors of Monadelphous Group Limited

As lead auditor for the audit of Monadelphous Group Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

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

Ernst & Young

G H Meyerowitz  
Partner  
22 August 2016



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

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Monadelphous Group Limited ("the Company"), including its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2016, 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 Company.

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

- (i) giving a true and fair view of the Group's consolidated financial position as at 30 June 2016 and of its consolidated financial performance for the year ended on that date
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.



## Recognition of revenues and profits on long-term contracts

### Why significant

The Group's business involves entering into contractual relationships with customers to provide a range of services. A significant proportion of the Group's revenues and profits are derived from long-term contracts.

Revenue recognition involves a significant degree of judgment, with estimates being made to:

- ▶ assess the total contract costs
- ▶ assess the stage of completion of the contract
- ▶ forecast the profit margin after taking into consideration additional revenue arising from variations to the original contract
- ▶ appropriately provide for loss making contracts.

The Group's accounting policies and disclosures for revenue are detailed in General Information –Key Judgements –Revenue, note 1–Revenue and Other Income and note 7–Inventories to the financial report.

### EY Audit response

We examined all key contracts and enquired with the Group for each of these contracts to understand the specific terms and risks, which in turn allowed us to assess the recognition of revenue.

We evaluated and tested the relevant IT systems, and assessed the operating effectiveness of internal controls over the accuracy and timing of revenue recognised in the financial report, including controls relating to:

- ▶ contract reviews performed by the Group that included estimating total costs, stage of completion of contracts, profit margin and evaluating contract profitability
- ▶ transactional controls that underpin the revenue and billing cycles
- ▶ transactional controls that underpin the production of underlying contract related cost balances including the purchase to pay, and payroll cycles.

For the material contracts with a delivery schedule of greater than 12 months we performed the following additional procedures:

- ▶ understood the performance and status of the contracts through enquiries with the key executives having oversight over the various contract portfolios
- ▶ tested the contract status through the examination of externally generated evidence, such as approved variations and customer correspondence
- ▶ analysed the Group's estimates for total contract costs and forecast costs to complete, including taking into account the historical accuracy of such estimates



- ▶ assessed the provisions for loss making contracts and whether these appropriately reflected the expected contractual positions
- ▶ assessed the Group's accounting policies and the adequacy of its related disclosures in the financial report.

## Accounting for legal and other contractual claims

### Why significant

The Group's operations expose it to the risk of litigation and contractual claims from third parties. Due to the range of potential outcomes and the considerable uncertainty around the resolution of various claims, the determination of the amount, if any, to be recorded in the financial statements as a provision is inherently subjective and therefore this is considered to be a significant audit risk. As at 30 June 2016, the Group was party to litigation involving Wiggins Island Coal Export Terminal ("WICET") which was settled subsequent to year end.

The Group's disclosures for legal matters are detailed in note 23 *Commitments and Contingencies* and note 24 *Subsequent Events* to the financial report.

### EY Audit response

In relation to the WICET matter and any other material legal matter or contractual claims generally we:

- ▶ considered the Board and executive committee meeting minutes arising from the regular review of contract status reports
- ▶ enquired with the in-house legal counsel
- ▶ evaluated relevant external legal advice received by the Group in connection with any material legal matter or contractual claims and obtained formal confirmation from the Group's external solicitors on the status of these matters
- ▶ assessed the WICET Settlement Deed dated 27 July 2016 including the vouching of the receipt of a substantial portion of the settlement sum on 5 August 2016
- ▶ assessed the adequacy the Group's recorded receivable and note disclosures relating to the WICET matter and any other material legal matter or contractual claims that may exist.

### Other information

The directors of the company are responsible for the other information. The other information comprises the information in the Company's Annual Report for the year ended 30 June 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Directors' responsibilities for the financial report

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

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

### Auditor's responsibilities for the audit of the financial report

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

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

- ▶ identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors



- ▶ conclude on the appropriateness of the directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern
- ▶ evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

## Report on the remuneration report

### Opinion on the remuneration report

We have audited the remuneration report included in pages 13 to 21 of the directors' report for the year ended 30 June 2016.

In our opinion, the remuneration report of the Group for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

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



The engagement partner on the audit resulting in this independent auditor's report is G H Meyerowitz.

A handwritten signature in black ink that reads 'Ernst &amp; Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'G H Meyerowitz' in a cursive style.

G H Meyerowitz  
Partner  
Perth  
22 August 2016

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 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed on page 37.

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 2016.

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 19 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, 22 August 2016

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2016**

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	Notes	2016 \$'000	2015 \$'000
<b>Continuing Operations</b>			
<b>REVENUE</b>	1	<b>1,368,849</b>	1,869,505
Cost of services rendered		<u>(1,228,150)</u>	<u>(1,673,813)</u>
<b>GROSS PROFIT</b>		<b>140,699</b>	195,692
Other income	1	<b>6,914</b>	4,099
Business development and tender expenses		<b>(21,870)</b>	(17,688)
Occupancy expenses		<b>(3,041)</b>	(2,999)
Administrative expenses		<b>(23,929)</b>	(30,760)
Finance costs	2	<b>(1,025)</b>	(1,701)
Unrealised foreign currency (loss)/gain		<b>(2,138)</b>	398
<b>PROFIT BEFORE INCOME TAX</b>		<b>95,610</b>	147,041
Income tax expense	3	<b>(28,702)</b>	(41,216)
<b>PROFIT AFTER INCOME TAX</b>		<b>66,908</b>	105,825
<b>ATTRIBUTABLE TO</b>			
<b>EQUITY HOLDERS OF THE PARENT</b>		<b>67,014</b>	105,825
<b>NON-CONTROLLING INTERESTS</b>		<b>(106)</b>	-
		<u><b>66,908</b></u>	<u>105,825</u>
Basic earnings per share (cents per share)	4	<b>71.77</b>	113.91
Diluted earnings per share (cents per share)	4	<b>71.77</b>	113.91

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2016**

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	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>NET PROFIT FOR THE YEAR</b>	<b>66,908</b>	105,825
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Foreign currency translation	<b>692</b>	41
Income tax effect	-	-
	<b>692</b>	41
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>692</b>	41
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>67,600</b>	105,866
<b>ATTRIBUTABLE TO</b>		
<b>EQUITY HOLDERS OF THE PARENT</b>	<b>67,706</b>	105,866
<b>NON-CONTROLLING INTERESTS</b>	<b>(106)</b>	-
	<b>67,600</b>	105,866

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2016**

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	Notes	2016 \$'000	2015 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	203,515	209,835
Trade and other receivables	6	342,200	375,167
Inventories	7	53,435	80,544
<b>Total current assets</b>		<b>599,150</b>	665,546
<b>Non-current assets</b>			
Property, plant and equipment	8	79,988	96,190
Intangible assets and goodwill	9	2,947	3,012
Investment in joint venture	10	729	-
Deferred tax assets	3	22,287	28,204
Other non-current assets	11	236	1,247
<b>Total non-current assets</b>		<b>106,187</b>	128,653
<b>TOTAL ASSETS</b>		<b>705,337</b>	794,199
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	12	226,213	287,228
Interest bearing loans and borrowings	13	7,868	11,891
Income tax payable	3	1,124	4,288
Provisions	14	85,633	105,777
<b>Total current liabilities</b>		<b>320,838</b>	409,184
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	13	9,678	11,334
Provisions	14	5,711	5,583
Deferred tax liabilities	3	221	-
<b>Total non-current liabilities</b>		<b>15,610</b>	16,917
<b>TOTAL LIABILITIES</b>		<b>336,448</b>	426,101
<b>NET ASSETS</b>		<b>368,889</b>	368,098
<b>EQUITY</b>			
Contributed equity	17	120,723	117,310
Reserves	18	29,955	30,441
Retained earnings	18	218,317	220,347
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>368,995</b>	368,098
Non-Controlling Interests		(106)	-
<b>TOTAL EQUITY</b>		<b>368,889</b>	368,098

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2016**

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	<i>Attributable to equity holders</i>					
	<b>Issued Capital \$'000</b>	<b>Share- Based Payment Reserve \$'000</b>	<b>Foreign Currency Translation Reserve \$'000</b>	<b>Retained Earnings \$'000</b>	<b>Non- controlling Interests \$'000</b>	<b>Total \$'000</b>
At 1 July 2015	117,310	30,280	161	220,347	-	368,098
Other comprehensive income	-	-	<b>692</b>	-	-	<b>692</b>
Profit for the period	-	-	-	<b>67,014</b>	<b>(106)</b>	<b>66,908</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>692</b>	<b>67,014</b>	<b>(106)</b>	<b>67,600</b>
<b>Transactions with owners in their capacity as owners</b>						
Share-based payments	-	<b>(1,178)</b>	-	-	-	<b>(1,178)</b>
Shares issued on acquisition of subsidiary	<b>100</b>	-	-	-	-	<b>100</b>
Dividend reinvestment plan	<b>3,313</b>	-	-	-	-	<b>3,313</b>
Dividends paid	-	-	-	<b>(69,044)</b>	-	<b>(69,044)</b>
At 30 June 2016	<b>120,723</b>	<b>29,102</b>	<b>853</b>	<b>218,317</b>	<b>(106)</b>	<b>368,889</b>
	<i>Attributable to equity holders</i>					
	<b>Issued Capital \$'000</b>	<b>Share- Based Payment Reserve \$'000</b>	<b>Foreign Currency Translation Reserve \$'000</b>	<b>Retained Earnings \$'000</b>	<b>Non- controlling Interests \$'000</b>	<b>Total \$'000</b>
At 1 July 2014	112,115	34,667	120	215,763	-	362,665
Other comprehensive income	-	-	41	-	-	41
Profit for the period	-	-	-	105,825	-	105,825
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>41</b>	<b>105,825</b>	<b>-</b>	<b>105,866</b>
<b>Transactions with owners in their capacity as owners</b>						
Share-based payments	-	<b>(4,387)</b>	-	-	-	<b>(4,387)</b>
Exercise of employee options	1,640	-	-	-	-	1,640
Acquisition of reserved shares	<b>(1,269)</b>	-	-	-	-	<b>(1,269)</b>
Dividend reinvestment plan	4,824	-	-	-	-	4,824
Dividends paid	-	-	-	<b>(101,241)</b>	-	<b>(101,241)</b>
At 30 June 2015	117,310	30,280	161	220,347	-	368,098

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

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	Notes	2016 \$'000	2015 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of GST)		1,481,592	1,844,858
Payments to suppliers and employees (inclusive of GST)		(1,390,247)	(1,698,941)
Interest received		3,234	4,478
Borrowing costs		(1,014)	(1,701)
Other income		3,223	1,410
Income tax paid		(18,819)	(32,341)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	5	<b>77,969</b>	117,763
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		7,461	4,354
Purchase of property, plant and equipment		(836)	(3,117)
Investment in joint venture		(1,650)	-
Loan to associates	6, 28	(7,226)	(5,957)
Acquisition of controlled entities	20	(1,347)	(6,000)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(3,598)</b>	(10,720)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid		(65,731)	(96,418)
Proceeds from issue of shares		-	1,640
Purchase of reserved shares		-	(1,269)
Proceeds from borrowings		1,500	-
Repayment of borrowings		(1,667)	(4,098)
Payment of finance leases		(13,344)	(15,361)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>(79,242)</b>	(115,506)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(4,871)</b>	(8,463)
Net foreign exchange differences		(1,449)	439
Cash and cash equivalents at beginning of period		209,835	217,859
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	5	<b>203,515</b>	209,835

## GENERAL INFORMATION

The consolidated financial report of Monadelphous Group Limited (the Group) and its subsidiaries for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of directors on 22 August 2016.

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

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

### Basis of preparation

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

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board as applicable to a for-profit entity.
- has also been prepared on a historical cost basis.
- is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the class order applies.
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2015.
- does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally, there is a presumption that a majority of voting rights results in control.

A list of controlled entities (subsidiaries) at year end is contained in note 19. Consolidation of the subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

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

**GENERAL INFORMATION (continued)****Business combinations**

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

*Prior to 1 July 2009*

The purchase method of accounting was used to account for all business combinations.

**Foreign currency translation**

*Functional and presentation currency*

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

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

*Transactions and balances*

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

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

*Translation of Group companies' functional currency to presentation currency*

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

**Other accounting policies**

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

**GENERAL INFORMATION (continued)****Key judgements and estimates**

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

*Revenue*

Revenue and cost of sales are recognised in the income statement by reference to the stage of completion for construction contracts. Fundamental to the calculation of the percentage of completion is a reliable estimate of project revenues and project costs. Various factors contribute to the Group's reliability of those estimates including, but not limited to, a thorough review process of all project costs and revenues, and the experience and knowledge of project management.

In determining revenues and expenses for construction contracts, management make key assumptions regarding estimated revenues and expenses over the life of the contracts. Key assumptions regarding costs to complete contracts include estimation of labour, technical costs, impact of delays and productivity. Changes in these estimation methods could have a material impact on the reported results of the Group.

Judgement is used in determining the point at which profit recognition commences. Generally profit does not commence recognition on contracts in the early stages of completion.

*Taxation*

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

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

*Share based payments*

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. 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.

*Workers Compensation*

Refer note 14 for details.

*Consolidation of MGJV Pty Ltd*

Refer to note 19 for details.

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>1. REVENUE AND OTHER INCOME</b>		
Rendering of services	<b>1,364,685</b>	1,865,027
Finance revenue	<b>4,164</b>	4,478
<b>Revenue</b>	<b>1,368,849</b>	1,869,505
Net gains on disposal of property, plant and equipment	<b>3,691</b>	2,689
Other income	<b>3,223</b>	1,410
<b>Other income</b>	<b>6,914</b>	4,099

**Recognition and measurement**

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 are rendered to the customer for maintenance contracts. For construction contracts refer to the accounting policy below.

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. This also applies to construction contracts.

*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.

*Interest income*

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

	2016 \$'000	2015 \$'000
<b>2. EXPENSES</b>		
<b>Finance costs</b>		
Bank loans and overdrafts	70	220
Finance charges payable under finance leases and hire purchase contracts	955	1,481
	<u>1,025</u>	<u>1,701</u>
<b>Depreciation and amortisation</b>		
Depreciation expense	21,094	22,932
Amortisation of intangible assets	65	779
	<u>21,159</u>	<u>23,711</u>
<b>Employee benefits expense</b>		
Employee benefits expense	686,084	822,145
Defined contribution superannuation expense	40,235	44,852
	<u>726,319</u>	<u>866,997</u>
<b>Lease payments and other expenses</b>		
Minimum lease payments – operating lease	22,566	28,145
<b>Government grants included in the income statement</b>	6,927	7,626

**Recognition and measurement**

*Finance costs*

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

*Depreciation and amortisation*

Refer to notes 8 and 9 for details on depreciation and amortisation.

*Employee benefits expense*

Refer to note 14 for employee benefits expense and note 26 for share-based payments expense. Contributions to defined contribution superannuation plans are recognised as an expense as they become payable.

*Operating leases*

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

*Government Grants*

The Group recognises the excess of the research and development (R&D) tax offset over the statutory rate (the R&D offset) being an additional 10% deduction as a government grant when there is reasonable assurance it will be received and any attached conditions will be complied with. As the grant relates to R&D expenditure already incurred it is recognised in the income statement in the period it became receivable as a reduction to cost of sales.

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>3. INCOME TAX</b>		
The major components of income tax expense are:		
<b>Income statement</b>		
<i>Current income tax</i>		
Current income tax charge	<b>23,303</b>	41,398
Adjustments in respect of previous years	<b>(721)</b>	(494)
<i>Deferred income tax</i>		
Temporary differences	<b>6,212</b>	576
Adjustments in respect of previous years	<b>(92)</b>	(264)
Income tax expense reported in the income statement	<b>28,702</b>	41,216

**Tax reconciliation**

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before income tax	<b>95,610</b>	147,041
Income tax rate of 30% (2015: 30%)	<b>28,683</b>	44,112
- Adjustments in respect of previous years	<b>(813)</b>	(758)
- Share based payment expense	<b>(354)</b>	(1,316)
- R&D	<b>(2,078)</b>	(2,288)
- Other	<b>3,264</b>	1,466
Aggregate income tax expense	<b>28,702</b>	41,216

**Recognised deferred tax assets and liabilities**

	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
	<b>Current</b>	<b>Deferred</b>	<b>Current</b>	<b>Deferred</b>
	<b>Income Tax</b>	<b>Income Tax</b>	<b>Income Tax</b>	<b>Income Tax</b>
Opening balance	(4,288)	28,204	(3,352)	27,967
Charged to income	<b>(22,582)</b>	<b>(6,120)</b>	(40,903)	(313)
Charged to equity	-	-	-	-
Other / payments	<b>25,746</b>	<b>(18)</b>	39,967	-
Acquisition	-	-	-	550
Closing balance	<b>(1,124)</b>	<b>22,066</b>	(4,288)	28,204

Amounts recognised on the consolidated statement of financial position:

Deferred tax asset	<b>22,287</b>	28,204
Deferred tax liability	<b>(221)</b>	-
	<b>22,066</b>	28,204

**3. INCOME TAX (continued)**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Deferred income tax at 30 June relates to the following:		
<i>Deferred tax assets</i>		
Provisions	<b>24,490</b>	31,223
Other	<b>1,274</b>	1,048
Gross deferred tax assets	<b>25,764</b>	32,271
Set-off of deferred tax liabilities	<b>(3,477)</b>	(4,067)
Net deferred tax assets	<b>22,287</b>	28,204
<i>Deferred tax liabilities</i>		
Accelerated depreciation	<b>3,489</b>	4,009
Other	<b>209</b>	58
Gross deferred tax liabilities	<b>3,698</b>	4,067
Set-off against deferred tax assets	<b>(3,477)</b>	(4,067)
Net deferred tax liabilities	<b>221</b>	-

**Unrecognised temporary differences**

At 30 June 2016, 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 (2015: \$nil).

**Tax consolidation**

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

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

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

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

### **3. INCOME TAX (continued)**

#### **Recognition and Measurement**

##### *Current taxes*

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

##### *Deferred Taxes*

Deferred income tax is provided for using the full liability balance sheet approach on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000

**4. EARNINGS PER SHARE**

The following reflects the income and share data used in the calculation of basic and diluted earnings per share:

Net profit attributable to ordinary equity holders of the parent	<u><b>67,014</b></u>	<u>105,825</u>
Earnings used in calculation of basic and diluted earnings per share	<u><b>67,014</b></u>	<u>105,825</u>
	<b>Number</b>	Number
<b>Number of shares</b>		
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	<b>93,371,865</b>	92,901,735
<b>Effect of dilutive securities</b>		
Share options	<u>-</u>	<u>-</u>
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u><b>93,371,865</b></u>	<u>92,901,735</u>

Conversions, calls, subscriptions or issues after 30 June 2016:

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

**Calculation of earnings per share**

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

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

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

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

There are 365,000 share options excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive for the current period.

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	<b>2016</b>	2015
	<b>\$'000</b>	\$'000

**5. CASH AND CASH EQUIVALENTS**

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

Cash balances comprise:

Cash at bank	<b>163,515</b>	169,835
Short term deposits	<b>40,000</b>	40,000
	<b>203,515</b>	209,835

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

Net profit	<b>66,908</b>	105,825
<b>Adjustments for</b>		
Depreciation of non-current assets	<b>21,094</b>	22,932
Amortisation and impairment of intangible assets	<b>65</b>	779
Net profit on sale of property, plant and equipment	<b>(3,691)</b>	(2,689)
Impairment of other non-current assets	<b>1,011</b>	1,170
Share-based payment credit	<b>(1,178)</b>	(4,387)
Unrealised foreign exchange loss/(gain)	<b>2,138</b>	(398)
Other	<b>918</b>	315
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in receivables	<b>40,385</b>	(132,670)
Decrease in inventories	<b>27,109</b>	79,485
Decrease in deferred tax assets	<b>5,917</b>	432
Increase/(decrease) in payables	<b>(59,748)</b>	57,734
Decrease in provisions	<b>(20,016)</b>	(11,582)
Increase/(decrease) in income tax payable	<b>(3,164)</b>	936
Increase/(decrease) in deferred tax liabilities	<b>221</b>	(119)
Net cash flows from operating activities	<b>77,969</b>	117,763

**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 \$7,741,790 (2015: \$5,652,437).

**Recognition and measurement**

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

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	Notes	2016 \$'000	2015 \$'000
<b>6. TRADE AND OTHER RECEIVABLES</b>			
<b>CURRENT</b>			
Trade receivables		<b>244,398</b>	278,867
Less allowance for impairment loss		<b>(2,508)</b>	(3,642)
		<b>241,890</b>	275,225
Loan to associates	28	<b>16,113</b>	7,957
Other debtors		<b>84,197</b>	91,985
		<b>342,200</b>	375,167

**Allowance for impairment loss**

	2016 \$'000	2015 \$'000
Movements in the allowance for impairment loss were as follows:		
Balance at the beginning of the year	3,642	4,204
Credit for the year reflected in administrative expenses in the income statement	<b>(1,134)</b>	(562)
Balance at the end of the year	<b>2,508</b>	3,642

**Trade receivables past due not impaired**

At 30 June 2016, the ageing of trade receivables, past due but not considered impaired is as follows:

	2016 \$'000	2015 \$'000
31 – 60 Days	<b>22,186</b>	23,643
61 – 90 Days	<b>3,606</b>	3,639
91+ Days	<b>9,517</b>	16,151
<b>TOTAL</b>	<b>35,309</b>	43,433

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 nor 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.

The Group trades with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Publicly available credit information from recognised providers is utilised for this purpose where available. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

**6. TRADE AND OTHER RECEIVABLES (continued)**

**Other debtors**

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

**Recognition and measurement**

Trade receivables, which generally have 30 to 45 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. Bad debts are written off when identified.

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

Notes	2016 \$'000	2015 \$'000
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**7. INVENTORIES**

**Construction work in progress**

Cost incurred to date plus profit recognised		1,694,307	4,708,463
Consideration received and receivable as progress billings		<u>(1,814,217)</u>	<u>(4,819,766)</u>
		<u>(119,910)</u>	<u>(111,303)</u>
Represented by:			
Amounts due to customers	12	<u>173,345</u>	191,847
Amounts due from customers		<u>53,435</u>	<u>80,544</u>

**Amounts due to customers**

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 12.

**Credit risk of amounts due from customers**

Details regarding credit risk of amounts due from customers are disclosed in note 22.

**Recognition and measurement**

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.

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**8. PROPERTY, PLANT AND EQUIPMENT**

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

	<b>PROPERTY</b>		<b>PLANT AND EQUIPMENT</b>			<b>Total \$'000</b>
	<b>Freehold land \$'000</b>	<b>Buildings \$'000</b>	<b>Leasehold improve- ments \$'000</b>	<b>Plant and equipment \$'000</b>	<b>Plant and equipment under hire purchase \$'000</b>	
<b>Year ended 30 June 2016</b>						
Net carrying amount at 1 July 2015	13,411	17,754	1,333	34,793	28,899	96,190
Additions	-	-	84	836	7,742	8,662
Assets transferred	-	539	(539)	9,417	(9,417)	-
Disposals	-	(276)	-	(3,494)	-	(3,770)
Depreciation charge	-	(1,357)	(182)	(13,870)	(5,685)	(21,094)
Net carrying amount at 30 June 2016	<b>13,411</b>	<b>16,660</b>	<b>696</b>	<b>27,682</b>	<b>21,539</b>	<b>79,988</b>
<b>At 30 June 2016</b>						
Cost	13,411	24,959	1,485	143,858	33,969	217,682
Accumulated depreciation	-	(8,299)	(789)	(116,176)	(12,430)	(137,694)
Net carrying amount	<b>13,411</b>	<b>16,660</b>	<b>696</b>	<b>27,682</b>	<b>21,539</b>	<b>79,988</b>
<b>Year ended 30 June 2015</b>						
Net carrying amount at 1 July 2014	13,411	17,608	1,559	37,427	39,272	109,277
Additions	-	1,280	-	1,837	5,653	8,770
Additions through business combinations	-	-	-	2,740	-	2,740
Assets transferred	-	-	-	8,123	(8,123)	-
Disposals	-	(16)	-	(1,649)	-	(1,665)
Depreciation charge	-	(1,118)	(226)	(13,685)	(7,903)	(22,932)
Net carrying amount at 30 June 2015	<b>13,411</b>	<b>17,754</b>	<b>1,333</b>	<b>34,793</b>	<b>28,899</b>	<b>96,190</b>
<b>At 30 June 2015</b>						
Cost	13,411	24,553	2,261	143,111	48,393	231,729
Accumulated depreciation	-	(6,799)	(928)	(108,318)	(19,494)	(135,539)
Net carrying amount	<b>13,411</b>	<b>17,754</b>	<b>1,333</b>	<b>34,793</b>	<b>28,899</b>	<b>96,190</b>

**8. PROPERTY, PLANT AND EQUIPMENT (continued)**

**Property, plant and equipment pledged as security**

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

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Assets pledged as security	<u><b>22,235</b></u>	<u>30,232</u>

**Recognition and measurement**

*Property, plant and equipment*

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

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

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

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

*Impairment of non-financial assets other than goodwill*

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

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

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

	<b>Intangible Assets \$'000</b>	<b>Goodwill \$'000</b>	<b>Total \$'000</b>
<b>9. INTANGIBLE ASSETS AND GOODWILL</b>			
<b>Year ended 30 June 2016</b>			
At 1 July 2015	65	2,947	3,012
Amortisation	(65)	-	(65)
At 30 June 2016	-	<b>2,947</b>	<b>2,947</b>
<b>Year ended 30 June 2015</b>			
At 1 July 2014	844	2,947	3,791
Amortisation	(779)	-	(779)
At 30 June 2015	65	2,947	3,012

### **Description of the Group's intangible assets**

Intangible assets relate to the fair value of contracts acquired on acquisition of PearlStreet Energy Services Pty Ltd (subsequently re-named Monadelphous Energy Services Pty Ltd). Intangible assets have been assessed as having a finite life and are amortised using the straight line method over a period of 4 years.

### **Impairment testing of the Group's intangible assets and goodwill**

At 30 June 2016, no impairment loss has been recognised in the income statement (2015: nil).

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

### **Recognition and measurement**

#### *Goodwill*

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

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

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

## **9. INTANGIBLE ASSETS AND GOODWILL (continued)**

### **Recognition and measurement (continued)**

#### *Intangible assets*

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

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

## **10. INTEREST IN JOINT VENTURE**

The Group has a 50% interest in Monaro LLC, an incorporated joint venture involved in delivering multidisciplinary construction services in the Marcellus and Utica gas regions of North East USA.

At 30 June 2016, the Group's interest in Monaro LLC was not material.

### **Recognition and measurement**

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

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

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

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	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>11. OTHER NON-CURRENT ASSETS</b>		
<b>Other non-current assets</b>	<b>236</b>	1,247

At 30 June 2015 and 2016, other non-current assets consist of investments in AnaeCo Limited (ASX: ANQ). The Group has a 14.67% (2015: 15.02%) interest in AnaeCo Limited, whose principal activity is the development and commercialisation of a process for the treatment of organic municipal solid waste. The investment is not considered to be material.

**Recognition and measurement**

*Investments in associates*

An associate is an entity over which the Group has significant influence, being the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

The Group's investment in its associate is accounted for using the equity method. The Group recognises its share of the results of operations of the associate in the consolidated income statement. The Group's investment in its associate is not material.

<b>12. TRADE AND OTHER PAYABLES</b>	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>CURRENT</b>		
Trade payables	<b>34,119</b>	64,908
Advances on construction work in progress –		
Amounts due to customers	<b>173,345</b>	191,847
Sundry creditors and accruals	<b>18,749</b>	30,473
	<b>226,213</b>	287,228

**Recognition and measurement**

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

Sundry creditors and accruals are non-interest bearing and have an average term of 45 days.

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	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>13. INTEREST BEARING LOANS AND BORROWINGS</b>		
<b>CURRENT</b>		
Hire purchase liability – secured	<b>6,732</b>	10,224
Bank loan – secured	-	1,667
Loan – unsecured	<b>1,136</b>	-
	<b>7,868</b>	11,891
<b>NON-CURRENT</b>		
Hire purchase liability – secured	<b>9,303</b>	11,334
Loan – unsecured	<b>375</b>	-
	<b>9,678</b>	11,334

**Terms and conditions**

The unsecured loan is repayable quarterly. Interest is charged at a fixed rate of 3.25%.

Hire purchase agreements have an average term of three years. The average discount rate implicit in the hire purchase liability is 4.44% (2015: 5.31%). The hire purchase liability is secured by a charge over the hire purchase assets.

**Defaults and breaches**

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

**Recognition and measurement**

*Interest bearing loans and borrowings*

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

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

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

*Leases*

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

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

**13. INTEREST BEARING LOANS AND BORROWINGS (continued)**

**Recognition and measurement (continued)**

*Finance leases*

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

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

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

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>14. PROVISIONS</b>		
<b>CURRENT</b>		
Employee benefits	<b>56,635</b>	70,931
Workers' compensation	<b>28,998</b>	34,846
	<b>85,633</b>	105,777
<b>NON-CURRENT</b>		
Employee benefits – long service leave	<b>5,711</b>	5,583
	<b>2016</b>	
	<b>\$'000</b>	
<b>Movements in provisions</b>		
<i>Workers compensation</i>		
Carrying amount at the beginning of the year	34,846	
Additional provision	<b>2,253</b>	
Amounts utilised during the year	<b>(8,101)</b>	
Carrying amount at the end of the financial year	<b>28,998</b>	

## **14. PROVISIONS (continued)**

### **Recognition and measurement**

#### *Provisions*

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

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

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

#### *Employee benefits*

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

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

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

#### *Workers' compensation*

It is customary for all entities within the engineering and construction industry to be covered by workers' compensation insurance. Payments under these policies are calculated differently depending on which state of Australia the entity is operating in. Premiums are generally calculated based on actual wages paid and claims experience. Wages are estimated at the beginning of each reporting period. Final payments are made when each policy is closed out based on the difference between actual wages and the original estimated amount. The amount of each payment varies depending on the number of incidents recorded during each period and the severity thereof. The policies are closed out within a five 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.

**15. CAPITAL MANAGEMENT**

Capital is managed by the Group's Chief Financial Officer in conjunction with the Group's Finance and Accounting department. Management continually monitor the Group's net cash/debt position and the gearing levels to ensure efficiency and compliance with the Group's banking facility covenants, including the gearing ratio, operating leverage ratio and fixed charge coverage ratio. At 30 June 2016, the Group is in a net cash position of \$185,969,000 (2015: \$186,610,000) and has a debt to equity ratio of 4.8% (2015: 6.3%) which is within the Group's net cash and debt to equity target levels.

During the year ended 30 June 2016, management paid dividends of \$69,043,638. 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.

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>16. DIVIDENDS PAID AND PROPOSED</b>		
<b>Declared and paid during the year</b>		
<i>Current year interim</i>		
Interim franked dividend for 2016 (28 cents per share) (2015: 46 cents per share)	<u>26,175</u>	<u>42,779</u>
<i>Previous year final</i>		
Final franked dividend for 2015 (46 cents per share) (2014: 63 cents per share final)	<u>42,869</u>	<u>58,462</u>
<b>Unrecognised amounts</b>		
<i>Current year final</i>		
Final franked dividend for 2016 (32 cents per share) (2015: 46 cents per share)	<u>29,981</u>	<u>42,869</u>
<b>Franking credit balance</b>		
Franking credits available for future reporting years at 30% adjusted for franking credits that will arise from the payment of income tax payable as at the end of the financial year	<b>48,234</b>	71,807
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	<u>(12,849)</u>	<u>(18,373)</u>
	<b>35,385</b>	53,434

**Tax rates**

The tax rate at which paid dividends have been franked is 30% (2015: 30%). Dividends payable will be franked at the rate of 30% (2015: 30%).

**Recognition and measurement**

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

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**17. CONTRIBUTED EQUITY**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Ordinary shares – Issued and fully paid	<b>121,992</b>	118,579
Reserved shares	<b>(1,269)</b>	(1,269)
	<b><u>120,723</u></b>	<u>117,310</u>

**Ordinary shares**

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

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

	<b>Note</b>	<b>2016</b>		2015	
		<b>Number of</b>	<b>\$'000</b>	Number of	\$'000
		<b>Shares</b>		Shares	
Beginning of the financial year		93,194,159	118,579	92,679,570	112,115
Exercise of employee options		-	-	118,440	1,640
Dividend reinvestment plan		<b>496,054</b>	<b>3,313</b>	396,149	4,824
Acquisition of subsidiary	20	<b>13,750</b>	<b>100</b>	-	-
End of the financial year		<b><u>93,703,963</u></b>	<b><u>121,992</u></b>	93,194,159	118,579

During the year ended 30 June 2016, under the Monadelphous Group Limited Employee Option Plan, no employees exercised options to acquire fully paid ordinary shares.

**Reserved shares**

	<b>2016</b>		2015	
	<b>Number of</b>	<b>\$'000</b>	Number of	\$'000
	<b>Shares</b>		Shares	
Beginning of the financial year	85,500	(1,269)	-	-
Acquisition of reserved shares	-	-	85,500	(1,269)
End of the financial year	<b><u>85,500</u></b>	<b><u>(1,269)</u></b>	85,500	(1,269)

**Recognition and measurement**

*Contributed equity*

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

*Reserved shares*

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

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**CAPITAL STRUCTURE**  
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	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>18. RESERVES AND RETAINED EARNINGS</b>		
Foreign currency translation reserve	<b>853</b>	161
Share-based payment reserve	<b>29,102</b>	30,280
	<b>29,955</b>	30,441
Retained earnings	<b>218,317</b>	220,347
<b>Movements in retained earnings</b>		
Balance at the beginning of the year	220,347	215,763
Net profit attributable to equity holders of the parent	<b>67,014</b>	105,825
Total available for appropriation	<b>287,361</b>	321,588
Dividends paid	<b>(69,044)</b>	(101,241)
Balance at the end of the year	<b>218,317</b>	220,347

**Movements in reserves**

	<b>Foreign currency translation reserve \$'000</b>	<b>Share- based payment reserve \$'000</b>	<b>Total \$'000</b>
At 1 July 2014	120	34,667	34,787
Foreign currency translation	41	-	41
Share-based payment	-	(4,387)	(4,387)
At 30 June 2015	161	30,280	30,441
Foreign currency translation	<b>692</b>	-	<b>692</b>
Share-based payment	-	<b>(1,178)</b>	<b>(1,178)</b>
At 30 June 2016	<b>853</b>	<b>29,102</b>	<b>29,955</b>

**Nature and purpose of reserves**

*Foreign currency translation reserve*

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

*Share-based payment reserve*

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

## 19. SUBSIDIARIES

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

Name	Country of Incorporation	Percentage Held by Consolidated Entity		Parent Entity Investment	
		2016 %	2015 %	2016 \$'000	2015 \$'000
Parent:					
Monadelphous Group Limited					
Controlled entities of Monadelphous Group Limited:					
#Monadelphous Engineering Associates Pty Ltd	Australia	100	100	26,133	27,047
#Monadelphous Properties Pty Ltd	Australia	100	100	1,788	1,941
#Monadelphous Engineering Pty Ltd	Australia	100	100	4,219	4,219
#Genco Pty Ltd	Australia	100	100	342	342
#Monadelphous Workforce Pty Ltd	Australia	100	100	370	370
#Monadelphous Electrical & Instrumentation Pty Ltd	Australia	100	100	5,343	5,343
#Monadelphous KT Pty Ltd	Australia	100	100	16,112	16,139
#Monadelphous Energy Services Pty Ltd	Australia	100	100	4,434	4,434
#M Workforce Pty Ltd	Australia	100	100	-	-
#M Maintenance Services Pty Ltd	Australia	100	100	-	-
M&ISS Pty Ltd	Australia	100	100	-	-
SinoStruct Pty Ltd	Australia	100	100	125	208
Monadelphous Group Limited Employee Share Trust	Australia	100	100	-	-
Monadelphous Holdings Pty Ltd	Australia	100	100	-	-
MGJV Pty Ltd	Australia	70 ^	70	-	-
Monadelphous PNG Ltd	Papua New Guinea	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	100	144	144
Monadelphous Mongolia LLC	Mongolia	100	100	-	-
Monadelphous Inc.	USA	100	100	1,806	-
Monadelphous Marcellus LLC*	USA	100	-	-	-
MKT Pipelines Ltd*	Canada	100	-	-	-
Evo Access Pty Ltd	Australia	100	-	-	-
Monadelphous Engineering NZ Pty Ltd	New Zealand	100	100	-	-
				<b>61,259</b>	<b>60,630</b>

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

\* Incorporated during the year

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

### Ultimate parent

Monadelphous Group Limited is the ultimate holding company.

### Material partly-owned subsidiaries

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

## **20. BUSINESS COMBINATION**

### **Acquisition of Water Infrastructure Group**

On 27 February 2015, Monadelphous Group Limited concluded the purchase agreement with Water Infrastructure Group Pty Ltd to acquire the contracts and net assets of its design, build and maintain business. The acquisition forms part of Monadelphous' market growth strategy.

The consideration comprised an initial cash payment of \$6,000,000 and a subsequent cash adjustment to the purchase price of \$1,700,000. \$1,200,000 of the cash adjustment was paid in June 2016, with the remaining \$500,000 paid during July 2016. The cash adjustment resulted from a change to the provisional fair value of net contracts in progress and unbilled revenue.

### **Acquisition of Evo Access Pty Ltd**

On 22 April 2016, Monadelphous Group Limited acquired 100% of the ordinary share capital of Evo Access Pty Ltd. Total consideration for the acquisition was \$260,000 comprising a cash payment of \$160,000 and \$100,000 of Monadelphous Group Limited ordinary shares. The acquisition of Evo Access Pty Ltd is not material to the Group.

## 21. INTEREST IN JOINT OPERATIONS

### Joint operations interests

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

Joint Arrangement	Principal Activity	Principal place of business	Group Interest	
			2016 %	2015 %
AnaeCo Monadelphous Joint Venture	To deliver design and construct waste management systems to the WMRC DiCOM facility.	Shenton Park, WA	50	50
Monadelphous Muhibbah Marine Joint Venture	To construct the approach jetty and ship berth associated with the Wiggins Island Coal Export Terminal.	Gladstone, QLD	50	50
KT-OSD Joint Venture	Design and construction of a transmission pipeline and associated facilities for Hamersley Iron.	West Angelas, WA	60	60

### Commitments and contingent liabilities relating to joint operations

Details relating to a legal matter involving Monadelphous Muhibbah Marine Joint Venture are included in note 24.

There were no other capital commitments or contingent liabilities relating to the joint operations at 30 June 2016 (2015: \$nil).

### Impairment

No assets employed in the joint operations were impaired during the year ended 30 June 2016 (2015: \$nil).

### Recognition and Measurement

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

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

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

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

## **22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

### **(a) Risk exposures and responses**

#### *Interest rate risk*

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

	<b>Notes</b>	<b>2016</b> <b>\$'000</b>	<b>2015</b> <b>\$'000</b>
<b>Financial assets</b>			
Cash and cash equivalents	5	<u>203,515</u>	209,835
Net exposure		<u><u>203,515</u></u>	<u>209,835</u>

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

At 30 June 2016, reasonable possible movement in variable interest rates, based on a review of historical movements and forward rate curves for forward rates would not have had a material impact on the Group.

#### *Foreign currency risk*

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

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency. Where possible, Monadelphous does not take on foreign exchange risk. At 30 June 2016, the Group had no forward contracts.

**22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**(a) Risk exposures and responses (continued)**

*Foreign currency risk (continued)*

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

At 30 June 2016, the Group had the following exposure to foreign currency:

<b>Year ended 30 June 2016</b>	<b>PGK AUD\$'000</b>	<b>USD AUD\$'000</b>
<b>Financial assets</b>		
Cash and cash equivalents	<b>23,184</b>	<b>8,026</b>
Trade and other receivables	<b>18</b>	<b>11,060</b>
<b>Financial liabilities</b>		
Trade and other payables	<b>(6)</b>	<b>(715)</b>
Net Exposure	<b>23,196</b>	<b>18,371</b>
<b>Year ended 30 June 2015</b>		
<b>Financial assets</b>		
Cash and cash equivalents	17,140	7,605
Trade and other receivables	1,780	10,584
<b>Financial liabilities</b>		
Trade and other payables	<b>(31)</b>	<b>(3)</b>
Net Exposure	<b>18,889</b>	<b>18,186</b>

At 30 June 2016, reasonably possible movements in USD foreign exchange rates, based on a review of historical movements, would not have had a material impact on the Group.

At 30 June 2016, 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:	<b>Post Tax Profit Higher/(Lower)</b>		<b>Other Comprehensive Income Higher/(Lower)</b>	
	<b>2016 \$'000</b>	<b>2015 \$'000</b>	<b>2016 \$'000</b>	<b>2015 \$'000</b>
+10% (2015: +10%)	<b>(1,624)</b>	(1,322)	-	-
-10% (2015: -10%)	<b>1,624</b>	1,322	-	-

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

**22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**(a) Risk exposures and responses (continued)**

*Credit risk*

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

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

The Group minimises concentrations of credit risk in relation to accounts receivable 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 minimises its exposure to credit risk for cash and cash equivalents by investing funds only with counter parties rated A+ or higher by Standard & Poor's.

The Group's maximum exposure to credit risk is its cash and trade receivables representing \$445,405,000 at 30 June 2016 (2015: \$485,060,000)

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

**22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**(a) Risk exposures and responses (continued)**

*Liquidity risk*

<b>Financing facilities available</b>	<b>2016</b>	2015
	<b>\$'000</b>	\$'000

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

Total facilities:

- Bank guarantee and performance bonds	<b>575,000</b>	675,000
- Revolving credit	<b>98,995</b>	92,015
	<b>673,995</b>	767,015

Facilities used at balance date:

- Bank guarantee and performance bonds	<b>209,797</b>	392,598
- Revolving credit	<b>17,546</b>	23,225
	<b>227,343</b>	415,823

Facilities unused at balance date:

- Bank guarantee and performance bonds	<b>365,203</b>	282,402
- Revolving credit	<b>81,449</b>	68,790
	<b>446,652</b>	351,192

*Nature of bank guarantees and performance bonds*

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

*Nature of revolving credit*

The revolving credit includes loans and hire purchase/leasing facilities. Refer to note 13 for terms and conditions.

The Group's objective is to manage the liquidity of the business by monitoring project cash flows and through the use of financing facilities. The Group currently utilises financing facilities in the form of 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 2016.

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

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>Financial liabilities</b>		
6 months or less	<b>230,961</b>	294,924
6 – 12 months	<b>3,689</b>	5,020
1 – 5 years	<b>10,227</b>	11,867
	<b>244,877</b>	311,811

**22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**(a) Risk exposures and responses (continued)**

Maturity analysis of derivative financial instruments and financial liabilities:

<b>Year ended 30 June 2016</b>	<b>6 months or less \$'000</b>	<b>6 months to 1 year \$'000</b>	<b>1 year to 5 years \$'000</b>	<b>Total Contractual Cash Flows \$'000</b>	<b>Total Carrying Amount \$'000</b>
<b>Financial liabilities</b>					
Trade and other payables	226,213	-	-	226,213	226,213
Loan	409	761	376	1,546	1,511
Hire purchase liability	4,339	2,928	9,851	17,118	16,035
Net maturity	<b>230,961</b>	<b>3,689</b>	<b>10,227</b>	<b>244,877</b>	<b>243,759</b>

<b>Year ended 30 June 2015</b>	<b>6 months or less \$'000</b>	<b>6 months to 1 year \$'000</b>	<b>1 year to 5 years \$'000</b>	<b>Total Contractual Cash Flows \$'000</b>	<b>Total Carrying Amount \$'000</b>
<b>Financial liabilities</b>					
Trade and other payables	287,228	-	-	287,228	287,228
Bank loan	1,700	-	-	1,700	1,667
Hire purchase liability	5,996	5,020	11,867	22,883	21,558
Net maturity	<b>294,924</b>	<b>5,020</b>	<b>11,867</b>	<b>311,811</b>	<b>310,453</b>

**(b) Net fair values of financial assets and liabilities**

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

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

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

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

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

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

There were no material financial assets or liabilities measured at fair value at 30 June 2016 or 30 June 2015.

	Notes	2016 \$'000	2015 \$'000
<b>23. COMMITMENTS AND CONTINGENCIES</b>			
<b>Hire purchase commitments</b>			
Payable:			
- Within one year		7,267	11,016
- Later than one year but not later than five years		9,851	11,867
Minimum lease payments		17,118	22,883
Less future finance charges		(1,083)	(1,325)
Present value of minimum lease payments		16,035	21,558
Current liability	13	6,732	10,224
Non-current liability	13	9,303	11,334
		<b>16,035</b>	<b>21,558</b>

Hire purchase agreements have an average term of three years.

<b>Operating lease commitments</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>
	<b>Properties</b>	<b>Other</b>	<b>Total</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Minimum lease payments				
- Within one year	14,099	2,517	16,616	24,900
- Later than one year but not later than five years	38,239	346	38,585	37,859
- Later than five years	8,403	-	8,403	14,426
Aggregate lease expenditure contracted for at balance date but not provided for	<b>60,741</b>	<b>2,863</b>	<b>63,604</b>	<b>77,185</b>

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 15 months. Properties under operating leases have an average lease term remaining of less than one year.

### **Capital commitments**

The consolidated group has capital commitments of \$442,443 at 30 June 2016 (2015: \$569,064).

### **Guarantees**

	2016 \$'000	2015 \$'000
Guarantees given to various clients for satisfactory contract performance	209,797	392,598

Monadelphous Group Limited and all controlled entities marked # in note 19 have entered into a deed of cross guarantee. Refer to note 30 for details.

### **Contingent Liabilities**

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

## 24. SUBSEQUENT EVENTS

### Contract awards

On 20 July 2016, Monadelphous announced it had been awarded new contracts for customers in the resources, energy and infrastructure markets, with a combined value of approximately \$140 million. The contracts included:

- Support to BHP Billiton's Olympic Dam copper-uranium operation at Roxby Downs in South Australia for a further five years. Monadelphous has been providing maintenance and industrial services support at Olympic Dam for more than 25 years;
- A contract for the design, construction and commissioning of a liquid fuel supply system for Rio Tinto Iron Ore at its Cape Lambert Port Facility near Karratha, in Western Australia. The contract follows the successful completion of petroleum pipeline installations at its West Angelas and Cape Lambert facilities;
- A contract for the design and construction of a potable water treatment plant for the Western Downs Regional Council in Chinchilla, Queensland; and
- Electrical and instrumentation works for the product loading jetty with JKC Australia LNG Pty Ltd at the Ichthys Project Onshore LNG Facilities in Darwin in the Northern Territory.

### Zenviron

On 26 July 2016, Monadelphous announced it had reached an agreement with renewable energy specialist, ZEM Energy Pty Ltd, to form a new incorporated joint venture, Zenviron Pty Ltd (Zenviron). Zenviron has been selected as preferred tenderer for the provision of the Balance of Plant associated with CWP Renewables' Sapphire Wind Farm.

### Legal dispute with Wiggins Island Coal Export Terminal (WICET)

In July 2016, Monadelphous announced that MMM, an unincorporated joint operation in which one of its subsidiaries holds a 50% interest, reached agreement with Wiggins Island Coal Export Terminal Pty Ltd to resolve all claims relating to contracts performed on the Wiggins Island Coal Export Terminal Project in Gladstone, Queensland. The terms of this agreement are confidential and remain subject to third party approvals.

### AnaeCo Limited

In August 2016, Monadelphous entered into a binding agreement with Xiaoqing Environmental Protection Technology Company (XEPTC) that will result in XEPTC buying part of a convertible loan owed to Monadelphous by AnaeCo, with the remaining balance of the loan being converted to equity in AnaeCo. The transaction remains subject to AnaeCo shareholder approval. It is expected that Monadelphous will hold 30% of AnaeCo's issued share capital on conversion.

### Dividends declared

On 22 August 2016, the directors of Monadelphous Group Limited declared a final dividend on ordinary shares in respect of the 2016 financial year. The total amount of the dividend is \$29,980,868 which represents a fully franked final dividend of 32 cents per share. This dividend has not been provided for in the 30 June 2016 financial statements. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the dividend.

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

	Notes	2016 \$'000	2015 \$'000
<b>25. PARENT ENTITY INFORMATION</b>			
<b>Information relating to Monadelphous Group Limited parent entity</b>			
Current assets		<b>187,508</b>	181,951
Total assets		<b>1,349,016</b>	1,265,124
Current liabilities		<b>(1,131,878)</b>	(1,012,854)
Total liabilities		<b>(1,141,181)</b>	(1,024,188)
Net assets		<b>207,835</b>	240,936
Contributed equity		<b>120,723</b>	117,310
Share-based payment reserve		<b>29,102</b>	30,280
Retained earnings		<b>58,010</b>	93,346
Total equity		<b>207,835</b>	240,936
Profit after tax		<b>33,708</b>	100,921
Total comprehensive income of the parent entity		<b>33,708</b>	100,921
<b>Contingent liabilities</b>			
Guarantees	23	<b>209,797</b>	<b>392,598</b>

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

**Capital commitments**

The parent entity has capital commitments of \$nil at 30 June 2016 (2015: \$nil).

**26. SHARE BASED PAYMENT EXPENSE**

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 are currently no directors and 26 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 outstanding at 30 June 2016 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.

	<b>2016</b>		<b>2015</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Balance at the beginning of the year	2,105,000	17.70	3,628,000	17.40
Forfeited during the year	(1,740,000)	<b>18.16</b>	(1,312,500)	17.33
Exercised during the year	-	-	(210,500)	14.84
Balance at the end of the year	<b>365,000</b>	<b>19.26</b>	2,105,000	17.70
Exercisable during the next year	<b>335,000</b>	<b>19.46</b>	1,850,000	17.52

No options were exercised during the year. The weighted average share price at the date of options exercised during the prior year was \$15.36.

The weighted average fair values for options outstanding at 30 June 2016 are:

<b>Number</b>	<b>Grant Date</b>	<b>Final Vesting Date</b>	<b>Fair Value Per Option at Grant Date</b>
305,000	1/11/2012	14/09/2016	\$3.52
60,000	5/11/2013	14/09/2017	\$2.91

The share-based payment expense for the year ended 30 June 2016 was a credit of \$1,178,599 (2015: credit \$4,386,873) for the consolidated entity.

**26. SHARE BASED PAYMENT EXPENSE**

*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 2016:

<b>Number of Options</b>	<b>Grant Date</b>	<b>Vesting Date</b>	<b>Expiry Date</b>	<b>Exercise Price</b>
76,250	1/11/2012	01/09/2016	14/09/2016	\$19.70
76,250	1/11/2012	01/09/2016	14/09/2016	\$19.70
152,500	1/11/2012	01/09/2016	14/09/2016	\$19.70
15,000	5/11/2013	01/09/2016	14/09/2017	\$17.05
15,000	5/11/2013	01/09/2016	14/09/2017	\$17.05
30,000	5/11/2013	01/09/2017	14/09/2017	\$17.05

**Recognition and Measurement**

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

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

	2016	2015
	\$	\$
<b>27. AUDITORS' REMUNERATION</b>		
The auditor of Monadelphous Group Limited is Ernst & Young.		
<i>Amounts received or due and receivable by Ernst &amp; Young Australia for:</i>		
- An audit or review of the financial report of the entity and any other entity in the consolidated entity	215,931	200,479
- Other services in relation to the entity and any other entity in the consolidated entity		
- tax compliance	33,195	29,500
	<u>249,126</u>	<u>229,979</u>

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

- tax compliance *	893,469	1,064,196
- other services	47,737	-
	<u>941,206</u>	<u>1,064,196</u>

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 2016 relate predominantly to the application for Research and Development Tax Concessions and overseas tax compliance services.

## **28. RELATED PARTY DISCLOSURES**

### **Compensation of key management personnel**

	2016	2015
	\$	\$
Short term benefits	3,309,687	3,787,144
Post employment	126,862	127,192
Long term benefits	52,096	114,188
Share-based payments	-	(1,178,506)
Total compensation	<u>3,488,645</u>	<u>2,850,018</u>

## **28. RELATED PARTY DISCLOSURES (continued)**

### **Loans to associates**

At 30 June 2016, an amount totalling \$16,113,000 (2015: \$7,957,000) had been loaned to AnaeCo Limited (AnaeCo). Monadelphous owns 14.67% (2015: 15.02%) of the ordinary share capital of AnaeCo. The loan is included in the statement of financial position within other receivables. Interest is payable on the loan at a rate of 12% (2015: 12%) per annum. The loan is secured by a first ranking charge over AnaeCo Limited's assets.

On 5 August 2016, Monadelphous announced that it had entered into a binding agreement with Xiaoqing Environmental Protection Technology Company (XEPTC) that will result in XEPTC buying part of the convertible loan owed to Monadelphous by AnaeCo. The sale is subject to certain standard and regulatory conditions, including AnaeCo shareholder approval.

At completion of the sale XEPTC will pay Monadelphous \$11.5 million and Monadelphous will assign its rights and obligations under that part of the loan being sold to XEPTC.

Monadelphous will retain its rights to the balance of the loan (being all amounts owing from AnaeCo in excess of \$11.5 million) and, subject to approval by AnaeCo's shareholders, will convert the remaining balance into equity of AnaeCo. It is expected that Monadelphous will hold 30% of AnaeCo's issued share capital upon conversion.

## **29. OPERATING SEGMENTS**

Revenue is derived by the consolidated entity from the provision of engineering services to the resources, energy and infrastructure industry sector. For the year ended 30 June 2016, the Engineering Construction division contributed revenue of \$757.6 million (2015: \$1,245.5 million) and the Maintenance and Industrial Services division contributed revenue of \$608.4 million (2015: \$621.2 million). Included in these amounts is \$1.3 million (2015: \$1.7 million) of inter-entity revenue, which is eliminated on consolidation. The operating divisions are exposed to similar risks and rewards from operations, and are only segmented to facilitate appropriate management structures.

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

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

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

The Group has a number of customers to which it provides services. The largest customer represented 25% of the Group's revenue. Three other customers contributed over 34% of revenue, representing 15%, 11% and 9% of the Group's revenue. There are multiple contracts with these customers, across a number of their subsidiaries, divisions within those subsidiaries and locations.

**30. DEED OF CROSS GUARANTEE**

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

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

	2016 \$'000	2015 \$'000
<b>Consolidated Income Statement and comprehensive income</b>		
Profit before income tax	108,779	165,377
Income tax expense	(31,195)	(47,510)
Net profit after tax for the period	<u>77,584</u>	<u>117,867</u>
Retained earnings at the beginning of the period	198,496	181,870
Dividends paid	(69,044)	(101,241)
Retained earnings at the end of the period	<u>207,036</u>	<u>198,496</u>
<b>Consolidated Statement of Financial Position</b>		
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	164,322	183,674
Trade and other receivables	362,081	379,143
Inventories	33,681	77,536
Total current assets	<u>560,084</u>	<u>640,353</u>
Non-current assets		
Investments in subsidiaries	711	795
Property, plant and equipment	75,827	90,444
Deferred tax assets	20,830	27,280
Intangible assets and goodwill	2,946	3,011
Other non-current assets	236	1,247
Total non-current assets	<u>100,550</u>	<u>122,777</u>
<b>TOTAL ASSETS</b>	<u>660,634</u>	<u>763,130</u>
<b>LIABILITIES</b>		
Current liabilities		
Trade and other payables	198,012	282,030
Interest bearing loans and borrowings	6,732	11,891
Income tax payable	1,823	3,401
Provisions	82,634	102,982
Total current liabilities	<u>289,201</u>	<u>400,304</u>
Non-current liabilities		
Interest bearing loans and borrowings	9,302	11,334
Provisions	5,270	5,406
Total non-current liabilities	<u>14,572</u>	<u>16,740</u>
<b>TOTAL LIABILITIES</b>	<u>303,773</u>	<u>417,044</u>
<b>NET ASSETS</b>	<u>356,861</u>	<u>346,086</u>
<b>EQUITY</b>		
Contributed equity	120,723	117,310
Reserves	29,102	30,280
Retained earnings	207,036	198,496
<b>TOTAL EQUITY</b>	<u>356,861</u>	<u>346,086</u>

### **31. OTHER ACCOUNTING STANDARDS**

#### **Other accounting standards**

##### **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.

##### **Changes in accounting policies**

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 2015, including:

- AASB 2013 – 9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments Parts A & B.
- AASB 2015 – 3 – Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 *Materiality*.

The adoption of these standards and interpretations did not have any material effect on the financial position or performance of the Group.

##### **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 2016.

The potential effects of the following standards and interpretations have not yet been fully determined:

<b>Reference</b>	<b>Summary</b>	<b>Application date of standard</b>	<b>Application date for Group</b>
AASB 9 <i>Financial Instruments</i>	<p>AASB 9 contains accounting requirement for financial instruments, replacing AASB 139. The standard:</p> <p>(a) contains a simpler model for classification and measurement of financial assets;</p> <p>(b) a single, forward looking 'expected loss' impairment model that will require more timely recognition of expected credit losses;</p> <p>(c) a substantially reformed approach to hedge accounting including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>The Group has not yet commenced its review of the application of this Standard.</p>	1 January 2018	1 July 2018

**31. OTHER ACCOUNTING STANDARDS (continued)**

**New accounting standards and interpretations (continued)**

Reference	Summary	Application date of standard	Application date for Group
AASB 2014-3 <i>Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations</i>	This standard sets out the guidance on the accounting for acquisition of interests in joint operations in which the activity constitutes a business.	1 January 2016	1 July 2016
AASB 2014-4 <i>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)</i>	This standard clarifies the use of revenue-based methods to calculate depreciation on property, plant and equipment is not appropriate.	1 January 2016	1 July 2016
AASB 15 <i>Revenue from Contracts with Customers</i>	<p>The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <p>Step 1: Identify the contract(s) with a customer  Step 2: Identify the performance obligations in the contract  Step 3: Determine the transaction price  Step 4: Allocate the transaction price to the performance obligations in the contract  Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</p> <p>Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p> <p>The Group continues its detailed review of its contracts with customers to determine the impact, if any, of AASB 15 to revenue recognition of the Group. At the date of this report, that assessment is ongoing and it has not been possible to quantify the effect of AASB 15.</p>	1 January 2018	1 July 2018
AASB 1057 <i>Application of Australian Accounting Standards</i>	This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same.	1 January 2016	1 July 2016
AASB 2014-9 <i>Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements</i>	AASB 2014-9 amends AASB 127 <i>Separate Financial Statements</i> , and consequentially amends AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> and AASB 128 <i>Investments in Associates and Joint Ventures</i> , to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.	1 January 2016	1 July 2016
AASB 2014-10 <i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	AASB 2014-10 amends AASB 10 and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.	1 January 2018	1 July 2018
AASB 2015-1 <i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012– 2014 Cycle</i>	This standard provides clarification amendments to AASB 5, AASB 7, AASB 9 and AASB 134.	1 January 2016	1 July 2016

**31. OTHER ACCOUNTING STANDARDS (continued)**

**New accounting standards and interpretations (continued)**

Reference	Summary	Application date of standard	Application date for Group
<i>AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i>	The Standard makes amendments to AASB 101 arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements.	1 January 2016	1 July 2016
<i>AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 &amp; AASB 1057]</i>	This Standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015. There is no change to the requirements or the applicability of AASB 8 and AASB 133.	1 January 2016	1 July 2016
<i>AASB 16 Leases</i>	<p>The key features of AASB 16 are as follows:</p> <p>Lessee accounting</p> <ul style="list-style-type: none"> <li>Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</li> <li>A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.</li> <li>Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</li> <li>AASB 16 contains disclosure requirements for lessees.</li> </ul> <p>Lessor accounting</p> <ul style="list-style-type: none"> <li>AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</li> <li>AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</li> </ul> <p>The Group has not yet commenced its review of the application of this Standard.</p>	1 January 2019	1 July 2019
<i>2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]</i>	This Standard amends AASB 112 <i>Income Taxes (July 2004)</i> and AASB 112 <i>Income Taxes (August 2015)</i> to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
<i>2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i>	This Standard amends AASB 107 <i>Statement of Cash Flows (August 2015)</i> to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 July 2017
<i>IFRS 2 (Amendments) Classification and Measurement of Share-based Payment Transactions [Amendments to IFRS 2]</i>	<p>This standard amends to IFRS 2 <i>Share-based Payment</i>, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:</p> <ul style="list-style-type: none"> <li>The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments</li> <li>Share-based payment transactions with a net settlement feature for withholding tax obligations</li> <li>A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.</li> </ul>	1 January 2018	1 July 2018