

**MONADELPHOUS GROUP LIMITED**

**ABN 28 008 988 547**

**CONDENSED CONSOLIDATED FINANCIAL REPORT**

**HALF-YEAR ENDED 31 DECEMBER 2016**

**MONADELPHOUS GROUP LIMITED**  
**ABN 28 008 988 547**  
**CORPORATE DIRECTORY**

**Directors**

Calogero Giovanni Battista Rubino  
Chairman

Robert Velletri  
Managing Director

Peter John Dempsey  
Lead Independent Non-Executive Director

Christopher Percival Michelmore  
Independent Non-Executive Director

Dietmar Robert Voss  
Independent Non-Executive Director

Helen Jane Gillies  
Independent Non-Executive Director

**Company Secretaries**

Philip Trueman  
Kristy Glasgow

**Principal Registered Office in Australia**

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

**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  
Monadelphous Engineering NZ Pty Ltd  
M Maintenance Services Pty Ltd  
MGJV Pty Ltd  
Monadelphous Inc.  
Monadelphous Marcellus LLC  
MKT Pipelines Limited  
Monadelphous Investments Pty Ltd  
MCRJV Pty Ltd  
Arc West Group Pty Ltd  
MOAG Pty Ltd  
Monadelphous International Holdings Pty Ltd  
Evo Access Pty Ltd  
Monadelphous Sdn Bhd

Your directors submit their report for the half-year ended 31 December 2016.

## **DIRECTORS**

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

Calogero Giovanni Battista Rubino	<i>Chairman</i> 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 served as 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	<i>Managing Director</i> 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	<i>Lead Independent Non-Executive Director</i> Appointed 30 May 2003 Civil Engineer, Fellow of Engineers Australia, Member of the Australian Institute of Company Directors 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	<i>Independent Non-Executive Director</i> Appointed 1 October 2007 Civil Engineer, Fellow of Engineers Australia 44 years experience in the construction and engineering services industry
Dietmar Robert Voss	<i>Independent Non-Executive Director</i> Appointed 10 March 2014 Chemical Engineer, Member of the Australian Institute of Company Directors 43 years experience in the oil and gas, and mining and minerals industries throughout Australia, the US, Europe, the Middle-East and Africa
Helen Jane Gillies	<i>Independent Non-Executive Director</i> Appointed 5 September 2016 Solicitor, Master of Business Administration and Construction Law, Fellow of the Australian Institute of Company Directors 20 years experience in the construction and engineering services industry

## **COMPANY SECRETARIES**

Philip Trueman	<i>Company Secretary and Chief Financial Officer</i> Appointed 21 December 2007 Chartered Accountant, Member of 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	<i>Company Secretary</i> Appointed 8 December 2014 Chartered Accountant, Member of Chartered Accountants Australia and New Zealand 11 years experience in the construction and engineering services industry

## **NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES**

### *Engineering Services*

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

Services provided include:

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

### *General*

Monadelphous operates from major offices in Perth and Brisbane, with regional offices in Sydney, Adelaide, Pittsburgh (USA), Beijing (China), Auckland and Christchurch (New Zealand) and Ulaanbaatar (Mongolia), and a network of workshop facilities in Kalgoorlie, Karratha, Port Hedland, 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.

## **OPERATING RESULTS**

The consolidated entity's profit after providing for income tax for the half-year was \$28.570 million (2015: \$37.647 million).

## **DIVIDENDS PAID OR PROPOSED**

A 24 cent fully franked interim dividend has been approved by the directors payable on 31 March 2017 (2016: 28 cent interim dividend). A final fully franked dividend of \$29,980,868 was paid during the period in respect of the financial year ended 30 June 2016.

## **REVIEW OF OPERATIONS**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue from services	<b>625,194</b>	737,043
Profit after income tax	<b>28,570</b>	37,647

The Directors of Monadelphous Group Limited are pleased to report the Company's financial results for the six months ending 31 December 2016.

### **Revenue**

Monadelphous recorded sales revenue of \$630.7 million\*, similar to that of the preceding six month period and in line with guidance provided. The result, which was 14.4 per cent down on the previous corresponding period, reflected lower construction activity levels, which were partially offset by rising Maintenance and Industrial Services revenues, highlighting the continuing transition in the resources and energy sectors from the investment phase to the production phase.

### **Earnings**

Net profit after tax (NPAT) attributable to equity holders of the parent was \$28.6 million, similar to that of the preceding six month period, but down 24.1 per cent compared to the previous corresponding period.

Earnings before interest, tax, depreciation and amortisation (EBITDA)<sup>^</sup> was \$50.5 million, a decrease of 19.5 per cent. Customer cost reduction programmes, reduced construction activity levels and an increasingly competitive environment continued to put pressure on margins.

Earnings per share (EPS) was 30.5 cents.

### **Dividend**

The Board of Directors has declared an interim dividend of 24.0 cents per share fully franked. The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the interim dividend.

### **Strong balance sheet**

Monadelphous' balance sheet ended the period in a strong position and the Company continues to maintain a healthy working capital balance, with a record net cash of \$226.2 million at 31 December 2016. The resolution of a number of outstanding claims during the period, including the agreement reached on the Wiggins Island Coal Export Terminal Project, contributed to a cash conversion rate of 172 per cent.

### **Secured \$700 million in new work**

New contracts valued at approximately \$700 million have been secured since the beginning of the financial year, with a significant proportion for customers in the infrastructure sector.

Monadelphous' existing Network and Facility Renewals Program contract with Sydney Water Corporation was expanded to include the provision of mechanical, electrical and civil services. The award reinforced the Company's relationship with Sydney Water and underlined its capability in the delivery of critical water and waste water infrastructure.

The Company's newly established renewable energy business Zenviron, in consortium with wind turbine manufacturer Vestas, was awarded a contract for the delivery of the Sapphire Wind Farm project in New South Wales. The contract award represents a significant strategic milestone for the business and puts Zenviron in a strong position to take advantage of the rapidly growing renewable energy sector in Australia and New Zealand.

Subsequent to the half year end, Monadelphous announced it had received a letter of intent to award a major five year contract, in joint venture with Jacobs, for engineering, procurement and construction (EPC) services on Oil Search Limited's oil and gas production facilities in Papua New Guinea. The partnership, which combines Monadelphous' in-field services expertise with Jacobs' technical engineering capability, will lead to productivity enhancements and cost savings for Oil Search. The contract builds on Monadelphous' decade-long relationship with Oil Search, having provided brownfield project and maintenance services since 2007.

\* Includes Monadelphous' share of joint venture revenue – refer to page 8 for reconciliation

<sup>^</sup> Refer to page 8 for reconciliation of EBITDA

## **Productivity**

Monadelphous remains focused on maximising productivity, reducing costs and maintaining financial discipline.

The Company continues to work closely with its customers to deliver productivity improvements within their operations. Emphasis has been placed on identifying opportunities to improve productivity through innovation, technology and an ongoing business improvement drive. A number of technology solutions have been developed to increase productivity levels across the business, including a new resource management system, a workforce optimisation platform, robotic welding technology and automated 3D workpack development.

Divisional and corporate support services have been further rationalised and the Company is driving standardisation wherever possible to ensure lean and efficient support service delivery. In order to effectively support an increasingly global operational presence, focus has been placed on expanding business and project related services delivered from overseas locations.

## **Strategic Progress**

During the period, Monadelphous made good progress in its markets and growth strategy.

The Maintenance and Industrial Services Division continued to expand the range of services provided in its core markets, adding rope access capability and establishing a dewatering and industrial pipeline business. The division also completed the acquisition of Arc West, an integrated services provider specialising in corrosion management and protective coatings, based in Western Australia (WA).

Another key milestone in its growth and diversification strategy was the establishment of strategic joint venture, Mondium. Mondium is a partnership between Monadelphous and engineering and project management consultancy Lycopodium. It will provide turnkey EPC solutions to customers in the mining and mineral processing market both in Australia and overseas, and combines the respective strengths, complimentary expertise and existing relationships of both companies. Mondium is currently pursuing a number of tender opportunities.

During the period, the Company announced the formation of a new business focused on the growing renewable energy market. Zenviron, a full service balance of plant contractor providing EPC services in Australia and New Zealand, has already commenced operations and is currently pursuing a significant number of tender opportunities to construct wind and solar projects.

The award of additional water infrastructure and irrigation contracts reinforces the Company's infrastructure service expansion, and there are a number of opportunities for further work in this market, particularly in New Zealand and on the East Coast of Australia.

The Company continues to develop its position overseas, in both the growing oil and gas market in North America and through its presence in Mongolia, where it is targeting work on Rio Tinto's multibillion dollar expansion of the Oyu Tolgoi project. SinoStruct, the Company's China based fabrication business, has identified a number of promising opportunities in the US market.

## **OPERATIONAL OVERVIEW**

### **Markets**

Monadelphous provides construction, maintenance and industrial services to the resources, energy and infrastructure markets.

The resource and energy markets in Australia remain challenging, despite a recent improvement in commodity prices. Capital expenditure levels remain at historically low levels, as the rate of major investment in new production slows. The market continues to invest in sustaining capital works expenditure required to support the significant increases in production levels.

The outlook for the maintenance sector remains positive as production levels grow and operating assets increase in age.

Opportunities in the broader infrastructure market are expected to grow, particularly in the renewable energy and transport infrastructure sectors, and Monadelphous' position in the water sector continues to strengthen.

### **Health and Safety**

The total case injury frequency rate (TCIFR) was 3.43 incidents per million man-hours, and the lost time injury frequency rate (LTIFR) was 0.09 incidents per million man-hours, with only one lost time incident recorded in the six months.

The Company remains committed to maintaining its goal of an injury-free workplace, and will look to evolve and adapt its safety initiatives as it expands and diversifies into new services and markets.

### **People**

The Company's total workforce at 31 December 2016 was 4,989, an increase of 12 per cent from six months earlier. The growth in employee numbers reflected the increasing activity levels within the maintenance services business.

Labour productivity continues to strengthen, primarily as a result of improved labour availability amid reduced demand, and lower unit costs. The Company continues to experience strong levels of key talent retention and a lower trend in permanent staff turnover.

## **OPERATIONAL ACTIVITY**

### **Engineering Construction**

The Engineering Construction division, which provides large-scale, multidisciplinary project management and construction services, reported sales revenue of \$292.6 million\* for the period.

Works continued at the Inpex-led Ichthys Project Onshore LNG Facility in Darwin, Northern Territory (NT). The Company continues to perform strongly on this contract, and is expected to complete the scope of works under the original contract by the end of the financial year. Monadelphous was awarded an additional package of electrical and instrumentation works for the product loading jetty during the period and is well placed to secure any additional work that may arise on the project.

The Company's Infrastructure business continues to go from strength-to-strength. The water infrastructure business recorded solid growth and has completed a number of New Zealand based irrigation projects. During the period, the Company was awarded the design and construction of a major upgrade to Unitywater's Kawana Sewage Treatment Plant in Queensland.

SinoStruct recorded strong growth, securing some early work in the US as a result of the success of an extensive business development drive.

\* Includes share of joint venture revenue

Recent contract awards in the resources and energy sector include a structural, mechanical and piping package associated with Newcrest's gold processing plant at its Cadia Valley operations, in NSW, the supply and fabrication of wellhead skids for Santos as part of its upstream CSG development in Northern Queensland and an order from APLNG, under an existing agreement, for the supply of additional wellhead skids. The division remains focused on new markets and overseas opportunities particularly in New Zealand and the US. During the period, other contract activity included:

- Structural, mechanical and piping works for Nyrstar at its Port Pirie Smelter in South Australia (SA);
- Electrical and instrumentation works for the product loading jetty with JKC Australia LNG at the Ichthys Project Onshore LNG Facilities in Darwin, NT;
- 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;
- Fabrication and supply of wellhead separator skids for APLNG in the Surat Basin, Queensland;
- Design and construction of a potable water treatment plant for the Western Downs Regional Council in Chinchilla, Queensland; and
- Construction of a 130 kilometre water pipeline network associated with the Amuri irrigation scheme, north of Christchurch, in 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 works and turnarounds, recorded sales revenue of \$339.6 million, which was 19 per cent higher than the second half of the 2016 financial year. The result reflected the increased levels of maintenance and support activity for customers in the resources and onshore oil and gas sectors.

The division achieved high levels of contract retention in a very competitive environment. It continued its focus on productivity improvement, working with customers to reduce costs and implement innovative solutions.

Since the beginning of the financial year, Monadelphous has been awarded approximately \$300 million in new contracts, including a new five-year contract for BHP Billiton's Olympic Dam operation at Roxby Downs, SA.

Subsequent to the period, the division received a letter of intent to award a five year contract, in joint venture with Jacobs, to provide EPC services at Oil Search's oil and gas production facilities in Papua New Guinea.

Other contract activity undertaken included:

- Facilities management and support services at the Chevron-operated Barrow Island assets, in WA;
- Maintenance and major shutdown services at the Woodside-operated Karratha Gas Plant at Karratha, in 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;
- Maintenance and dragline shutdown works for BM Alliance Coal Operations in Queensland;
- Capital works and maintenance events for BP at its Kwinana Refinery, in WA;
- Early works and modification services associated with Shell Australia's Prelude Floating Liquefied Natural Gas (FLNG) project, in Darwin, NT;
- Multi-disciplinary services to the Woodside-operated Karratha Gas Plant Life Extension Program, through MGJV, at Karratha, in WA and
- Project fieldwork services for Oil Search Limited at its oil and gas production and support facilities in Papua New Guinea.

## **Outlook**

Market conditions in the Australian resources and energy sector continue to be challenging though the market environment is stabilising. Solid levels of capital expenditure required to sustain the massive increases in production levels are expected to provide construction opportunities, particularly in iron ore and upstream coal seam gas.

Prospects for maintenance services are positive as new LNG projects are commissioned and production ramps up. The aging of assets in the resources sector will also drive higher volumes of maintenance and support services. The Company is well placed to capitalise on a number of new maintenance opportunities and grow its recurring revenue base.

Monadelphous will continue to pursue opportunities in infrastructure markets to further diversify revenues. In particular it will strengthen its position in water infrastructure and renewable energy, with a number of new contracts expected to be secured in the coming months.

While the Company continues to experience some delays in the timing of awards and execution of committed works, business activity levels have stabilised and at this stage we anticipate revenue for the second half of the financial year to be similar to that of the first half.

Productivity improvements and the delivery of cost competitive solutions for customers will continue to be a key focus area. High levels of competition and a focus on cost reduction by customers are likely to keep margins under pressure.

In summary, Monadelphous is in good shape. It remains in a leadership position in its core markets and is making good progress to diversify its business into new services and new customer markets, both domestically and internationally.

Importantly, a strong balance sheet provides it with substantial capacity to invest in new business opportunities, particularly in the infrastructure sector where a number of potential acquisition opportunities are progressing towards an advanced stage.

I would like to take this opportunity to thank all our stakeholders for their loyalty and support, and particularly our people for their ongoing dedication, commitment and highly valued contribution.

^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 when used as an additional means to evaluate the Company's profitability.

Reconciliation of Profit before tax to EBITDA (unreviewed)

	<b>31 December</b>	<b>31 December</b>
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before tax	42,362	53,188
Interest expense	411	548
Interest received	(1,924)	(2,021)
Depreciation expense	9,379	10,961
Amortisation expense	187	65
Share of interest, depreciation and amortisation of joint ventures #	89	-
EBITDA	<u>50,504</u>	<u>62,741</u>

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

Reconciliation of Statutory Sales Revenue

	<b>31 December</b>	<b>31 December</b>
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Total sales revenue including joint ventures	630,736	737,043
Share of revenue from joint ventures ~	(5,542)	-
Statutory sales revenue	<u>625,194</u>	<u>737,043</u>

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

**SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

**Contract award**

On 20 February 2017, Monadelphous announced that, in joint venture with Jacobs Engineering Group Inc., it received a letter of intent from Oil Search Limited to enter into a new proposed five year contract for engineering, procurement and construction services on Oil Search's oil and gas production facilities in the Highlands region of Papua New Guinea, valued at approximately US\$50 million per annum.

**Dividends declared**

On 20 February 2017, Monadelphous Group Limited declared an interim dividend on ordinary shares in respect of the 2017 financial year. The total amount of the dividend is \$22,519,300 which represents a fully franked interim dividend of 24 cents per share. This dividend has not been provided for in the 31 December 2016 Financial Statements. The Monadelphous Group Limited Dividend Reinvestment plan will apply to the dividend.

Other than the item noted above, there are no matters or circumstances that have arisen since the end of the half-year ended 31 December 2016 which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

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

The auditor's independence declaration is set out on page 10 and forms part of the Directors' Report for the half-year ended 31 December 2016.

**ROUNDING**

The amounts contained in this report and the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.



C. G. B. Rubino  
Chairman  
Perth, 20 February 2017



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

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

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

As lead auditor for the review of Monadelphous Group Limited for the half-year ended 31 December 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

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

Ernst & Young

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

G H Meyerowitz  
Partner  
20 February 2017



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

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

## To the members of Monadelphous Group Limited

### Report on the 31 December 2016 half-year financial report

We have reviewed the accompanying half-year financial report of Monadelphous Group Limited, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' responsibility for the half-year financial report

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

### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor Monadelphous Group Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### Independence

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



## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Monadelphous Group Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'Ernst &amp; Young', with a large, stylized flourish at the end.

Ernst & Young

A handwritten signature in black ink, appearing to read 'G H Meyerowitz', with a large, stylized flourish at the end.

G H Meyerowitz  
Partner  
Perth  
20 February 2017

**DIRECTORS' DECLARATION**

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

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position as at 31 December 2016 and the performance for the half-year ended on that date of the consolidated entity; and
  - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



C. G. B. Rubino  
Chairman  
Perth, 20 February 2017

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

14

	Notes	Half-year ended 31 December 2016 \$'000	Half-year ended 31 December 2015 \$'000
<b>CONTINUING OPERATIONS</b>			
<b>REVENUE</b>	3	<b>627,118</b>	739,064
Cost of services rendered		<b>(560,466)</b>	(660,387)
<b>GROSS PROFIT</b>		<b>66,652</b>	78,677
Other income	3	<b>4,346</b>	3,120
Business development and tender costs		<b>(13,074)</b>	(11,045)
Occupancy costs		<b>(1,895)</b>	(1,659)
Administrative costs		<b>(14,377)</b>	(14,324)
Finance costs		<b>(411)</b>	(548)
Unrealised foreign currency gain/(loss)		<b>1,121</b>	(1,033)
<b>PROFIT FOR THE PERIOD BEFORE TAX</b>		<b>42,362</b>	53,188
Income tax expense		<b>(12,990)</b>	(15,541)
<b>PROFIT FOR THE PERIOD AFTER TAX</b>		<b>29,372</b>	37,647
<b>ATTRIBUTABLE TO</b>			
<b>EQUITY HOLDERS OF THE PARENT</b>		<b>28,570</b>	37,647
<b>NON-CONTROLLING INTERESTS</b>		<b>802</b>	-
		<b>29,372</b>	37,647
Earnings per share:			
• Basic, profit for the period attributable to ordinary equity holders of the parent (cents per share)		<b>30.50</b>	40.37
• Diluted, profit for the period attributable to ordinary equity holders of the parent (cents per share)		<b>30.46</b>	40.37

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

15

	<b>Half-year ended 31 December 2016 \$'000</b>	<b>Half-year ended 31 December 2015 \$'000</b>
<b>NET PROFIT FOR THE PERIOD</b>	<b>29,372</b>	<b>37,647</b>
<b>OTHER COMPREHENSIVE INCOME</b> Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation	(122)	512
Income tax effect	-	-
	<u>(122)</u>	<u>512</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<u>(122)</u>	<u>512</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<u>29,250</u>	<u>38,159</u>
<b>ATTRIBUTABLE TO</b>		
<b>EQUITY HOLDERS OF THE PARENT</b>	<b>28,448</b>	<b>38,159</b>
<b>NON-CONTROLLING INTERESTS</b>	<b>802</b>	<b>-</b>
	<u>29,250</u>	<u>38,159</u>

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2016**

16

	Notes	31 December 2016 \$'000	30 June 2016 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		244,739	203,515
Trade and other receivables		286,483	342,200
Inventories		45,123	53,435
<b>Total current assets</b>		<b>576,345</b>	<b>599,150</b>
<b>Non-current assets</b>			
Property, plant and equipment	5, 3(b)	78,404	79,988
Deferred tax assets		22,224	22,287
Intangible assets and goodwill		4,101	2,947
Investment in joint venture	6	-	729
Other non-current assets	7	3,369	236
<b>Total non-current assets</b>		<b>108,098</b>	<b>106,187</b>
<b>TOTAL ASSETS</b>		<b>684,443</b>	<b>705,337</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		209,784	226,213
Interest bearing loans and borrowings		9,285	7,868
Income tax payable		2,997	1,124
Provisions		78,196	85,633
<b>Total current liabilities</b>		<b>300,262</b>	<b>320,838</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings		9,230	9,678
Provisions		5,059	5,711
Deferred tax liabilities		-	221
<b>Total non-current liabilities</b>		<b>14,289</b>	<b>15,610</b>
<b>TOTAL LIABILITIES</b>		<b>314,551</b>	<b>336,448</b>
<b>NET ASSETS</b>		<b>369,892</b>	<b>368,889</b>
<b>EQUITY</b>			
Issued capital	9	121,897	120,723
Reserves		30,393	29,955
Retained earnings		216,906	218,317
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>369,196</b>	<b>368,995</b>
Non-Controlling Interests		696	(106)
<b>TOTAL EQUITY</b>		<b>369,892</b>	<b>368,889</b>

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

17

	<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 2016	120,723	29,102	853	218,317	(106)	368,889
Other comprehensive income	-	-	(122)	-	-	(122)
Profit for the period	-	-	-	28,570	802	29,372
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(122)</b>	<b>28,570</b>	<b>802</b>	<b>29,250</b>
<b>Transactions with owners in their capacity as owners</b>						
Share-based payments	-	560	-	-	-	560
Dividend reinvestment plan	1,174	-	-	-	-	1,174
Dividends paid	-	-	-	(29,981)	-	(29,981)
At 31 December 2016	<b>121,897</b>	<b>29,662</b>	<b>731</b>	<b>216,906</b>	<b>696</b>	<b>369,892</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 2015	117,310	30,280	161	220,347	-	368,098
Other comprehensive income	-	-	512	-	-	512
Profit for the period	-	-	-	37,647	-	37,647
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>512</b>	<b>37,647</b>	<b>-</b>	<b>38,159</b>
<b>Transactions with owners in their capacity as owners</b>						
Dividend reinvestment plan	1,814	-	-	-	-	1,814
Dividends paid	-	-	-	(42,869)	-	(42,869)
At 31 December 2015	<b>119,124</b>	<b>30,280</b>	<b>673</b>	<b>215,125</b>	<b>-</b>	<b>365,202</b>

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

18

	Note	Half-year ended 31 December 2016 \$'000	Half-year ended 31 December 2015 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		725,885	807,060
Payments to suppliers and employees		(640,922)	(753,965)
Income tax paid		(11,276)	(13,677)
Other income		1,871	1,651
Interest received		1,924	2,021
Borrowing costs		(369)	(548)
		<hr/>	<hr/>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>77,113</b>	<b>42,542</b>
		<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment		4,329	2,402
Purchase of property, plant and equipment		(2,195)	(607)
Loan to joint ventures		(3,171)	-
Purchase of available-for-sale financial assets		(1,634)	-
Acquisition of Controlled Entities	16	(5,433)	-
Investment in joint venture		-	(1,646)
Loan repayment/(to) associates		3,241	(1,119)
		<hr/>	<hr/>
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(4,863)</b>	<b>(970)</b>
		<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid		(28,807)	(41,055)
Proceeds from/(repayment of) borrowings		1,500	(1,667)
Payment of finance leases		(4,641)	(5,587)
		<hr/>	<hr/>
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>(31,948)</b>	<b>(48,309)</b>
		<hr/>	<hr/>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Opening cash and cash equivalents brought forward		40,302	(6,737)
Net foreign exchange difference		203,515	209,835
		<hr/>	<hr/>
<b>CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>		<b>922</b>	<b>(524)</b>
		<hr/>	<hr/>
		<b>244,739</b>	<b>202,574</b>
		<hr/>	<hr/>

## **1. CORPORATE INFORMATION**

The half-year condensed consolidated financial report of Monadelphous Group Limited for the six months ended 31 December 2016 was authorised for issue in accordance with a resolution of directors on 20 February 2017.

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

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

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

### **a) Basis of Preparation**

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

The half-year condensed consolidated financial report does not include all information and disclosures required in the annual financial report and should be read in conjunction with the annual financial report of Monadelphous Group Limited as at 30 June 2016 together with any public announcements made during the half year.

### **b) New and amending Accounting Standards and Interpretations**

The accounting policies adopted in the preparation of the half-year consolidated financial report are consistent with those adopted and disclosed in the Company's annual financial report for the year ended 30 June 2016. The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective 1 July 2016. The adoption of these new and revised Standards and Interpretations did not have any effect on the financial position or performance of the consolidated entity.

The Group has not elected to early adopt any new standards or amendments that are issued but not yet effective.

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>3. REVENUE AND EXPENSES</b>		
<b>(a) Specific Items</b>		
Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:		
<b>(i) Revenue</b>		
Rendering of services	<b>625,194</b>	737,043
Finance income	<b>1,924</b>	2,021
	<b>627,118</b>	739,064
<b>(ii) Other income</b>		
Gain on disposal of property, plant and equipment	<b>2,475</b>	1,469
Other income	<b>1,871</b>	1,651
	<b>4,346</b>	3,120
<b>(b) Expenses</b>		
Depreciation of non-current assets	<b>9,379</b>	10,961
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>4. DIVIDENDS PAID AND PROPOSED</b>		
(a) Fully franked dividends declared and paid during the half-year	<b>29,981</b>	42,869
(b) Dividends proposed and not yet recognised as a liability	<b>22,519</b>	26,174

**5. PROPERTY, PLANT AND EQUIPMENT**

During the half-year the consolidated entity acquired assets with a cost of \$6,336,142 (2015: \$4,508,539), including assets purchased by means of finance leases and hire purchase contracts (see Note 8). Assets with a written down value of \$1,853,055 (2015: \$933,767) were disposed of during the period.

## 6. INVESTMENT IN JOINT VENTURES

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.

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

On 21 October 2016, a joint venture company, Mondium Pty Ltd was formed between Monadelphous and Lycopodium Ltd. The Group has a 60% interest in the joint venture. The principal activity of Mondium is to deliver engineering, procurement and construction services in the minerals processing sector.

At 31 December 2016, the Group's interests in joint ventures was not material.

## 7. OTHER NON-CURRENT ASSETS

Other non-current assets consists of investments as follows:

Ordinary shares in AnaeCo Limited (ASX Code: ANQ). The Group has a 14.6% interest in AnaeCo Limited, whose principal activity is the development and commercialisation of a process for the treatment of organic solid waste. The investment is classified as an investment in associate. The investment is not considered to be material.

Ordinary shares at fair value in Lycopodium Limited (ASX Code: LYL). The investment is classified as available-for-sale securities. The investment is not considered to be material.

## 8. NON-CASH FINANCING AND INVESTING ACTIVITIES

During the half-year the consolidated entity acquired plant and equipment with an aggregate fair market value of \$4,069,735 (2015: \$3,898,768) by means of finance leases and hire purchase agreements.

## 9. ISSUED CAPITAL

	Notes	31 December 2016 \$'000	30 June 2016 \$'000
Ordinary shares – Issued and fully paid	9(a)	123,166	121,992
Reserved shares	9(b)	(1,269)	(1,269)
		<b>121,897</b>	<b>120,723</b>

### (a) Movement in ordinary shares

	31 December 2016		31 December 2015	
	Number of Shares	\$'000	Number of Shares	\$'000
Beginning of the period	93,703,963	121,992	93,194,159	118,579
Dividend reinvestment plan	<b>140,202</b>	<b>1,174</b>	285,572	1,814
End of the period	<b>93,844,165</b>	<b>123,166</b>	93,479,731	120,393

### (b) Movement in reserved shares

	31 December 2016		31 December 2015	
	Number of Shares	\$'000	Number of Shares	\$'000
Beginning of the period	85,500	(1,269)	85,500	(1,269)
End of the period	<b>85,500</b>	<b>(1,269)</b>	85,500	(1,269)

85,500 of the Group's own equity instruments have been acquired for later use in employee share-based payment arrangements (reserved shares) and have been deducted from equity.

## **10. OPERATING SEGMENTS**

Revenue is derived by the consolidated entity from the provision of engineering services to the resources, energy and infrastructure industry sector. For the half-year ended 31 December 2016 the Engineering Construction division contributed revenue of \$287.1 million (2015: \$414.6 million) and the Maintenance and Industrial Services division contributed revenue of \$339.6 million (2015: \$323.3 million). Included in these amounts is \$1.5 million (2015: \$0.9 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;
- perform similar services for the same industry sector;
- have similar operational business processes;
- provide a diversified range of similar engineering services to a large number of common clients;
- utilise a centralised pool of engineering assets and shared services in their service delivery models, and the services provided to customers allow for the effective migration of employees between divisions; and
- operate predominately in one geographical area, namely Australia.

Accordingly all service divisions have been aggregated to form one reporting segment.

## **11. FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

Fair value hierarchy

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.

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

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

There were no material financial assets or liabilities measured at fair value at 31 December 2016 or 30 June 2016.

## **12. CONTINGENT ASSETS AND LIABILITIES**

### **(a) Contingent assets**

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

### **(b) Contingent liabilities**

There have been no changes in contingent liabilities since the date of the last annual report, except for the following:

	<b>31 December 2016</b>	<b>30 June 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Guarantees given to various clients for satisfactory contract performance	<b>154,186</b>	209,797

### **Legal dispute with Wiggins Island Coal Export Terminal**

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.

## **13. SHARE BASED PAYMENT**

For the half-year ended 31 December 2016, the Group has recognised \$559,575 of share-based payment expense in the Income Statement (2015: \$nil) relating to shares to be issued as part of the acquisition of Arc West Group Pty Ltd (refer to note 16)

## **14. CAPITAL COMMITMENTS**

The group has capital commitments of \$249,726 at 31 December 2016 (2015: \$1,612,477).

## **15. EVENTS AFTER BALANCE DATE**

### **Contract award**

On 20 February 2017, Monadelphous announced that, in joint venture with Jacobs Engineering Group Inc., it received a letter of intent from Oil Search Limited to enter into a new proposed five year contract for engineering, procurement and construction services on Oil Search's oil and gas production facilities in the Highlands region of Papua New Guinea, valued at approximately US\$50 million per annum.

### **Dividends declared**

On 20 February 2017, Monadelphous Group Limited declared an interim dividend on ordinary shares in respect of the 2017 financial year. The total amount of the dividend is \$22,519,300 which represents a fully franked interim dividend of 24 cents per share. This dividend has not been provided for in the 31 December 2016 Financial Statements. The Monadelphous Group Limited Dividend Reinvestment plan will apply to the dividend.

Other than the item noted above, there are no matters or circumstances that have arisen since the end of the half-year ended 31 December 2016 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.

**16. BUSINESS COMBINATION**

**Acquisition of Arc West Group Pty Ltd**

On 23 September 2016, Monadelphous Group Limited acquired 100% of the share capital of Arc West Group Pty Ltd. The acquisition forms part of Monadelphous' market growth strategy.

The consideration comprised a cash payment of \$5.4 million. The completion accounts are in the process of being finalised.

The provisional fair values of the identifiable assets and liabilities acquired from Arc West Group Pty Ltd as of the date of acquisition were:

	<b>Provisional fair value at acquisition date \$'000</b>
Cash	7
Trade and other receivables	1,325
Inventory	114
Property, plant and equipment	3,311
Intangible assets	1,187
	<hr style="border-top: 1px solid black;"/>
	5,944
	<hr style="border-top: 1px solid black;"/>
Trade and other payables	570
Provisions	88
	<hr style="border-top: 1px solid black;"/>
	658
	<hr style="border-top: 1px solid black;"/>
Fair value of identifiable net assets	5,286
Goodwill arising on acquisition	154
	<hr style="border-top: 1px solid black;"/>
	5,440
	<hr style="border-top: 3px double black;"/>
Acquisition-date fair-value of consideration transferred:	
Cash paid	5,440
Total provisional consideration	<hr style="border-top: 1px solid black;"/>
	5,440
	<hr style="border-top: 3px double black;"/>

The cash outflow on acquisition is as follows:

Net cash acquired with the business	7
Cash paid	(5,440)
Net consolidated cash outflow	<hr style="border-top: 1px solid black;"/>
	(5,433)
	<hr style="border-top: 3px double black;"/>

Sales revenue and net profit from Arc West Group Pty Ltd for the period were not material.

Key factors contributing to the \$154,000 of goodwill are the synergies existing within the acquired business, and synergies expected to be achieved as a result of combining Arc West Group Pty Ltd with the rest of the Group.

A further deferred component is payable through the issue of Monadelphous ordinary shares up to a value of \$2.3 million. The shares are issuable in six monthly instalments over the period to September 2018. The issue of each instalment of shares is contingent on the former owners remaining as employees of Monadelphous. The shares are being treated as a remuneration payment. A share based payment expense is therefore being recognised over the period to September 2018 (refer to note 13).