

**MONADELPHOUS GROUP LIMITED**  
**A.B.N. 28 008 988 547**  
**CONSOLIDATED FINANCIAL REPORT**  
**30 JUNE 2020**

# 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

**Helen Jane Gillies**  
Independent Non-Executive Director

**Susan Lee Murphy AO**  
Independent Non-Executive Director

### Company Secretaries

Kristy Glasgow  
Philip Trueman

### Principal Registered Office in Australia

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

### Postal Address

PO Box 600  
Victoria Park  
Western Australia 6979

### Share Registry

#### Computershare Investor Services Pty Ltd

Level 11, 172 St George's Terrace  
Perth  
Western Australia 6000  
Telephone: 1300 364 961  
Facsimile: +61 8 9473 2500

### ASX Code

MND – Fully Paid Ordinary Shares

### Bankers

#### National Australia Bank Limited

100 St George's Terrace  
Perth  
Western Australia 6000

#### HSBC

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

### Bankers (continued)

#### Westpac Banking Corporation

109 St George's Terrace  
Perth  
Western Australia 6000

### Auditors

#### Ernst & Young

11 Mounts Bay Road  
Perth  
Western Australia 6000

### Solicitors

#### Johnson, Winter & Slattery

Level 4, 167 St George's Terrace  
Perth  
Western Australia 6000

### Controlled Entities

Monadelphous Engineering Associates Pty Ltd  
Monadelphous Engineering Pty Ltd  
Monadelphous Properties Pty Ltd  
Monadelphous Workforce Pty Ltd  
Genco Pty Ltd  
Monadelphous Electrical & Instrumentation Pty Ltd  
Monadelphous PNG Ltd  
Monadelphous Holdings Pty Ltd  
Moway International Limited  
SinoStruct Pty Ltd  
Moway AustAsia Steel Structures Trading (Beijing)  
Company Limited  
Monadelphous Group Limited Employee Share Trust  
Monadelphous KT Pty Ltd  
Monadelphous Energy Services Pty Ltd  
Monadelphous Singapore Pte Ltd  
Monadelphous Mongolia LLC  
M&ISS Pty Ltd  
M Maintenance Services Pty Ltd  
Monadelphous Engineering NZ Pty Ltd  
Monadelphous Marcellus LLC  
Evo Access Pty Ltd  
Monadelphous Inc.  
MGJV Pty Ltd  
M Workforce Pty Ltd  
Monadelphous Investments Pty Ltd  
MWOG Pty Ltd  
Arc West Group Pty Ltd  
MOAG Pty Ltd  
Monadelphous International Holdings Pty Ltd  
Monadelphous Sdn Bhd  
R.I.G. Installations (Newcastle) Pty Ltd  
R E & M Services Pty Ltd  
Pilbara Rail Services Pty Ltd  
EC Projects Pty Ltd  
Monadelphous Chile SpA  
Maq Rent SpA  
Buildtek SpA

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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 2020.

### **Revenue**

Monadelphous recorded revenue for the year of \$1,650.8 million<sup>1</sup>, a 2.6 per cent increase on the previous year.

The Company's Maintenance and Industrial Services division achieved its third consecutive record annual revenue performance of \$1,049.8 million. The result was up 5.1 per cent on the previous period on the back of a significant increase, especially in the first half of the financial year, in shutdown and maintenance work across the resources sector.

The Engineering Construction division reported revenue of \$615.9 million, in line with the previous corresponding period, with a number of large resource construction projects commencing during the year.

Statutory revenue, which excludes Monadelphous' share of revenue from joint ventures, was \$1,487.4 million.

### **Operational impact of COVID-19**

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

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

Customers reduced non-essential work and delayed discretionary expenditure, particularly in fly-in, fly-out operations, with supply chain issues causing delays on several large construction projects. Continuing operations progressed slower than expected due to the implementation of a wide variety of health risk management practices and, combined with an underutilisation of the Company's fleet of plant and equipment, resulted in materially disrupted productivity levels.

### **Proactive response to COVID-19**

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

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

A significant number of financial sustainability measures were implemented, including a targeted cost reduction and cash protection plan to ensure the Company operated as productively and profitably as possible during such challenging times. To support this initiative, the Chairman, Managing Director and Non-Executive Directors agreed to a 30 per cent salary and fee reduction for a six month period, with the Executive and General Management teams agreeing to salary reductions of between 10 and 20 per cent for the same

<sup>1</sup> Includes Monadelphous' share of joint venture revenue – refer page 11 for reconciliation

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

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

### **Earnings**

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$92.1 million<sup>2</sup>. EBITDA for the first half of the financial year was \$59.1m, with earnings for the second half being significantly impacted by both the disruption caused by COVID-19, as well as disappointing levels of profitability experienced in the Water Infrastructure business. In early May 2020, the Company announced that several water projects approaching completion had experienced an escalation in contract disputes and declining profitability, resulting in a provision of \$14 million before tax for project underperformance and costs relating to a restructuring of the Company's Water Infrastructure business.

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

### **Dividend**

Monadelphous' Board of Directors declared a final dividend of 13 cents per share, taking the full year dividend to 35 cents per share fully franked. This equates to a dividend payout ratio of approximately 91 per cent of reported net profit after tax.

The Monadelphous Group Limited Dividend Reinvestment Plan will apply to the final dividend.

### **Balance Sheet**

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

Monadelphous completed a number of strategic acquisitions totalling \$14.3 million during the first half of the financial year, expanding the breadth of the Company's service offering in the coal seam gas and rail sectors, as well as supporting the business' overseas diversification strategy into South America.

The strength of the Company's balance sheet will enable it to invest in suitable business opportunities aligned to its markets and growth strategy as they arise.

### **Notification of filing of Writ of Summons**

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

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

<sup>2</sup> Refer page 11 for reconciliation of EBITDA

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

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

### **Strategic Progress**

Monadelphous made good progress on its markets and growth strategy despite the interruption caused by COVID-19, with the award of approximately \$1.2 billion of new contracts and contract extensions since the beginning of the financial period.

The Company secured a number of important contracts in the iron ore market throughout the year, for both construction and maintenance activities.

In August 2019, Monadelphous was awarded a major construction contract with Rio Tinto associated with the West Angelas Deposits C and D Project in the Pilbara region of Western Australia (WA), which included the supply and installation of structural, mechanical, piping and electrical and instrumentation work, as well as modifications to existing plant.

In November 2019, the Company's Maintenance and Industrial Services division was awarded a major five-year contract at Rio Tinto's coastal iron ore operations for the provision of mechanical and electrical fixed plant maintenance and shutdown services. In June 2020, Monadelphous was also awarded a three-year contract with Rio Tinto for the provision of maintenance services and minor projects on its Pilbara marine infrastructure.

Also in the Pilbara iron ore market, the Company was awarded a contract with thyssenkrupp Industrial Solutions (Australia) at BHP's South Flank Project in Western Australia (WA). The contract, which is in addition to Monadelphous' two existing multidisciplinary construction contracts at South Flank with BHP, includes structural, mechanical, piping, electrical and instrumentation works associated with a reclaimer and two stackers.

Mondium, the Company's engineering, procurement and construction (EPC) joint venture with Lycopodium, secured a strategically important \$400 million contract with Rio Tinto for the Western Turner Syncline Phase 2 mine, its largest contract to date. It also commenced work with Talison Lithium for the design and construction of a new tailings retreatment processing plant at Greenbushes mine site in the south-west region of WA, completing earthworks and civil works during the year. The Mondium EPC delivery model encompasses full project development and direct execution, significantly reducing interface risks between engineering, procurement and construction disciplines and providing a more cost-effective solution to customers.

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

The Company continued to broaden its maintenance services offering during the period strengthening its marine, civil, fabrication, rope access and corrosion management capabilities to provide customers with a full turnkey maintenance service solution. To support this strategy the Company acquired iPipe Services early in the period, a specialist provider of coal seam gas pipeline, maintenance and construction solutions, and established a stand-alone industrial services team to provide specialist services to oil and gas customers.

Monadelphous continued to build its rail infrastructure and rolling stock maintenance support service offering, expanding its services into the east coast through the purchase of Harbinger Infrastructure's business

and assets. The purchase secured a five-year contract with Australian Rail Track Corporation (ARTC) for services on its Hunter Valley rail network in New South Wales (NSW).

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

Zenviron, the Company's renewable energy joint venture, continued to strengthen its position in the market, completing works on the Moorabool North, Moorabool South, Cherry Tree and Lal Lal wind farms in regional Victoria, and making significant progress on the Dundonnell Wind Farm for Vestas in Victoria, and at CWP Renewables' Crudine Ridge Wind Farm in NSW. In addition, subsequent to year end, Zenviron secured a further contract to deliver the Murra Warra Stage II Wind Farm in regional Victoria.

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

### **Health and Safety**

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

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

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

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

### **People**

The Company continues to focus on the retention and development of its people, as well as the attraction of the right people to support its markets and growth strategy.

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

The Company also reviewed succession planning across the business to ensure it has the critical skills and capabilities required.

Our retention and development initiatives will become increasingly important as the labour market tightens across the resources sector.

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

The Company's ongoing commitment to diversity resulted in the achievement of its Indigenous employment stretch goal during the period, and around 70 Indigenous jobseekers were employed as part of Monadelphous' participation in the Australian Government's Employment Parity Initiative. To further support this commitment, Monadelphous entered into a partnership with the Graham (Polly) Farmer Foundation, supporting Indigenous education and career pathways through the Follow The Dream program in Bunbury, WA, and the Living The Dream program across Australia.

To support gender diversity and inclusion, the Company focused on the promotion of job opportunities to female candidates. In total, nine female apprentices were appointed within the Company's 2020 Apprenticeship Program (almost 40 per cent of total appointments), as well as 11 females as part of the 2020 Graduate Program (almost 25 per cent of total appointments). In addition, more than 20 per cent of participants in the Company's key development programs, its Emerging Leaders and Leading at Monadelphous programs, were female. This was supported externally by the Company's participation in a number of women in leadership, mining, oil and gas and technology events, encouraging female participation within the sectors. Monadelphous is committed to further strengthening gender diversity at all levels across the business.

### **Productivity and Innovation**

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

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

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

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

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

## **OPERATIONAL ACTIVITY**

### **Engineering Construction**

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

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

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

Work continued on the two major construction contracts at BHP's South Flank project, and during the period Monadelphous was awarded a further contract at South Flank with thyssenkrupp Industrial Solutions (Australia) for multi-disciplinary works associated with a reclaimer and two stackers.

The division executed a number of projects under the BHP Western Australian Iron Ore panel agreement during the period, providing structural, mechanical, piping and electrical and instrumentation works across BHP's Pilbara-based mines and assets. Post year end, the Company secured a contract for the Port Availability Improvement Project to provide multidisciplinary brownfield modification works to conveyers and transfer chutes across the Nelson Point and Finucane Island facilities, with work expected to be completed in the second half of the 2021 calendar year.

Work commenced at Rio Tinto's West Angelas Deposits C and D Project, located in the Pilbara region of WA, which is expected to be completed in 2021.

The Talinga Orana Gas Gathering Station was successfully completed in March, ahead of schedule. This strategically important project showcased Monadelphous' fully integrated delivery capability, encompassing fabrication, earthworks, civils, structural, mechanical, piping, electrical and instrumentation for the dual train gas gathering station.

Demand for the division's specialist heavy lift service offering remained high, with the Company securing scope expansions and one-year extensions to two existing Fortescue Metals Group fixed plant maintenance and shutdown crane services contracts at its Solomon Hub and Port operations in the Pilbara. The Heavy Lift business continued to provide equipment and services on several major Monadelphous construction projects and supported the delivery of Maintenance and Industrial Services contracts, including a crane services contract at several of Woodside's gas facilities in the Pilbara.

SinoStruct, the Company's fabrication business, delivered a number of fabrication packages for repeat customers, including under a long-standing service agreement with Origin for the supply and fabrication of wellhead skids, and for fabrication works associated with Rio Tinto's Oyu Tolgoi Underground Project in Mongolia. It also continued to support the delivery of a number of key Monadelphous and Mondium construction projects, including Rio Tinto's West Angelas Project and Western Turner Syncline Phase 2 mine, as well as Origin's Talinga Orana Gas Gathering Station. At the end of the financial year, SinoStruct closed its fabrication workshop in Houston, United States, due to a reduction in opportunities resulting from a decline in the oil price and the impact of COVID-19. SinoStruct continues to pursue global fabrication opportunities where value from its local and offshore capability and capacity can be realised.

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

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

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

### **Maintenance and Industrial Services**

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

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

The division bolstered the range of services delivered to existing and new customers and continued to expand its geographical footprint, both within Australia and overseas, securing approximately \$515 million of new contracts and contract extensions, including approximately \$60 million subsequent to year end.

The Company continued to build on its long-term relationships with major iron ore producers in the Pilbara. A number of contracts were secured with Rio Tinto, including a major five-year contract for the provision of mechanical and electrical fixed plant maintenance and shutdown services at its coastal iron ore operations and a three-year contract for the provision of maintenance services and minor projects on its Pilbara marine infrastructure. In addition, it was also awarded a number of contracts with BHP for upgrades to existing conveyor equipment, power switching and stackers at Mining Area C mine.

Highlighting the strength of its relationships with customers, Monadelphous was appointed for a further two years to BHP's WAIO Site Engineering Panel providing civil, structural, mechanical, piping and marine services at BHP's mine site and port operations in the Pilbara. Subsequent to year end, the Company secured two contracts under this panel agreement, firstly for the supply and installation of the Jimblebar Transfer Station and secondly for the refurbishment of Car Dumper 3 at Nelson Point, Port Hedland.

The Company secured a further three-year contract for the supply of shutdown and mechanical services at South32's Worsley Alumina Refinery in Collie, as well as a 12-month extension to its existing contract with Nickel West for the provision of maintenance, shutdowns and off-site repair services at Kalgoorlie Nickel Smelter.

In the east, Monadelphous secured a three-year contract for general mechanical and maintenance services as part of Incitec Pivot's scheduled turnarounds for its Queensland operations, a rope access and tank inspection contract at Rio Tinto's Yarwun alumina refinery near Gladstone in Queensland and a minor capital project services contract, which includes civil, mechanical, structural, piping and blast and paint services at Newcrest Mining's gold mining operations on Lihir Island in Papua New Guinea. During the year, the Company executed a number of major shutdowns in Queensland with both BHP Mitsubishi Alliance at the Hay Point Coal Terminal in Mackay, and with Incitec Pivot at Gibson Island in Brisbane.

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

More broadly, and in line with customer requirements, the Company continued to strengthen its marine, civil, fabrication and corrosion management capabilities during the year, and established new workshop facilities in Bunbury, WA.

Subsequent to year end, Monadelphous has been awarded a number of new contracts through its Chilean-based maintenance and construction services business, Buildtek. The new work includes two contracts with Minera Escondida BHP, for the construction and assembly of a communications tower and associated infrastructure at the Escondida copper mine, as well as an upgrade to the conveyer system feeding the Filter

Plant Warehouse at Coloso Port, both in the Antofagasta region. It also secured a contract for the removal and replacement of five liquefied natural gas discharge arms at GNL Quintero's operations in Valparaiso. Other significant contract activity during the year included:

- Maintenance and shutdown services for BHP's Olympic Dam copper-uranium operation at Roxby Downs, South Australia;
- Maintenance and turnarounds for Queensland Alumina Limited in Gladstone, Queensland;
- Mechanical shutdown services and tank maintenance and refurbishments for Newmont at Boddington, WA;
- Operation and maintenance of the coal handling facility at the Muja Power Station for Synergy in Collie, WA; and
- Maintenance and turnaround services in the Hunter Valley, NSW, for Glencore and Yancoal.

### **Markets and Outlook**

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

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

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

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

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

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

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

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

Finally, I would like to take this opportunity to thank our loyal and talented team for their efforts. I also want to extend my thanks to our shareholders, customers and other stakeholders for their ongoing support.



John Rubino  
Monadelphous Chairman  
17 August 2020

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

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

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

Revenue including joint ventures is a non-IFRS measure which does not have any standardised meaning prescribed by IFRS and therefore may not be comparable to revenue presented by other companies. This measure, which is unaudited, is important to management when used as an additional means to evaluate the Company's performance.

**Reconciliation of Total Revenue from Contracts with Customers including joint ventures to Statutory Revenue from Contracts with Customers (unaudited)**

	2020 \$'000	2019 \$'000
Total revenue from contracts with customers including joint ventures	1,650,768	1,608,277
Share of revenue from joint ventures <sup>1</sup>	<u>(163,375)</u>	<u>(131,008)</u>
Statutory revenue from contracts with customers	<u>1,487,393</u>	<u>1,477,269</u>

<sup>1</sup> Represents Monadelphous' proportionate share of the revenue from joint ventures accounted for using the equity method.

EBITDA is a non-IFRS earnings measure which does not have any standardised meaning prescribed by IFRS and therefore may not be comparable to EBITDA presented by other companies. This measure, which is unaudited, is important to management as an additional way to evaluate the Company's performance.

**Reconciliation of profit before income tax to EBITDA (unaudited):**

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

<sup>2</sup> The new accounting standard AASB 16 Leases was adopted from 1 July 2019. Comparatives have not been restated.

<sup>3</sup> Represents Monadelphous' proportionate share of the interest, depreciation, amortisation and tax of joint ventures accounted for using the equity method.

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

## **DIRECTORS**

The names and details of the directors of the Company in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

### **Names, qualifications, experience and special responsibilities**

**Calogero Giovanni Battista Rubino** *Chairman*

Appointed 18 January 1991  
Resigned as Managing Director on 30 May 2003 and continued as Chairman  
54 years experience in the construction and engineering services industry

**Robert Velletri**

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

**Peter John Dempsey**

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

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

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

**Dietmar Robert Voss**

*Independent Non-Executive Director*  
Appointed 10 March 2014  
Chemical Engineer, Member of the Australian Institute of Company Directors  
46 years experience in the oil and gas, and mining and minerals industries

**Helen Jane Gillies**

*Independent Non-Executive Director*  
Appointed 5 September 2016  
Solicitor, Master of Business Administration and Construction Law, Fellow of the Australian Institute of Company Directors  
24 years experience in the construction and engineering services industry  
Also a non-executive director of the following other publicly listed entity, Yancoal Australia Limited (ASX: YAL) – appointed 30 January 2018

**Susan Lee Murphy AO**

*Independent Non-Executive Director*  
Appointed 11 June 2019  
Civil Engineer, Honorary Fellow of Engineers Australia  
41 years experience in the resources and infrastructure industries

**COMPANY SECRETARIES**

**Philip Trueman**

*Company Secretary and Chief Financial Officer*

Appointed 21 December 2007

Chartered Accountant, Member of Chartered Accountants Australia and New Zealand

20 years experience in the construction and engineering services industry

**Kristy Glasgow**

*Company Secretary*

Appointed 8 December 2014

Chartered Accountant, Member of Chartered Accountants Australia and New Zealand

15 years experience in the construction and engineering services industry

**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>Performance Rights over Ordinary Shares</b>
C. G. B. Rubino	1,022,653	Nil
R. Velletri	2,119,776	19,545
P. J. Dempsey	78,000	Nil
C. P. Michelmore	50,000	Nil
D. R. Voss	2,852	Nil
H. J. Gillies	8,571	Nil
S. L. Murphy	Nil	Nil

**EARNINGS PER SHARE**

	<b>Cents</b>
Basic Earnings Per Share	38.65
Diluted Earnings Per Share	38.52

**DIVIDENDS**

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

**CORPORATE INFORMATION**

**Corporate structure**

Monadelphous Group Limited is a company limited by shares that is incorporated and domiciled in Australia. Monadelphous Group Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year (refer note 21 in the financial report).

The registered office of Monadelphous Group Limited is located at:

59 Albany Highway  
 Victoria Park  
 Western Australia 6100

**Nature of operations and principal activities**

*Engineering Services*

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

Services provided include:

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

*General*

Monadelphous operates from major offices in Perth and Brisbane, with regional offices in Sydney, Newcastle, Beijing (China), Ulaanbaatar (Mongolia), Manila (Philippines) and Santiago (Chile), and a network of workshop facilities in Kalgoorlie, Karratha, Port Hedland, Newman, Tom Price, Darwin, Roxby Downs, Gladstone, Hunter Valley, Mackay, Bibra Lake, Bunbury, Chinchilla, Mudgee and Rutherford.

The consolidated entity's revenue is earned predominantly from the resources, energy and infrastructure industry sector.

There have been no significant changes in the nature of those activities during the year.

**Employees**

The consolidated entity employed 5,579 employees as of 30 June 2020 (2019: 5,942 employees).

**OPERATING AND FINANCIAL REVIEW**

**Review**

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

**Operating results for the year**

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

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

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

## **SIGNIFICANT EVENTS AFTER REPORTING PERIOD**

### **Notification of filing of writ of summons**

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

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

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

### **Dividends declared**

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

## **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

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

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

Performance rights and options holders do not have any right, by virtue of the performance right or option, to participate in any share issue of the Company or any related body corporate or in the interest of any other registered Scheme.

### **Shares issued as a result of the exercise of options**

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

On 1 July 2020, 161,250 performance rights vested and were exercised.

## **INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

During the financial year, the Company has paid premiums in respect of a contract insuring all the directors and officers of Monadelphous Group Limited against a liability incurred in their role as directors of the Company, except where:

- (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*.

## **INDEMNIFICATION OF AUDITORS**

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

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

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

**REMUNERATION REPORT (Audited)**

The Remuneration Report for the year ended 30 June 2020 outlines the Key Management Personnel remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001*.

For the purposes of this report Key Management Personnel of the Group are defined as those persons having the authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company. For the purposes of this report, the term 'executive' encompasses the Managing Director (MD), Chief Financial Officer (CFO) and Executive General Managers (EGM) of the Group.

*Details of Key Management Personnel*

(i) *Directors*

C. G. B. Rubino	Chairman
R. Velletri	Managing Director
P. J. Dempsey	Deputy Chair and Lead Independent Non-Executive Director
C. P. Michelmore	Independent Non-Executive Director
D. R. Voss	Independent Non-Executive Director
H. J. Gillies	Independent Non-Executive Director
S. L. Murphy	Independent Non-Executive Director

(ii) *Senior executives*

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

*Remuneration Philosophy*

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

To this end, the Company embodies the principles of providing competitive rewards to attract and retain high calibre executives, and the linking of executive rewards to the creation of shareholder value.

*Remuneration Committee*

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors and the executive management team.

The Remuneration Committee utilises remuneration survey data compiled by a recognised remuneration research organisation across a range of industries and geographic regions. The remuneration survey data is updated every 6 months and is used to assess the appropriateness of the nature and amount of remuneration of directors and the executive management team. This assessment is made with reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

In determining the remuneration levels of directors and executives, the Remuneration Committee takes into consideration the performance of the Group, divisions and business units as well as that of the individual.

*Remuneration Structure*

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

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

*Executive remuneration*

*Objective*

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

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

All executives have non-fixed term employment contracts. The Company or executive may terminate the employment contract by providing 3 months written notice. The Company may terminate the contract at any time without notice if serious misconduct has occurred.

*Structure*

In determining the level and make-up of executive remuneration, the Remuneration Committee receives external survey data from a recognised remuneration research organisation and considers market levels for comparable executive roles when making its recommendations to the Board.

Executive remuneration consists of a fixed remuneration element and a variable remuneration element. The variable remuneration element can be provided under the Combined Reward Plan and/or the Employee Option Plan.

Remuneration element	Individual components	Purpose	Link to performance
Fixed Remuneration	Comprises base salary, superannuation and other benefits.	To provide market competitive fixed remuneration appropriate to the position and competitive in the market, taking into account the individual's skills, experience and qualifications.	Assessed at an individual level based on performance of responsibilities and cultural alignment with the Company's values.
Variable Remuneration – Combined Reward Plan	Comprises cash payment, and/or performance rights issued under the Monadelphous Group Limited Performance Rights Plan.	To recognise and reward the senior leaders of the business who contribute to the Group's success, to align these rewards to the creation of shareholder wealth over time and ensure the long term retention of employees.	Performance assessed against financial, safety, people, customer satisfaction and strategic progress targets set by the Board on an annual basis. Vesting of awards is dependent on continuity of employment.
Variable Remuneration – Employee Option Plan	Comprises options issued under the Monadelphous Group Limited Employee Option Plan.	To retain and reward key employees in a manner aligned to the creation of shareholder wealth.	Vesting of awards is dependent on exceeding EPS growth targets and continuity of employment.

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

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 25 and 26 of this report detail the proportion of fixed and variable remuneration for each of the executive directors and the senior executives of the Company.

***Fixed remuneration***

*Objective*

Monadelphous has a structured approach aimed at delivering fixed remuneration which is market competitive and rewards performance. The Company participates in a number of respected remuneration surveys from which it receives quarterly or six-monthly market and forecast data, and its remuneration system is designed to analyse detailed market and sector information at various levels.

The level of fixed remuneration is set to provide a base level of remuneration which is both appropriate to the position and competitive in the market, taking into account the individual's skills, experience and qualifications.

Fixed remuneration levels are considered annually by the Remuneration Committee having reviewed an individual's performance, alignment with the Company's values and comparative remuneration levels in the market.

*Structure*

Executive team members are given the opportunity to receive their fixed remuneration in a variety of forms including base salary, superannuation and other benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed remuneration component of the executives of the Company is detailed in Tables 1 and 2 on pages 25 and 26 of this report.

***Variable remuneration – Combined Reward Plan***

*Objective*

The objective of the Combined Reward Plan (the CR Plan) is to recognise and reward the senior leaders of the business who positively contribute to the Company's success, to align these rewards to the creation of shareholder wealth over time and to ensure the long term retention of the Company's key talent.

The CR Plan combines short and long term incentive elements and rewards performance of both the Company and the employee. The equity component of the award is subject to service vesting conditions and disposal restrictions, encouraging employee retention and linking rewards to the creation of shareholder value through long term share ownership, with employee and shareholder alike benefitting from the long term growth in the share price.

*Structure*

Under the CR Plan, the Board has the discretion to make awards on an annual basis subject to Company and individual performance. Awards may be delivered in the form of a combination of cash and/or Performance Rights.

For the year ended 30 June 2020, the Board determined that no award would be made under the CR Plan.

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

For the year ended 30 June 2019, 100 per cent of the award under the CR Plan was issued in the form of Performance Rights granted in August 2019 (except for those issued to the Managing Director which were granted at the AGM in November 2019). The number of Performance Rights issued were calculated using the arithmetic average of the ten-day daily volume weighted average market price of the Company's shares commencing on the second trading day after the record date in respect of the FY19 Final Dividend; in other words, the dividend reinvestment plan price of \$15.37.

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

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

The Performance Rights component for the 2019 award vests into shares in equal instalments, one, two and three years subsequent to the year of allocation, subject to the employee remaining in the employ of the Company at those particular dates. The Performance Rights are exercisable into shares at those dates, with one share issued for each vested Performance Right. The total number of shares issued are held in escrow until a date three years after the Performance Rights were originally granted.

Unvested performance rights remain subject to Monadelphous' clawback policy. The Board has the discretion as to the circumstances that would result in a clawback of unvested performance rights. Factors resulting in material financial misstatement or underperformance, gross negligence, material lack of compliance, significant personal underperformance or behaviour that is likely to damage the Company's reputation, would likely result in a clawback of unvested Performance Rights.

*Performance Requirements*

At the beginning of each financial year, the Board sets quantified, challenging, performance targets for the key performance areas of the business, taking into account the prevailing economic conditions for the year ahead, the Company's strategic objectives and the key risk factors facing the business at that time. The targets are designed to focus the activities of the business on the key areas of performance that deliver long term sustainable growth for shareholders.

For the year ended 30 June 2020, the Managing Director had a target opportunity of 40% of fixed remuneration, and a maximum opportunity of 60%. Executives had a target opportunity of 30% of fixed remuneration, and a maximum opportunity of 45%. The target opportunity is awarded for achieving the objectives set by the Board at the beginning of each financial year. In order for the maximum opportunity to be awarded, performance must be a clear margin above the planned targets that were set.

At the end of each financial year, the Board assesses the Group's net profit before tax performance against the budgeted target prior to any awards being considered under the CR Plan.

Once the Board has approved that an award can be made under the CR Plan, executive performance is assessed against the relevant targets set at the beginning of the financial year at a Group, division, business unit and individual level. This assessment is taken into account when determining the amount, if any, of the award to be made to each individual under the CR Plan, with annual awards being subject to approval by the Remuneration Committee and Board. The following key performance areas (KPA) are considered in the assessment process, covering a number of financial and non-financial, Group and divisional measures of performance. The table below provides an overview of these KPAs and the weighting applied when assessing performance.

	Earnings performance		Other	
	Earnings per share	Divisional contribution	Group KPAs	Divisional KPAs
MD	60%	-	40%	-
CFO	60%	-	-	40%
EGM	30%	30%	-	40%

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

Other Group or divisional KPAs relate to:

- Working capital management
- Safety performance
- People performance
- Customer satisfaction
- Strategic progress

The Company regards the performance targets and the actual result as confidential and commercially sensitive in nature and if disclosed, would provide an unfair advantage to competitors.

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

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

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

Tables 1 and 2 on pages 25 and 26 of this report detail the proportion of fixed and variable remuneration for each of the executive directors and the senior executives of the Company for the financial years ended 30 June 2020 and 30 June 2019.

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

On 1 July 2019, 82,771 performance rights representing the first tranche of the award under the terms of the CR Plan for the year ended 30 June 2018 vested and were exercised into Monadelphous Group Limited ordinary shares.

On 1 July 2020, 161,250 performance rights representing the first tranche of the award under the terms of the CR Plan for the year ended 30 June 2019 and the second tranche of the award under the terms of the CR Plan for the year ended 30 June 2018 vested and were exercised into Monadelphous Group Limited ordinary shares.

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

***Variable remuneration – Employee Option Plan***

*Objective*

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

*Structure*

Monadelphous Group Limited Employee Option Plan

Equity-based grants to executives are at the discretion of the Remuneration Committee and Board, and may be delivered in the form of options. Should any issue of options be considered, the individual performance rating of each executive and the annual cost to the Company, on an individual basis, is taken into account when determining the amount, if any, of options granted.

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

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

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

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

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

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

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

*Hedging of equity awards*

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

*Non-executive director remuneration*

*Objective*

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

*Structure*

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The most recent determination was at the Annual General Meeting held on 19 November 2019 when shareholders approved an aggregate remuneration of \$850,000 in the 'not to exceed sum' paid to non-executive directors.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Non-executive director fees consist of base fees and committee chair fees. The Deputy Chair/Lead Independent Non-executive Director also receives an additional fee. The payment of committee chair fees recognises the additional time commitment required by non-executive directors to chair the Board committees. Committee members do not receive a separate fee for sitting on a committee.

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

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

<b>Board Fees</b>	Annualised Fee Applicable July 2019 to March 2020 \$	Annualised Fee Applicable April 2020 to September 2020 \$
Non-executive Director fee	118,000	82,600
Board Deputy Chair and Lead Independent Non-executive Director additional fee	20,000	20,000
<b>Committee Chair Fees</b>		
Audit	15,000	15,000
Remuneration	15,000	15,000
Nomination	*	*

\* The Nomination Committee is chaired by the Executive Chairman.

Non-executive directors have long been encouraged by the Board to hold shares in the Company (purchased by the director on-market). It is considered good governance for directors to have a stake in the Company.

Fees for non-executive directors are not linked to the performance of the Company. The non-executive directors do not receive retirement benefits, nor do they participate in any incentive programs.

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

The remuneration of non-executive directors for the year ending 30 June 2020 is detailed in Table 1 on page 25 of this report.

***Employment contracts***

All executives have non-fixed term employment contracts. The Company or executive may terminate the employment contract by providing 3 months written notice. The Company may terminate the contract at any time without notice if serious misconduct has occurred.

**Company performance**

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

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

A review of the Company's performance and returns to shareholders over the last five years has been provided on page 10 of this report.

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

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

**Remuneration of Key Management Personnel**

**Table 1: Remuneration for the year ended 30 June 2020**

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

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

<sup>1</sup> Leave reflects annual leave accrual less annual leave taken.

<sup>2</sup> Non-monetary benefits consist of Life and Salary Continuance insurance premiums.

<sup>3</sup> Relates to both the 2018 and 2019 awards under the CR Plan.

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

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

*Table 2: Remuneration for the year ended 30 June 2019*

	Short Term Benefits				Post Employment	Long Term Benefits	Share-Based Payments <sup>3</sup>	Total	Total Performance Related	Total Performance Rights Related
	Salary & Fees	Leave <sup>1</sup>	Non-Monetary <sup>2</sup>	Cash Award	Super-annuation	Leave	Performance Rights			
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<i>Non-Executive Directors</i>										
P. J. Dempsey	131,861	-	21,199	-	12,527	-	-	165,587	-	-
C. P. Michelmore	113,596	-	21,199	-	10,792	-	-	145,587	-	-
D. R. Voss	104,464	-	21,199	-	9,925	-	-	135,588	-	-
H. J. Gillies	104,464	-	21,199	-	9,925	-	-	135,588	-	-
S. L. Murphy <sup>4</sup>	4,968	-	1,045	-	472	-	-	6,485	-	-
<b>Subtotal Non-Executive Directors</b>	<b>459,353</b>	<b>-</b>	<b>85,841</b>	<b>-</b>	<b>43,641</b>	<b>-</b>	<b>-</b>	<b>588,835</b>	<b>-</b>	<b>-</b>
<i>Executive Directors</i>										
C. G. B. Rubino	412,000	37,261	21,199	-	20,531	8,073	-	499,064	-	-
R. Velletri	973,000	(127,989)	32,387	-	20,531	31,658	265,788	1,195,375	22.23	22.23
<b>Subtotal Executive Directors</b>	<b>1,385,000</b>	<b>(90,728)</b>	<b>53,586</b>	<b>-</b>	<b>41,062</b>	<b>39,731</b>	<b>265,788</b>	<b>1,694,439</b>	<b>15.69</b>	<b>15.69</b>
<i>Other Key Management Personnel</i>										
D. Foti	758,800	41,217	24,004	-	20,531	(13,477)	155,654	986,729	15.77	15.77
Z. Bebic	643,400	52,685	31,309	-	20,531	30,920	155,876	934,721	16.68	16.68
P. Trueman	483,500	(5,003)	29,813	-	20,531	13,907	118,927	661,675	17.97	17.97
<b>Subtotal Other Key Management Personnel</b>	<b>1,885,700</b>	<b>88,899</b>	<b>85,126</b>	<b>-</b>	<b>61,593</b>	<b>31,350</b>	<b>430,457</b>	<b>2,583,125</b>	<b>16.66</b>	<b>16.66</b>
<b>Total</b>	<b>3,730,053</b>	<b>(1,829)</b>	<b>224,553</b>	<b>-</b>	<b>146,296</b>	<b>71,081</b>	<b>696,245</b>	<b>4,866,399</b>	<b>14.31</b>	<b>14.31</b>

<sup>1</sup> Leave reflects annual leave accrual less annual leave taken.

<sup>2</sup> Non-monetary benefits consist of Directors and Officers, and Life and Salary Continuance, insurance premiums

<sup>3</sup> Relates to both the 2018 and 2019 awards under the CR Plan.

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

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

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

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

	Terms and conditions for each Grant						
	Granted Number	Grant Date	Fair value per right at grant date	Exercise price per right	Expiry date	First exercise date	Last exercise date
<i>Executive Directors</i>							
R. Velletri	19,310	19/11/2019	\$14.51	Nil	1/7/2022	1/7/2020	1/7/2022
<i>Other Key Management Personnel</i>							
D. Foti	10,071	27/8/2019	\$14.26	Nil	1/7/2022	1/7/2020	1/7/2022
Z. Bebic	10,201	27/8/2019	\$14.26	Nil	1/7/2022	1/7/2020	1/7/2022
P. Trueman	7,703	27/8/2019	\$14.26	Nil	1/7/2022	1/7/2020	1/7/2022
<b>Total</b>	<b>47,285</b>						

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

	Terms and conditions for each Grant						
	Granted Number	Grant Date	Weighted Average Fair value per right at grant date	Exercise price per right	Expiry date	First exercise date	Last exercise date
<i>Executive Directors</i>							
R. Velletri	-	-	-	-	-	-	-
<i>Other Key Management Personnel</i>							
D. Foti	200,000	14/10/2019	\$2.12	\$14.84	14/9/2023	1/9/2021	14/9/2023
Z. Bebic	200,000	14/10/2019	\$2.12	\$14.84	14/9/2023	1/9/2021	14/9/2023
P. Trueman	160,000	14/10/2019	\$2.12	\$14.84	14/9/2023	1/9/2021	14/9/2023
<b>Total</b>	<b>560,000</b>						

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

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

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

	Performance Rights Vested	Performance Rights Exercised	Shares Issued	Paid per Share \$
<b>Directors</b>				
R. Velletri ^	6,670	6,670	6,670	Nil
<b>Executives</b>				
D. Foti ^	4,000	4,000	4,000	Nil
Z. Bebic ^	3,793	3,793	3,793	Nil
P. Trueman ^	2,911	2,911	2,911	Nil
<b>Total</b>	<b>17,374</b>	<b>17,374</b>	<b>17,374</b>	

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

**Additional disclosures relating to options and shares**

*Table 6: Performance rights holdings of Key Management Personnel*

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

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

**Additional disclosures relating to options and shares (continued)**

**Table 7: Options holdings of Key Management Personnel**

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

**Table 8: Shareholdings of Key Management Personnel**

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

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

*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 are shown in the table below.

	Directors' Meetings	Meetings of Committees		
		Audit	Remuneration	Nomination
<b>Number of meetings held:</b>	15	7	3	2
<b>Number of meetings attended:</b>				
C. G. B. Rubino	15	-	-	2
R. Velletri	15	-	-	-
P. J. Dempsey	15	7	-	2
C. P. Michelmore	13	-	3	2
D. R. Voss	14	7	3	2
H. J. Gillies	15	7	3	2
S. L. Murphy	15	5 <sup>^</sup>	3	1 <sup>^</sup>

<sup>^</sup> S. L. Murphy was appointed to the Audit Committee and Nomination Committee on 2 September 2019 and attended all meeting she was eligible to attend.

**COMMITTEE MEMBERSHIP**

As at the date of this report, the Company had an audit committee, a remuneration committee and a nomination committee.

Members acting on the committees of the Board during the year were:

Audit	Remuneration	Nomination
P. J. Dempsey (c)	C. P. Michelmore (c)	C. G. B. Rubino (c)
D. R. Voss	D. R. Voss	C. P. Michelmore
H. J. Gillies	H. J. Gillies	P. J. Dempsey
S. L. Murphy (appointed 2 September 2019)	S. L. Murphy (appointed 2 September 2019)	H. J. Gillies
		D. R. Voss
		S. L. Murphy (appointed 2 September 2019)

Note: (c) Designates the chair of the committee.

**ROUNDING**

The amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars (\$'000) (where rounding is applicable) under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the legislative instrument applies.

**CORPORATE GOVERNANCE**

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Monadelphous Group Limited support and have adhered to the principles of Corporate Governance. The Company's Corporate Governance Statement is detailed on the company's website.

**AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES**

The directors have received an independence declaration from the auditor of Monadelphous Group Limited, as shown on page 33.

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Tax compliance services	<u>101,332</u>

Signed in accordance with a resolution of the directors.



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



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 audit of the financial report of Monadelphous Group Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

A handwritten signature in blue ink that reads 'D S Lewsen'.

D S Lewsen  
Partner  
17 August 2020



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

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

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

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Monadelphous Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a. giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and
- b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.



## 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 judgement, with estimates being made to:

- ▶ Determine the transaction price under the customer contract
- ▶ Assess the total contract costs
- ▶ Measure the Group's progress towards the complete satisfaction of the performance obligations under the customer contract
- ▶ Appropriately provide for onerous contracts.

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 Contract Assets* of the financial report.

### How our audit addressed the key audit matter

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

We assessed the operating effectiveness of controls over the recording 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 and contract profitability
- ▶ Revenue recording and billing processes
- ▶ Contract cost recording processes including the purchases, payments and payroll processes.

For a sample of contracts in progress at 30 June 2020, we performed the following additional procedures:

- ▶ Understood the performance and status of the contracts through enquiries with the key executives with oversight over the various contract portfolios
- ▶ Assessed the contract status through the examination of external evidence, such as approved variations and customer correspondence
- ▶ Analysed the Group's estimates for total contract costs and forecast costs to complete, including consideration of historical estimation accuracy
- ▶ For projects with known disputes, sighted claim documentation, met with the Group's Internal General Counsel and reviewed supporting documentation in relation to the status and disclosure of these matters
- ▶ Assessed the provisions for onerous contracts and whether these appropriately reflected the expected contractual positions
- ▶ Assessed the Group's accounting policies and the adequacy of its related disclosures in the financial report.



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

**Why significant**

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

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

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

**How our audit addressed the key audit matter**

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

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



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

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

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the financial report

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

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

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

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

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

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



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

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

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

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

## Report on the audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Monadelphous Group Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

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

Ernst & Young

D S Lewsen  
Partner  
Perth  
17 August 2020

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

1) In the opinion of the directors:

- (a) the financial statements, notes and the additional disclosures included in the Directors' Report designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed on page 46.

2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2020.

3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in note 21 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



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

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2020**

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

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2020**

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

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2020**

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

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

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2020**

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*Attributable to equity holders*

	Issued Capital \$'000	Share- Based Payment Reserve \$'000	Foreign Currency Translation Reserve \$'000	Retained Earnings \$'000	Non- controlling Interests \$'000	Fair value reserve for Financial Assets \$'000	Equity Reserve \$'000	Total \$'000
At 1 July 2019 as previously stated	128,723	32,721	84	231,006	1,245	902	-	394,681
Opening balance adjustment on application of AASB 16*	-	-	-	(4,970)	-	-	-	(4,970)
At 1 July 2019 as restated	<b>128,723</b>	<b>32,721</b>	<b>84</b>	<b>226,036</b>	<b>1,245</b>	<b>902</b>	-	<b>389,711</b>
Other comprehensive income	-	-	(1,244)	-	-	(35)	-	(1,279)
Profit for the period	-	-	-	36,483	743	-	-	37,226
<b>Total comprehensive income for the period</b>	-	-	<b>(1,244)</b>	<b>36,483</b>	<b>743</b>	<b>(35)</b>	-	<b>35,947</b>
<b>Transactions with owners in their capacity as owners</b>								
Recognition of non-controlling interest at the date of acquisition of controlled entities (note 22)	-	-	-	-	2,831	-	-	2,831
Reclassification of non controlling interest to liabilities (note 22)	-	-	-	-	(3,026)	-	(1,455)	(4,481)
Share-based payments	-	2,186	-	-	-	-	-	2,186
Adjustment to deferred tax asset recognised on employee share trust	-	(97)	-	-	-	-	-	(97)
Dividend reinvestment plan	2,584	-	-	-	-	-	-	2,584
Dividends paid	-	-	-	(42,455)	(1,650)	-	-	(44,105)
Foreign currency movements	-	-	-	-	(134)	-	-	(134)
At 30 June 2020	<b>131,307</b>	<b>34,810</b>	<b>(1,160)</b>	<b>220,064</b>	<b>9</b>	<b>867</b>	<b>(1,455)</b>	<b>384,442</b>

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

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2020**

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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>Fair value reserve for Financial Assets \$'000</b>	<b>Total \$'000</b>
At 1 July 2018	125,703	29,662	(191)	234,114	1,647	821	391,756
Other comprehensive income	-	-	275	-	-	81	356
Profit for the period	-	-	-	50,565	1,548	-	52,113
<b>Total comprehensive income for the period</b>	-	-	275	50,565	1,548	81	52,469
<b>Transactions with owners in their capacity as owners</b>							
Share-based payments	-	2,953	-	-	-	-	2,953
Adjustment to deferred tax asset recognised on employee share trust	-	106	-	-	-	-	106
Dividend reinvestment plan	3,020	-	-	-	-	-	3,020
Dividends paid	-	-	-	(53,673)	(1,950)	-	(55,623)
At 30 June 2019	128,723	32,721	84	231,006	1,245	902	394,681

**MONADELPHOUS GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2020**

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

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

## **GENERAL INFORMATION**

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

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

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

### **Basis of preparation**

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

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board as applicable to a for-profit entity.
- has also been prepared on a historical cost basis except for certain financial assets that have been measured at fair value.
- is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the legislative instrument applies.
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or before 1 July 2019 (Refer to note 33).
- does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally, there is a presumption that a majority of voting rights results in control.

A list of controlled entities (subsidiaries) at year end is contained in note 21. Consolidation of the subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

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

## **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.

### **Foreign currency translation**

#### *Functional and presentation currency*

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

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

#### *Transactions and balances*

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

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

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

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

### **Other accounting policies**

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements or at note 33.

**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 from contracts with customers*

Where performance obligations are satisfied over time, revenue is recognised in the consolidated income statement by reference to the progress towards complete satisfaction of each performance obligation.

For construction contracts, revenue is recognised using an output method based on work certified to date which the Group believes depicts the transfer of goods and services as it is based on completed work as agreed by our customers.

Fundamental to this calculation is a reliable estimate of the transaction price (total contract revenue). In determining the transaction price, variable consideration including claims and certain contract variations are only included to the extent it is highly probable that a significant reversal in revenue will not occur in the future. Where a variation in scope has been agreed with the customer but the corresponding change in the transaction price has not been agreed the variation is accounted for as variable consideration. The estimate of variable consideration is determined using the expected value approach taking into account the facts and circumstances of each individual contract and the historical experience of the Group and is reassessed throughout the life of the contract.

When it is probable that total contract costs will exceed total contract revenue, the contract is considered onerous and the present obligation under the contract is recognised immediately as a provision. Key assumptions regarding costs to complete contracts include estimation of labour, technical costs, impact of delays and productivity.

*Taxation*

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

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

*Impairment*

Refer to notes 6 and 9 for details.

*Workers Compensation*

Refer note 16 for details.

*Consolidation of MGJV Pty Ltd*

Refer to note 21 for details.

*Determination of the lease term of contracts with renewal options*

Refer to note 33 for details.

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

### Unsatisfied Performance Obligations

Transaction price expected to be recognised in future years for unsatisfied performance obligations at 30 June 2020:

Services revenue	1,607,339	2,137,094
Construction revenue	384,544	405,869
Total	<u>1,991,883</u>	<u>2,542,963</u>

In line with the Group's accounting policy described following, the transaction price expected to be recognised in future years excludes variable consideration that is constrained.

The average duration of contracts is given below, however some contracts will vary from these typical lengths. Revenue is typically earned over these varying timeframes.

Services	1 to 5 years
Construction	1 to 2 years

## **1. REVENUE AND OTHER INCOME (continued)**

### **Recognition and measurement**

#### *Revenue from contracts with customers*

The Group is in the business of providing construction and maintenance services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods and services before transferring them to the customer.

#### *Construction services*

Construction contracts are assessed to identify the performance obligations contained in the contract. The total transaction price is allocated to each individual performance obligation. Typically, the Group's construction contracts contain a single performance obligation.

Work is performed on assets that are controlled by the customer or on assets that have no alternative use to the Group, with the Group having right to payment for performance to date. As performance obligations are satisfied over time, revenue is recognised over time using an output method based on work certified to date.

Customers are typically invoiced on a monthly basis and invoices are paid on normal commercial terms.

#### *Services contracts*

Contracts for performance of maintenance activities cover servicing of assets and involve various activities. These activities tend to be substantially the same with the same pattern of transfer to the customer. Where this is the case, which is the majority of the services contracts, these services are taken to be one performance obligation and the total transaction price is allocated to the performance obligation identified.

Performance obligations are fulfilled over time as the Group largely enhances assets which the customer controls. Customers are typically invoiced monthly for an amount that is calculated on either a schedule of rates or a cost plus basis. For these contracts, the transaction price is determined as an estimate of this variable consideration.

#### *Variable consideration*

If the consideration in the contract includes a variable amount, the Group estimates the amount of the consideration to which it is entitled in exchange for transferring the goods and services to the customer. The Group includes some or all of this variable consideration in the transaction price only to the extent it is highly probable that a significant reversal of the cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Certain contracts are subject to claims which are enforceable under the contract. If the claim does not result in any additional goods or services, the transaction price is updated and the claim accounted for as variable consideration.

#### *Significant financing component*

Using the practical expedient in AASB 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer or the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

#### **Interest income**

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

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

**Recognition and measurement**

*Finance costs*

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

*Depreciation and amortisation*

Refer to notes 9 and 10 for details on depreciation and amortisation.

*Employee benefits expense*

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

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

*Lease payments*

Refer to note 33 for details on lease payments.

*Government Grants*

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

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000

**3. INCOME TAX**

The major components of income tax expense are:

**Income statement**

*Current income tax*

Current income tax charge	<b>11,704</b>	26,338
Adjustments in respect of previous years	<b>(2,779)</b>	1,757

*Deferred income tax*

Temporary differences	<b>5,728</b>	4,985
Adjustments in respect of previous years	<b>3,207</b>	(1,767)

Income tax expense reported in the income statement	<b>17,860</b>	31,313
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**Statement of Comprehensive Income**

Deferred tax related to items recognised in Statement of Comprehensive income during the year:

Unrealised (loss)/gain on equity instrument designated at fair value through other comprehensive income

	<b>(13)</b>	34
	<b>(13)</b>	34

**Amounts credited directly to equity**

Share based payment	<b>97</b>	(106)
Income tax expense/(benefit) reported in equity	<b>97</b>	(106)

**Tax reconciliation**

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

Accounting profit before income tax	<b>55,086</b>	83,426
Income tax rate of 30% (2019: 30%)	<b>16,526</b>	25,028
- Share based payment expense	<b>382</b>	389
- R&D repayment	<b>-</b>	6,311
- Other	<b>952</b>	(415)
Aggregate income tax expense	<b>17,860</b>	31,313

**3. INCOME TAX (continued)**

**Recognised deferred tax assets and liabilities**

	<b>2020</b> <b>\$'000</b>	<b>2020</b> <b>\$'000</b>	2019 \$'000	2019 \$'000
	<b>Current</b>	<b>Deferred</b>	Current	Deferred
	<b>Income Tax</b>	<b>Income Tax</b>	Income Tax	Income Tax
Opening balance	205	34,024	(8,522)	37,177
Opening balance adjustment on application of AASB 16 (refer note 33)	-	2,130	-	-
Acquisition of subsidiaries	-	1,667	-	-
Charged to income	(8,925)	(8,935)	(28,095)	(3,218)
Charged to equity	-	(84)	-	72
Other / payments	4,954	(152)	36,822	(7)
Closing balance	<u>(3,766)</u>	<u>28,650</u>	205	34,024

Amounts recognised on the consolidated statement of financial position:

Deferred tax asset	28,775	34,164
Deferred tax liability	<u>(125)</u>	<u>(140)</u>
	<u>28,650</u>	<u>34,024</u>

Deferred income tax at 30 June relates to the following:

*Deferred tax assets*

Provisions	22,523	28,842
Other	8,691	6,148
Gross deferred tax assets	<u>31,214</u>	<u>34,990</u>
Set-off of deferred tax liabilities	(2,439)	(826)
Net deferred tax assets	<u>28,775</u>	<u>34,164</u>

*Deferred tax liabilities*

Accelerated depreciation	(1,097)	(288)
Other	(1,467)	(678)
Gross deferred tax liabilities	<u>(2,564)</u>	<u>(966)</u>
Set-off against deferred tax assets	2,439	826
Net deferred tax liabilities	<u>(125)</u>	<u>(140)</u>

**Unrecognised temporary differences**

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

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

#### **Tax consolidation**

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

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

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

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

#### **Recognition and measurement**

##### *Current taxes*

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

##### *Deferred taxes*

Deferred income tax is provided for using the full liability balance sheet approach.

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

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

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

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>4. EARNINGS PER SHARE</b>		
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>36,483</u>	50,565
Earnings used in calculation of basic and diluted earnings per share	<u>36,483</u>	50,565
	<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>94,383,189</b>	94,127,723
<b>Effect of dilutive securities</b>		
Performance Rights	<u>321,459</u>	166,737
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>94,704,648</u>	94,294,460

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

On 1 July 2020, 161,250 performance rights vested and were exercised.

**Calculation of earnings per share**

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

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

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

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

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>5. CASH AND CASH EQUIVALENTS</b>		
<b>For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 30 June:</b>		
Cash balances comprise:		
Cash at bank	<b>178,292</b>	161,173
Short term deposits	<u>30,000</u>	2,869
	<u><b>208,292</b></u>	<u>164,042</u>

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	2020 \$'000	2019 \$'000
<b>5. CASH AND CASH EQUIVALENTS (continued)</b>		
<b>Reconciliation of net profit after tax to the net cash flows from operating activities</b>		
Net profit	37,226	52,113
<b>Adjustments for</b>		
Depreciation of non-current assets	30,570	19,490
Amortisation of intangible assets and fulfilment costs	644	1,306
Net profit on sale of property, plant and equipment	(2,472)	(3,442)
Share-based payment expense	2,186	2,953
Unrealised foreign exchange loss/(gain)	142	(409)
Share of profits from joint ventures	(4,932)	(7,144)
Other	(474)	(2,101)
<b>Changes in assets and liabilities</b>		
Decrease/(increase) in receivables	73,708	(34,659)
Decrease/(increase) in inventories	(179)	36,698
Decrease/(increase) in contract assets	1,870	(31,136)
Decrease/(increase) in deferred tax assets	9,102	3,085
(Decrease)/increase in payables	(26,068)	19,568
(Decrease)/increase in provisions	(6,201)	(31,770)
(Decrease)/increase in income tax payable	3,971	(8,727)
(Decrease)/increase in deferred tax liabilities	(15)	140
Net cash flows from operating activities	<u>119,078</u>	<u>15,965</u>

**Non-cash financing and investing activities**

*Hire purchase transactions:*

During the year, the consolidated entity acquired plant and equipment by means of hire purchase agreements with an aggregate fair market value of \$18,470,751 (2019: \$12,498,577).

**Reconciliation of liabilities arising from financing activities**

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

**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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	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>6. TRADE AND OTHER RECEIVABLES</b>		
<b>CURRENT</b>		
Trade receivables	<b>191,105</b>	252,636
Less allowance account for expected credit losses	<b>(3,581)</b>	(3,634)
	<b>187,524</b>	249,002
Other debtors	<b>75,369</b>	74,117
Less allowance account for expected credit losses	<b>(456)</b>	(270)
	<b>262,437</b>	322,849

Trade receivables generally have 30 to 60 days terms.

**Allowance account for trade receivables impairment losses**

Movements in loss allowance based on lifetime ECL:

Balance at the beginning of the year - restated	<b>3,634</b>	3,462
(Decrease)/increase in loss allowance	<b>(53)</b>	172
Balance at the end of the year	<b>3,581</b>	3,634

**Recognition and measurement**

**Trade receivables**

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

**Other debtors**

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

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	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>7. CONTRACT ASSETS</b>		
CURRENT		
Contract assets	<b>27,379</b>	29,372
NON CURRENT		
Contract assets	<b>124</b>	289

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

**Recognition and measurement**

**Contract assets**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group transfers goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration. If the Group's right to an amount of consideration is unconditional (other than the passage of time), the contract asset is classified as a receivable.

Refer to accounting policies of revenue from contracts with customers in note 1.

**Project fulfilment costs**

If project fulfilment costs are within the scope of AASB 15, the Group recognises these costs as an asset only if the costs relate directly to a contract, the costs generate or enhance resources and the costs are expected to be recovered.

These costs are amortised on a systematic basis that is consistent with the transfer of goods and services under the contract. If not capitalised, project fulfilment costs are expensed as incurred.

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>8. INVENTORIES</b>		
Raw materials and consumables	<b>4,786</b>	4,607

**Recognition and measurement**

**Raw materials and consumables**

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

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**9. PROPERTY, PLANT AND EQUIPMENT**

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

	Freehold land \$'000	Buildings \$'000	Plant and equipment \$'000	Right of Use Assets			Total \$'000
				Plant and equipment under hire purchase \$'000	Land and buildings \$'000	Plant and equipment \$'000	
<b>Year ended 30 June 2020</b>							
Net carrying amount at 1 July 2019	14,811	17,611	41,062	41,953	-	-	115,437
Opening balance adjustment on application of AASB 16	-	-	-	-	38,940	1,221	40,161
Additions	-	64	12,062	18,471	6,528	-	37,125
Additions through business combinations	-	-	1,822	1,663	981	-	4,466
Assets transferred	-	-	4,910	(4,910)	-	-	-
Disposals	-	(112)	(1,186)	-	(940)	(150)	(2,388)
Depreciation charge	-	(1,063)	(14,526)	(7,019)	(7,477)	(485)	(30,570)
Exchange differences	-	-	(36)	(253)	(276)	-	(565)
Net carrying amount at 30 June 2020	<u>14,811</u>	<u>16,500</u>	<u>44,108</u>	<u>49,905</u>	<u>37,756</u>	<u>586</u>	<u>163,666</u>
<b>At 30 June 2020</b>							
Gross carrying amount – at cost	14,811	28,340	170,819	62,498	44,972	1,071	322,511
Accumulated depreciation	-	(11,840)	(126,711)	(12,593)	(7,216)	(485)	(158,845)
Net carrying amount	<u>14,811</u>	<u>16,500</u>	<u>44,108</u>	<u>49,905</u>	<u>37,756</u>	<u>586</u>	<u>163,666</u>

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

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

	Freehold land \$'000	Buildings \$'000	Plant and equipment \$'000	Plant and equipment under hire purchase \$'000	Total \$'000
<b>Year ended 30 June 2019</b>					
Net carrying amount at 1 July 2018	13,411	16,425	46,762	25,385	101,983
Additions	1,400	2,276	18,260	12,499	34,435
Assets transferred	-	-	(9,209)	9,209	-
Disposals	-	(5)	(1,523)	-	(1,528)
Depreciation charge	-	(1,085)	(13,265)	(5,140)	(19,490)
Exchange differences	-	-	37	-	37
Net carrying amount at 30 June 2019	<u>14,811</u>	<u>17,611</u>	<u>41,062</u>	<u>41,953</u>	<u>115,437</u>
<b>At 30 June 2019</b>					
Gross carrying amount – at cost	14,811	28,647	166,842	51,436	261,736
Accumulated depreciation	-	(11,036)	(125,780)	(9,483)	(146,299)
Net carrying amount	<u>14,811</u>	<u>17,611</u>	<u>41,062</u>	<u>41,953</u>	<u>115,437</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.

*Right of use assets*

Refer to note 33 for details.

*Impairment of non-financial assets other than goodwill*

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

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired.

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

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>10. INTANGIBLE ASSETS AND GOODWILL</b>			
<b>Year ended 30 June 2020</b>			
At 1 July 2019	-	3,120	3,120
On business combination	-	815	815
Purchased	759	-	759
Amortisation	(479)	-	(479)
Exchange differences	-	(34)	(34)
At 30 June 2020	<b>280</b>	<b>3,901</b>	<b>4,181</b>
<b>Year ended 30 June 2019</b>			
At 1 July 2018	-	3,120	3,120
At 30 June 2019	-	3,120	3,120

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

Intangible assets relate to the fair value of contracts acquired from iPipe Services on 5 July 2019. Intangible assets have been assessed as having a finite life and are amortised using the straight line method over a period of 21 months.

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

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

#### **Recognition and measurement**

##### *Goodwill*

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

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

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

**10. 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.

**11. INTEREST IN JOINT VENTURES**

**Mondium Pty Ltd**

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

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

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

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

**Zenviron Pty Ltd**

On 26 July 2016, a joint venture company, Zenviron Pty Ltd was formed between Monadelphous and ZEM Energy Investments Pty Ltd. The Group has a 55% ownership interest in the joint venture and a 50% interest in the voting rights. The principal activity of Zenviron is to deliver multi-disciplinary construction services in the renewable energy market in Australia and New Zealand.

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

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**11. INTEREST IN JOINT VENTURES (continued)**

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

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>Summarised statement of financial position</b>		
Cash and cash equivalents	<b>14,244</b>	23,272
Current assets	<b>37,378</b>	73,127
Non-current assets	<b>5,882</b>	4,574
Current liabilities	<b>(24,070)</b>	(61,486)
Current financial liabilities	<b>(1,161)</b>	(735)
Non-current liabilities	<b>(3,630)</b>	(3,824)
Non-current financial liabilities	<b>(2,777)</b>	(2,037)
Equity	<b>15,560</b>	12,392

Group's share of Zenviron Pty Ltd net assets	<b>8,558</b>	6,815
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**Summarised statement of financial performance**

Revenue from contracts with customers	<b>175,695</b>	220,618
Cost of sales	<b>(163,388)</b>	(197,171)
Profit before tax	<b>4,528</b>	16,326
Income tax expense	<b>(1,360)</b>	(4,915)
Profit after tax	<b>3,168</b>	11,411
Profit and total comprehensive income for the year	<b>3,168</b>	11,411

Depreciation expense	<b>(2,073)</b>	(770)
Interest income	<b>99</b>	362
Interest expense	<b>(202)</b>	(23)

Group's share of profit for the year	<b>1,742</b>	6,276
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**Commitments and contingent liabilities relating to Joint Ventures**

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

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

**Recognition and measurement**

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

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

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

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

Other non-current assets consist of investments as follows:

Ordinary shares at fair value in Lycopodium Limited (ASX Code: LYL). The investment is classified as a financial asset at fair value through other comprehensive income. Fair value is calculated using quoted prices in active markets.

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

**Recognition and measurement**

**Trade and other payables**

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

Sundry creditors and accruals are non-interest bearing and have terms of 7 to 30 days.

**Contract liability**

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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

**Defaults and breaches**

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

**Recognition and measurement**

*Interest bearing loans and borrowings*

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

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

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

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

*Leases - policy applied prior to 1 July 2019*

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

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

*Finance leases - policy applied prior to 1 July 2019*

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

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

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

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	2020 \$'000
<b>15. LEASE LIABILITIES</b>	
CURRENT	
Hire purchase lease liabilities	12,535
Other lease liabilities	6,198
	<u>18,733</u>
NON-CURRENT	
Hire purchase lease liabilities	29,791
Other lease liabilities	39,845
	<u>69,636</u>

Set out below are the carrying amounts of lease liabilities and the movements during the year:

Opening balance adjustment on application of AASB 16	82,190
Additions through business combinations	1,889
Additions	24,999
Accretion of interest	3,440
Payments	(22,566)
Terminations	(1,090)
Foreign currency movement	(493)
Carrying amount at the end of the financial year	<u>88,369</u>

**Terms and conditions**

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

Other lease liabilities arise following the adoption of AASB 16 *Leases*. Prior to the adoption of AASB 16, hire purchase liabilities were classified as finance leases and disclosed within interest bearing loans and borrowings. Refer note 33 for details.

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

**Recognition and measurement**

Refer to note 33 for details.

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	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>16. PROVISIONS</b>		
<b>CURRENT</b>		
Employee benefits	<b>46,869</b>	44,690
Workers' compensation	<b>9,349</b>	18,363
Other	<b>3,147</b>	-
	<u><b>59,365</b></u>	<u>63,053</u>
<b>NON-CURRENT</b>		
Employee benefits – long service leave	<u><b>4,340</b></u>	<u>4,542</u>

	<b>2020</b>
	<b>\$'000</b>
<b>Movements in provisions</b>	
<i>Workers compensation</i>	
Carrying amount at the beginning of the year	18,363
Additional provision	<b>635</b>
Amounts utilised during the year	<u><b>(9,649)</b></u>
Carrying amount at the end of the financial year	<u><b>9,349</b></u>

## **16. 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.

**17. CAPITAL MANAGEMENT**

Capital is managed by the Group's Chief Financial Officer in conjunction with the Group's Finance and Accounting department. Management continually monitor the Group's net cash/debt position and the gearing levels to ensure efficiency and compliance with the Group's banking facility covenants, including the gearing ratio, operating leverage ratio and fixed charge coverage ratio. At 30 June 2020, the Group is in a net cash position of \$162,443,000 (2019: \$125,813,000) and has a debt to equity ratio of 11.9% (2019: 9.7%) which is within the Group's net cash and debt to equity target levels.

During the year ended 30 June 2020, management paid dividends of \$42,455,000. The policy is to payout dividends of 80% to 100% of annual net profit after tax, subject to the working capital requirements of the business, potential investment opportunities and business and economic conditions generally.

The capital of the Company is considered to be contributed equity.

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
<b>18. DIVIDENDS PAID AND PROPOSED</b>		
<b>Declared and paid during the year</b>		
<i>Current year interim</i>		
Interim franked dividend for 2020 (22 cents per share) (2019: 25 cents per share)	<u>20,767</u>	<u>23,561</u>
<i>Previous year final</i>		
Final franked dividend for 2019 (23 cents per share) (2018: 32 cents per share)	<u>21,688</u>	<u>30,112</u>
<b>Unrecognised amounts</b>		
<i>Current year final</i>		
Final franked dividend for 2020 (13 cents per share) (2019: 23 cents per share)	<u>12,303</u>	<u>21,688</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>40,475</b>	58,351
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	<u>(5,273)</u>	<u>(9,295)</u>
	<u><b>35,202</b></u>	<u>49,056</u>

**Tax rates**

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

**Recognition and measurement**

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

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

**Ordinary shares**

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

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

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

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

**Reserved shares**

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

**Recognition and measurement**

*Contributed equity*

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

*Reserved shares*

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

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	2020 \$'000	2019 \$'000
<b>20. RESERVES AND RETAINED EARNINGS</b>		
Foreign currency translation reserve	(1,160)	84
Share-based payment reserve	34,810	32,721
Fair value reserve for financial assets	867	902
Equity Reserve	(1,455)	-
	<b>33,062</b>	<b>33,707</b>
Retained earnings	<b>220,064</b>	<b>231,006</b>

**Movements in retained earnings**

Balance at the beginning of the year	231,006	234,114
Opening balance adjustment of AASB 16	(4,970)	-
Balance at the beginning of the year – restated	226,036	234,114
Net profit attributable to equity holders of the parent	36,483	50,565
Total available for appropriation	262,519	284,679
Dividends paid	(42,455)	(53,673)
Balance at the end of the year	<b>220,064</b>	<b>231,006</b>

**Movements in reserves**

	Foreign currency translation reserve \$'000	Share- based payment reserve \$'000	Fair value reserve for financial assets \$'000	Equity reserve \$'000	Total \$'000
At 30 June 2018	(191)	29,662	821	-	30,292
Foreign currency translation	275	-	-	-	275
Share-based payment	-	2,953	-	-	2,953
Adjustment to deferred tax asset recognised on employee share trust	-	106	-	-	106
Net fair value gain of financial assets	-	-	81	-	81
At 30 June 2019	84	32,721	902	-	33,707
Foreign currency translation	(1,244)	-	-	-	(1,244)
Share-based payment	-	2,186	-	-	2,186
Adjustment to deferred tax asset recognised on employee share trust	-	(97)	-	-	(97)
Reclassification of non-controlling interest to liabilities	-	-	-	(1,455)	(1,455)
Net fair value gain of financial assets	-	-	(35)	-	(35)
At 30 June 2020	<b>(1,160)</b>	<b>34,810</b>	<b>867</b>	<b>(1,455)</b>	<b>33,062</b>

**20. RESERVES AND RETAINED EARNINGS (continued)**

**Nature and purpose of reserves**

*Foreign currency translation reserve*

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

*Share-based payment reserve*

The share-based payment reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 28 for further details of these plans.

*Fair value reserve financial assets*

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

*Equity reserve*

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

## 21. SUBSIDIARIES

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

Name	Country of Incorporation	Percentage Held by Consolidated Entity	
		2020 %	2019 %
Parent:			
Monadelphous Group Limited			
Controlled entities of Monadelphous Group Limited:			
#Monadelphous Engineering Associates Pty Ltd	Australia	100	100
#Monadelphous Properties Pty Ltd	Australia	100	100
#Monadelphous Engineering Pty Ltd	Australia	100	100
#Genco Pty Ltd	Australia	100	100
#Monadelphous Workforce Pty Ltd	Australia	100	100
#Monadelphous Electrical & Instrumentation Pty Ltd	Australia	100	100
#Monadelphous KT Pty Ltd	Australia	100	100
#Monadelphous Energy Services Pty Ltd	Australia	100	100
#M Workforce Pty Ltd	Australia	100	100
#M Maintenance Services Pty Ltd	Australia	100	100
M&ISS Pty Ltd	Australia	100	100
SinoStruct Pty Ltd	Australia	100	100
Monadelphous Group Limited Employee Share Trust	Australia	100	100
Monadelphous Holdings Pty Ltd	Australia	100	100
MGJV Pty Ltd	Australia	70 ^	70 ^
Evo Access Pty Ltd	Australia	100	100
Monadelphous Investments Pty Ltd	Australia	100	100
MWOG Pty Ltd	Australia	100	100
MOAG Pty Ltd	Australia	100	100
Monadelphous International Holdings Pty Ltd	Australia	100	100
Arc West Group Pty Ltd	Australia	100	100
R.I.G. Installations (Newcastle) Pty Ltd	Australia	100	100
RE&M Services Pty Ltd	Australia	100	100
Pilbara Rail Services Pty Ltd	Australia	100	100
EC Projects Pty Ltd	Australia	100	100
Monadelphous PNG Ltd	Papua New Guinea	100	100
Moway International Limited	Hong Kong	100	100
Moway AustAsia Steel Structures Trading (Beijing) Company Limited	China	100	100
Monadelphous Singapore Pte Ltd	Singapore	100	100
Monadelphous Mongolia LLC	Mongolia	100	100
Monadelphous Inc.	USA	100	100
Monadelphous Marcellus LLC	USA	100	100
MKT Pipelines Ltd	Canada	-	100
Monadelphous Engineering NZ Pty Ltd	New Zealand	100	100
Monadelphous Chile SpA *	Chile	100	-
Maq Rent SpA	Chile	75	-
Buildtek SpA	Chile	75	-
Monadelphous Sdn Bhd	Malaysia	100	100

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

\* Incorporated during the year

^ The Group considers that it controls these companies as it has a casting vote at Board Meetings.

### Ultimate parent

Monadelphous Group Limited is the ultimate holding company.

### Material partly-owned subsidiaries

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

**22. BUSINESS COMBINATION**

**Acquisition of Buildtek SpA and Maq Rent SpA**

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

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

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

	<b>Provisional fair value at acquisition date \$’000</b>
Cash	8,626
Trade and other receivables	13,399
Property, plant and equipment	4,466
Other	2,994
Total assets	<u>29,485</u>
Trade and other payables	7,481
Lease liabilities	1,889
Interest bearing loans and borrowings	6,481
Provisions	2,311
Total liabilities	<u>18,162</u>
Fair value of identifiable net assets	11,323
Attributable to non-controlling interest (25%)	(2,831)
Goodwill arising on acquisition	815
Purchase consideration	<u>9,307</u>
Acquisition-date fair-value of consideration transferred:	
Cash paid	<u>9,307</u>
Total consideration	<u>9,307</u>
The cash outflow on acquisition is as follows:	
Net cash acquired with the business including cash contribution for subscription to new shares	8,626
Cash paid	<u>(9,307)</u>
Net consolidated cash outflow	<u>(681)</u>

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

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

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

## **22. BUSINESS COMBINATION (continued)**

### **Acquisition of Buildtek SpA and Maq Rent SpA (continued)**

Key factors contributing to the \$815,000 of goodwill are the synergies existing within the acquired business, and synergies expected to be achieved as a result of combining Buildtek and Maq Rent with the rest of the Group. The goodwill is not deductible for income tax purposes.

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

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

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

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

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

### **Acquisition of iPipe Services assets**

On 5 July 2019, Monadelphous Group Limited completed the purchase of assets of iPipe Services, a provider of technology solutions, construction and maintenance services to the coal seam gas sector. Total consideration of the acquisition was \$3,649,151. The acquisition was not material to the group.

## 23. INTEREST IN JOINT OPERATIONS

### Joint operations interests

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

Joint Arrangement	Principal Activity	Principal place of business	Group Interest	
			2020 %	2019 %
Monadelphous Worley JV PNG	Engineering, Procurement and Construction & Maintenance Support Work in PNG	PNG	65	65
Monadelphous Worley JV	Engineering, Procurement and Construction & Maintenance Support Work	Brisbane, QLD	65	65
China Petroleum Engineering & Construction (Australia) Pty Ltd and Monadelphous Engineering Pty Ltd Joint Venture	Maintenance Support Work	Brisbane, QLD	50	50

### Commitments and contingent liabilities relating to joint operations

There were no capital commitments or contingent liabilities relating to the joint operations at 30 June 2020 (2019: \$nil).

### Impairment

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

### Recognition and measurement

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

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

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

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

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, loans, leases and hire purchase contracts, cash and short-term deposits.

The Group is exposed to financial risks which arise directly from its operations. The Group has policies and measures in place to manage financial risks encountered by the business.

Primary responsibility for the identification of financial risks rests with the Board. The Board determines policies for the management of financial risks. It is the responsibility of the Chief Financial Officer and senior management to implement the policies set by the Board and for the constant day to day management of the Group's financial risks. The Board reviews these policies on a regular basis to ensure that they continue to address the risks faced by the Group.

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

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

### Risk exposures and responses

#### *Interest rate risk*

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

	Notes	2020 \$'000	2019 \$'000
<b>Financial assets/liabilities</b>			
Cash and cash equivalents	5	208,292	164,042
Loan – secured		(2,100)	(3,300)
Net exposure		<u>206,192</u>	<u>160,742</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 2020, reasonably possible movements in variable interest rates, based on a review of historical movements and forward rate curves for forward rates would not have had a material impact on the Group.

#### *Foreign currency risk*

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

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency. Where possible, Monadelphous does not take on foreign exchange risk. At 30 June 2020, the Group had no forward contracts.

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

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

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

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

At 30 June 2020, if the USD foreign exchange rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements relating to financial assets and liabilities denominated in USD:	<b>Post Tax Profit Higher/(Lower)</b>		<b>Other Comprehensive Income Higher/(Lower)</b>	
	<b>2020 \$'000</b>	<b>2019 \$'000</b>	<b>2020 \$'000</b>	<b>2019 \$'000</b>
+5% (2019: +5%)	<b>(1,236)</b>	(1,650)	-	-
-5% (2019: -5%)	<b>1,236</b>	1,650	-	-

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

## **24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

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

#### *Credit risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's maximum exposure to credit risk is its cash, trade and other receivables and contract assets representing \$498,232,000 at 30 June 2020 (2019: \$516,263,000).

Following the adoption of AASB 9, the Group considers the probability of default upon initial recognition of a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period.

Except for trade receivables, contract assets and other short-term receivables (see below), expected credit losses (ECL's) are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. In making this assessment, the Group considers information that is reasonable and supportable, including historical experience and forward-looking information. Forward-looking information considered includes consideration of external sources of economic information. In particular, the Group takes into account the counterparties external credit rating (as far as available), actual or expected significant changes in the operating results of the counterparty and macroeconomic indicators when assessing significant movements in credit risk.

In the prior period, impairment losses were recognised when there was objective evidence of impairment.

#### **Trade receivables and contract assets**

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

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

The Group minimises concentrations of credit risk in relation to accounts receivable and contract assets by undertaking transactions with a number of customers within the resources, energy and infrastructure industry sector. There are multiple contracts with our significant customers, across a number of their subsidiaries, divisions within those subsidiaries and locations.

For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Chairman, Managing Director or Chief Financial Officer.

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

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

**Risk exposures and responses (continued)**

*Credit risk (continued)*

The Group applies a simplified approach in calculating ECLs for trade receivables and contract assets. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due ageing for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

A receivable is considered to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a receivable is credit-impaired includes observable data about significant financial difficulty of the debtor or a breach of contract, such as a default or past due event.

Set out below is the information about the credit risk exposure on the Group's trade receivables and contract assets, for which lifetime expected credit losses are recognised, using a provision matrix:

	Trade receivables						
	Contract assets	Current	Days past due				Total
			<31 days	31-60 days	61-90 days	>91 days	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>30 June 2020</b>							
Expected credit loss rate	0.55%	0.52%	0.74%	1.60%	4.55%	23.8%	
Total estimated gross carrying amount at default	<b>27,503</b>	<b>142,695</b>	<b>30,532</b>	<b>5,305</b>	<b>2,459</b>	<b>10,114</b>	<b>191,105</b>
Expected credit loss	<b>152</b>	<b>749</b>	<b>225</b>	<b>85</b>	<b>112</b>	<b>2,410</b>	<b>3,581</b>

	Trade receivables						
	Contract assets	Current	Days past due				Total
			<31 days	31-60 days	61-90 days	>91 days	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>30 June 2019</b>							
Expected credit loss rate	0.93%	0.78%	0.78%	1.32%	2.01%	13.56%	
Total estimated gross carrying amount at default	<b>29,661</b>	<b>202,152</b>	<b>26,770</b>	<b>7,325</b>	<b>4,023</b>	<b>12,366</b>	<b>252,636</b>
Expected credit loss	<b>275</b>	<b>1,570</b>	<b>209</b>	<b>97</b>	<b>81</b>	<b>1,677</b>	<b>3,634</b>

Other balances within trade and other receivables did not contain impaired assets and were not past due. It was expected that these other balances would be received when due.

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

**Risk exposures and responses (continued)**

*Credit risk (continued)*

**Financial instruments and cash deposits**

With respect to credit risk arising from the other financial assets of the Group, which comprises cash and cash equivalents, the Group's exposure to credit risk arises from default of the 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 with counter parties rated A+ or higher by Standard & Poor's where possible. Term deposits typically have an original maturity of three months or less and other bank deposits are on call. These financial assets are considered to have low credit risk.

**Write off policy**

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

*Liquidity risk*

<b>Financing facilities available</b>	<b>2020</b>	2019
	<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>490,000</b>	490,000
- Revolving credit	<b>96,112</b>	90,300
	<b>586,112</b>	580,300

Facilities used at balance date:

- Bank guarantee and performance bonds	<b>229,388</b>	209,925
- Revolving credit	<b>45,849</b>	38,229
	<b>275,237</b>	248,154

Facilities unused at balance date:

- Bank guarantee and performance bonds	<b>260,612</b>	280,075
- Revolving credit	<b>50,263</b>	52,071
	<b>310,875</b>	332,146

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

**Risk exposures and responses (continued)**

*Liquidity risk (continued)*

*Nature of bank guarantees and performance bonds*

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

*Nature of revolving credit*

The revolving credit includes hire purchase/leasing facilities. Refer to note 14 and 15 for terms and conditions.

The Group's objective is to manage the liquidity of the business by monitoring project cash flows and through the use of financing facilities. The Group currently utilises financing facilities in the form of hire purchase liabilities and secured loans. The liquidity of the group is managed by the Group's Finance and Accounting department.

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

Maturity analysis of financial liabilities:

<b>Year ended 30 June 2020</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	165,752	-	-	165,752	165,752
Hire purchase liability	6,640	7,129	31,213	44,982	42,326
Other lease liabilities	4,100	3,842	45,646	53,588	46,043
Bank loans	911	904	2,220	4,035	3,523
Other financial liability	-	-	4,848	4,848	4,480
Net maturity	<u>177,403</u>	<u>11,875</u>	<u>83,927</u>	<u>273,205</u>	<u>262,124</u>

**Year ended  
30 June 2019**

<b>Financial liabilities</b>					
Trade and other payables	184,341	-	-	184,341	184,341
Hire purchase liability	6,053	4,738	26,917	37,708	34,929
Bank loans	654	644	2,172	3,470	3,300
Net maturity	<u>191,048</u>	<u>5,382</u>	<u>29,089</u>	<u>225,519</u>	<u>222,570</u>

**Net fair values of financial assets and liabilities**

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

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

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

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

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

**Risk exposures and responses (continued)**

*Liquidity risk (continued)*

Listed equity investments measured at fair value through other comprehensive income. The carrying amount is equal to the fair value calculated using quoted prices in active markets (level 1 – see below).

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

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

There were no material financial assets or liabilities measured at fair value at 30 June 2020 or 30 June 2019.

**25. COMMITMENTS AND CONTINGENCIES**

**Capital commitments**

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

**Guarantees**

	<b>2020</b>	2019
	<b>\$'000</b>	\$'000
Guarantees given to various clients for satisfactory contract performance	<b>229,388</b>	209,925

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

**Contingent Liabilities**

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

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

## **25. COMMITMENTS AND CONTINGENCIES (continued)**

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

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

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

## **26. SUBSEQUENT EVENTS**

### **Notification of filing of writ of summons**

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

Refer to note 25 for further details.

### **Dividends declared**

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

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

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

**Capital commitments**

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

**28. SHARE BASED PAYMENT EXPENSE**

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

**Performance Rights**

During the year, 265,438 performance rights were granted by Monadelphous Group Limited under the Combined Reward Plan (“CR Plan”) in respect of the 2019 award. The performance rights vest into shares in equal instalments, one, two and three years subsequent to award, subject to the employee remaining in the employ of the company at those particular dates.

The fair value of each performance right issued during the period was estimated on the date of grant using a discounted cash flow calculation. Specifically, the Monadelphous Group Limited share price has been discounted at the dividend yield in order to account for the dividends that the rights holder forgoes over the life of the rights. A dividend yield of 3.59% to 4.13% has been used in the calculation.

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

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

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

**28. SHARE BASED PAYMENT EXPENSE (continued)**

**Options**

In October 2019, a total of 2,450,000 options were granted by Monadelphous Group Limited under the Employee Option Plan at an exercise price of \$14.84. The exercise price of the options granted under the Employee Option Plan was calculated as the average closing market price of the shares for the five trading days prior to the invitation date to apply for the options of 14 October 2019. The fair value of each option issued during the year was estimated on the date of grant using a Binomial option-pricing model.

The following weighted average assumptions were used for grants during the year:

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

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

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

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

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

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

No options were exercised during the period.

**28. SHARE BASED PAYMENT EXPENSE (continued)**

**Recognition and measurement**

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date on which they are granted. The fair value is determined by an external valuer. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Monadelphous Group Limited (market conditions), if applicable. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

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

	2020	2019
	\$	\$
<b>29. 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	289,692	296,053
- Other services in relation to the entity and any other entity in the consolidated entity		
- tax compliance	101,332	36,089
	<u>391,024</u>	<u>332,142</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.

### **30. RELATED PARTY DISCLOSURES**

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

	2020	2019
	\$	\$
Short term benefits	3,962,862	3,952,777
Post-employment	157,587	146,296
Long term benefits	80,500	71,081
Share-based payments	445,541	696,245
Total compensation	<u>4,646,490</u>	<u>4,866,399</u>

#### **Zenviron**

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

#### **Mondium**

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

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

### 31. OPERATING SEGMENTS

Revenue is derived by the consolidated entity from the provision of engineering services to the resources, energy and infrastructure industry sector. For the year ended 30 June 2020, the Engineering Construction division contributed revenue of \$615.9 million (2019: \$622.9 million) and the Maintenance and Industrial Services division contributed revenue of \$1,049.8 million (2019: \$998.4 million). Included in these amounts is \$14.9 million (2019: \$13.0 million) of inter-entity revenue and \$163.4 million (2019: \$131.0 million) of revenue of joint ventures, which is eliminated on consolidation. The operating divisions are exposed to similar risks and rewards from operations, and are only segmented to facilitate appropriate management structures.

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

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

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

The Group has a number of customers to which it provides services. The largest customer represented 28% (2019: 19%) of the Group's revenue. Two other customers individually contributed 15% and 13% of the Group's revenue. There are multiple contracts with these customers, across a number of their subsidiaries, divisions within those subsidiaries and locations.

#### Geographical Information

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

**32. DEED OF CROSS GUARANTEE**

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, relief has been granted to these controlled entities of Monadelphous Group Limited from the *Corporations Act 2001* requirements for preparation, audit and publication of accounts.

As a condition of the Class Order, Monadelphous Group Limited and the controlled entities subject to the Class Order, entered into a deed of indemnity on 9 June 2011, 1 June 2012, 9 June 2014 and 8 June 2016. The effect of the deed is that Monadelphous Group Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities. The controlled entities have also given a similar guarantee in the event that Monadelphous Group Limited is wound up.

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

	2020 \$'000	2019 \$'000
<b>Consolidated Income Statement and Comprehensive Income</b>		
Profit before income tax	30,667	61,949
Income tax expense	(9,673)	(23,251)
Net profit after tax for the period	<u>20,994</u>	<u>38,698</u>
<b>Reconciliation of Retained Earnings</b>		
Retained earnings at the beginning of the period	227,975	242,950
Opening balance adjustment on application of AASB 16	(4,970)	-
Dividends paid	(42,455)	(53,673)
Net profit after tax for the period	<u>20,994</u>	<u>38,698</u>
Retained earnings at the end of the period	<u><u>201,544</u></u>	<u><u>227,975</u></u>
<b>Consolidated Statement of Financial Position</b>		
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	169,005	129,277
Trade and other receivables	316,057	326,156
Contract assets	16,287	30,566
Total current assets	<u>501,349</u>	<u>485,999</u>
Non-current assets		
Investments in subsidiaries	17,179	7,872
Property, plant and equipment	150,415	106,220
Deferred tax assets	22,144	28,021
Intangible assets and goodwill	3,400	3,120
Other non-current assets	2,872	2,921
Total non-current assets	<u>196,010</u>	<u>148,154</u>
<b>TOTAL ASSETS</b>	<u><b>697,359</b></u>	<u><b>634,153</b></u>
<b>LIABILITIES</b>		
Current liabilities		
Trade and other payables	198,277	153,318
Interest bearing loans and borrowings	1,200	10,868
Lease liabilities	17,189	-
Income tax payable	438	198
Provisions	41,775	48,693
Total current liabilities	<u>258,879</u>	<u>213,077</u>
Non-current liabilities		
Interest bearing loans and borrowings	900	27,361
Lease liabilities	67,477	-
Provisions	3,695	3,822
Total non-current liabilities	<u>72,072</u>	<u>31,183</u>
<b>TOTAL LIABILITIES</b>	<u><b>330,951</b></u>	<u><b>244,260</b></u>
<b>NET ASSETS</b>	<u><b>366,408</b></u>	<u><b>389,893</b></u>
<b>EQUITY</b>		
Contributed equity	131,307	128,723
Reserves	33,557	33,195
Retained earnings	201,544	227,975
<b>TOTAL EQUITY</b>	<u><b>366,408</b></u>	<u><b>389,893</b></u>

### **33. OTHER ACCOUNTING STANDARDS**

#### **Other accounting policies**

##### **Financial assets**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI, and fair value through profit or loss.

With the exception of trade receivables, that do not have a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under AASB 15.

##### *Financial assets at amortised cost*

The Group measures financial assets at amortised cost where the objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables.

##### *Financial assets at fair value*

For financial assets at fair value, gains and losses will either be reported in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity instruments at fair value through OCI.

Gains and losses on financial assets designated at fair value through OCI are not recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

##### *Impairment of financial assets*

The Group recognises an allowance for ECLs for trade receivables, contract assets and other debt financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contracted cash flows due in accordance with the contract and all the cash flows the Group expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses and recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### **33. OTHER ACCOUNTING STANDARDS (continued)**

#### **Other accounting policies (continued)**

##### *Definition of default*

The Group considers a financial asset to be in default when contractual payments are 90 days past due or when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

##### *Write off policy*

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### **Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### **New and amended Accounting Standards and Interpretations**

Monadelphous Group Limited and its subsidiaries ('the Group') has adopted all new and amended Australian Standards and Interpretations mandatory for reporting periods beginning on or before 1 July 2019.

The Group applies, for the first time, AASB 16 *Leases* (AASB 16). The nature and effect of these changes are disclosed below. In accordance with elections available under these new accounting standards (see below for further details), the new accounting policies are effective from 1 July 2019 and comparative information continues to be prepared in line with the accounting policies as disclosed in the 30 June 2019 Financial Report. The cumulative effect of initially applying the Standards has been recognised as an adjustment to the opening balance of retained earnings.

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

#### **AASB 16**

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

### **33. OTHER ACCOUNTING STANDARDS (continued)**

#### **New and amended Accounting Standards and Interpretations (continued)**

##### **AASB 16 Leases (continued)**

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

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

#### **Impact on Application**

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

##### *Leases previously classified as finance leases*

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

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

##### *Leases previously accounted for as operating leases*

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

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

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

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

**Impact on Application (continued)**

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

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

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

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

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

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

### **33. OTHER ACCOUNTING STANDARDS (continued)**

#### **New and amended Accounting Standards and Interpretations (continued)**

##### **Impact on Application (continued)**

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

##### **Accounting policies applied from 1 July 2019**

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

##### *Group as a lessee*

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

##### *Right of use assets*

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

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

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

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

Lease assets are subject to impairment.

##### *Lease liabilities*

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

### **33. OTHER ACCOUNTING STANDARDS (continued)**

#### **New and amended Accounting Standards and Interpretations (continued)**

##### **Accounting policies applied from 1 July 2019 (continued)**

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

##### *Short-term leases and leases of low-value assets*

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

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

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

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

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

**New accounting standards and interpretations issued but not yet effective**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective (including those below) have not been adopted by the Group for the annual reporting period ended 30 June 2020.

Reference	Summary	Application date of standard	Application date for Group
<i>Conceptual Framework AASB 2019-1</i>	The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.  AASB 2019-1 has also been issued, which sets out the amendments to other pronouncements for references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the Framework for the Preparation and Presentation of Financial Statements (July 2004), and not the definitions in the revised Conceptual Framework.	1 January 2020	1 July 2020
AASB 2018-6 <i>Amendments to Australian Accounting Standards – Definition of a Business</i>	The Standard amends the definition of a business in AASB 3 <i>Business Combinations</i> . The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.	1 January 2020	1 July 2020
AASB 2018-7 <i>Amendments to Australian Accounting Standards – Definition of Material</i>	This Standard amends AASB 101 <i>Presentation of Financial Statements</i> and AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.	1 January 2020	1 July 2020
AASB 2019-5 <i>Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia</i>	This Standard amends AASB 1054 by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 on the potential effect of an IFRS Standard that has not yet been issued by the AASB so that such entity complying with Australian Accounting Standards can assert compliance with IFRS Standards.	1 January 2020	1 July 2020

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

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

Reference	Summary	Application date of standard	Application date for Group
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture	1 January 2022	1 July 2022
AASB 2020-1 Amendments to AASs – Classification of Liabilities as current or non-current	A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 to clarify the requirements for classifying liabilities as current or non-current. Specifically: <ul style="list-style-type: none"> <li>▶ The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.</li> <li>▶ Management intention or expectation does not affect classification of liabilities.</li> <li>▶ In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.</li> </ul>	1 January 2022	1 July 2022