

MONADELPHOUS GROUP LIMITED

2018 CORPORATE GOVERNANCE STATEMENT

Corporate Governance Statement

The Board of Directors of Monadelphous Group Limited (Monadelphous) is responsible for establishing the corporate governance framework of the consolidated entity having regard to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Board guides and monitors the business and affairs of Monadelphous on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Group's compliance with the Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd Edition, which came into effect on 1 July 2014. Monadelphous Group Limited's corporate governance practices were in place throughout the year ended 30 June 2018, unless otherwise stated. Monadelphous Group Limited complies in all material respects with the Council's best practice recommendations. This Statement should be read in conjunction with the information disclosed on our website www.monadelphous.com.au and our 2018 Annual Report.

This Statement is current as at 15 October 2018 and has been approved by the Monadelphous Group Limited Board of Directors.

Recommendation		Comply Yes / No	Reference / Explanation
Principle 1: Lay solid foundations for management and oversight A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.			
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	Yes Yes	Page 5 Page 5
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	Yes Yes	Page 8 Page 8
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Yes	Page 8
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Yes	Page 12
1.5	A listed entity should: (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy, and its progress towards achieving them, and either: (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	Yes Yes Yes Yes	Website – Diversity Policy Website – Diversity Policy Page 14 Website – WGEA Gender Equality Indicators
1.6	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Yes Yes	Page 12 Page 12
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Yes Yes	Page 12 Page 12

Recommendation		Comply Yes / No	Reference / Explanation
Principle 2: Structure the board to add value A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.			
2.1	The board of a listed entity should: <ul style="list-style-type: none"> (a) have a nomination committee which: <ul style="list-style-type: none"> (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director; and disclose <ul style="list-style-type: none"> (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. 	Yes Yes No Yes Yes Yes N/A	Page 8 Page 8 Page 8 Website – Nomination Committee Charter Page 8 Directors' Report in the 2018 Annual Report
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Yes	Page 6
2.3	A listed entity should disclose: <ul style="list-style-type: none"> (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director. 	Yes Yes Yes	Page 7 Page 7 Page 7
2.4	A majority of the board of a listed entity should be independent directors.	Yes	Page 7
2.5	The chair of the board of a listed entity should be an independent director. The chair of the board should not be the same person as the CEO of the entity.	No Yes	Page 7 Page 7
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	Yes	Page 8
Principle 3: Act ethically and responsibly A listed entity should act ethically and responsibly.			
3.1	A listed entity should: <ul style="list-style-type: none"> (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it. 	Yes Yes	Page 13 Website – Code of Conduct

Recommendation		Comply Yes / No	Reference / Explanation
Principle 4: Safeguard integrity in corporate reporting A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.			
4.1	The board of a listed entity should: <ul style="list-style-type: none"> (a) have an audit committee which: <ul style="list-style-type: none"> (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose <ul style="list-style-type: none"> (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner. 	Yes Yes Yes Yes Yes Yes N/A	Page 8 Page 8 Page 8 Website – Audit Committee Charter Page 8 Directors' Report in the 2018 Annual Report
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Yes	Page 12
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Yes	Page 12
Principle 5: Make timely and balanced disclosure A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.			
5.1	A listed entity should: <ul style="list-style-type: none"> (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it. 	Yes Yes	Website – Continuous Disclosure Policy
Principle 6: Respect the rights of security holders A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.			
6.1	A listed entity should provide information about itself and its governance to investors via its website.	Yes	Website
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Yes	Page 16
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Yes	Page 16
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Yes	Website – Shareholder Communication Policy

Recommendation		Comply Yes / No	Reference / Explanation
Principle 7: Recognise and manage risk A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.			
7.1	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	Yes Yes Yes Yes Yes Yes N/A	Page 8 – Audit Committee Page 9 – Risk Page 8 Page 8 Website – Audit Committee Charter Page 8 Directors' Report in the 2018 Annual Report
7.2	The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place.	Yes Yes	Page 10 Page 10
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	Yes N/A	Page 10
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Yes	Page 10
Principle 8: Remunerate fairly and responsibly A listed entity should pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders.			
8.1	The board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	Yes Yes Yes Yes Yes N/A	Page 12 Page 12 Page 12 Website – Remuneration Committee Charter Page 12 Directors' Report in the 2018 Annual Report

Recommendation		Comply Yes / No	Reference / Explanation
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Yes	Remuneration Report in the 2018 Annual Report
8.3	A listed entity which has an equity-based remuneration scheme should: <ul style="list-style-type: none"> (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it. 	Yes Yes	Website – Share Trading Policy Remuneration Report in the 2018 Annual Report

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

Shareholders' Interests

The Board and the executive management team of Monadelphous commits to the principle that all policies, procedures, decisions and actions of the Company will be directed toward the protection and promotion of shareholders' long term interests.

Board and Management Functions

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and setting the risk parameters and framework within which management is to operate.

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

The responsibility for the operation and administration of the Company is delegated, by the Board, to the Managing Director and the executive management team, including implementing the strategic objectives of the Company. Management is responsible for designing and implementing the risk management framework for the Company and operating within the risk parameters set by the Board. It is also responsible for providing accurate, timely and clear information to enable the Board to perform its responsibilities. The Board ensures that the management team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive management team.

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

To this end the Board has established the following committees:

- Audit
- Nomination
- Remuneration

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

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

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

Other functions reserved to the Board include:

- approving and monitoring financial reporting, including the annual and half-yearly financial reports;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- the identification, assessment, appropriate management and monitoring of any significant risks that arise;
- approving the Company's remuneration framework;
- monitoring the effectiveness of the Company's governance practices;

- approving the Company's dividend policy and authorising payment of dividends;
- setting measurable objectives for achieving gender diversity and monitoring the Company's progress in achieving them;
- oversight of the Company's continuous disclosure process to ensure timely and balanced disclosure of all material information; and
- reporting to shareholders.

Structure of the Board

Board Skills and Experience

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report in the 2018 Annual Report. The Board considers that a diverse range of skills, backgrounds, knowledge and experience is required to act as a Director of the Company.

The skills and experience required of the Board and its Sub-Committees is detailed in the Monadelphous Board Skills Matrix, which is summarised below. The objective of the matrix is to align the skills and experience on the Board with the Group's strategic objectives. The Nomination Committee assists the Board with the regular review of the qualifications, skills, competencies, experience, independence and diversity represented on the Board and its Sub-Committees. Where gaps are identified, the Committee is responsible for identifying whether training or development is required or recommending changes to the Board in relation to its structure, size and operation.

A summary of the key skills and experience required on the Board of Monadelphous, as detailed in the Monadelphous Board Skills Matrix, is as follows:

STRATEGY
Strategic Direction
Executive experience in developing and implementing strategy successfully
Strategic Acquisitions
Experience in identifying strategic acquisition opportunities and integrating and developing the opportunities
GOVERNANCE & RISK
Governance
Experience in the governance of organisations
Risk
Executive exposure to identifying risk and managing to acceptable levels
Legal
Executive experience in legal compliance, contract negotiation and management
MARKETS
Industry Experience - Resources
Relevant industry experience from working in the resources sector within which the Company operates or strong knowledge of the sector
Industry Experience - Energy
Relevant industry experience from working in the energy sector within which the Company operates or strong knowledge of the sector
Industry Experience - Infrastructure
Relevant industry experience from working in the infrastructure sectors within which the Company operates or strong knowledge of the sector
Industry Experience - New Markets
Relevant industry experience of the new sectors that Monadelphous is targeting
International Experience
Industry experience in foreign markets within which Monadelphous operates or wishes to target
PEOPLE
Values
Strong alignment to Company values
Health, Safety and Environment
Experience in workplace health, safety and environment
Remuneration
Experience with remuneration frameworks including executive remuneration and incentive programs
FINANCIAL
Financial Acumen
Executive level exposure to accounting and financial reporting and requirements, internal financial controls and financial risk assessment
TECHNOLOGY
Experience in information technology and operational technology

Independence

Directors of Monadelphous are considered to be independent when they are not allied with the interests of management, a substantial shareholder or other relevant stakeholder. Independent directors are free of any interest, position, association or relationship that might influence, or could reasonably be perceived to influence, in a material respect their capacity to bring an independent judgement to bear on issues before the Board and to act in the best interest of the Company and its shareholders.

In the context of director independence, 'materiality' is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and any similar factors.

When assessing the independence of a Director, the Board considers the definition of independence and the factors set out in Box 2.3 of the ASX Corporate Governance Principles and Recommendations. In accordance with the definition of independence, and the materiality thresholds set, Mr P. J. Dempsey, Mr C. P. Micheltmore, Mr D. R. Voss and Ms H. J. Gillies are all considered to be independent directors, representing the majority of the Board.

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

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

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

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

C. G. B. Rubino	27 years	Executive Director
R. Velletri	26 years	Executive Director
P. J. Dempsey	15 years	Lead Independent Non-Executive Director
C. P. Micheltmore	11 years	Independent Non-Executive Director
D. R. Voss	4 years	Independent Non-Executive Director
H. J. Gillies	2 years	Independent Non-Executive Director

Trading Policy

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

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

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

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

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

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

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

Nomination Committee

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

C. G. B. Rubino (Chairman)
C. P. Michelmore
P. J. Dempsey
D. R. Voss
H. J. Gillies

Whilst the Chairman of the Nomination Committee is not independent, the Board believes that Mr Rubino's extensive background, knowledge and experience of the Company and industry in which the Company operates, combined with the mix of qualifications, competencies and experience of the other Nomination Committee members, enable the Nomination Committee to effectively discharge its duties.

The Nomination Committee assists the Board with maintaining the board skills matrix and identifying gaps and professional development opportunities for directors throughout the year. It also assists with the selection of candidates for the position of director. Once a candidate has been identified, background checks are undertaken in accordance with the Monadelphous Director and Senior Executive Recruitment Checklist, including reference checks, bankruptcy and criminal record checks and validation of education records. All material information in the Company's possession relevant to a decision on whether or not to elect or re-elect a Director is provided to shareholders, via the Notice of Meeting, market disclosures and the annual report. Upon appointment, the Director signs a written agreement setting out the terms of their appointment. The Director participates in a director induction process and is provided with information about Monadelphous, its operations, the Board, the Company's governance systems and any other information necessary to enable them to perform their role effectively. It also includes meetings with other Directors and executive management and visits to operational locations.

Professional development opportunities for Directors include participation in Australian Institute of Company Directors courses, project site visits, project reviews, and attendance at a number of courses and workshops offered by a variety of professional services advisors.

All directors and senior executives have terms of agreements or employment contracts, as relevant.

For details of directors' attendance at meetings of the Nomination Committee, refer to the Directors' Report in the 2018 Annual Report.

Please refer to the Company's website for the Nomination Committee Charter.

Audit Committee

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

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

P. J. Dempsey (Chairman)
D. R. Voss
H. J. Gillies

Qualifications of Audit Committee members

Mr P. J. Dempsey, Chair of the Audit Committee, is a Civil Engineer and Fellow of Engineers Australia, with 46 years of experience in the construction and engineering services industry. He has a Graduate Diploma in Business Administration, is a member of the Australian Institute of Company Directors and is a member of the Audit Committee at ASX listed entity, Service Stream Limited. His extensive experience in construction has exposed him to the risks and accounting matters relevant to the sector and allows him to effectively assess financial reporting issues requiring critical judgement. Mr Dempsey has served on the Monadelphous Audit Committee since 2003.

Mr D. R. Voss is a Chemical Engineer and has 44 years of experience in the oil and gas, and mining and minerals industries, throughout Australia, the US, Europe, the Middle East and Africa. He has worked at a number of global mining and engineering businesses, including BHP Billiton, Bechtel and Hatch. Mr Voss has an MBA, majoring in Finance and Quantitative Methods, science and law degrees, is a member of the Australian Institute of Company Directors, and has a range of operational, accounting and finance experience gained during his time in project management and from serving on, and chairing, a number of boards and committees throughout his career. His responsibilities included the oversight, governance and financial management of projects and operations. Mr Voss has served on the Monadelphous Audit Committee since 2014.

Ms H. J. Gillies is a Solicitor, with 22 years of experience in the construction and engineering services industry throughout Australia, North America, South America, Asia, Middle East, Africa and Europe. Ms Gillies has previously served as a Director of global engineering company Sinclair Knight Merz, where she also chaired the Risk Committee and was a member of its Governance Committee. She was also a director of the Australian Civil Aviation Safety Authority and is currently a member of the Audit and Risk Committee at ASX listed entity, Yancoala Australia Limited and a non-executive director of unlisted entities BAC Holdings Pty Ltd, the holding company for Bankstown and Camden Airport, and Red Flag Group (Holdings) Limited, a global integrity and risk services provider. Ms Gillies has a strong background in risk, law, governance and finance, as well as extensive experience in mergers and acquisitions. She holds a Master of Business Administration and a Master of Construction Law, and Bachelor degrees in Commerce and Law. Ms Gillies has served on the Monadelphous Audit Committee since 2017.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to the Directors' Report in the 2018 Annual Report.

Risk

Risk management roles and responsibilities

The Board is responsible for setting the strategic direction of the Group and for creating and maintaining the environment and structures within which risk management practices can operate effectively. The Board also sets the Group's appetite for risk taking and risk tolerance.

The Audit Committee, in conjunction with the Board assesses the effectiveness of risk management procedures, internal controls, policies and procedures in identifying business and financial risks and controlling their financial impact by considering any significant matters identified by management.

The Managing Director and Chief Financial Officer have ultimate accountability to the Board for the risk management and internal control system. The Group Risk function is responsible for the risk management framework. The risk management framework describes the processes and tools available to manage the risks which relate to the achievement of the Group's vision and strategic objectives. It involves the identification of particular risks relevant to the Group's objectives, assessing them in terms of likelihood and magnitude of impact, determining a response strategy and monitoring progress. It also provides a feedback mechanism to enable knowledge sharing. The framework is designed to identify potential events that may affect the Group, and manage risks within tolerance levels endorsed by the Board to provide reasonable assurance regarding the achievement of vision and strategic objectives.

The risk management framework is made up of the following elements:

- 1) Control Environment – The control environment sets the tone for the Company's risk management, influencing the risk consciousness of its people and sets the basis for how risk is viewed and addressed. It is the foundation for all other components of risk management and provides discipline and structure. It includes the Company's risk management philosophy and risk appetite, integrity and ethical values, and the environment in which it operates.
- 2) Risk Identification and Assessment – The identification and evaluation of internal and external factors that impact the Company's performance and ability to meet its vision and strategic objectives. This includes the structured and disciplined oversight of all operations at both the board and executive level and periodic environmental scans to understand current conditions in which the Company operates.
- 3) Risk Management and Control Activities – Risk management processes, including related systems of internal control, are formalised and maintained within the Company's Business Management System (BMS). The BMS contains the policies and procedures designed to ensure that the Company operates within the risk tolerance parameters set by the Board. The BMS formalises the actions to be taken to ensure the effective management of operations, protection of shareholder value, compliance management and regulatory reporting. Risk management processes and controls include a range of activities as diverse as approvals, authorisations, performance reviews and the appropriate segregation of duties. The Group Authority Matrix is a tool used to apply decision making authorities as approved by the Board consistently across the Group.
- 4) Information and Communication – Relevant information is identified, captured and effectively communicated in a timely manner that enables people to carry out their responsibilities effectively and efficiently. Technology plays an important role in the flow of information in the Company, from its core business systems for accounting, through to its incident reporting system which provides an early warning system detailing the effectiveness with which major incidents and hazards are being managed.

- 5) Monitoring and Reporting – The processes to determine whether performance objectives are being met and internal controls are operating as designed. Both key performance indicators and internal controls need to be monitored regularly to assess performance. Any deficiencies detected through these monitoring activities should be reported and corrective actions taken to ensure the continued reliance on the system. Tools in place include strategic planning and analysis, the annual budget process, key performance indicator reporting, customer surveys, board reporting, the Group Assurance function and its associated reporting to the Audit Committee, the ongoing quality certification process, and the Group's productivity and innovation framework.

The Group Assurance function is responsible for providing an appraisal of the adequacy of and compliance with, the risk management and internal control system. The Group Assurance function reports to the Audit Committee and undertakes the annual audit timetable as approved by the Audit Committee. The function formally reports to the Audit Committee twice a year, or more regularly as required.

On an annual basis, the Audit Committee reviews the Company's risk management framework and makes recommendations to the Board. A review of the framework was conducted during the year ended 30 June 2018.

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

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

Economic, environmental and social sustainability risks

In conducting its business, the Company takes commercial and business risks to achieve its objectives and deliver shareholder value. The Company is exposed to various risks in its day to day operation, including strategic, financial, operational, compliance, economic, environmental and technological risks. It considers that it is exposed to the following material risks:

Risk Type	Identified Material Risk
Economic sustainability risks	Demand
	Competition
	Contract pricing
	Project delivery
	Liquidity
	Cyber security
Social sustainability risks	Employee attraction, development and retention
	Health and safety
	Reputation
Environmental risks	Compliance with environmental legislation, regulations and customer requirements
	Climate change

The ability of the Company to achieve its objectives and long term sustainable growth is impacted by the effective management of the risks to which it is exposed. Each material risk identified above is discussed in more detail below.

Economic sustainability risks

- Demand – The Company operates in the resources, energy and infrastructure sectors. The demand for Monadelphous' services can vary greatly as a result of changes in market conditions, including the timing and award of projects, project deferrals and cancellations, changes in economic conditions, the cyclical nature of commodity prices and the demand for customers' goods and services. Any changes in market conditions could impact the demand for Monadelphous' services. In response to these risks, Monadelphous has an established growth and diversification strategy to broaden its exposure to unrelated markets, and this strategy mitigates the risk of varying demand levels for the services it provides.
- Competition – The markets in which Monadelphous operates are competitive by nature. The Company undertakes a comprehensive opportunity identification and selection process when tendering for projects. Increased levels of competition and competitors' particular strategic objectives may result in the Company unsuccessfully tendering for projects. The Company regularly reviews its competitive market position and competitive advantage, as well as that of competitors, to ensure that it is well placed to secure opportunities as they arise.
- Contract pricing – The Company undertakes a variety of fixed price lump sum, schedule of unit rates or cost plus contracts, or a combination thereof. If Monadelphous underestimates the cost to complete a project, there is a risk that the Company's financial performance may be negatively impacted. To mitigate this, a thorough review process is undertaken for all tenders prior to submission, and the Company has an established tender risk management system involving capable, experienced subject matter experts, historical data and productivity metrics and appropriate authority and approval levels.
- Project delivery – Monadelphous is involved in planning, developing, constructing, and executing a range of projects with varying degrees of difficulty. If projects are not executed effectively, there could be financial and/or reputational damage to the Company. In addition, if contractual claims or variations are not appropriately recorded and substantiated, the Company is exposed to the risk of financial loss. Monadelphous has a mature and robust project management system to effectively manage projects from inception to completion and employs experienced, capable employees that are familiar with the Company's execution processes and methodologies. Projects are reviewed on

an ongoing basis, including reviews by the both executive management and the Board. Monadelphous recruits and employs suitably qualified and experienced personnel for the work that it undertakes, and provides them with the necessary resources to effectively execute their responsibilities in an efficient manner.

- **Liquidity** – In the normal course of business, the Company is exposed to liquidity risks. Customers may extend payment terms beyond those contractually agreed and contractual variations or claims may take extended periods of time to resolve. In addition, certain contracts require the Company to provide bank guarantees or performance bonds. To ensure the Company maintains an effective and appropriate level of working capital, the Company undertakes appropriate credit verification procedures on its customers, regularly reviews project cash flows and closely monitors cash collections and payment obligations.
- **Cyber security risks** – The ever-increasing sophistication and frequency of cyber-attacks increases the risk of loss of personal and commercially sensitive information. This can lead to a breach of privacy regulations and financial and/or reputational damage to the Company. In response to the changing cyber security landscape, Monadelphous has established a dedicated cyber security capability to mitigate the risks associated with maintaining the confidentiality, integrity and availability of the personal information in our care, and the safeguarding of other commercially sensitive information.

Social sustainability risks

- **Employee attraction, development and retention** – As a services business, the Company's intellectual property resides in its people and systems. It is imperative that the Company continues to attract, develop and retain highly competent people who live the Company's values, are able to maximise their potential, and contribute towards the successful achievement of the strategic vision. The Company focuses on attracting people who desire to have a long term career at Monadelphous, whose experience demonstrates proven capability and whose behaviours exhibit cultural alignment. The Company actively helps new recruits to understand 'the Monadelphous way' and has created an environment that offers support from those more experienced, and where required, this approach is supplemented with relevant programs and workshops. Focus is placed on developing the skills and leadership capability required to enable the Company's growth and diversification objectives, and providing opportunities for employees which facilitate career progression and retention by offering challenging roles, enabling employees to grow within areas they are motivated and able. Through its employee management practices, Monadelphous aims to retain all those who are aligned to the Company's culture and who contribute to the long term success of the Company.
- **Health and safety** – Monadelphous is subject to occupational health and safety regulations and there is a high degree of operational risk inherent in the industries in which it operates. There is a risk of injury or loss of life to its people and those people it manages and interacts with. The Company operates under its safety directive 'The Safe Way is the Only Way', with a goal of zero harm. Monadelphous has a robust, effective and mature safety management system and is committed to monitoring and improving safety performance, ensuring the provision of safe work practices and providing training and initiatives that ensure the safety of its employees. Monadelphous is certified to the following standards: AS/NZ 4801 or OHSAS 18001 for occupational health and safety management systems.
- **Reputation** – Monadelphous has a strong reputation for performance and delivery. The Company's reputation assists its ability to secure and retain work, attract and retain employees and build strong supplier relationships. The Company's reputation can be tarnished by safety incidents, poor project or financial performance, or unethical behaviour. The Monadelphous values and code of conduct provide the basis for the appropriate standards of behaviour and with the Company's business management system and risk management methodologies combine to mitigate this risk.

Environmental sustainability risks

The Company conducts work in environmentally sensitive areas and has a responsibility to protect the local ecosystems (including spills, emissions, erosion and sediment management) when delivering projects. Ensuring compliance with customer requirements and environmental legislation and regulation is critical to maintaining the Company's reputation as a contractor of choice.

Mitigation of environmental risks includes maintenance and implementation of a certified environmental management system (AS/NZS ISO 14001:2004) to ensure sustainable work practices and monitoring and minimising environmental impacts as far as practicable. The largest environmental impacts are those from energy consumption, gases utilised in welding processes, fuel used in vehicles, plant and equipment and electricity usage across the business. The Company routinely collects and monitors carbon reporting data. Monadelphous undertakes greenhouse and energy reporting under the National Greenhouse and Energy Reporting Act. The reportable scope 1 and 2 carbon emissions (CO₂e) remain significantly below the legislative reporting threshold.

The Company acknowledges that the move towards a low-carbon economy will influence change in a number of industries within which it operates. Monadelphous is committed to the ongoing monitoring of the Company's environmental risk profile and developing innovative climate change solutions in an effort to reduce emissions and energy consumption within the Company's operations and those of its customers.

Recognising the growing importance of renewable energy, Monadelphous' growth in the renewables sector, with the award of a number of wind farm contracts during the year, is a vital step in the Company's journey towards broader environmental, economic and social sustainability.

Managing Director and CFO Declaration

Prior to the Board's approval of the 31 December 2017 half year and 30 June 2018 full year financial statements, the Managing Director and Chief Financial Officer provided a written statement to the Board that, in their opinion, the financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

External Auditor

The Group's external auditor, Ernst & Young, attends the Annual General Meeting and is available to answer questions from shareholders relevant to the audit. Ernst & Young's independence declaration is contained in the Directors' Report in the 2018 Annual Report.

Performance

The performance of the Board, Sub-Committees and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the Nomination Committee conducted performance evaluations which involved an assessment of the Board's, Sub-Committees' and Senior Executives' performance against qualitative and quantitative performance criteria. The performance criteria against which the Board and executives are assessed are aligned with the financial and non-financial objectives of Monadelphous. The Board and Sub-Committees also conducted self-assessments to ensure that their performance accords with best practice. No governance changes were required as a result of the reviews.

Remuneration Committee

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

- retention and motivation of key executives
- attraction of quality management to the Company
- incentives which allow executives to share in the rewards of the success of Monadelphous, contingent upon their performance in and contribution to, achieving that success.

For full disclosure of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report in the 2018 Annual Report.

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

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

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

C. P. Michelmore (Chairman)
D. R. Voss
H. J. Gillies

For details on the number of meetings of the Remuneration Committee held during the year and the attendees at those meetings, refer to the Directors' Report in the 2018 Annual Report.

Company Secretary

The Company Secretary is appointed by the Board and is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board, which includes assisting with Board and Sub-Committee meetings, advising the Board on corporate governance matters and assisting with the induction and continuing professional development of Directors. Each Director has access to the Company Secretary.

Code of Conduct

The Monadelphous Code of Conduct provides guidance on the expected behaviour of all employees, so that decisions and actions taken reflect the highest standards of conduct when representing the Company.

The Code of Conduct is underpinned by the Monadelphous Values. The Monadelphous Values form the foundation of a way of life that stands the Company apart from all others. They represent what Monadelphous stands for and provide a basis for appropriate standards of behaviour. As a values-driven organisation, Monadelphous expects all employees to go beyond simply complying with minimum standards of personal conduct. The goal is to make every decision and every action something that everyone at Monadelphous can be proud of and that will promote and protect shareholders interests.

The Code of Conduct applies to all Monadelphous employees, including contractors and representatives whose terms of engagement require compliance with the Code of Conduct.

Monadelphous has in place a reporting framework, in which employees and contractors are able to report instances of actual or suspected unethical or unlawful conduct without fear of recrimination or reprisals, to the extent permitted by the law. It is expected that most concerns or queries regarding unethical or unlawful conduct are raised directly with a Company representative in accordance with the Code of Conduct. However, if an employee or contractor has a valid concern and does not believe it is appropriate to discuss the issue with a Company representative, or they do not feel the concern they raised has been adequately addressed, or they wish to maintain anonymity, they may report the issue to the Monadelphous Integrity Hotline. The Company is committed to fully investigating all concerns raised, and to rectifying any wrong doing which may have occurred to the extent practicable in all circumstances, and to the principle of fairness in all investigations.

During the year, the Code of Conduct was reviewed and enhanced to reiterate the Company's application of a zero tolerance policy towards any form of bribery and corruption in the conduct of its activities.

For further details of the Code of Conduct please refer to our website.

Diversity and Inclusion

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

Monadelphous aims to embrace and nurture diversity and inclusion, where employees feel valued and inspired to contribute their best to deliver on our vision. We are committed to diversity and inclusion, managing and recruiting based on competence and performance. We believe in the principle of equal opportunity in employment for all people, regardless of any personal attributes such as gender, sexual preference, marital status, pregnancy, family responsibilities, ethnicity, political or religious belief, cultural background, disability and age.

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

- promoting the awareness of, and commitment to, workplace diversity principles,
- recruitment strategies that ensure we attract employees from a diverse pool of qualified candidates,
- policies and actions which ensure all employees are valued, encouraged and provided with opportunities to develop to their full potential,
- integration of workplace diversity principles into business and human resources processes and systems,
- intolerance of discrimination, harassment, vilification and victimisation, and
- establishing measurable objectives for achieving greater diversity and annually reviewing those objectives and the progress towards achieving them.

During the period, the Company developed its first Gender Diversity & Inclusion Plan which is due for release at the end of 2018. Monadelphous has established the following measurable objectives across the organisation to enhance gender diversity and inclusion:

Action	Progress
Ensure all female employees in senior management positions receive formal performance feedback with identified development opportunities, and are encouraged to enter into formal career mentoring relationships.	Formal performance feedback for employees was communicated as part of the annual performance appraisal process. Formal career mentoring relationships were established during the period, supporting senior female employees to identify and develop internal and external mentorship opportunities. A trial mentoring program for emerging female talent continued, providing the opportunity for 14 female employees to develop mentoring relationships with industry leaders external to Monadelphous.
An annual executive review of development plans for female senior executives is performed by the General Manager Human Resources to ensure their appropriateness in developing and retaining Monadelphous' key female talent.	The annual executive review of development plans was completed, resulting in a range of activities documented to further develop and retain Monadelphous key female talent. Activities included participation in immersive leadership programs (including the Monadelphous-led Emerging Leaders Program facilitated in partnership with AIM WA and the University of Western Australia). Reflecting a continued focus on the development of female talent in our workforce, 47% of all internal promotions during the period were attributable to female employees.
The provision of suitable working arrangements for employees returning from parental leave and ongoing engagement with these employees during this period.	The provision of suitable working arrangements for employees remains an important element of the Monadelphous employee value proposition, supporting parents returning to work following parental leave.
The provision of a paid parental leave scheme associated with the birth of an employee's child (or employee's partner's child) or the placement of a child with an employee for adoption.	A review of our paid parental leave scheme to ensure appropriateness and alignment with market conditions resulted in an increase to the quantum of paid parental and spousal leave provided, the payment of superannuation on paid parental leave, recognition of service for the purposes of long service leave whilst on parental leave and greater flexibility in the manner of payment of parental leave.
Establish an entitlement to Family and Domestic Violence Leave.	Access to Family and Domestic Violence leave was made available to all employees.
Continued promotion of career opportunities in the resources, energy and infrastructure sectors including presentations at career exhibitions, universities, professional institutions and other suitable forums to, amongst other things, engage females to consider engineering as a career choice.	Monadelphous representatives (recruitment, graduate coordinators and operational team members) attended events to continue promoting career opportunities in the resources, energy and infrastructure sectors across Australia and New Zealand. Efforts to engage female graduates in the engineering discipline were enhanced by the provision of on-campus and industry-coordinated presentations by Monadelphous female engineers along with continued involvement in the Monadelphous Integrated Learning Centre at the University of Western Australia and the Curtin University Engineering Pavilion. Focus on the promotion of engineering opportunities for female undergraduates has resulted in a female participation rate of 23% of all our undergraduate engineers (and 18% female graduate program participation overall).

Action	Progress
A review of the number of candidates from diverse backgrounds identified as key talent for the purposes of succession planning.	A review of Monadelphous key talent was conducted that focused on highlighting the representation of those employees from diverse backgrounds as part of our consideration in succession planning and other talent management activities.
An annual pay audit across all key roles within the business to ensure gender parity in our pay levels.	A thorough remuneration audit was conducted during the year to ensure gender remuneration parity across the business.
Confidential reporting avenues to allow employees to report matters of discrimination.	In place.
Prominent communication of our Equal Employment Opportunity policy across the organisation.	In place.
Development and implementation of a female cadetship program across the organisation, focusing on the development of young women in STEM related industries.	The program will aim to offer five undergraduate students each year the opportunity to be supported by Monadelphous while they study, and then join the Company's Graduate Program post-graduation.
Commitment to a five year partnership with the University of Western Australia's (UWA) Girls in Engineering program, promoting tertiary STEM education to girls across Perth high schools.	Monadelphous has participated in a number of immersion activities throughout the year with employees volunteering to attend sessions relating to science and maths education across Perth high schools.

Refer to the Workplace Gender Equality Agency (WGEA) website (www.wgea.gov.au/report/public-reports) or the Company's website for the Company's latest Gender Equality Indicators.

At the date of this report, Monadelphous had six directors on the Board, comprising five males and one female. Ms Helen Gillies continues to provide extensive knowledge and experience in international markets, infrastructure, power and water sectors to the Company after her appointment to the Board in September 2016.

The Board regularly reviews its composition and structure to ensure its membership is the most suitable to achieve long-term sustainable shareholder wealth. The Nomination Committee of the Board reviews its membership and recommends the appointment of new directors based on competency, experience and knowledge whilst being cognisant of the benefit of diversity to the Board's make-up.

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

Monadelphous supports the development of a united Australia which values the heritage and culture of Aboriginal and Torres Strait Islander people, celebrates their achievements and contributions, and provides meaningful opportunities to close the gap in inequality and disadvantage.

We respect the original inhabitants of this land and recognise the unique position that Aboriginal and Torres Strait Islander people occupy in Australian society. We are committed to working in partnership with Aboriginal and Torres Strait Islander people, businesses and communities to create sustainable pathways for employment, training and skills development. We want our workplace to reflect the diversity of the communities we work in, and we play our part to ensure that Australia's Aboriginal and Torres Strait Islander people have an equal opportunity to enjoy a prosperous and safe future.

Our Reconciliation Action Plan (RAP) is a commitment by Monadelphous to make Indigenous people feel welcomed, respected and valued as employees, business partners and members of the community, especially those communities in which we operate. Monadelphous has been involved in Reconciliation Australia's RAP program since the launch of our first RAP in 2013. Our strong inroads to date have enabled us to implement our Stretch RAP which includes bolder targets to establish a sustainable future for Aboriginal and Torres Strait Islander people and the businesses we work with. The Stretch RAP was officially launched in May 2018 and various commitments and actions throughout the RAP are being fulfilled.

For further details of the Diversity Policy please refer to our website.

Investor Relations

Monadelphous respects the rights of shareholders and supports governance practices that are designed to promote effective two-way engagement with current and potential shareholders and the investment community. We aim to provide clear and balanced information about our business and performance to enable users to make informed decisions.

Monadelphous' investor relations program includes:

- providing an investor results presentation and media release with the half and full year financial results;
- an investor and analyst webcast and teleconference following the release of the financial results, which includes a presentation by the Managing Director and Chief Financial Officer, and is followed by a question and answer session;
- the investor and analyst roadshow held twice a year following the release of the financial results;
- engaging directly with investors, analysts and shareholder associations regularly throughout the year;
- supporting shareholder participation at the AGM, including enabling shareholders to submit questions prior to the meeting, encouraging questions at the meeting and by providing a webcast of the AGM;
- maintaining the corporate governance and investor sections of the Company's website, including making available all announcements made to the ASX on the Company's website; and
- facilitating a process whereby shareholders can ask questions of the Company either via the Company's share registry or directly via the Company's website.

Monadelphous will endeavour, where practicable, to utilise technology to provide greater opportunity for more effective communication between the Company and its shareholders.

For further details, please refer to our Shareholder Communications Policy on our website.

On behalf of the Board



C. G. B. Rubino
Chairman
Perth, 15 October 2018