

austinengineering^{LTD}
ABN 60 078 480 136

2015 Annual Report

Austin Engineering Ltd Annual and Financial Report 2015

Chairman's Report

I am pleased to present my Chairman's Report to you, the owners of the Company. The year ended 30 June 2015, has again been a very difficult year. The results for the full year, when compared to the previous year, were flat with revenues of \$210m and normalised EBITDA of \$15m. The net loss after tax of \$49m was contributed to by impairment expenses of \$40.9m and restructuring and legal fees of \$6.9m.

The normalised EBITDA results in the Australian operations were substantially lower than the previous year due to the deferment of major capital replacement programs and cost reduction measures by the miners.

The Americas normalised results were in line with the 2014 year with a substantial improvement in South America, offset by a weaker North American result due to very soft demand in the USA. The Indonesian facility produced a very strong result from local markets and new clients in Africa.

We expect challenging conditions to continue in Australia, at least for the first half of the 2015/2016 financial year. I have said in previous years that it is not sustainable for the miners to continue deferring expenditure on replacement products, due to the wearing out of their equipment. This is still my very firm view. Austin's products and services are associated with the production from, and the expansion of, existing mines and as such are governed as much by the quantity of commodities extracted, as the price of the commodities.

In an attempt to counter the current lack of expenditure on replacement products the Company has moved to further increase exposure in the area of maintenance both for on and off site work. These maintenance contracts allow the Company to demonstrate the ability to offer further solutions for increased productivity, which in turn creates more production for the workshops.

The Company has budgeted for an increased full-year result in the 2015/2016 financial year, based on the amount of work in hand and the increased level of activity we are experiencing in our markets.

Prior to the end of the 2014/2015 financial year the company renegotiated its banking covenants and was in compliance with them at 30 June 2015.

The Company's level of net debt has been too high in the current earnings cycle and in July/August 2015 a capital raising of \$51.6m was undertaken.

This comprised of a fully underwritten pro-rata entitlement offer of \$31.6m and a subordinated loan of \$20m. The majority of these funds were used to reduce senior debt. We are planning to reduce these debt levels further during the 2015/2016 financial year.

Your Board has once again determined not to pay any dividend for the year, due to a continuation of low free cash flow and a desire to reduce the Company's debt levels.

I would like to welcome two new non-executive directors to your Company, Charlie Sartain and John Nicholls. Both of these individuals bring new geographical and industry experience to the Board. Their experience and qualifications are set out in the Directors' Report section of this Annual Report. With the addition of these two new directors and the successful completion of the Company's capital raising I have decided that I will not stand for re-election as a director at the upcoming AGM. I have been on the Board for over six years and Chairman for five. I am confident that the Company has a very bright future as it moves out of the current down cycle within the mining sector.

I would like to thank our Managing Director Mr Michael Buckland, his management and staff for their efforts throughout yet another difficult year. I would also wish to acknowledge the valuable support of our shareholders.

Austin Engineering Limited will hold its Annual General Meeting at 10.30am on Friday the 27th of November 2015 at the Four Seasons Hotel, Sydney. Your Directors look forward to meeting with shareholders and updating them on the progress of their company at that time.



Paul Reading
Non-Executive Chairman

Austin Engineering Ltd

Annual and Financial Report 2015

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Austin Engineering Limited and the entities it controlled during, and at the end of, the financial year ended 30 June 2015.

Directors

The following persons held the position of director throughout the course of the financial year and up to the date of this report, unless otherwise stated:

Managing Director:

Michael Buckland

Chairman and Independent Non-Executive Director:

Paul Reading

Independent Non-Executive Directors:

Eugene Fung

Peter Pursey

Charlie Sartain (appointed 1 April 2015)

John Nicholls (appointed 1 September 2015)

Secretaries

Scott Richardson

Jessica Neale

Principal Activities

The principal activities of the group during the financial year were the manufacture, repair, overhaul and supply of mining attachment products, general steelwork structures and other associated products and services for the industrial and resources-related business sectors.

Review of Operations and Results

	Year Ended 30 June 2015	Year Ended 30 June 2014
Revenue (\$m)	210.43	209.87
Statutory EBITDA (\$m) (refer note 24)	(32.79)	15.16
Normalised EBITDA (\$m)	15.02	15.16
Profit/(loss) before tax (\$m)	(49.65)	0.04
Net profit/(loss) after tax (\$m)	(49.33)	0.90
Basic earnings/(loss) per share (cents)	(58.54)	1.14
Net assets (\$m)	119.42	165.64
Final dividend per share (cents)	-	-
Total annual dividend per share (cents)	-	4.5

Operations

Conditions remained subdued within the mining industry despite a continuation of maintained/increased production levels across the commodity bases. The comparative financial performance reflects a stabilisation of the bottom of the market for the range of products and services Austin supply. We are seeing some increase in expenditure for replacement equipment and expect this to improve slowly over the next 18 months.

Australia:

Revenue for the Australian business units decreased by 15% over the previous year due mainly to the lack of new/replacement equipment orders. The WA operations performed well in the current environment, adding new clients and maintaining gross margins through design improvements and reductions in some of the key components of our products.

The East Coast operations were severely affected by the difficult economic conditions in the coal sector. Overall, the Australian operations received good levels of repair work but this was not enough to offset the under utilisation of the facilities.

Americas:

The Americas result has seen a 10% increase in revenue mainly through the Chilean and Colombian operations. The US operation was again affected by the alleged patent infringement and a significant drop-off in expenditure throughout the US and Canada. A positive for the US operation was receiving the first orders from Mexico. This is a new market and the operation expects further orders once our product provides the improvements we expect the mining companies to achieve.

The Chilean operations produced a much better result than the previous year with the Servigrut operation producing a result ahead of budget and both the La Negra manufacturing and Calama maintenance operations produced improved results. Particularly pleasing, was the number of long term contracts that the three Chilean divisions won during the year.

The Colombian operation produced a positive result on the back of new maintenance contracts and new product orders associated with these new clients.

The Peru operation suffered from a number of write-offs and a lower general level of orders. We do expect the Peru operation's performance to improve in the current year based on contracts/tenders in process.

Asia:

The group's Indonesian business unit on Batam Island produced a strong result, well ahead of budget. This was based on new clients out of Africa and manufacture of products for the local market.

Austin Engineering Ltd Annual and Financial Report 2015

Directors' Report (cont'd)

Operations (cont'd)

Overall Group Result:

NPAT of (\$49.3m) was down on the prior corresponding period, reflecting \$40.9m of impairment charges and \$6.9m combined costs of restructuring and Westech legal fees. A small tax credit was recorded for the year predominantly due to the overall net loss across the group during the period. Finance costs were higher than the prior year as a result of higher margins on interest rates on the syndicated facilities in FY15 and the full year effect of the financing of the acquisition of the Servigrut operation.

Financial Position

Net Assets:

Net assets of \$119.4m at June 2015 were down by 28% from \$165.6m at June 2014. The decrease reflects the impairment recorded and restructuring costs during the period. At June 2015 the net tangible asset backing per share of 71.3c was down from 87.9c for the June 2014 full-year period.

Cash Flow, Liquidity and Debt:

Operating cash flows for the full-year to June 2015 were positive \$3.6m, which is consistent with operational activity in the period and represents a \$10.1m increase from June 2014.

Non-operational cash flows for the full-year included \$3.4m spent on capital expenditure projects, mainly in relation to equipment for a new contract in Colombia and other minor purchases across the group. Other non-operating cash flows included \$4.3m of funds released from escrow in relation to land in Calama, Chile and net repayments of finance facilities of \$9.1m.

During FY15, the Company recorded an overall cash outflow of \$4.7m.

The net gearing ratio (net debt/net debt plus equity, including the value of issued bank guarantees) of 44.5% was up from 35.7% at June 2014.

Business Strategies

With mining companies conserving capital expenditure and relying on operating expenditure to meet ongoing production levels, Austin has focused its businesses on adding value and productivity for our clients. The company made the strategic decision 18 months ago to push into the maintenance/repair of equipment to compensate for the reduction in new/replacement equipment. The intention was to present Austin as a service provider that can add value for clients through innovation and engineered solutions using our product knowledge.

We have seen an increase in the number of long term contracts awarded over the last 18 months and an increase in the amount of off-site repairs thanks largely to this shift in emphasis. It is the company's intention to continue with this strategy, which also better positions Austin for the inevitable replacement of equipment, as we are "on-site", demonstrating our capabilities.

We have seen an increase in the number of long term contracts awarded over the last 18 months and an increase in the amount of off-site repairs thanks largely to the value added ideas coming from our people within the various operations. It is the company's intention to continue with this strategy as it also puts us in a better position for the replacement of equipment as we are "on-site".

Further acquisitions or initiatives which are presented to the company will be assessed on a case by case basis.

Prospects for Future Financial Years

An increase in the amount of work on hand in late FY15 and early FY16 has allowed the Company to enter the new financial year with the highest level of work on hand for over 2 years. The South American operations are expected to perform well based on current contracts, although a continuation of orders for the La Negra and Peru operations is needed.

The Perth operations are expected to produce a result at least on par with previous results, with encouraging levels of orders recently secured. The Brisbane operation has had a good start to the year with good work-loading although, further orders need to be won for it to maintain these levels. The Company's maintenance operations in Mackay and Hunter Valley continue to operate at subdued levels with coal operators reducing all form of expenditure, although recent large orders for replacement equipment (first of this type in 18 months) are more encouraging.

Indonesia is expected to produce a result slightly below the previous year due mainly to a slow first 3 months to FY16 with current orders due for delivery after this period.

The US operation has tendered a number of projects however all clients seem to be delaying expenditure as long as possible. We have seen a significant reduction in the number of employees in the US operation and this may reduce further during FY16.

Since the end of FY15, Austin has seen a \$47.15m reduction in senior debt levels from the Capital Raising conducted in July/August. We expect to further reduce debt over the coming year. Austin will also continue to design innovative new products to add to our current product range. To date we have seen good market acceptance of our new products. We will also see a continued focus on base maintenance/repair contracts to build on the sustainable base for the future.

Business Risks

Austin's business activities are intrinsically linked to international commodities markets and economic and business conditions associated with these. The achievement of the targeted financial result for FY16 is largely linked to a continuation of current levels of work with a slight increase in the second half in business conditions.

Dividends

Interim and final dividends have not been declared for the year ended 30 June 2015 due to the reduced NPAT level.

Austin Engineering Ltd Annual and Financial Report 2015

Directors' Report (cont'd)

After Balance Date Events

Capital raising

Subsequent to the end of the financial year the company undertook a \$51.6 million capital raising comprising:

- A fully underwritten pro-rata accelerated non-renounceable entitlement offer that raised approximately \$31.6 million before costs. The entitlement offer comprised an institutional offer that raised \$19.1 million and a retail offer that raised \$12.5 million (comprising \$3.6 million from retail shareholders and \$8.9 million from shares placed under the retail shortfall). A total of 70,228,337 new ordinary shares were issued at an issue price of \$0.45 per share. The shares issued rank equally with existing fully paid ordinary shares.
- A subordinated loan of \$20 million provided by LIM Asia Special Situations Master Fund Limited (LIM). The loan was fully drawn down on 29 July 2015. The loan bears interest at 9% per annum, is secured by a second ranking general security over the company and is repayable within 36 months from the date of the draw down. Further to this, LIM was issued 12 million options on 29 July 2015, expiring on 31 July 2018 at various exercise prices (4 million options exercisable at \$0.60; 6 million options exercisable at \$1.00; 2 million options exercisable at \$1.75), as part consideration for the subordinated loan.

Senior facility

- \$45 million of the proceeds from the capital raising were used to reduce senior debt.
- After payment of the initial \$45 million in reduction of the senior debt, the Group applied a further \$2.15 million to the senior debt (bringing the total post capital raising prepayment to \$47.15 million, refer note 27) and the senior lenders agreed to vary the minimum adjusted EBITDA and interest cover ratio covenants in senior facility documents.
- The Group has committed to a further prepayment by the end of the calendar year if requested by the senior lenders.

Working capital position

The Directors have prepared the financial report on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary normal course of business.

In accordance with the company's debt reduction strategy agreed to with its senior lenders on 30 June 2015, the group undertook to repay \$45 million of the senior debt by 30 September 2015 (as disclosed in note 27). The company has utilised the proceeds from the capital raising undertaken subsequent to the end of the financial year (refer note 27) to fund the debt repayment.

Due to the delay in timing between the date to repay the banks and the receipt of funds from the Capital Raising, as at 30 June 2015 the group had net current liabilities of \$23.629 million. This working capital deficit is solely attributable to \$45 million of the senior debt being disclosed as a current liability. In addition to the \$45 million, the group has also repaid an additional \$2.15 million subsequent to balance date. The \$47.15 million was repaid during July and August 2015 (as disclosed in note 27) and there is now a surplus of current assets to current liabilities.

The directors expectations of returning to profitability and continued compliance with banking facility covenants is based on approved budgets and forecasts. These forecasts are necessarily based on best-estimate assumptions that may or may not occur as expected and are subject to influences and events outside the control of the group. The forecasts, take into account reasonably possible changes in trading performance.

The Directors are of the opinion that the use of the going concern basis of accounting is appropriate as they are satisfied that the group will be able to implement the debt reduction strategy and return to profitability.

Corporate Social Responsibility & Sustainability

Environmental Management Systems

All of the Company's COR Cooling business units as well as the Colombia and Chilean facilities are accredited to ISO 14001 Environmental systems. This standard gives the Company particular tools which allow the Company to manage its environmental responsibilities appropriately. It is the intention of the Company to accredit the remaining facilities to this standard over the next 12 months.

The facilities yet to receive ISO 14001 accreditation currently meet all internal company requirements and standards for Environmental management.

Environmental Regulations

The group has blasting and painting facilities at its Brisbane operation and these are subject to environmental regulation. A licence to operate this facility has been granted. There have been no significant known breaches of the group's licence conditions or any environmental regulations to which it is subject.

Social Responsibility

Austin Engineering operates in a number of countries in remote areas and near local communities.

Austin's approach is:

- We identify the communities and stakeholders associated with our operations and relate to them in a matter that is culturally appropriate;
- We access and manage any impact our work may have on the local communities;
- We work with the local community and regional Governments to support that community by way of employment/training of local people; and
- We seek to enhance the local community by way of funds for advancement of local initiatives.

**Austin Engineering Ltd
Annual and Financial Report 2015**

Directors' Report (cont'd)

Information on Directors

Michael Buckland, Managing Director since 2003

Michael Buckland is a mechanical engineer with over 29 years of experience encompassing operational, business development and senior management positions with several large engineering organisations. He held a variety of general management positions with the ANI Group from 1979 to 1998, which were chiefly within fabrication and engineering operations in Australia and overseas. He served as chief executive officer of Kirkfield Engineering and Construction Pty Ltd and Minproc Ghana Pty Ltd from 1998 to 2000 and was chief executive officer of aiEngineering Pty Ltd from 2000 to 2001. He was a director of West Australian Metals Ltd from January 2003 to March 2004.

Qualifications: B.Eng (Mechanical)

Directorships held in other listed entities: none.

Former directorships in last 3 years: none.

Special responsibilities: Managing Director.

Interests in shares, options and rights at 30 June 2015: 3,817,000 ordinary shares, 100,000 performance shares and 164,672 performance rights.

Paul Reading, Non-Executive Director from 1 January 2009 to 26 November 2010 and Non-Executive Chairman thereafter

Paul Reading is an experienced company director who has sat on a number of boards both in Australia and overseas. He has a commercial background and his executive career was spent in the manufacturing and heavy engineering industries. He was the principal of a business advisory and consulting company that provides assistance and advice relating to the management and operational issues of varying types of businesses. He was also a consultant to the Sydney Organising Committee for the Olympic Games (SOCOG) for three years, prior to becoming Group General Manager - Commercial & Marketing for that organisation. He held senior finance positions with Australian National Industries Limited (ANI) from 1978 until 1995, including five years as finance director.

Qualifications: FCPA, CA, FAICD

Directorships held in other listed entities: none.

Former directorships in last 3 years: none.

Special responsibilities: Chair of the board, member of audit committee and member of nomination and remuneration committee.

Interests in shares and options at 30 June 2015: 100,000 ordinary shares.

Peter Pursey, AM, Non-Executive Director since 2004

Peter Pursey is an experienced company director of both listed and non-listed public companies. In the last decade his commercial interests have included the resources, energy, defence and pharmaceutical industry sectors. He is experienced in executive management, leadership, strategic planning and capital raising and remains active in those business roles. He is a Member of the Australian Institute of Company Directors and a Fellow of the Australian College of Defence and Strategic Studies.

Qualifications: MBA, ACDSS, psc

Honours and Awards: Order of Australia (AM).

Directorships held in other listed entities: none.

Former directorships in last 3 years: Non-executive director and chairman of Redflow Ltd from July 2010 to January 2012.

Special responsibilities: Chair of audit committee.

Interests in shares and options at 30 June 2015: 1,003,010 ordinary shares.

Eugene Fung, Non-Executive Director since 2004

Eugene Fung is a corporate lawyer and partner of a national law firm. He advises both listed and unlisted companies regularly on corporate finance matters, mergers and acquisitions, corporate governance and the ASX listing rules. He is a member of the Australian Institute of Company Directors and is a Fellow of the Financial Services Institute of Australasia and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia (now FinSIA).

Qualifications: B. Com (Bachelor of Commerce), LL.B (Hons) (Bachelor of Laws), Grad Dip (Applied Finance and Investment)

Directorships held in other listed entities: none.

Former directorships in last 3 years: none.

Special responsibilities: Member of audit committee and Chairman of Nomination and Remuneration Committee as of 1 July 2012.

Interests in shares and options at 30 June 2015: 786,831 ordinary shares.

Charlie Sartain, Non-Executive Director since 2015

Charlie Sartain is a mining engineer with more than 30 years' experience in the mining industry. In the earlier part of his career Charlie had extensive executive experience in MIM Holdings Limited culminating in his appointment as its most senior executive in Latin America. After the takeover of that company by Xstrata Plc he then spent nine years as CEO of Xstrata's global copper business, which became Xstrata's most profitable commodity division, with operations and projects spanning eight countries. Charlie is currently a Member of the University of Queensland Senate, Chairman of the Advisory Board of the Sustainable Minerals Institute and a Board member of the Wesley St Andrews Research Institute.

Qualifications: B. Eng (Bachelor of Engineering (Hons)(Mining), University of Melbourne; Fellow, Australasian Institute of Mining and Metallurgy; Fellow, Australian Academy of Technological Sciences and Engineering.

Directorships held in other listed entities: ALS Limited.

Former directorships in last 3 years: none.

Special responsibilities: none.

Interests in shares and options at 30 June 2015: nil.

Austin Engineering Ltd Annual and Financial Report 2015

Directors' Report (cont'd)

Information on Directors (cont'd)

John Nicholls, Non-Executive Director since 1 September 2015

John Nicholls has established manufacturing businesses throughout Asia including those engaged in steel fabrication. He has had a long association with the mining industry domestically and internationally as a senior executive and a Director of companies engaged in the sector. Additionally, he has extensive Public and Private company experience as a Director since 1995 and prior to that as a Director of subsidiaries/associates of public companies in various jurisdictions.

Qualifications: B. Com (Bachelor of Commerce), MBA

Directorships held in other listed entities: E&A Ltd.

Former directorships in last 3 years: none.

Special responsibilities: none.

Interests in shares and options at 1 September 2015: 242,000 ordinary shares.

Information on Company Secretaries

Scott Richardson, Co-Company Secretary since 13 January 2014

Scott Richardson (B.Bus (Accounting), GDBA, FCPA) is Chief Financial Officer and Company Secretary and is a fellow of CPA Australia. Scott has over 20 years' experience in various senior financial roles with other large Australian companies including Brambles, Downer EDI, Macarthur Coal and BGW Group.

Jessica Neale, Co-Company Secretary since 22 November 2013

Jessica Neale (B.ECom (Accounting), CA) is a Chartered Accountant with over 9 years' experience in accounting firms and commerce.

Audited Remuneration Report

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Austin Engineering Limited's key management personnel for the financial year ended 30 June 2015. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, including any director (whether executive or otherwise) of the group.

Voting and comments made at the company's 2014 Annual General Meeting:

At the last Annual General Meeting in November 2014, the company received 98% of 'for' votes in relation to its remuneration report for the year ended 30 June 2014. The company did not receive any specific feedback at the Annual General Meeting regarding its remuneration practices.

The remuneration report in pages 6 to 14 communicates, in clear and concise terms, the basis for determining short and long-term incentives paid to key management personnel and the link between these and the performance of the company, as delivered through increased profitability, net worth and dividends paid to shareholders.

Principles used to determine the nature and amount of remuneration

The objective of the group's remuneration policy is to ensure it is competitive and appropriate for the results delivered. The remuneration of senior executives is reviewed annually by the board through a process that considers the performance of individual business units and the overall performance of the group. In addition, external analysis and advice is sought by the board, where considered appropriate, to ensure that the remuneration for directors and senior executives is competitive in the market place. The policy attempts to align executive reward with the achievement of strategic objectives and the creation of value for shareholders. The major features are:

- Economic profit is a core component
- Attract and retain high quality executives
- Reward capability and experience
- Reflect competitive rewards for contributing to growth in shareholder's wealth
- Provide recognition for contribution

Non-executive directors:

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors and their contribution towards the performance of the group.

Non-executive directors' fees and payments are reviewed annually by the board. Non-executive directors' fees are determined with an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$500,000 and was approved by shareholders at the general meeting on 23 November 2012. The total directors' fees paid during the financial year ended 30 June 2015 was \$302,500 (2014: \$255,000).

In order to align the interests of shareholders and non-executive directors, in the past the group has granted options over unissued shares to non-executive directors, but subject to shareholder approval. No options were granted to non-executive directors in the reporting period.

Key management personnel - executive directors and senior executives:

All remuneration paid to executive directors and senior executives is valued at cost and comprises of three components:

- Base pay and benefits
- Short-term performance incentives
- Long-term incentives through the issue of options and performance rights

Base pay and benefits:

Executive directors and senior executives are offered a competitive base pay with due regard to current market rates. This base pay is calculated on a total cost basis and may include charges associated with the provision of a motor vehicle, including FBT charges, as well as employer contributions to superannuation funds. The remuneration of executive directors is reviewed annually by the board and the remuneration of senior executives is reviewed annually by the managing director. There is no guaranteed base pay increases included in any executive directors or senior executive contracts.

Austin Engineering Ltd Annual and Financial Report 2015

Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

Principles used to determine the nature and amount of remuneration (cont'd)

Short-term incentives:

Executive directors

The managing director is the only executive director. He is eligible for short-term incentive cash bonus payments based on the achievement of the KPIs as specified in his executive service agreement. The key KPIs link remuneration to increased profitability and net worth to shareholders. No bonus is awarded where performance falls below the minimum acceptable KPI levels. Accordingly, the KPIs are structured as follows:

Financial performance incentives:

Business units meeting annual budgeted profit: The overall success of the group is inherently linked to improved profit performance. This in turn is reliant upon the company's core operations and its principal business units delivering planned financial performance in any given year. At the outset of each financial year a budget is established for each business unit which recognises, amongst other things, the results achieved in the previous financial year, desired productivity improvement targets, identified business growth plans and industry and general business conditions. Based on these factors a challenging but achievable EBITDA budget is set by the Board for each financial year and actual performance is measured against it.

The use of EBITDA is considered an appropriate measure as it is a reliable indicator of core operating performance that can be easily determined and benchmarked. The Company must pay an annual bonus for each business division which, based on audited accounts, achieves its budgeted EBITDA. The percentage of base salary will be the same as the percentage EBITDA contributions of the relevant business divisions to the total EBITDA budget approved by the Board subject to a maximum of 60% of base salary.

No cash bonus was paid in the year ended 30 June 2015 in relation this KPI.

- Company as a whole meeting budgeted profit: In addition to the principal business unit groups meeting budget, the overall company is required to meet budgeted profitability. This KPI is measured in terms of net profit before tax (NPBT) as it recognises underlying core performance as well as the effective utilisation of working capital, resources and facilities and the impacts of financing and funding costs at a group level. Similar to the budget setting process for business units meeting annual budget, the NPBT budget set for a particular financial year recognises the financial performance of the overall group achieved in the previous financial year, likely business conditions, and growth plans as reviewed, approved and set by the Board. The cash bonus payable in relation to this KPI is 10% if the budget is achieved. If the actual results achieved are at least 10%, 20% or 30% over budget, an additional 10% is paid for the achievement of each level, subject to an overall maximum of 30%.

No cash bonus was paid in the year ended 30 June 2015 in relation this KPI.

- Business development: The ongoing development and growth of the company through acquisitions of other domestic and international business is a key objective. The overall company's growth since 2004 has been marked by strategic acquisitions which have delivered increased profitability through the expansion of operations and the supply of the company's products and services globally. This KPI requires that any acquisition or new business operation made in a financial year exceeds budgeted financial performance, measured in terms of EBITDA, in the first full year after the date of completion. The use of EBITDA is considered an appropriate measure as it is a reliable indicator of core operating performance that can be easily determined and benchmarked. The cash bonus payable in relation to this KPI is a maximum of 10% of base salary.

No cash bonus was paid in the year ended 30 June 2015 in relation this KPI.

Market capitalisation incentive (Performance Shares):

The delivery of increased worth to shareholders is also an important and key objective. In recognition of this, a market capitalisation incentive, measured in terms of delivering a target company share price, has been established. This assesses company performance through its share price relative to industry peer groups and aligns it with increased shareholder value.

The managing director, after the end of any financial year, is entitled to 50,000 ordinary shares in the company at nil cost where the volume weighted average price ('VWAP') of the company's shares in the twenty trading days after the release of the company's full year final audited financial statements exceeds a pre-determined target share price. The target share price is calculated as follows:

Target Price = Forecast NPAT x 105% x Multiple ÷ Shares on issue

Where:

'Forecast NPAT' means the higher of net profit after tax of:

- 115% of the budget NPAT adopted by the Board for the financial year preceding the date of calculation of the target price; or
- 115% of the actual NPAT of the company as disclosed in the audited financial statements for the financial year preceding the date of calculation of the target price.

'Multiple' means the average price earnings multiple during the period from the date of lodgement of the company's Appendix 4E - preliminary final report with ASX through to the end of VWAP period, of a group of peer companies (including Bradken Limited, Imdex Limited, RCR Limited, Ausenco Limited and NRW Holdings Limited) based on the NPAT of those companies in their financial years preceding the date of calculation of the target price.

'Shares on Issue' means the total number of shares on issue as at the end of the financial year preceding the date of calculation of the target price.

The setting of a KPI on this basis recognises the importance of shareholder value as delivered through the company's market share price.

This KPI was not met in relation to the financial year ended 30 June 2014, as the required share price performance hurdle was not met and the shares were not issued.

**Austin Engineering Ltd
Annual and Financial Report 2015**

Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

Principles used to determine the nature and amount of remuneration (cont'd)

Short-term incentives:

Senior executives

Short-term incentives paid to senior executives are made on a discretionary basis as determined by the managing director. These incentives, while not guaranteed, are directly linked to the achievement of budgeted profit on similar principles to those for executive directors as well as various performance targets for each area of operational responsibility, including the preparation and delivery of reports on time and meeting industry targets and standards in relation to workplace health and safety. No bonus is awarded where performance falls below the minimum acceptable KPI levels as determined by the Board or the managing director.

Long-term incentives:

Long-term performance incentives are delivered through the grant of options and performance rights to executive directors and selected senior executives from time to time as part of their remuneration. In the past options have also been provided to non-executive directors as part of their remuneration but were only, and can only be, granted subject to shareholder approval.

(i) Options

The issue of options is based upon a number of factors including, but not limited to:

- Achievement of financial performance, financial position and liquidity exceeding approved internal budgets
- Comparison to other similar companies in related business segments and industries
- Development of the company share price and payment of dividends
- Obtaining benchmarking advice from independent professional advisors where appropriate

Options are considered to be an appropriate long-term incentive as they align the interest and objectives of directors, executives and shareholders through the delivery of increased net worth and shareholder returns. Options issued to directors require the approval of shareholders in general meeting whilst options issued to executives must be approved by the Board. The issue of options is generally subject to the operation of a two-year vesting period linked to continuing employment with the company. This is considered to be a sufficient period of time within which improvements in performance and the delivery of increased shareholder value can be measured and returned. The exercise price of options is determined in relation to value of the company's share price at the date of grant, uplifted for expected and required share price growth during the vesting period in recognition of the company's growth and business development objectives. The setting of the exercise price is challenging but achievable, as demonstrated by the issue of \$4.50 options on 26 March 2010 when the company's current share price was \$3.20, an uplift of approximately 41%. Options are issued to executives who are in a position to have a significant influence on the execution and delivery of the company's growth and business development plans.

(ii) Performance rights

On 30 September 2014, the company announced that it would be proceeding with the Austin Engineering Ltd (Austin) Performance Rights Plan, instead of issuing options. The Performance Rights Plan is a long term incentive aimed at creating a stronger link between employee performance and reward and increasing shareholder value by enabling senior executives to have greater involvement with, and share in the future growth and profitability of the company.

The maximum number of Performance Rights to be granted to the Managing Director and the Executives are 164,672 and 985,627 Performance Rights respectively. The proposed grant of Performance Rights to the Managing Director was approved at the 2014 Annual General Meeting. The grant of Performance Rights to Executives did not require shareholder approval.

On 21 November 2014 and 25 September 2014 the Managing Director and the Executives were granted 164,672 and 985,627 performance rights respectively. The performance rights were granted in two tranches. The first tranche of 281,773 performance rights is for the performance period 1 July 2013 to 30 June 2016 and the second tranche of 868,526 performance rights is for the performance period 1 July 2014 to 30 June 2017. The performance rights expire on 25 September 2019. The performance rights were granted on the terms and conditions of the company's Performance Rights Plan.

Performance conditions

For each tranche of performance rights:

- 50% will vest on meeting a relative Total Shareholder Return (TSR) target (TSR Performance Rights); and
- 50% will vest on meeting a relative Earnings Per Share (EPS) growth target (EPS Performance Rights).

Relative TSR performance criteria

50% of each tranche of performance rights granted to Michael Buckland and the Executives is subject to a Relative TSR Performance Condition over its respective performance period.

TSR performance criteria is determined by comparing the company's performance to the performance of a group of peer companies selected by the Board (Peer Group).

These Performance Rights will vest as follows:

TSR relative to Peer Group	% of Performance Rights assessed under TSR Performance Conditions to vest
Company ranks in top half of the Peer Group	50%
Company outperforms all members of the Peer Group	100%

TSR will be calculated by the Board as the difference in share price over the Performance Period, plus the value of shares earned from notionally reinvesting dividends received over this period, expressed as a percentage of the share price at the beginning of the Performance Period. The TSR will be determined in each case on the following basis:

- A. dividends are re-invested on the ex-dividend date;
- B. share prices are calculated as the volume weighted average sale price of shares on the ASX for the 3 months preceding the start of the Performance Period and for the 3 month period up to and including the end of the Performance Period;
- C. tax and franking credits (or similar) will be ignored; and
- D. the Board has the discretion to disregard any abnormal, non-recurring or one-off items.

Austin Engineering Ltd
Annual and Financial Report 2015

Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

Principles used to determine the nature and amount of remuneration (cont'd)

Long-term incentives: (cont'd)

(ii) Performance rights (cont'd)

Relative EPS performance criteria

50% of each tranche of performance rights granted will be subject to a Relative EPS Growth Performance Condition over its respective performance period.

These Performance Rights will vest as follows:

EPS Growth relative to Peer Group	% of Performance Rights assessed under EPS Growth Performance Conditions to vest
Company ranks in top half of the Peer Group	50%
Company outperforms all members of the Peer Group	100%

EPS will be determined by the Board in accordance with Accounting Standards AASB 133 *Earnings per share*. In determining EPS, the Board has the discretion to disregard earnings reasonably attributable to businesses acquired by the group after 1 July 2013 and /or abnormal one off events.

Performance indicators:

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth since 2011 and forms the background against which short-term incentives and also long-term incentives through the grant of options, over the relevant periods has been considered:

	30 June 2015	30 June 2014	30 June 2013	30 June 2012	30 June 2011
Revenue (\$000s)	210,426	209,870	288,838	290,097	203,714
Earnings before interest, tax depreciation and amortisation ('EBITDA' \$000s)	(32,789)	15,162	51,118	50,109	35,705
Normalised EBITDA (\$000s)	15,024	15,162	51,118	50,109	35,705
Profit/(loss) after tax (\$000s)	(49,332)	896	28,442	29,580	21,468
Share price at start of year (\$)	1.61	3.15	4.30	4.84	3.33
Share price at end of year (\$)	0.48	1.61	3.15	4.30	4.84
Interim dividend - fully franked (cents)	-	4.5	4.5	3.5	3.0
Final dividend - fully franked (cents)	-	-	10.5	10.5	8.5
Basic earnings/(loss) per share (cents)	(58.54)	1.14	39.18	41.00	30.37
Diluted earnings/(loss) per share (cents)	(58.54)	1.14	38.61	40.16	29.29

Despite fluctuations in the company's share price, which have been influenced by wider global economic issues particularly in relation to growth and demand for commodities from China and other emerging economies, over the period 2007 to 2015 compounded annual growth of 18% has been returned for revenue and 9% for normalised EBITDA. These growth rates of normalised EBITDA were affected by the mining downturn during the 2015 financial year and as a result, are lower than those reported last year. The growth of operations into existing and emerging markets will continue to be a primary focus and the full benefits of expansion into South America and Indonesia continue to be realised over coming years.

Use of remuneration consultants:

The company did not engage remuneration consultants during the financial year ended 30 June 2015.

Details of remuneration of key management personnel

The following tables show details of the remuneration received by Austin Engineering Limited non-executive directors, executive directors and other key management personnel of the group for the current and previous financial year. The names of the directors of Austin Engineering Limited and their position are set out on pages 5 and 6 above.

The other key management personnel of the group consisted of the following 'senior executives':

Scott Richardson - Chief Financial Officer and Company Secretary (appointed 13 January 2014)

Steve Shellenberger - President and Chief Executive Officer, Western Technology Services International, Inc.

Steve Warner - Operations Executive

Warren Arthur - Chief Executive Officer, COR Cooling Pty Ltd

Austin Engineering Ltd
Annual and Financial Report 2015

Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

Details of remuneration of key management personnel (cont'd)

Amounts paid or payable (in round dollars) or otherwise made available to directors and senior executives were:

	Short-Term Benefits			Post-Employment Benefits		Long-Term Benefits	Share Based Payments - Equity Settled		Total	Total % Performance Related	Total % Options & Rights Related
	Salary & Fees	Cash Bonus	Other	Super-annuation	Termination Benefits	Leave	Shares	Options & Rights ⁷			
2015:											
<i>Executive Director:</i>											
Michael Buckland	786,596	-	35,004	-	-	53,967	-	25,011	900,578	-	3
<i>Non-Executive Directors:</i>											
Eugene Fung	52,500	-	-	30,000	-	-	-	-	82,500 ⁶	-	-
Peter Pursey	61,644	-	-	25,856	-	-	-	-	87,500 ⁶	-	-
Paul Reading	76,250	-	-	35,000	-	-	-	-	111,250 ⁶	-	-
Charlie Sartain ¹	19,406	-	-	1,844	-	-	-	-	21,250	-	-
	<u>209,800</u>	<u>-</u>	<u>-</u>	<u>92,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>302,500</u>		
<i>Senior Executives:</i>											
Scott Richardson	368,334	-	-	25,000	-	318	-	15,684	409,336	-	4
Steve Shellenberger	349,238	-	-	11,664	-	(3,951)	-	13,484	370,435	-	4
Steve Warner	197,821	-	-	34,800	-	14,147	-	9,074	255,842	-	4
Warren Arthur	297,565	79,768 ²	-	35,000	-	8,398	-	12,799	433,530	19	3
	<u>1,212,958</u>	<u>79,768</u>	<u>-</u>	<u>106,464</u>	<u>-</u>	<u>18,912</u>	<u>-</u>	<u>51,041</u>	<u>1,469,143</u>		
Total	<u>2,209,354</u>	<u>79,768</u>	<u>35,004</u>	<u>199,164</u>	<u>-</u>	<u>72,879</u>	<u>-</u>	<u>76,052</u>	<u>2,672,221</u>		
2014:											
<i>Executive Director:</i>											
Michael Buckland	736,600	144,000 ⁵	35,004	50,000	-	22,132	-	-	987,736	15	-
<i>Non-Executive Directors:</i>											
Eugene Fung	68,804	-	-	6,196	-	-	-	-	75,000	-	-
Peter Pursey	73,396	-	-	6,604	-	-	-	-	80,000	-	-
Paul Reading	91,743	-	-	8,257	-	-	-	-	100,000	-	-
	<u>233,943</u>	<u>-</u>	<u>-</u>	<u>21,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>255,000</u>		
<i>Senior Executives:</i>											
Scott Richardson ³	158,794	-	-	11,975	-	17,239	-	-	188,008	-	-
Colin Anderson ⁴	151,110	-	-	13,978	-	11,739	-	-	176,827	-	-
Steve Shellenberger	310,357	137,285 ⁵	1,725	11,645	-	6,631	-	-	467,643	29	-
Steve Warner	197,000	9,153 ⁵	-	19,069	-	19,916	-	-	245,138	4	-
Warren Arthur	288,330	-	-	26,670	-	9,572	-	-	324,572	-	-
	<u>1,105,591</u>	<u>146,438</u>	<u>1,725</u>	<u>83,337</u>	<u>-</u>	<u>65,097</u>	<u>-</u>	<u>-</u>	<u>1,402,188</u>		
Total	<u>2,076,134</u>	<u>290,438</u>	<u>36,729</u>	<u>154,394</u>	<u>-</u>	<u>87,229</u>	<u>-</u>	<u>-</u>	<u>2,644,924</u>		

¹ Charles Sartain was appointed a Director on 1 April 2015

² Cash bonus payments are in relation to the achievement of KPIs for the financial year ended 30 June 2014

³ Scott Richardson commenced employment on 13 January 2014

⁴ Colin Anderson resigned on 29 November 2013

⁵ Cash bonus payments are in relation to the achievement of KPIs for the financial year ended 30 June 2013

⁶ The non-executive director fee increases were the first since December 2010

⁷ See pages 12 and 13 for further details

No key management personnel appointed during the period received a payment as part of their consideration for agreeing to hold the position.

**Austin Engineering Ltd
Annual and Financial Report 2015**

Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

Details of remuneration of key management personnel (cont'd)

On 21 November 2014, the issue of 150,000 performance shares to Michael Buckland was approved by shareholders in general meeting, pursuant to the executive services agreement entered into with Michael Buckland on 4 April 2011 and which was extended on 8 July 2014 to 30 June 2016. This executive services agreement includes an equity based remuneration component comprising of the issue of 50,000 shares to Michael Buckland in respect of each of the financial years ending on 30 June 2014, 2015 and 2016 (collectively the Bonus Shares). The issue of the Bonus Shares, which is dependent upon the achievement of certain performance targets and requirements, as described on page 7, is at no cost to Michael Buckland. The equity based remuneration component of the executive services agreement is a continuation of Michael Buckland's previous remuneration structure.

The shares relating to the 2014 financial year were not issued to Michael Buckland as the share price performance hurdle was not met.

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the company, and other key management personnel are detailed below.

	Included in remuneration \$	% vested in year*	% forfeited in year
<i>Senior Executives:</i>			
Warren Arthur	79,768	100	0

* The bonuses were paid on the achievement of predetermined profit and business development KPI targets set for the financial year ended 30 June 2014. No part of the bonus is payable in future years.

Service agreements

Remuneration for executive directors and senior executives are formalised in service agreements and employment contracts, see page 10 for the details of the amounts paid or payable.

Michael Buckland, Managing Director, has an executive service agreement which was extended on 8 July 2014 to 30 June 2016. The agreement can be terminated by Michael Buckland upon providing six months notice. The agreement can also be terminated by Michael Buckland on one month notice, with payment of salary and superannuation that would have been paid for the remainder of the term of the agreement plus any incentive bonuses calculated on a pro-rata basis to the date of termination:

- Anytime within six months after a change in control; and
- After a change in control, upon giving notice to the company of a failure to rectify a dissatisfaction with the agreement or agreeing to changes in order to continue employment with the company.

The company can terminate the agreement under the following conditions:

- After the end of the term of the agreement, incapacitation by illness or accident and non-performance - three months notice or payment of salary and superannuation in lieu of notice; and
- Misconduct - immediate termination.

The terms of this termination arrangement were a continuation of Michael Buckland's previous executive service agreement.

Scott Richardson, Chief Financial Officer and Company Secretary (from 13 January 2014), has an employment contract with Austin Engineering Limited dated 18 November 2013. There is no prescribed duration in the contract, which can be terminated with three months' notice by either party. If a change of control occurs and Mr Richardson's employment is terminated within nine months, other than by reason of a breach or default, then the company must pay Mr Richardson his total salary package as at termination including all leave and other entitlements up to and including the date of termination and an amount equal to 12 month's remuneration. If Mr Richardson's employment is terminated by the liquidation of the company for the purpose of restructuring or amalgamation, then he must be offered employment on terms and conditions no less favourable than his current terms of employment or the company must pay Mr Richardson his total salary package as at termination including all leave and other entitlements up to and including the date of termination and an amount equal to 12 month's remuneration.

Steve Shellenberger has an employment agreement with Western Technology Services International, Inc. dated 15 November 2010. The employment term under the agreement lasts until 15 November 2011 and automatically renews for a one year period. Mr Shellenberger may terminate the agreement upon sixty days advance notice, in which case the company will pay him his base salary through the last date of his employment. If he terminates the agreement after the company has adversely changed the conditions of his employment such as to give him good cause to do so, the company will pay him a lump sum equal to his base salary and bonuses through the end of the employment term and a severance payment equal to one year base salary. The company may terminate the agreement without advance notice and pay Mr Shellenberger his base salary through the last day of his employment in the case of termination for inability to perform or for cause. If the company terminates the agreement for any other reason, it will pay him a lump sum equal to his base salary and bonuses through the end of the employment term plus a severance amount equal to one year's base salary.

Steve Warner has an employment contract with Austin Engineering Limited dated 17 March 2008. There is no prescribed duration in the contract, which can be terminated with one month's notice by either party. There is no provision in the contract for a payout on termination other than accrued pay, leave entitlements or other statutory payments.

Warren Arthur has an employment contract with COR Cooling Pty Ltd dated 31 January 2013. There is no prescribed duration in the contract, which can be terminated with three months' notice by either party. There is no provision in the contract for a payout on termination other than accrued pay, leave entitlements or other statutory payments.

Austin Engineering Ltd
Annual and Financial Report 2015

Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

Share-based compensation

Options:

There were no options issued to directors of Austin Engineering Limited and other key management personnel of the Group as part of compensation during the year ended 30 June 2015 (2014: Nil).

There were no options that lapsed during the year ended 30 June 2015 due to a failure to satisfy a vesting condition.

Performance shares:

The number of Performance Shares granted to and vested by the Managing Director of Austin Engineering Limited is set out below:

Name	Number of performance shares granted during the year 2015	Number of performance shares vested during the year 2015
<i>Executive Director</i> Michael Buckland	150,000	-

Value of performance shares granted, vested and lapsed for the Managing Director of Austin Engineering Limited as part of compensation during the year ended 30 June 2015 is set out below:

Name	Fair value of performance shares at grant date	Value of performance shares vested during the year	Value of performance shares lapsed during the year	Total percentage of performance shares vested during the year
	\$	\$	\$	%
<i>Executive Director</i> Michael Buckland	12,600	-	-	-

There were no performance shares granted to other key management personnel of the Group as part of compensation during the year ended 30 June 2015 (2014: nil).

The fair value of each performance share has been determined as follows:

Name	Year	Number of shares	Fair value per instrument
			\$
<i>Executive Director</i> Michael Buckland	2014	50,000	0.000
	2015	50,000	0.097
	2016	50,000	0.155

Performance rights:

The number of Performance Rights over ordinary shares granted to and vested by the Managing Director of Austin Engineering Limited and each of the key management personnel of the group are set out below:

Name	Number of rights granted during the year 2015	Number of rights vested during the year 2015
<i>Executive Director</i> Michael Buckland	164,672	-
<i>Senior Executives</i> Scott Richardson	79,518	-
Steve Shellenberger	68,086	-
Steve Warner	45,955	-
Warren Arthur	64,658	-

Values of performance rights over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2015 are set out below:

Name	Fair value of rights at grant date	Value of rights vested during the year	Value of rights lapsed during the year	Total percentage of performance rights vested during the year
	\$	\$	\$	%
<i>Executive Director</i> Michael Buckland	64,942	-	-	-
<i>Senior Executives</i> Scott Richardson	50,993	-	-	-
Steve Shellenberger	43,538	-	-	-
Steve Warner	29,447	-	-	-
Warren Arthur	41,359	-	-	-

Austin Engineering Ltd
Annual and Financial Report 2015

Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

Share-based compensation (cont'd)

All performance rights for Tranche 1 and Tranche 2 expire on 25 September 2019. The performance periods are:

Tranche 1	1 July 2013 to 30 June 2016
Tranche 2	1 July 2014 to 30 June 2017

The fair value of each performance right has been determined as follows:

		Fair value of rights	
		Total shareholder return	Earnings per share
		\$	\$
<i>Executive Director</i>			
Michael Buckland	Tranche 1	0.03	0.67
	Tranche 2	0.22	0.60
<i>Senior Executives</i>			
	Tranche 1	0.08	1.03
	Tranche 2	0.38	0.95

The fair value of rights is different for Michael Buckland and the Senior Executives because the grant dates were different. The Senior Executives grant date was 25 September 2014 and Michael Buckland's grant date was 21 November 2014.

Equity instruments issued on exercise of remuneration options/rights:

There were no remuneration options and rights exercised by directors of Austin Engineering Limited and other key management personnel of the Group during the year ended 30 June 2015.

Options held by key management personnel

There were no options held by key management personnel at 30 June 2015 and 30 June 2014.

Performance rights held by key management personnel

The number of performance rights over ordinary share in the company held during the financial year by each director and other members of key management personnel of the group, including their personally related parties, is set out below:

Name	Balance at the start of the year	Granted	Vested	Expired/forfeited/other	Balance at the end of the year
	No.	No.	No.	No.	No.
<i>Executive Director</i>					
Michael Buckland	-	164,672	-	-	164,672
<i>Senior Executives</i>					
Scott Richardson	-	79,518	-	-	79,518
Steve Shellenberger	-	68,086	-	-	68,086
Steve Warner	-	45,955	-	-	45,955
Warren Arthur	-	64,658	-	-	64,658
Total	-	422,889	-	-	422,889

Performance shares held by key management personnel

The number of performance shares held during the financial year by each director and other members of key management personnel of the group, including their personally related parties, is set out below:

Name	Balance at the start of the year	Granted	Vested	Expired/forfeited/other	Balance at the end of the year
	No.	No.	No.	No.	No.
<i>Executive Director</i>					
Michael Buckland	-	150,000	-	50,000	100,000

Shares held by key management personnel

Name	Balance at beginning of year	Options exercised during the year	Bought during the year	Granted during the year	Sold during the year and other changes	Balance at end of year
	No.	No.	No.	No.	No.	No.
Michael Buckland	3,717,498	-	99,502	-	-	3,817,000
Eugene Fung	786,831	-	-	-	-	786,831
Peter Pursey	1,003,010	-	-	-	-	1,003,010
Paul Reading	75,000	-	25,000	-	-	100,000
Scott Richardson	13,090	-	11,910	-	-	25,000
Steve Shellenberger	135,668	-	-	-	-	135,668
Steve Warner	41,613	-	5,655	-	-	47,268
Warren Arthur	-	-	9,615	-	-	9,615
Total	5,772,710	-	151,682	-	-	5,924,392

No other key management personnel held shares at 30 June 2015 and 30 June 2014.

None of the shares above were held nominally by the directors or any of the other key management personnel.

Loans to key management personnel

There were no loans made, guaranteed or secured, directly or indirectly, by Austin Engineering Limited and any of its subsidiaries to directors of Austin Engineering Limited and other key management personnel of the group, including their close family members and entities related to them.

**Austin Engineering Ltd
Annual and Financial Report 2015**

Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

Other transactions with related parties

Eugene Fung, a non-executive director of the company, is a partner with the law firm Thomson Geer Lawyers. The firm provided legal services to the company on normal commercial terms to the value of \$430,836 during the year. Approximately \$94,623 was outstanding to Thomson Geer Lawyers at 30 June 2015 for work performed in the year to 30 June 2015.

(End of Remuneration Report)

Shares under option

At the date of this report, there were no unissued ordinary shares of Austin Engineering Limited under option.

There were no options granted to officers who are among the five highest remunerated officers of the company and the group, but are not key management persons and hence not disclosed in the remuneration report.

No options were granted to the directors or any of the five highest remunerated officers of the company since the end of the financial year.

Shares under performance rights

Unissued ordinary shares of Austin Engineering Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number of shares under right
21 November 2014	21 November 2019	\$0.00	1,150,299

No performance rights were granted to the directors or any of the five highest remunerated officers of the company since the end of the financial year.

Shares issued on the exercise of performance shares

There were no performance shares exercised during the year ended 30 June 2015. 100,000 shares remain available as at 30 June 2015.

Shares issued on the exercise of options

There were no options exercised during the year ended 30 June 2015. No shares have been issued since that date.

Shares issued on the exercise of performance rights

There were no performance rights exercised during the year ended 30 June 2015. No shares have been issued since that date.

Meetings of Directors

The number of meetings of the board of directors and the committees during the year was:

	<u>Board of Directors</u>		<u>Audit Committee</u>		<u>Nomination & Remuneration Committee</u>	
	<u>Eligible to Attend</u>	<u>Attended</u>	<u>Eligible to Attend</u>	<u>Attended</u>	<u>Eligible to Attend</u>	<u>Attended</u>
<i>Executive</i>						
Michael Buckland	10	10	-	-	-	-
<i>Non-executive</i>						
Paul Reading	10	10	4	4	2	2
Peter Pursey	10	10	4	4	-	-
Eugene Fung	10	10	4	4	2	2
Charles Sartain	3	2	-	-	-	-

Indemnification of Directors and Officers

During the financial year, the company paid a premium in respect of a contract insuring the directors and officers of the company against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Proceedings on behalf of the Company

Other than matters already disclosed in note 23, during the year, no person has applied for leave of court to bring proceedings on behalf of the company or group or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

Austin Engineering Ltd
Annual and Financial Report 2015

Directors' Report (cont'd)

Non-Audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditors' independence for the following reasons:

- All non-audit services are reviewed and approved by the audit committee to ensure that they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110 Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid or payable to the auditor of the parent entity, its related practices and non-related audit firms during the year ended 30 June 2015:

	Consolidated Entity	
	2015	2014
	\$	\$
Auditor of the parent entity (BDO Audit Pty Ltd):		
Taxation services	177,001	73,384
Corporate advisory services	44,259	13,896
	<u>221,260</u>	<u>87,280</u>
Network firms of BDO Audit Pty Ltd:		
Taxation services	31,874	22,449
Corporate advisory services	14,162	41,065
	<u>46,036</u>	<u>63,514</u>
Remuneration of other auditors (non BDO Audit Pty Ltd or related Network firms):		
Taxation services	73,668	92,436
Corporate advisory services	-	3,550
	<u>73,668</u>	<u>95,986</u>
Total remuneration for non-audit services	<u>340,964</u>	<u>246,780</u>

Auditor's Independence Declaration

A copy of the lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is attached.

Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the board of directors.



Michael D Buckland

Director
28 September 2015

Auditors Independence Declaration



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DECLARATION OF INDEPENDENCE BY C R JENKINS TO THE DIRECTORS OF AUSTIN ENGINEERING LIMITED

As lead auditor of Austin Engineering Limited for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Austin Engineering Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'C R Jenkins'.

C R Jenkins
Director

BDO Audit Pty Ltd

Brisbane, 28 September 2015

Corporate Governance Statement

Introduction

The board of Austin Engineering Ltd (the board) is committed to protecting shareholders' interests and keeping investors fully informed about the performance of the group's business. The directors have undertaken to perform their duties with honesty, integrity, care and diligence, according to the law and in a manner that reflects the highest standards of governance.

The directors have established the processes to protect the interests and assets of shareholders and to ensure the highest standard of integrity and governance of the company.

The Australian Securities Exchange Corporate Governance Council sets out best practice recommendations including corporate governance practices and suggested disclosures. ASX Listing Rule 4.10.3 requires companies to disclose the extent to which they have complied with the ASX recommendations and to give reasons for not following them.

Unless otherwise indicated, the best practice recommendations of the ASX Corporate Governance Council (CGC), including corporate governance practices and suggested disclosures, have been adopted by the company for the year ended 30 June 2015 as relevant to the size and complexity of the company and its operations. The board has adopted a formal board charter, audit committee charter, audit policy, external communications policy (including a continuous disclosure policy), securities trading policy and code of conduct for directors and officers. A copy of these charters, procedures and policies are available on the governance page of the company's website, www.austineng.com.au, and are signposted throughout this statement where relevant.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1: Companies should disclose:

- **the respective roles and responsibilities of the board and management; and**
- **those matters expressly reserved to the board and those delegated to management**

The Austin Engineering Ltd Board Charter sets out the functions and responsibilities of the board. The directors of the company are accountable to shareholders for the proper management of business and affairs of the company.

The key responsibilities of the board are to:

- establish, monitor and modify the corporate strategies of the company;
- ensure proper corporate governance;
- monitor the performance of management of the company;
- ensure that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- assess the necessary and desirable competencies of board members, review board succession plans, evaluate its own performance and consider the appointment and removal of directors;
- consider executive remuneration and incentive policies, the company's recruitment, retention and termination policies and procedures for senior management and the remuneration framework for non-executive directors;
- oversee and monitor progress in relation to the company's diversity objectives;
- monitor financial results;
- approve decisions concerning the capital, including capital restructures, and dividend policy of the company; and
- comply with the reporting and other requirements of the law.

The board delegates responsibility for day-to-day management of the company to the managing director, subject to certain financial limits. The managing director must consult the board on matters that are sensitive, extraordinary, of a strategic nature or matters outside the permitted financial limits.

Recommendation 1.2: A company should:

- **undertake appropriate checks before appointing a person, or putting forward to shareholders a candidate for election, as a director; and**
- **provide shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director**

The nomination and remuneration committee is responsible for:

- Reviewing and recommending to the board the size and composition of the board and potential director appointments
- Making recommendations for the re-election of directors
- Assisting the board as required to identify individuals who are qualified to become board members
- Undertaking appropriate due diligence before appointing a director or putting forward to shareholders a candidate for election as a director

The notice of meeting and explanatory notes for the 2015 Annual General Meeting will contain all the information set out in Recommendation 1.2 in relation to each director standing for re-election.

Recommendation 1.3: Companies should have a written agreement with each director and senior executive setting out the terms of their appointment

All new directors and senior executives are appointed through a written agreement with the company that sets out their duties, rights and responsibilities. Contract details of senior executives who are Key Management Persons are summarised on page 11 of this Annual Report.

Recommendation 1.4: The Company Secretary should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board

The Company Secretary is accountable to the board through the Chairman on all matters to do with the proper functioning of the board. The Board Charter confirms that all directors have direct access to the Company Secretary. The Company Secretary is responsible for:

- Advising the board on corporate governance matters
- Managing the company secretarial function

Corporate Governance Statement (cont'd)

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT (cont'd)

Recommendations 1.4 (cont'd)

- Attending all board and board committee meetings
- Taking minutes and communicating with the ASX

The names, skills, experience and qualifications of the company secretaries are set out on page 6 of this Annual Report.

Recommendation 1.5: Companies should have a diversity policy which sets measurable objectives for achieving gender diversity; disclose the policy or a summary of that policy; and disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them, and the respective proportions of men and women on the board, in senior executive positions and across the whole organisation

The company has adopted a formal diversity policy that is available on its website.

As the company has grown over the years and expanded its operations internationally, it now has a very diverse workforce comprising of numerous ethnic, indigenous backgrounds and races of both genders. The company recognises that diversity is a desirable and necessary feature of its operations and it adds to the ability to develop and maintain a high-performing workforce to take advantage of the challenges and opportunities faced in Australia and around the world. Wherever possible, the company seeks to preserve the local management and operational teams across all the areas and regions in which it operates and it actively encourages employees to integrate with team members in other parts of the group through the sharing of technical and operational information and experiences.

Within Australia, the recruitment of personnel from overseas remains a key part of operations in order to ensure that the appropriate skill sets exist in the production environment so that customer delivery commitments can be met.

At 30 June 2015, female employees represented approximately 9% (2014: 9%) of the total workforce. A significant proportion of the company's and wider group's operations centre around medium to heavy engineering activities in workshop environments which require trade qualifications such as boiler making, welding and fabricating. Participation rates of women in these trades are low. A growing proportion of the company's activities are also site-based in remote locations performing largely manual engineering activities and the available pool of female candidates is extremely limited. The company's policy is to provide opportunities for women wherever possible through internal promotion and external recruitment across all levels. The Board set measurable objectives as follows:

Objective	Initiatives to facilitate achievement of the objective	Status of the objective at 30 June 2015	Status of the objective at 30 June 2014
Maintain current level of participation by women in Operations (employees excluding those in finance and administration).	Equal employment treatment is to be given without regard to gender.	2.8%	2.8%
At least maintain current level of participation by women in Corporate Services (employees in finance and administration).	Equal employment treatment is to be given without regard to gender.	5.9% ¹	6.6%
Increase the number of women on the Board by 2020.	Equal employment treatment is to be given without regard to gender.	Nil	Nil

¹ The decrease was due to redundancies across the group during the 2015 financial year. These positions were mainly in administrative services which typically involve more female staff.

Recommendation 1.6: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors; and disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process

The board and its committees undertook self-assessment in accordance with their relevant charters during the financial year including a one-on-one session by the chairman with each director. The board was provided with all company information it needed in order to effectively discharge its responsibilities and were entitled to, and did, request additional information when considered necessary or desirable.

Recommendation 1.7: Companies should have and disclose a process for periodically evaluating the performance of its senior executives; and disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process

The members of the nomination and remuneration committee during the year were: Eugene Fung (Chairman) and Paul Reading. The committee operates pursuant to a nomination and remuneration committee charter. The nomination and remuneration committee is responsible for various aspects of remuneration and nomination, including the review of the Managing Director and board members at least annually.

On an annual basis, the nomination and remuneration committee reviews the performance of the managing director against qualitative and quantitative criteria, which include profit performance, other financial measures and achievement of the company's strategic objectives as disclosed on page 7 of this Annual Report. During the 2015 financial year, the Managing Director's performance was reviewed in accordance with the process specified.

The company maintains a performance evaluation process which measures other senior executives against previously agreed Key Performance Indicators as disclosed on page 8 in this Annual Report. The process is performed formally once a year and took place for each senior executive during the 2015 financial year.

Corporate Governance Statement (cont'd)

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1: The Board should establish a nomination committee which:

- *has at least three members*
- *consists of a majority of independent directors*
- *is chaired by an independent director*

and disclose:

- *the charter of the committee*
- *the members of the committee*
- *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*

The members of the nomination and remuneration committee during the year were: Eugene Fung (Chairman) and Paul Reading. The committee consists only of independent directors and is chaired by an independent director who is not Chairman of the Board. During the reporting period the committee had only two members and not a minimum of three as set out in the recommendation. The board considers the current size of this committee to be appropriate in light of the size of the board and the particular circumstances of the company.

The committee operates pursuant to a nomination and remuneration committee charter. The nomination and remuneration committee is responsible for various aspects of remuneration and nomination, including the review of the managing director and board members at least annually. The charter sets out the responsibilities of the committee including reviewing board succession plans to ensure an appropriate balance of skills and expertise, developing policies and procedures for the appointments of directors and identifying directors with appropriate qualifications to fill board committee vacancies. The term of non-executive directorships is set out in the company's constitution.

The details of the committee meetings held during the year and attendance at those meetings are detailed in the directors' meetings schedule in the Directors' Report.

Recommendation 2.2: Companies should have and disclose a board skills matrix setting out the skills and diversity that board has or is currently looking to achieve in its membership

The Board regularly evaluates the mix of skills, experience and diversity at the Board level. The Board believes that a highly credentialed Board, with a diversity of background, skills and perspectives, will be effective in supporting and enabling delivery of good governance for the Company and value for the Company's shareholders. The mix of skills comprised in the current Board, and that the Board would look to maintain, and to build on, includes:

- mining industry expertise;
- technical expertise, including engineering, finance, legal and workplace health and safety;
- experience in dealing with high levels of government and regulators;
- high level of business acumen;
- ability to think strategically;
- knowledge of and experience in emerging and growth markets;
- experienced in executive management and leadership;
- diversification of skills and experience across various industries;
- governance experience and expertise.

The Board aspires to have a Board comprised of individuals' diverse experience and expertise and will be mindful of this when making appointments which will also be based on merit.

Recommendation 2.3: Companies should disclose the names of the directors considered by the board to be independent directors; if a director has an interest, position, association or relationship described and the board is of the opinion that it does not compromise the independence of the director, an explanation of why the board is of that opinion; and the length of service of each director

It is the board's view that all of its non-executive directors are independent directors who have exercised their judgment and discharged their responsibilities in an independent manner throughout the reporting period. The board is of the view that its current composition, comprising a number of longer serving members each of whom have a deep understanding of the company's business and newer members who bring fresh ideas and perspectives to the board, serves the interests of the company and its members.

Details of the length of service of each director is set out in the directors profiles on pages 5 to 6 of this Annual Report.

Recommendation 2.4: A majority of the Board should be independent directors

The board currently comprises six directors, five of whom, including the chairman, are non-executive and independent directors. The managing director is an executive director. Profiles of the directors are set out on pages 5 and 6 of this Annual Report. All directors (except the managing director) are subject to retirement by rotation but may stand for re-election by the shareholders every three years. The terms of the managing director's appointment are governed by his terms of engagement.

The composition of the board is determined by the board and, where appropriate, external advice is sought. The board has adopted the following principles and guidelines in determining the composition of the board:

The majority of directors ought to be independent:

To be independent, a director ought to be non-executive and:

- not be a substantial shareholder of the company or an officer of, or be otherwise associated directly with a substantial shareholder of the company;
- not be employed in an executive capacity with the company in the last three years or been a director after ceasing to hold such employment;

Corporate Governance Statement (cont'd)

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (cont'd)

Recommendation 2.4 (cont'd)

- not within the last three years been a principal of, professional adviser or a consultant to the company or an employee materially associated with the service provider, whose annual billings to the company represent more than 1% of the company's annual revenue or more than 5% of the professional advisor's or consultant's total annual billings;
- not be a supplier or customer of the company or an officer of, or otherwise associated directly with a supplier or customer whose annual billings to the company represent more than 1% of the company's annual revenue or more than 5% of the supplier's or customer's total annual revenue;
- not have a material contractual relationship with the company other than as director of the company;
- not been on the board for a period which could materially interfere with the director's ability to act in the best interests of the company; and
- is otherwise free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Eugene Fung, a non-executive director of the company, is a partner with the law firm Thomson Geer Lawyers. Thomson Geer Lawyers annual billings to the company represent less than 1% of the company's annual revenue and less than 5% of that firm's total annual billings. The legal services provided by Thomson Geer Lawyers during the year were general in nature and included the preparation and review of notices for the company's annual general meeting, advice regarding the banking syndicate restructure, assistance in relation to workplace employment and health and safety practices and conveyancing. The procurement of the services was not influenced by Eugene Fung and was requested and controlled by the company's management team. Eugene Fung did not perform any of the legal work or services for the company and did not communicate with the engaged lawyers on matters and work being performed for the company at an executive or operational level. The Board considers that Eugene Fung satisfies the criteria for independence as set out in the company's Corporate Governance Statement and is an independent Director.

Recommendation 2.5: The chair should be an independent director and in particular should not be the same person as the CEO of the company

The chairman, Paul Reading, is an independent director. He is responsible for the leadership of the board and he has no other positions that hinder the effective performance of this role. The role of managing director (equivalent to CEO) is held by Michael Buckland.

Recommendation 2.6: Companies 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

The nomination and remuneration committee is responsible for ensuring that new directors are provided with a comprehensive induction programme that includes business briefings by management and site visits.

The board encourages directors to continue their education and maintain the skills required to discharge their duties by providing professional development opportunities. The company meets all reasonable costs of continuing director education.

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

Recommendation 3.1: Companies should establish a code of conduct for its directors, senior executives and employees; and disclose the code or a summary of the code

The company has developed codes of conduct to guide all of the company's employees, particularly directors, the managing director, the chief financial officer and other senior executives, in respect of ethical behavior. These codes are designed to maintain confidence in the company's integrity and the responsibility and accountability of all individuals within the company for reporting unlawful and unethical practices. These codes of conduct embrace such areas as:

- conflicts of interest;
- corporate opportunities;
- confidentiality;
- fair dealing and trade practices;
- protection of assets;
- compliance with laws, regulations and industry codes;
- 'whistle-blowing';
- security trading; and
- commitment to and recognition of the legitimate interests of stakeholders.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

Recommendation 4.1: The board should establish an audit committee which:

- ***has at least three members all of whom are non-executive directors***
- ***consists of a majority of independent directors***
- ***is chaired by an independent director, who is not chair of the board***

and disclose:

- ***the charter of the committee***
- ***the relevant qualifications and experience of the members of the committee***
- ***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***

Corporate Governance Statement (cont'd)

PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING (cont'd)

Recommendation 4.1 (cont'd)

The audit committee consists of: Peter Pursey (Chairman), Eugene Fung and Paul Reading. Each of the members of the committee are independent non-executive directors and the chairman of the committee is not the chairman of the board. The managing director and the chief financial officer/company secretary may attend the meetings at the invitation of the committee.

The board-appointed audit committee operates in accordance with the audit committee charter. The details of the committee meetings held during the year and attendance at those meetings are detailed in the directors' meetings schedule in the directors' report.

All members of the committee are financially literate (i.e. they are able to read and understand financial statements) and have an understanding of the industry in which the company operates. Paul Reading is an experienced financial professional and he spent his executive career in the manufacturing and heavy engineering industries.

The audit committee provides an independent review of:

- the effectiveness of the accounting and internal control systems and management reporting which are designed to safeguard company assets;
- financial information produced by the company;
- the accounting policies adopted by the company;
- the quality of the internal and external audit functions;
- the external auditor's performance and independence as well as considering such matters as replacing the external auditor where and when necessary; and
- approving internal audit plans including identified risk areas.

Recommendation 4.2: The board should, before it approves the company's financial statements for a financial period, receive from the chief executive officer and the chief financial officer a declaration that, in their opinion, the financial records of the company 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 company and the opinion is founded on a sound system of risk management and internal control that is operating effectively

In accordance with section 295A of the Corporations Act, the Chief Executive Officer (the Managing Director) and Chief Financial Officer have provided a written statement to the Board in respect of each half and full year financial period that:

- The company's financial records have been properly maintained.
- The financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the company.
- Their view provided on the company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board.
- The company's risk management and internal compliance and control system is operating effectively in all material respects.

The board acknowledges that the internal control assurances from the Chief Executive Officer and Chief Financial Officer are not absolute and can only be provided on a reasonable basis after having made due enquiries. This is due to such factors as the need for judgment, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not, and cannot be, designed to detect all weaknesses in control procedures.

Recommendation 4.3: Companies should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit

BDO Audit Pty Limited, the company's external auditor, attends each Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1: Companies should establish written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and disclose that policy or summary of it

The board recognises that the company as a publicly-listed entity has an obligation to make timely and balanced disclosure in accordance with the requirements of the Australian Securities Exchange Listing Rules and the Corporations Act 2001. The board also is of the view that an appropriately informed shareholder base, and market in general, is essential to an efficient market for the company's securities. The board is committed to ensuring that shareholders and the market have timely and balanced disclosure of matters concerning the company. In demonstration of this commitment, the company has adopted a formal external communications policy including a continuous disclosure policy.

In order to ensure the company meets its obligations of timely disclosure of such information, the company has adopted the following policies:

- immediate notification to the ASX of information concerning the company that a reasonable person would expect to have a material effect on the price or value of the company's securities as prescribed under ASX listing rules, except where such information is not required to be disclosed in accordance with the exception provisions of the listing rules;
- the company has a website and all information disclosed to the ASX will be promptly placed on the website following receipt of confirmation from the ASX and, if deemed desirable, released to the wider media; and
- the company will not respond to market rumours or speculation, except where required to do so under the listing rules.

Based on information provided to the company secretary by directors, officers and employees, the company secretary is responsible for determining which information is to be disclosed and for the overall administration of this policy. A copy of the policy can be found in the Governance section of the company's website in the External Communications Policy document.

Corporate Governance Statement (cont'd)

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1: A company should provide information about itself and its governance to investors via its website

The company keeps investors informed of its corporate governance, financial performance and prospects via its website. Investors can access copies of all announcements to the ASX, notices of meetings, annual reports and financial statements, investor presentations and/or transcripts of those presentations via the 'Investor Centre' tab and can access general information regarding the company and the structure of its business under the 'About Us', 'Products & Services', and 'Solutions' tabs.

Recommendation 6.2: Companies should design and implement an investor relations program to facilitate effective two-way communication with investors

The company has an external communications policy and the board recognises that shareholders are the beneficial owners of the company and respects their rights and is continually seeking ways to assist shareholders in the exercise of those rights. The board also recognises that as owners of the company the shareholders may best contribute to the company's growth, value and prosperity if they are informed. To this end the board seeks to empower shareholders by:

- communicating effectively with them;
- enabling them to have access to balanced and understandable information about the company, its operations and proposals; and
- assisting shareholder participation in general meetings.

All shareholders are entitled to receive a copy of the company's annual and half-yearly reports. In addition, the company's website provides opportunities for shareholders to access company announcements, media releases and financial reports through electronic means.

The board is committed to assisting shareholder's participation in meetings and has adopted the following measures:

- adoption of the ASX Corporate Governance Council's recommendations and guidelines as published in the Council's Corporate Governance Principles and Recommendations in respect of notices of meetings; and
- ensuring that a representative of the company's external auditor is present at all annual general meetings and that shareholders have adequate opportunity to ask questions of the auditor at that meeting concerning the audit and preparation and content of the auditor's report.

The board has determined that the company website is the primary source of information for shareholders.

Recommendation 6.3: Companies should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders

The company communicates with shareholders through releases to the ASX, its website, information distributed direct to shareholders and the general meetings of shareholders. To ensure that security holders have the opportunity to participate at meetings of members:

- at the Annual General Meeting, shareholders elect the directors and have the opportunity to express their views, ask questions about company business and vote on items of business for resolution by shareholders; and
- the company's external auditor attends each Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Recommendation 6.4: Companies should give shareholders the option to receive communications from, and send communications to, the company and its share registry electronically

Shareholders are also able to send and receive communications to/from the company electronically. Transcripts of results presentations and major business presentations are placed on the website as soon as practicable after the conclusion of such events.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Recommendation 7.1: The board should establish a committee or committees to oversee risk, each of which:

- ***has at least three members***
- ***consists of a majority of independent directors***
- ***is chaired by an independent director***

and disclose:

- ***the charter of the committee***
- ***the members of the committee***
- ***as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances at those meetings***

Recommendation 7.2: The board or a committee of the board should review the company's risk management framework at least annually to satisfy itself that it continues to be sound; and disclose, in relation to each reporting period, whether such a review has taken place

There was no separate risk committee during the 2015 year and risk assessment was a whole of board responsibility. The company intends to formally establish a risk committee (a sub-committee of the board) to oversee risk in September 2015. The committee will consist of two independent directors and the managing director and will be chaired by Mr Charlie Sartain, an independent director. The board has overall responsibility to all stakeholders for the identification, assessment, management and monitoring of the risks faced by the company. The company currently has in place policies and procedures for risk management which cover areas including workplace health and safety, control of key resources, delegation authorities, financial, commercial, manufacturing, and other critical business processes. The operational risks are managed at the senior management level and escalated to the board for direction where the issue is exceptional, non-recurring or may impose a material financial or operational burden on the company. The relatively small size of the company means that communication and decision-making is largely centralised ensuring early identification of risks by senior management.

Corporate Governance Statement (cont'd)

PRINCIPLE 7: RECOGNISE AND MANAGE RISK (cont'd)

Recommendation 7.2 (cont'd)

The managing director and chief financial officer have informed the board that the integrity of the financial statements is founded on a system of risk management and internal control which implements the policies adopted by the board and that the company's risk management and internal control system is operating effectively in all material respects to manage the company's material business risks.

The company's risk management framework is reviewed annually. A review of the risk management framework took place during the reporting period and a risk management standard is currently being developed which will set the minimum requirements for company employees in relation enterprise risk management.

Recommendation 7.3: A company should disclose, if it has an internal audit function, how the function is structured and what role it performs; or 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

The company does not have an internal audit function. Given the company's current size and nature of its operations, the Board considers it appropriate to engage external advisors (independent of the external auditor) as appropriate from time to time to undertake various tasks that an internal audit function would perform. No external advisors were engaged during the current reporting period to undertake activities that would normally be undertaken by an internal audit function. External advisors were however, engaged in assisting the Board with reviewing its risk assessments during the 2015 financial year.

The Managing Director, Chief Financial Officer and Chairman of the Audit Committee are primarily responsible for reporting to the board on a regular basis in relation to whether the company's material business risks are being managed effectively by way of the company's risk management and internal control systems.

Recommendation 7.4: A company 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

The group designs and manufactures customised dump truck bodies, buckets and ancillary products used in the mining industry. These activities expose the group, directly and indirectly to environmental, social and economic sustainability risks, which may materially impact the group's ability to create or preserve value for shareholders over the short, medium or long term.

The Board monitors its exposure to risks, including economic, social and environmental sustainability risks in accordance with its established risk management policies. Material business risks are described in the Directors' Report under Review of Operations and Results.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1: The board should establish a remuneration committee which:

- ***has at least three members***
- ***consists of a majority of independent directors***
- ***is chaired by an independent chair***

and disclose:

- ***the charter of the committee***
- ***the members of the committee***
- ***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***

The members of the nomination and remuneration committee during the year were: Eugene Fung (Chairman) and Paul Reading. The committee consists only of independent directors and is chaired by an independent director who is not Chairman of the Board. During the reporting period the committee had only two members and not a minimum of three as set out in the recommendation. The board considers the current size of this committee to be appropriate in light of the size of the board and the particular circumstances of the company.

The committee operates pursuant to a nomination and remuneration committee charter, which is available on the Company's website. The nomination and remuneration committee are responsible for various aspects of remuneration, including the review of the managing director and board members at least annually. The details of the committee meetings held during the year and attendance at those meetings are detailed in the directors' meetings schedule in the directors' report.

Recommendation 8.2: Companies should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives

Non-executive directors are remunerated by way of fixed director's fees. There is no scheme for retirement benefits, other than statutory superannuation. Executive directors are paid a salary and provided with shares and/or options (subject to shareholder approval) and bonuses as part of their remuneration and incentive package. They do not receive a separate payment for participation on the board.

Further details regarding the remuneration of non-executive and executive directors are set out in the Remuneration Report on pages 6 to 14 of this Annual Report.

Recommendation 8.3: Companies which have an equity-based remuneration scheme should 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 disclose that policy or a summary of it

The company has equity-based remuneration schemes for the Managing Director and Executives. The Managing Director and Executives should not engage in short-term trading of the company's securities and refrain from hedging their securities unless those securities have fully vested and are no longer subject to restrictions. Key management personnel must not at any time enter into a transaction that involves using the company's securities as collateral in any financial transaction, including margin lending arrangements.

Austin Engineering Ltd
Annual and Financial Report 2015

Statement of profit or loss and other comprehensive income for the year ended 30 June 2015

	Notes	Consolidated Entity	
		2015 \$000	2014 \$000
Revenue	2	210,426	209,870
Expenses			
Raw materials and consumables used		(55,818)	(53,017)
Change in inventories and work in progress		692	(1,289)
Employment expenses		(98,582)	(96,684)
Subcontractor expenses		(3,045)	(1,620)
Occupancy and utility expenses		(8,403)	(8,034)
Depreciation expense	12	(11,024)	(10,498)
Amortisation expense - customer relationships and other intangibles		(1,077)	(919)
Other expenses		(35,864)	(33,921)
Finance costs	3	(6,071)	(3,852)
Impairment expense	14	(40,880)	-
Profit/(loss) before income tax		(49,646)	36
Income tax credit/(expense)	4	314	860
Net profit/(loss) for the year		(49,332)	896
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences, net of tax		2,891	(11,824)
Other comprehensive income for the year, net of tax		2,891	(11,824)
Total comprehensive income for the year		(46,441)	(10,928)
Profit/(loss) for the year is attributable to:			
Owners of Austin Engineering Limited		(49,332)	896
Total comprehensive income for the year is attributable to:			
Owners of Austin Engineering Limited		(46,441)	(10,928)
Earnings per share attributable to owners of Austin Engineering Limited:			
Basic earnings/(loss) per share (cents per share)	7	(58.54)	1.14
Diluted earnings/(loss) per share (cents per share)	7	(58.54)	1.14

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Austin Engineering Ltd
Annual and Financial Report 2015

Statement of financial position as at 30 June 2015

	Notes	Consolidated Entity	
		2015 \$000	2014 \$000
Current Assets			
Cash and cash equivalents	8	3,319	7,385
Trade receivables	9	34,851	30,756
Inventories	10	24,997	29,501
Current tax assets	17	205	-
Other receivables and other assets	11	7,582	6,703
Total Current Assets		<u>70,954</u>	<u>74,345</u>
Non-Current Assets			
Property, plant and equipment	12	125,233	131,772
Intangible assets	14	59,288	91,599
Deferred tax assets	18	9,497	7,734
Other assets	11	6,639	-
Total Non-Current Assets		<u>200,657</u>	<u>231,105</u>
Total Assets		<u>271,611</u>	<u>305,450</u>
Current Liabilities			
Trade and other payables	15	37,704	26,331
Financial liabilities	16	50,325	7,520
Current tax liabilities	17	-	74
Provisions	19	6,554	6,238
Total Current Liabilities		<u>94,583</u>	<u>40,163</u>
Non-Current Liabilities			
Financial liabilities	16	47,017	90,206
Deferred tax liabilities	18	10,588	9,440
Total Non-Current Liabilities		<u>57,605</u>	<u>99,646</u>
Total Liabilities		<u>152,188</u>	<u>139,809</u>
Net Assets		<u>119,423</u>	<u>165,641</u>
Equity			
Contributed equity	20	87,344	87,344
Reserves	21	(3,781)	(6,895)
Retained earnings		35,860	85,192
Total Equity		<u>119,423</u>	<u>165,641</u>

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

Austin Engineering Ltd
Annual and Financial Report 2015

Statement of changes in equity for the year ended 30 June 2015

	Contributed Equity \$000	Options/ Performance Rights Reserve \$000	Foreign Currency Translation Reserve \$000	Retained Earnings \$000	Total \$000
Consolidated Entity					
Opening balance at 1 July 2013	52,749	1,619	3,310	95,770	153,448
Total comprehensive income for the year:					
Profit for the year	-	-	-	896	896
<i>Other comprehensive income, net of tax:</i>					
Currency translation differences	-	-	(11,824)	-	(11,824)
Total comprehensive income for the year	-	-	(11,824)	896	(10,928)
Transactions with owners in their capacity as owners:					
Issue of share capital	35,551	-	-	-	35,551
Share issue costs	(956)	-	-	-	(956)
Dividends paid	-	-	-	(11,474)	(11,474)
Share-based payments	-	-	-	-	-
	34,595	-	-	(11,474)	23,121
At 30 June 2014	87,344	1,619	(8,514)	85,192	165,641
Total comprehensive income for the year:					
Loss for the year	-	-	-	(49,332)	(49,332)
<i>Other comprehensive income, net of tax:</i>					
Currency translation differences	-	-	2,891	-	2,891
Total comprehensive income for the year	-	-	2,891	(49,332)	(46,441)
Transactions with owners in their capacity as owners:					
Issue of share capital	-	-	-	-	-
Share issue costs	-	-	-	-	-
Dividends paid	-	-	-	-	-
Share-based payments	-	223	-	-	223
	-	223	-	-	223
At 30 June 2015	87,344	1,842	(5,623)	35,860	119,423

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Austin Engineering Ltd
Annual and Financial Report 2015

Statement of cash flows for the year ended 30 June 2015

	Notes	Consolidated Entity	
		2015	2014
		\$000	\$000
Cash flows from operating activities			
Receipts from customers		244,810	229,827
Payments to suppliers and employees		(235,506)	(224,815)
Interest received		1,315	143
Finance costs		(6,071)	(3,852)
Income tax paid		(973)	(7,824)
Net cash (used in) / provided by operating activities	25a	3,575	(6,521)
Cash flows from investing activities			
Payments for acquisitions of businesses/subsidiaries, net of cash acquired	30	-	(23,004)
Payments for property, plant and equipment		(3,355)	(18,637)
Release of funds from Escrow in relation to Calama land		4,251	-
Distribution from joint venture		-	1,130
Net cash used in investing activities		896	(40,511)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs		-	34,188
Proceeds from borrowings		2,000	66,159
Repayment of borrowings		(11,122)	(40,444)
Dividends paid	6	-	(11,474)
Net cash provided by / (used in) financing activities		(9,122)	48,429
Net increase / (decrease) in cash and cash equivalents		(4,651)	1,397
Cash and cash equivalents at the beginning of the year		7,385	6,337
Effects of exchange rate changes on cash and cash equivalents		585	(349)
Cash and cash equivalents at the end of the year	8	3,319	7,385

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Austin Engineering Ltd Annual and Financial Report 2015

The registered office and principal place of business of Austin Engineering Limited is 173 Cobalt Street, Carole Park, Queensland, 4300, Australia.

Note 1: Statement of compliance and significant accounting policies

This financial report includes the consolidated financial statements and notes of Austin Engineering Limited and controlled entities ('consolidated entity' or 'group'). Austin Engineering Limited is a listed public company incorporated and domiciled in Australia.

The financial statements were authorised for issue by the directors on 28 September 2015.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. Austin Engineering Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial report has been prepared on an accruals basis and is based on historical costs except for derivatives that have been measured at fair value.

New and amended standards adopted by the group

The group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. None of the new standards and amendments to standards affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Working Capital Position

The Directors have prepared the financial report on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary normal course of business.

In accordance with the company's debt reduction strategy agreed to with its senior lenders on 30 June 2015, the group undertook to repay \$45 million of the senior debt by 30 September 2015 (as disclosed in note 27). The company has utilised the proceeds from the capital raising undertaken subsequent to the end of the financial year (refer note 27) to fund the debt repayment.

Due to the delay in timing between the date to repay the banks and the receipt of funds from the Capital Raising, as at 30 June 2015 the group had net current liabilities of \$23.629 million. This working capital deficit is solely attributable to \$45 million of the senior debt being disclosed as a current liability. In addition to the \$45 million, the group has also repaid an additional \$2.15 million subsequent to balance date. The \$47.15 million was repaid during July and August 2015 (as disclosed in note 27) and there is now a surplus of current assets to current liabilities.

The director's expectations of returning to profitability and continued compliance with banking facility covenants is based on approved budgets and forecasts. These forecasts are necessarily based on best-estimate assumptions that may or may not occur as expected and are subject to influences and events outside the control of the group. The forecasts, take into account reasonably possible changes in trading performance.

The Directors are of the opinion that the use of the going concern basis of accounting is appropriate as they are satisfied that the group will be able to implement the debt reduction strategy and return to profitability.

Significant accounting policies

The group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Principles of Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Austin Engineering Ltd Annual and Financial Report 2015

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the holding entity.

(ii) *Joint arrangements*

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Austin Engineering Limited has only joint ventures.

Joint operations

Where joint operations are held the entity recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Austin Engineering Limited does not have any joint operations.

Joint ventures

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated balance sheet.

(b) **Income Tax**

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority. Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses. Current and deferred income tax expense (income) is charged or credited to other comprehensive income or directly to equity instead of the profit or loss when the tax relates to items that are credited or charged to other comprehensive income or directly to equity, respectively.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) **Inventories**

Raw materials, consumables and work in progress

Inventories consist of raw materials, consumables and work in progress and are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Construction work in progress

Construction work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. If there are contracts where billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under payables.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms and conditions of the contract and an allocation of overhead expenses incurred in connection with the group's activities in general.

(d) **Property, Plant and Equipment**

Property, plant and equipment are measured on the cost basis.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings	2%-3%
Plant and equipment	5%-40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

(e) **Research and Development Expenditure**

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably.

(f) **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(g) **Impairment of Assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) **Intangibles**

Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Customer relationships

Customer relationships acquired as part of a business combination are recognised separately from goodwill. The customer relationships are carried at their fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated on the straight line basis and utilises an estimated useful life of the customer relationships, which is estimated to be 10 to 18 years.

Brands

Brands that are acquired by the group and that have indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Other intangibles

Other intangible assets that are acquired by the group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of these assets over their estimated useful lives, which vary from 2 to 25 years.

(i) **Foreign Currency Transactions and Balances**

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where recognised in other comprehensive income as a qualifying cash flow or net investment hedge or are attributable to part of the net investment in a foreign operation.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- all resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising on translation of any net investment in foreign operations are recognised in other comprehensive income. These differences are reclassified to profit or loss in the period in which the operation is disposed.

(j) **Employee Benefits**

(i) **Short-term obligations**

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) **Other long-term employee benefit obligations**

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period 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 end of the reporting period of Australian Corporate Bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

(k) **Equity-settled Compensation**

Equity settled share based payments form part of the remuneration of employees (including executives) of the consolidated entity. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options and performance rights with the relative TSR performance measure is calculated at the grant date using the Monte-Carlo simulation model, taking into account, amongst other things, the impact of the TSR condition and that right holders are not entitled to dividends during the vesting period. The fair value of options and performance rights with the EPS measure is calculated using the Black-Scholes option pricing model, taking into account that right holders are not entitled to dividends during the vesting period.

The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(l) **Provision for Warranties**

Provision is made in respect of the consolidated group's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the consolidated group's history of warranty claims.

(m) **Impairment loss on receivables**

The carrying amount of receivables is reduced by the use of an allowance account where there is objective evidence that it may not be possible to recover all amounts due. Evidence of impairment may include indications that the customer is experiencing significant financial difficulty, where there is a fair probability that the customer will be put into liquidation, where debt collection procedures have commenced or where there are commercial disagreements with the customer. The amount of the provision is the difference between the carrying amount of the receivable and the present value of the estimated future cash flows, discounted at the effective interest rate. When receivables for which an impairment has previously been recognised are determined to be uncollectible, they are written off against the allowance account. If no provision for impairment was previously recognised, the impairment is written off against profit or loss. Impairment losses arising from the use of allowance accounts or bad debts are recognised in profit or loss as part of other expenses from ordinary activities.

Receivables are determined to be uncollectible only when there is no expectation of recovering any additional cash. This may occur when a final distribution from administrators or liquidators or where unsuccessful attempts have been made to recover the debt through legal actions or debt collection agencies and the prospect of recovering any additional cash is remote.

(n) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(o) **Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.

Construction contracts

Contract revenue is recognised on the percentage of completion basis. Percentage completion is measured using the proportion of costs incurred to date compared to expected actual costs adjusted for any variations or claims allowable under the contract.

Rendering of services

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at reporting date and where the outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

Dividends and interest income

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

(p) **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(r) **Government Grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(s) **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(t) **Rounding of Amounts**

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(u) **Critical Accounting Estimates and Judgments**

Key Estimates

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of intangibles

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and require the group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value. For information relating to the value-in-use calculations refer to note 14.

Contractual customer relationships

The useful life of contractual customer relationships of 10 to 18 years is based on management's expectation of future attrition rates based on historical rates. An increase in attrition rates may lead to a reduction in the estimated useful life and an increase in the amortisation charge. The actual attrition rates for the 2015 and 2014 financial years did not differ materially from the expected attrition rates. The carrying value of contractual customer relationships is disclosed in note 14.

Taxation – Carried forward tax losses

The group has tax losses mainly in Peruvian, Indonesian and Chilean taxable entities that have the potential to reduce tax payments in future years. Deferred tax assets have been recognised to the extent that their recovery is probable, having regard to the projected future taxable income of these taxable entities and after taking account of specific risk factors that affect the recovery of these assets.

Determination of fair values in a business combination

The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the consideration transferred to the fair value of the identifiable assets acquired and the liabilities assumed.

The group uses external parties with the requisite expertise to determine the acquisition-date fair values of certain identifiable assets acquired.

The fair value of assets is determined by discounting estimated future net cash flows generated by the assets, where no active market for the assets exists. The use of different discount rates as well as assumptions for the expectation of future cash flows would change the valuation of the asset. Allocation of the consideration transferred affects the group's results as property, plant and equipment as well as intangible assets with finite useful lives are respectively depreciated and amortised, whereas goodwill and intangibles with an indefinite life are not. This could result in differing depreciation and amortisation charges based on the allocation. For information on business combinations refer to note 30.

Key Judgements

Other than those already referred to, the key judgements are:

Contractual customer relationships

Judgement is exercised by management in identifying those acquired relationships with customers that meet the definition of separately identifiable intangibles that have a finite life.

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

New accounting standards and interpretations have been published that are not compulsory for the 30 June 2015 reporting period. The consolidated entity's assessment of the impact of the new standards and interpretations that may affect the financial report are set out below.

AASB 9 Financial Instruments

AASB 9 *Financial instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. The standard is not applicable until 1 January 2018 but is available for early adoption.

When adopted, the standard will affect the group's accounting for available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The group does not currently have any available-for-sale financial assets that would be impacted by this standard. Additionally there will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities.

The new rules for hedge accounting should make it easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.

The group has not yet assessed how its own hedging arrangements and impairment provisions would be affected by the new rules, and it has not yet decided whether to adopt AASB 9 early. In order to apply the new hedging rules, the group would have to adopt AASB 9 and the consequential amendments to AASB 7 and AASB 139 in their entirety.

AASB 15 Revenue from contracts with customers

AASB 15 introduces a five step process for revenue recognition with the core principle of the new standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

AASB 15 will also result in enhanced disclosure about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. This standard is not applicable until reporting periods beginning on or after 1 January 2018.

The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. The impact of AASB 15 has not yet been quantified.

Other standards and interpretations

There are no other standards and interpretations that are not yet effective and that are expected to have a material impact on the consolidated entity in the current or future reporting periods and on foreseeable future transactions.

Austin Engineering Ltd
Annual and Financial Report 2015

	Consolidated Entity	
	2015	2014
	\$000	\$000
Note 2: Revenue		
<i>Sales revenue:</i>		
Sale of goods	95,708	115,845
Services	112,643	92,948
	<u>208,351</u>	<u>208,793</u>
<i>Other revenue:</i>		
Interest - bank deposits	1,315	143
Other	760	934
	<u>2,075</u>	<u>1,077</u>
Total revenue	<u>210,426</u>	<u>209,870</u>

Note 3: Profit/(loss) for the year

Profit/(loss) for the year is derived after charging/(crediting):

Cost of goods sold	133,362	134,559
Finance costs - bank loans	6,071	3,852
Rental expense on operating leases - minimum lease payments	5,989	6,098
Defined contribution superannuation costs	3,842	4,036
Loss on sale of investment in Oman ¹	-	289
Realised foreign currency exchange (gains)/losses - net	956	377
Unrealised foreign currency exchange (gains)/losses - net	(556)	52
	<u>(556)</u>	<u>52</u>

¹During the 2014 financial year, Austin Engineering Limited sold its entire shareholding in Majan Aluminium Services Company LLC. The joint venture was a successful business and was sold when the job in Oman ended. An overall group loss of \$0.29m on the sale of the joint venture was included in other expenses due to immateriality.

Note 4: Income tax expense

Components of tax expense:

The components of tax expense comprise:

Current tax - current period	(90)	2,895
Deferred tax - origination and reversal of temporary differences	(126)	(3,668)
Over-provision in respect of prior years	(98)	(87)
	<u>(314)</u>	<u>(860)</u>

Prima facie tax reconciliation:

The prima facie tax on profit before income tax is reconciled to the income tax charge as follows:

Prima facie tax payable on profit before income tax at 30% (2014: 30%)	(14,894)	11
Tax effect of:		
Non-allowable items	9,526	1,351
Over-provision for tax in prior years	(98)	(87)
Share options expensed in the year	67	-
Differences in overseas tax rates	(354)	134
Non-assessable items and other allowances		
Foreign tax adjustment for goodwill	-	(2,264)
Deferred tax assets not recognised on tax losses	5,664	-
Other	(225)	(5)
Tax losses	-	-
Income tax expense	<u>(314)</u>	<u>(860)</u>

	Consolidated Entity	
	2015	2014
	\$	\$
Note 5: Auditor's remuneration		
Auditor of the parent entity (BDO Audit Pty Ltd) for:		
Auditing or reviewing the financial reports of any entity in the group	271,730	175,000
Entities related to BDO Audit Pty Ltd:		
Taxation services	177,001	73,384
Corporate advisory services	44,259	13,896
	<u>221,260</u>	<u>87,280</u>
Network firms of BDO Audit Pty Ltd:		
Auditing or reviewing the financial reports	173,000	78,470
Taxation services	31,874	22,449
Corporate advisory services	14,162	41,065
	<u>219,036</u>	<u>141,984</u>
Remuneration of other auditors (non BDO Audit Pty Ltd or related Network firms):		
Auditing or reviewing the financial reports	84,216	69,539
Taxation services	73,668	92,436
Corporate advisory services	-	3,550
	<u>157,884</u>	<u>165,525</u>
Total auditors' remuneration	<u>869,910</u>	<u>569,789</u>

Austin Engineering Ltd
Annual and Financial Report 2015

Consolidated Entity
2015 **2014**
\$000 **\$000**

Note 6: Dividends

Recognised amounts:

Distributions paid - final dividends:

Fully franked ordinary dividend of 10.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2013, paid on 11 October 2013

- 7,682

Distributions paid - interim dividends:

Fully franked ordinary dividend of 4.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2014, paid on 28 March 2014

- 3,792

- 11,474

There were no interim and final dividends paid during the year ended 30 June 2015.

Unrecognised amounts:

Since the end of financial year the directors have not declared a final dividend for the financial year ended 30 June 2015 (2014: Nil cents per share).

Franked dividends:

The directors have not declared a final fully-franked dividend for the financial year ended 30 June 2015, therefore there will be no effect on franking credits.

Franking credits available for subsequent financial years based on a tax rate of 30% (2014 - 30%)

10,130 10,130

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

There has been no reduction in the franking account since the end of the reporting period, as there was no final dividend declared at year end.

Note 7: Earnings per share

Reconciliation of earnings to profit:

Profit/(loss) after tax

(49,332) 896

Earnings/(loss) used to calculate basic and diluted earnings/(loss) per share

(49,332) 896

Weighted average number of ordinary shares:

Used to calculate basic earnings per share

2015 **2014**
No. **No.**
84,274,004 78,532,742

Effect of dilutive securities - share options

- -

Used to calculate diluted earnings per share

84,274,004 78,532,742

Options granted to employees under the employee share option plan, rights granted to senior executives under the performance rights plan and performance shares granted to the Managing director are considered to be potential ordinary shares. Whilst that is the case, because of the net loss after tax, these have not been included in the determination of diluted earnings per share as they are considered to be anti dilutive.

Subsequent to the end of the financial year, the company issued 70,228,337 ordinary shares in terms of a non-renounceable entitlement offer (refer note 27). This issue of shares would have changed significantly the number of ordinary shares outstanding at 30 June 2015 if these transactions had occurred before the end of the reporting period. The issue of shares has not been retrospectively adjusted in the calculation of earnings per share.

2015 **2014**
\$000 **\$000**

Note 8: Cash and cash equivalents

Cash at bank and in hand

3,319 7,385

Austin Engineering Ltd
Annual and Financial Report 2015

Consolidated Entity
2015 **2014**
\$000 **\$000**

Note 9: Trade receivables

Trade receivables	35,038	30,909
Provision for impairment of receivables	(187)	(153)
	34,851	30,756

The carrying amounts of the consolidated entity's trade receivables are denominated in the following currencies:

Australian dollars	15,979	19,105
US dollars (Australian dollar equivalent)	6,152	4,304
Chilean pesos (Australian dollar equivalent)	6,070	4,664
Indonesian rupiah (Australian dollar equivalent)	3,603	1,507
Colombian pesos (Australian dollar equivalent)	1,690	356
Peruvian nuevo soles (Australian dollar equivalent)	1,357	820
	34,851	30,756

As at 30 June 2015 a provision for impairment of \$187,000 was raised for current trade receivables (2014: \$153,000).

Movements in the provision for impairment of receivables are as follows:

Balance at beginning of the year	153	-
Charge for the year	34	153
Balance at end of the year	187	153

The age of trade receivables that were past due but not impaired was as follows:

30 days	8,704	4,682
31-60 days	2,616	437
61-90 days	1,533	339
	12,853	5,458

The trade receivables that were past due but not impaired relate to a number of customers for whom there is no recent history of default or other indicators of impairment.

Refer to note 29 for more information on the consolidated entity's risk management policy, the credit quality of trade receivables and credit risk.

Note 10: Inventories

At Cost:

Raw materials and consumables	16,433	14,596
Work-in-progress	8,220	14,580
Finished goods	344	325
	24,997	29,501

Note 11: Other receivables and other assets

Current

Prepayments	2,177	4,061
Other receivables	5,405	2,642
	7,582	6,703

Non-current

Other assets	6,639	-
	6,639	-

Total

	14,221	6,703
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Austin Engineering Ltd
Annual and Financial Report 2015

Consolidated Entity
2015 **2014**
\$000 **\$000**

Note 12: Property, plant and equipment

Freehold land:

Cost	20,557	26,448
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Buildings:

Cost	49,886	46,160
Accumulated depreciation	(5,746)	(3,012)
Total buildings	44,140	43,148
Total land and buildings	64,697	69,596

Capital work in progress:

Cost	251	821
------	-----	-----

Plant and equipment:

Cost	101,617	92,963
Accumulated depreciation	(41,332)	(31,608)
	60,285	61,355

Total property, plant and equipment

	125,233	131,772
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Movements in carrying amounts:

	Freehold Land \$000	Buildings \$000	Capital Work in Progress \$000	Plant And Equipment \$000	Total \$000
Consolidated Entity:					
Balance at 1 July 2013	17,670	42,196	2,187	44,508	106,561
Additions	9,305	4,213	897	9,580	23,995
Additions through acquisitions of entities	1,625	-	-	21,424	23,049
Reallocation of capital work in progress	(139)	1,454	(1,851)	536	-
Disposals	-	(1)	(9)	(763)	(773)
Foreign currency exchange movements	(2,013)	(3,289)	(403)	(4,857)	(10,562)
Depreciation expense	-	(1,425)	-	(9,073)	(10,498)
Balance at 30 June 2014	26,448	43,148	821	61,355	131,772
Additions	-	171	659	5,245	6,075
Additions through acquisitions of entities	-	-	-	-	-
Reallocation of capital work in progress	-	793	(1,265)	472	-
Disposals	(5,077)	(4)	-	(26)	(5,107)
Transfers ¹	(3,242)	-	-	-	(3,242)
Foreign currency exchange movements	2,428	1,565	36	2,799	6,828
Impairment	-	-	-	(69)	(69)
Depreciation expense	-	(1,533)	-	(9,491)	(11,024)
Balance at 30 June 2015	20,557	44,140	251	60,285	125,233

¹ Reclassification of funds provided for the purchase of land in Peru to non-current prepayments (until title has passed).

Assets under finance lease arrangements included in the totals noted above are as follows:

	Plant and Equipment \$000	Total \$000
Balance at 1 July 2013	7,807	7,807
Additions	2,442	2,442
Additions through acquisitions of entities	11,624	11,624
Assets no longer under finance lease arrangements	(1,034)	(1,034)
Disposals	-	-
Foreign currency exchange movements	(1,329)	(1,329)
Depreciation expense	(1,454)	(1,454)
Balance at 30 June 2014	18,056	18,056
Additions	1,784	1,784
Additions through acquisitions of entities	-	-
Assets no longer under finance lease arrangements	(4,560)	(4,560)
Disposals	-	-
Foreign currency exchange movements	860	860
Depreciation expense	(1,303)	(1,303)
Balance at 30 June 2015	14,837	14,837

Non-current assets pledged as security:

Refer to note 16 for information on non-current assets pledged as security by the group.

Austin Engineering Ltd
Annual and Financial Report 2015

Note 13: Other financial assets

	Place of business/ country of incorporation	Percentage Owned**	
		2015	2014
Parent entity			
Austin Engineering Ltd	Australia		
Subsidiaries of Austin Engineering Ltd			
Austbore Pty Ltd	Australia	100%	100%
Austin Engineering USA Inc.	USA	100%	100%
Austin Engineering South America (No.1) Pty Ltd	Australia	100%	100%
Austin Engineering South America (No.2) Pty Ltd	Australia	100%	100%
Austin Engineering Singapore Pte Ltd	Singapore	100%	100%
COR Cooling Pty Ltd*	Australia	100%	100%
PHG Services Pty Ltd	Australia	100%	100%
Pilbara Hire Group Pty Ltd	Australia	100%	100%
Subsidiaries of Austin Engineering USA Inc.			
Western Technology Services International Inc.	USA	100%	100%
Subsidiaries of Austin Engineering South America (No.1) Pty Ltd			
Austin Inversiones Chile Ltda.	Chile	99%	99%
Austin Ingenieros Chile Ltda.	Chile	1%	1%
Austin Engineering Peru S.A.C	Peru	99%	99%
Austin Arrendamientos Chile Ltda	Chile	0.01%	0.01%
Subsidiaries of Austin Engineering South America (No.2) Pty Ltd			
Austin Inversiones Chile Ltda.	Chile	1%	1%
Subsidiaries of Austin Engineering Singapore Pte Ltd			
Austin Engineering Offshore Pte Ltd	Singapore	100%	100%
Austin Engineering Batam Pte Ltd	Singapore	100%	100%
Subsidiaries of COR Cooling Pty Ltd			
COR Engineered Cooling Pty Ltd	Australia	100%	100%
COR Radiator Services Pty Ltd	Australia	100%	100%
Subsidiaries of Western Technology Services International Inc.			
Wotco Inc.	USA	100%	100%
Global Mining Supply & Technology Inc.	USA	100%	100%
Global Mfg. Inc.	USA	100%	100%
Subsidiaries of Austin Inversiones Chile Ltda.			
Austin Ingenieros Chile Ltda.	Chile	99%	99%
Austin Arrendamientos Chile Ltda	Chile	99.99%	99.99%
Subsidiaries of Austin Ingenieros Chile Ltda.			
Austin Ingenieros Colombia S.A.S	Colombia	100%	100%
Austin Engineering Peru S.A.C	Peru	1%	1%
Subsidiaries of Austin Ingenieros Colombia S.A.S			
Austin Ingenieros Servicios S.A.S	Colombia	100%	100%
Subsidiaries of Austin Engineering Offshore Pte Ltd			
PT Austin Engineering Indonesia	Indonesia	1%	1%
Subsidiaries of Austin Engineering Batam Pte Ltd			
PT Austin Engineering Indonesia	Indonesia	99%	99%
Subsidiaries of COR Radiator Services Pty Ltd			
COR Radiator Unit Trust	Australia	100%	100%

* COR Cooling Pty Ltd has been granted relief from the necessity to prepare a financial report in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission.

** The proportion of ownership interest is equal to the proportion of voting power held.

Cash and short-term deposits held in Asian countries (including Indonesia) are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from those countries, other than through normal dividends. The carrying amount of the assets included within the consolidated financial statements to which these restrictions apply is \$379,000 (2014: \$438,000). There are no other restrictions on exporting capital from any of the other foreign entities within the group.

Austin Engineering Ltd
Annual and Financial Report 2015

Note 13: Other financial assets (cont'd)

Parent entity information:

	2015	2014
	\$000	\$000
Assets		
Current assets	84,031	113,074
Non-current assets	110,802	112,746
Total assets	194,833	225,820
Liabilities		
Current liabilities	65,427	14,438
Non-current liabilities	37,891	77,386
Total liabilities	103,318	91,824
Net assets	91,515	133,996
Equity		
Contributed equity	87,344	87,344
Options reserve	1,842	1,619
Retained earnings	2,329	45,033
Total equity	91,515	133,996
Financial performance		
Profit for the year	(42,704)	3,633
Other comprehensive income	-	-
Total comprehensive income	(42,704)	3,633

Contractual commitments

At 30 June 2015 and 30 June 2014 there were no contractual commitments entered into in respect of capital expenditure projects.

Contingent liabilities

The parent entity did not have any contingent liabilities at 30 June 2015 and 30 June 2014. For information about guarantees given by the parent entity, see below.

Guarantees in relation to the debts of subsidiaries

The Austin Group restructured its principal banking arrangements into a new multi-currency syndicated facility agreement in the 2014 financial year. Refer to Note 25(c) for detailed information on banking facilities. Previously Austin Engineering Limited had signed a deed of cross guarantee in favour of National Australia Bank Limited in relation to financing provided to Austin Engineering Limited and its subsidiaries.

Austin Engineering Limited and its wholly-owned subsidiary COR Cooling Pty Ltd are parties to a deed of cross guarantee. By entering into the deed, COR Cooling Pty Ltd has been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission. Austin Engineering Limited and COR Cooling Pty Ltd represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Austin Engineering Limited, they also represent the 'extended close group'. No deficiencies of assets exist in any of these companies. Set out below is a consolidated statement of comprehensive income and summary of movements in consolidated retained earnings, and a consolidated statement of financial position of the closed group consisting of Austin Engineering Limited and COR Cooling Pty Ltd:

	2015	2014
	\$000	\$000
Consolidated statement of comprehensive income		
Revenue	83,913	97,222
Raw materials and consumables used	(31,706)	(24,989)
Change in inventories and work in progress	3,887	(2,735)
Employment expenses	(37,245)	(39,886)
Subcontractor expenses	(2,875)	(1,478)
Occupancy and utility expenses	(7,004)	(6,901)
Depreciation and amortisation expense	(2,691)	(2,854)
Other expenses from ordinary activities	(11,756)	(11,128)
Finance costs	(4,924)	(2,733)
Impairment expense	(35,268)	-
Profit before income tax	(45,669)	4,518
Income tax credit/(expense)	3,079	699
Net profit for the year	(42,590)	5,217
Other comprehensive income	-	-
Total comprehensive income for the year	(42,590)	5,217

Austin Engineering Ltd
Annual and Financial Report 2015

Note 13: Other financial assets (cont'd)

	2015	2014
	\$000	\$000
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	51,123	57,380
Profit for the year	(42,590)	5,217
Dividends paid	-	(11,474)
Retained earnings at the end of the financial year	<u>8,533</u>	<u>51,123</u>
Consolidated statement of financial position		
Current Assets		
Cash and cash equivalents	141	3,212
Trade and other receivables	79,261	108,438
Inventories	11,224	7,338
Current tax assets	187	-
Other assets	1,029	1,100
Total Current Assets	<u>91,842</u>	<u>120,088</u>
Non-Current Assets		
Property, plant and equipment	16,124	17,478
Other financial assets	70,282	69,551
Intangible assets	21,037	25,744
Deferred tax assets	5,766	3,069
Total Non-Current Assets	<u>113,209</u>	<u>115,842</u>
Total Assets	<u>205,051</u>	<u>235,930</u>
Current Liabilities		
Trade and other payables	19,336	12,608
Financial liabilities	45,383	816
Current tax liabilities	-	258
Provisions	3,693	3,617
Total Current Liabilities	<u>68,412</u>	<u>17,299</u>
Non-Current Liabilities		
Financial liabilities	37,217	77,225
Deferred tax liabilities	1,703	1,320
Total Non-Current Liabilities	<u>38,920</u>	<u>78,545</u>
Total Liabilities	<u>107,332</u>	<u>95,844</u>
Net Assets	<u>97,719</u>	<u>140,086</u>
Equity		
Contributed equity	87,344	87,344
Reserves	1,842	1,619
Retained earnings	8,533	51,123
Total Equity	<u>97,719</u>	<u>140,086</u>

Austin Engineering Ltd
Annual and Financial Report 2015

Note 14: Intangible assets

	Goodwill \$000	Customer relationships* \$000	Brands** \$000	Other intangibles \$000	Total \$000
Year ended 30 June 2014					
Opening net book amount	73,306	11,909	2,749	504	88,468
Additions	-	-	-	59	59
Additions - acquisitions	5,196	2,573	-	-	7,769
Release of deferred taxes	-	-	-	-	-
Exchange differences	(3,778)	-	-	-	(3,778)
Amortisation charge	-	(890)	-	(29)	(919)
Closing net book amount	74,724	13,592	2,749	534	91,599
At 30 June 2014					
Cost	74,724	16,394	2,749	874	94,741
Accumulated amortisation and impairment	-	(2,802)	-	(340)	(3,142)
Net book amount	74,724	13,592	2,749	534	91,599
Year ended 30 June 2015					
Opening net book amount	74,724	13,592	2,749	534	91,599
Additions	1,319	-	-	180	1,499
Additions - acquisitions	-	-	-	-	-
Release of deferred taxes	(431)	-	-	-	(431)
Exchange differences	2,517	-	-	-	2,517
Amortisation charge	-	(993)	-	(84)	(1,077)
Impairment	(32,913)	(1,906)	-	-	(34,819)
Closing net book amount	45,216	10,693	2,749	630	59,288
At 30 June 2015					
Cost	78,129	16,394	2,749	1,054	98,326
Accumulated amortisation and impairment	(32,913)	(5,701)	-	(424)	(39,038)
Net book amount	45,216	10,693	2,749	630	59,288

* Customer relationships have a remaining amortisation period of between 10 and 18 years.

** Brands are assessed as having an indefinite useful life. The indefinite useful life reflects management's intention to continue to manufacture these brands to generate net cash inflows into the foreseeable future. Annual management review of indefinite life brands has not identified any factors that would significantly restrict the market or the brand position in the market (such as contractual, customer or consumer constraints). The brands are mainly attributable to the COR Cooling group.

The allocation of goodwill, including that arising from business acquisitions during the year, has been made to the consolidated group's business units and at the balance date this goodwill has been tested for impairment across those business units. Goodwill allocated to the business units is as follows:

	Consolidated Entity	
	2015 \$000	2014 \$000
Austin Mackay (formerly Kaldura Industries)	1,189	2,706
Austbore Pty Ltd	8,310	8,310
Pilbara Hire Group	7,022	7,281
Austin Engineering Hunter Valley (formerly Phillips Engineering)	-	1,757
COR Cooling	14,404	14,555
Western Technology Services Inc. ("Westech")	6,979	5,826
Austin Ingenieros La Negra (formerly "Conymet")	-	23,357
Austin Ingenieros Calama (formerly "V & V")	2,488	2,434
Austin Engineering Peru (formerly "Petroaceros S.A.C")	-	3,949
Austin Arrendamientos Chile Ltda ("Servigrut")	4,824	4,549
Net carrying value	45,216	74,724

Impairment tests for cash generating units

The recoverable amount of the cash generating units is based on value in-use calculations. These calculations use cash flow projections based on financial forecasts prepared by management covering a five year period. Cash flows beyond the five-year period are extrapolated using perpetual growth rates.

Impairment charge

The continued adverse business conditions have resulted in an impairment expense of \$40.880 million. This has been allocated against goodwill (\$32.913 million), identifiable intangible assets (\$1.906 million), work in progress (\$4.892 million), property, plant and equipment (\$0.153 million) and trade and other receivables (\$1.016 million). The impairment expense was allocated to the following cash generating units (CGUs):

	Consolidated Entity	
	2015 \$000	2014 \$000
Austin Ingenieros La Negra	25,767	-
Austin Engineering Peru	10,298	-
Austin Engineering Hunter Valley	3,298	-
Austin Mackay	1,517	-
	40,880	

The impairment was the result of the company reassessing the recoverable values of its cash generating units in light of subdued business conditions and associated workloads.

Note 14: Intangible assets (cont'd)

Key assumptions used for value in use calculations

The recoverable amount of the cash generating units is based on value-in-use calculations. These calculations use cash flow projections covering a five year period that are based on financial forecasts of how the business is expected to operate based on current performance consistent with previous experience and external data, excluding any benefit expected to arise from future restructuring or from improved asset performance. Cash flows beyond the five-year period are extrapolated using perpetual growth rates.

The calculation of value-in-use for the cash generating units is most sensitive to the following assumptions:

- (a) EBITDA margins
- (b) Discount rates
- (c) Growth rates used to extrapolate cash flows beyond the forecast period.

In performing value-in-use calculations, the company has applied a pre-tax discount rate to discount the forecast future cash flows. Discount rates represent the current market assessment of the risks specific to each cash generating unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the group's investors. The cost of debt is based on the interest bearing borrowings the group is obliged to service. A risk premium is included in each CGU's discount rate, reflecting the level of forecasting, size, country and financing risks for that CGU.

The pre-tax discount rates used for the Australian based cash generating units, including Austin Engineering Hunter Valley and Austin Mackay is 13.44% (2014: 12.44%). The pre-tax discount rates used for the Chilean based cash generating units, including Austin Ingenieros La Negra is 14.97% (2014: 12.01%). The pre-tax discount rates used for the Peruvian based cash generating unit, including Austin Engineering Peru is 19.93% (2014: 16.51%). The pre-tax discount rates used for the USA based cash generating unit, including Western Technology Services International Inc is 15.85% (2014: 14.52%). The pre-tax discount rates used for the Colombian based cash generating unit, including Austin Colombia is 20.15% (2014: n/a).

The perpetual growth rates used for the cash generating units are 3% (2014: 3%) based on the long-term growth rates experienced in the Group's end-markets and external forecasts

Impact of reasonably possible changes in key assumptions

Austin Ingenieros La Negra, Austin Peru, Austin Engineering Hunter Valley and Austin Mackay are all written down to recoverable amount at 30 June 2015. Therefore any future adverse changes in key assumptions may result in future impairments.

The company believes there is a reasonably possible change in assumptions for the cash generating units of Austin Hunter Valley, Austin Mackay, Austin Ingenieros La Negra and Austin Colombia that may result in future impairment. These changes are listed below. There is no reasonably possible change in assumptions that would result in impairment for goodwill allocated to the other cash generating units.

The difference between the carrying value and recoverable amount of these cash generating units as at 30 June 2015 is as follows:

(a) Austin Hunter Valley:	\$ 1.464 million
(b) Austin Mackay:	\$ 1.311 million
(c) Austin Ingenieros La Negra:	\$ 1.617 million
(d) Austin Colombia:	\$ 1.372 million

The implications of the key assumptions for the recoverable amount are discussed below:

EBITDA Margin

The following changes in the EBITDA margin would be required to result in impairment for the following cash generating units.

Austin Hunter Valley: a reduction of 1.16% in the EBITDA margins used would result in impairment.

Austin Mackay: a reduction of 1.80% in the EBITDA margins used would result in impairment.

Austin Ingenieros La Negra: a reduction of 1.15% in the EBITDA margins used would result in impairment.

Austin Colombia: a reduction of 1.53% in the EBITDA margins used would result in impairment.

Discount rates

The following changes in the pre-tax discount rate would be required to result in impairment for the following cash generating units.

Austin Hunter Valley: an increase of 2.57% in the pre-tax discount rate would result in impairment.

Austin Mackay: an increase of 1.66% in the pre-tax discount rate would result in impairment.

Austin Ingenieros La Negra: an increase of 0.96% in the pre-tax discount rate would result in impairment.

Austin Colombia: an increase of 1.92% in the pre-tax discount rate would result in impairment.

Growth rate

The following changes in the long term growth rate would be required to result in impairment for the following cash generating units.

Austin Hunter Valley: a reduction to 3.88% in the long term growth rate would result in impairment.

Austin Mackay: a reduction to 2.40% in the long term growth rate would result in impairment.

Austin Ingenieros La Negra: a reduction to 1.45% in the long term growth rate would result in impairment.

Austin Colombia: a reduction to 3.55% in the long term growth rate would result in impairment.

Austin Engineering Ltd
Annual and Financial Report 2015

Consolidated Entity
2015 **2014**
\$000 **\$000**

Note 15: Trade and other payables

Current unsecured liabilities:

Trade payables	20,286	16,712
Sundry payables and accrued expenses	13,708	7,893
Progress payments in advance	3,710	1,726
	37,704	26,331

The carrying amounts of the consolidated entity's trade and other payables are denominated in the following currencies:

Australian dollars	20,384	15,912
Chilean pesos (Australian dollar equivalent)	6,717	5,075
US dollars (Australian dollar equivalent)	4,360	3,289
Other ¹ (Australian dollar equivalent)	6,243	2,055
	37,704	26,331

¹ Other refers to Indonesian rupiah, Peruvian Nuevo soles and Colombian pesos.

For information about the consolidated entity's exposure to foreign exchange risk refer to note 29.

Note 16: Financial liabilities

Current secured liabilities:

Hire purchase and lease obligations	3,753	4,816
Bank loans	46,572	2,704
	50,325	7,520

Non-current secured liabilities:

Hire purchase and lease obligations	3,824	5,689
Bank loans	43,193	84,517
	47,017	90,206

Total of current and non-current secured liabilities:

Hire purchase and lease obligations	7,577	10,505
Bank loans	89,765	87,221
	97,342	97,726

Assets pledged as security – fixed/floating charge:

Current

Cash and cash equivalents	3,319	6,484
Receivables	34,851	23,254
Inventories	24,997	10,799
	63,167	40,537

Non-current

Property, plant and equipment	125,233	47,662
	125,233	47,662

Total

	188,400	88,199
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Refer to note 25(c) for additional information on the type of security held.

Note 17: Current tax liabilities

Income tax asset	927	447
Income tax liability	(722)	(521)
Income tax asset/(liability)	205	(74)

Note 18: Deferred tax

Deferred tax assets - non-current:

Non-current deferred tax assets comprise:

Employee leave entitlements	1,653	1,434
Warranty and other provisions	122	158
Transaction costs on equity issue	241	326
Tax losses	3,940	3,568
Other	3,541	2,248
Total deferred tax assets	9,497	7,734

Deferred tax liabilities - non-current:

Non-current deferred tax liabilities comprise:

Revaluation of assets on acquisition	35	35
Intangibles	3,457	3,888
Asset financing	4,095	4,495
Other	3,001	1,022
Total deferred tax liabilities	10,588	9,440

Austin Engineering Ltd
Annual and Financial Report 2015

Note 18: Deferred tax (cont'd)

Movements:	Opening balance \$000	Recognised in profit or loss \$000	Recognised in equity \$000	Acquisitions \$000	Other \$000	Closing balance \$000
2015						
Deferred tax assets						
Employee leave entitlements	1,434	263	45	-	40	1,782
Warranty and other provisions	158	28	15	-	32	233
Transaction costs on equity issue	326	(85)	-	-	-	241
Tax losses	3,568	295	122	-	(45)	3,940
Other	2,248	940	58	-	55	3,301
Deferred tax liabilities						
Revaluation of assets on acquisition	(35)	-	-	-	-	(35)
Intangibles	(3,888)	-	-	431	-	(3,457)
Asset financing	(4,495)	(630)	(271)	-	(717)	(6,113)
Other	(1,022)	(685)	(71)	-	795	(983)
	(1,706)	126	(102)	431	160	(1,091)

Movements:	Opening balance \$000	Recognised in profit or loss \$000	Recognised in equity \$000	Acquisitions \$000	Other \$000	Closing balance \$000
2014						
Deferred tax assets						
Employee leave entitlements	1,438	20	(5)	-	(19)	1,434
Warranty and other provisions	132	28	(2)	-	-	158
Transaction costs on equity issue	64	(140)	396	-	6	326
Tax losses	786	3,053	(50)	-	(221)	3,568
Other	1,917	2,641	(128)	728	(2,910)	2,248
Deferred tax liabilities						
Revaluation of assets on acquisition	(67)	32	-	-	-	(35)
Intangibles	(7,657)	-	-	-	3,769	(3,888)
Asset financing	(1,057)	(1,884)	114	(1,668)	-	(4,495)
Other	(666)	(82)	419	-	(693)	(1,022)
	(5,110)	3,668	744	(940)	(68)	(1,706)

Consolidated Entity
2015
\$000

Note 19: Provisions

Current

Employee leave entitlements	6,049	5,620
Warranty provisions	503	576
Other	2	42
Total current provisions	6,554	6,238

Warranty provisions:

Balance at beginning of year	576	460
Provided during the year	519	570
Utilised during the year	(312)	(343)
Released during the year	(327)	(88)
Foreign currency exchange differences	47	(23)
Balance at end of year	503	576

Provision is made for potential warranty claims at the balance date and is based on management assessments of the likelihood of claims arising from products delivered during the year as well as historical costs incurred on meeting warranty claims in prior years.

Note 20: Contributed equity

	2015		2014	
	No.	\$000	No.	\$000
Ordinary shares (fully paid)				
Balance at beginning of year	84,274,004	87,344	73,164,403	52,749
Shares issued during the year:				
Share placement	-	-	9,375,000	30,000
Share purchase plan	-	-	1,734,601	5,551
Exercise of options	-	-	-	-
Cost of share issues	-	-	-	(1,360)
Deferred tax adjustment to cost of share issues	-	-	-	404
Balance at end of year	84,274,004	87,344	84,274,004	87,344

Austin Engineering Ltd
Annual and Financial Report 2015

Note 20: Contributed equity (cont'd)

Ordinary shares entitle the holder to participate in dividends and the proceeds of winding up of the company in proportion to the number of and amounts paid on the shares held. Every holder of ordinary shares present at a meeting, in person or by proxy, is entitled to one vote per share. Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

There were no ordinary shares issued in the year to 30 June 2015.

Ordinary shares issued in the year to 30 June 2014 comprised of the following:

- (a) 31 December 2013: 9,375,000 shares at \$3.20 each (\$30,000,000) in relation to a share placement
- (b) 14 February 2014: 1,734,601 shares at \$3.20 each (\$5,550,723) in relation to a share purchase plan

Options and Performance Rights Plan

For information relating to Austin Engineering Limited's employee option plan and performance rights plan, including details of options and rights issued, exercised and lapsed during the financial year and the options and rights outstanding at the year-end, refer to note 26: Share-based payments.

Capital management

Management controls the capital of the group in order to maintain an optimal debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's total capital is defined as the shareholders' net equity plus net debt and amounted to \$213,446,000 at 30 June 2015 (30 June 2014: \$255,982,000). Net debt is calculated as total borrowings less cash and cash equivalents. The objective when managing the group's capital is to safeguard the business as a going concern, to maximise returns to shareholders and to maintain an optimal capital structure in order to reduce the cost of capital.

The group must, under banking covenant arrangements, maintain a net debt-to-total capital ratio of less than 40%. The lenders have agreed to suspend the gearing ratio until 1 July 2016 (refer note 25). The group has a policy of maintaining a flexible financing structure so as to be able to take advantage of investment opportunities when they arise.

The gearing ratios for the years ended 30 June 2015 and 30 June 2014 are as follows:

	Consolidated Entity	
	2015	2014
	\$000	\$000
Total borrowings	97,342	97,726
Value of bank guarantees issued	1,910	2,587
Less cash and cash equivalents	(3,319)	(7,385)
Net debt	95,933	92,928
Total equity	119,423	165,641
Total capital (including bank guarantees)	215,356	258,569
Net gearing ratio	45%	36%

The net gearing ratio includes guarantees issued by the company's bank, which are taken into account for determining compliance with covenants for bank reporting purposes. For details of the group's compliance with the financial covenants of its borrowing facilities, refer to note 25.

Note 21: Reserves

Foreign currency translation reserve

The foreign currency translation reserve records exchanges differences arising on the translation of foreign controlled subsidiaries.

Option/performance rights reserve

The option/performance rights reserve records items recognised as expenses on the valuation of director and employee share options, performance shares and performance rights.

Note 22: Capital and leasing commitments

	Consolidated Entity	
	2015	2014
	\$000	\$000
Finance and hire purchase lease commitments:		
Not later than one year	4,174	5,142
Between one and five years	3,897	6,001
Minimum lease payments	8,071	11,143
Less: future finance charges	(494)	(638)
	<u>7,577</u>	<u>10,505</u>
Representing lease liabilities:		
Current (note 16)	3,753	4,816
Non-current (note 16)	3,824	5,689
	<u>7,577</u>	<u>10,505</u>

Plant and equipment is leased from National Australia Bank and various other finance providers for periods lasting between one and five years. Lease payments are for fixed amounts over the term of the leases. Lease liabilities are secured by a charge over the leased assets.

Operating lease commitments:

Not later than one year	5,436	5,513
Between one and five years	17,511	18,483
Greater than 5 years	6,158	9,761
	<u>29,105</u>	<u>33,757</u>

Austin Engineering Ltd
Annual and Financial Report 2015

Note 22: Capital and leasing commitments (cont'd)

The group has various property leases under non-cancellable arrangements expiring between 1 and 10 years with rent payable monthly in advance. Contingent rental provisions within the lease agreements require that the minimum payments be increased by CPI or current market rental at various review periods. Options exist to renew the leases at the end of their term for additional periods and conditions. The leases allow for subletting of the lease areas.

	Consolidated Entity	
	2015	2014
	\$000	\$000
Capital commitments:		
Property, plant and equipment purchases	95	762

These capital commitments are payable within twelve months. No capital commitments are payable after twelve months.

Note 23: Contingent liabilities

Bank guarantees are issued to third parties arising out of dealings in the normal course of business. The values of guarantees issued are included in the utilised portion of the facilities shown in note 25.

Westech patent case

Philippi-Hagenbuch, Inc. and Leroy G. Hagenbuch (collectively, "Hagenbuch") filed a complaint against Western Technology Services International, Inc., an indirect wholly owned subsidiary of the Company and other related parties (collectively, "Westech") alleging infringement of patents on three-dimensional modelling and design of truck bodies and other patents that relate to a water tank baffling system, and claiming unspecified damages and legal fees.

Westech has denied the infringement allegations and asserted such patents are invalid. The parties have subsequently asserted various counterclaims, and Westech disputes all of Hagenbuch's claims and alleged damages and continues to vigorously defend these claims. After considering the significant legal and factual issues, it is not possible to make a reliable estimate of the amount of loss, if any, that might be incurred as a result of the lawsuit. The Company has thoroughly investigated Hagenbuch's claims and believes them to be without merit.

Note 24: Segment reporting

Management has determined that the strategic operating segments comprise of Australia (for mining equipment, other products and repair and maintenance services), Americas (for mining equipment and other products, comprising of North America and South America), Asia (currently Indonesia for mining equipment and other products) and the Middle East (for aluminium smelter equipment and products). These reporting segments also provide a more balanced view of cross-operational performance across business units, recognising and compensating for inter-regional differences in relation to technical methodologies, production facilities and processes, the cost of key inputs such as labour and steel, the existence of competition and differing customer requirements that may affect product pricing.

Executive management monitors segment performance based on EBITDA. Segment information for the years ended 30 June 2015 and 30 June 2014 is as follows:

	Australia		Americas		Middle East		Asia		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Total segment revenue										
- from external customers	106,822	125,658	87,478	79,499	-	391	16,126	4,322	210,426	209,870
EBITDA	(1,074)	8,245	3,353	7,047	-	29	5,812	(159)	8,091	15,162
<i>Other segment information</i>										
Depreciation and amortisation	4,189	4,887	6,912	5,526	-	-	1,000	1,004	12,101	11,417
Impairment	4,815	-	36,065	-	-	-	-	-	40,880	-
Share of net profit of joint ventures accounted for using the equity method	-	-	-	-	-	25	-	-	-	25
Segment assets	102,179	110,575	153,326	180,088	-	-	16,106	14,787	271,611	305,450
Total assets include:										
Investments in joint ventures	-	-	-	-	-	-	-	-	-	-
Additions to non-current assets (other than financial assets and deferred tax)	1,439	3,608	6,095	20,034 ¹	-	-	40	412	7,574	24,054
Segment Liabilities	111,098	103,108	39,373	35,739	-	-	1,717	962	152,188	139,809

¹This does not include non-current assets included in the Servigrut acquisition as detailed in note 30.

Austin Engineering Ltd
Annual and Financial Report 2015

Note 24: Segment reporting (cont'd)

Corporate expenses are included in the Australian reporting segment for decision-making purposes as this represents the area within which they are mostly incurred. Asset and liability amounts are measured in the same way that they are measured in the financial statements. Segment assets and liabilities are allocated based on the operations of the segment and the physical location of the assets and liabilities.

The reconciliation of EBITDA to (loss)/profit before income tax is as follows:

	Consolidated Entity	
	2015	2014
	\$000	\$000
EBITDA used for segment reporting*	8,091	15,162
Impairment expense	(40,880)	-
Reported EBITDA	<u>(32,789)</u>	<u>15,162</u>
Depreciation	(11,024)	(10,498)
Amortisation	(1,077)	(919)
Interest revenue	1,315	143
Finance costs	(6,071)	(3,852)
Profit before income tax	<u>(49,646)</u>	<u>36</u>

*Includes restructuring costs and Westech legal fees totalling \$6.933m.

Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on inter-segment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length basis. These transfers are eliminated on consolidation.

Segment revenue and non-current assets

Total revenue from external customers attributed to Australia (country of domicile) is \$106,530,000 (2014 - \$124,589,000), and total revenue from external customers attributed to all foreign countries is \$103,896,000 (2014 - \$85,281,000). Revenues from external customers attributed to the USA and Chile, as individual foreign countries, are material and amounted to \$21,184,000 (2014 - \$21,302,000) and \$42,852,000 (2014 - \$28,809,000) respectively.

In 2015, \$32,380,000 of revenues were derived from a single external customer. These revenues were attributable to the Australia segment.

In 2014, \$38,244,000 of revenues were derived from a single external customer. These revenues were attributable to the Australia segment.

Non-current assets located in Australia amounted to \$66,001,000 (2014 - \$77,440,000) and non-current assets located in foreign countries amounted to \$114,194,000 (2014 - \$153,665,000). These non-current assets exclude financial instruments and deferred tax assets. Non-current assets located in Chile are material as an individual foreign country and amounted to \$74,786,000 (2014 - \$101,426,000).

	Consolidated Entity	
	2015	2014
	\$000	\$000

Note 25: Cash flow information

a) Reconciliation of cash flow from operations with profit after income tax

Profit after income tax	(49,332)	896
Depreciation and amortisation	12,101	11,417
Impairment expense	40,880	-
Loss on disposal of property, plant and equipment	55	-
Share of joint venture profits	-	(25)
Group loss on termination of joint venture	-	289
Share options expense	223	-

Changes in operating assets and liabilities, net of effects from purchase of controlled entities:

(Increase)/decrease in receivables	(3,691)	3,214
(Increase)/decrease in inventories	(5,053)	(2,970)
(Increase)/decrease in other assets	(1,636)	(2,060)
Increase/(decrease) in payables	10,998	(10,577)
Increase/(decrease) in income taxes payable	(1,012)	(7,294)
Increase/(decrease) in provisions	42	589
Net cash (used in) / provided by operating activities	<u>3,575</u>	<u>(6,521)</u>

b) Non-cash investing and financing activities

The acquisition of businesses is disclosed in note 30.

c) Bank facilities

The group had access to the following bank facilities at the balance date:

Total facilities	122,094	138,809
Utilised	(114,294)	(116,537)
Unused	<u>7,800</u>	<u>22,272</u>

In June 2014 the group entered into a variation of its multi-currency syndicated facilities agreement resulting in a reduction in the total facility limit from \$155.0m to \$115.0m. The syndicated facilities expire in December 2016 and they all attract variable interest rates. In addition to the syndicated banking facilities, there are bank guarantees totalling \$16.2m (2014 - \$18.8m) and other minor leasing and bank loans in various jurisdictions within the group.

Austin Engineering Ltd Annual and Financial Report 2015

Note 25: Cash flow information (cont'd) c) Bank facilities (cont'd)

The syndicated facilities are summarised as follows:

Facility A1 - Australian Dollar revolving cash advance facility of up to A\$47.1m

This facility was used to refinance existing senior debt facilities of the group (including leasing facilities) and refinance of current South American facilities and for normal corporate purposes.

Facility A2 - United States Dollar revolving cash advance facility of up to US\$27.1m (A\$35.1m)

This facility was used to refinance existing senior debt facilities of the group (including leasing facilities) and refinance of current South American facilities and for normal corporate purposes.

Facility C1 - Amortising non-revolving letter of credit (LC) facility of A\$16.2m

This is an LC facility that is amortising and non-revolving. There are US\$ LC's within this facility and therefore fluctuates with foreign currency movements.

Facility C2 - Non-amortising revolving overdraft facility of up to A\$2.8m

This facility is used to assist with the group's day to day working capital requirements.

Facilities A1 and A2 were used to finance business acquisitions and the purchase of property, plant and equipment.

The group must maintain covenants relating to the debt drawn down under the syndicated facilities and these covenants include a minimum EBITDA, interest cover, gearing and debt servicing. During the first six months of the year ended 30 June 2015, the group did not meet its net debt:EBITDA and EBIT:interest expense covenants under its multi-currency syndicated facilities agreement. The senior lenders subsequently agreed to waive these non-compliances prior to 31 December 2014 and agreed that compliance with some financial covenants not be tested from the existing facility agreement for the period 31 December 2014 to 30 March 2015. In consideration of granting the waiver, certain additional covenants to 30 March 2015 were agreed to and subsequently complied with.

New covenants were agreed effective from 31 March 2015, which reflect the company strategy and include a debt reduction strategy that is principally based around realising existing surplus assets and meeting forecast trading results and cash flows over the 12 months from 31 March 2015.

The new financial covenants comprise the following:

- Gross Debt*:EBITDA** must not exceed 4.0:1 from 30/9/15 to 30/12/15
- Gross Debt*:EBITDA** must not exceed 3.5:1 from 31/12/15 to 30/3/16
- Gross Debt*:EBITDA** must not exceed 3.0:1 from 31/3/16 to 30/6/16
- EBITDA** covenants which reflect internal forecasts for the next 12 months trading including appropriate headroom
- Restrictions on payment of dividends until the relevant Gross Debt:EBITDA ratio is less than 3:1 for at least two consecutive quarters and provided that the payment of the proposed dividend is not likely to cause the ratio to equal or exceed 3:1
- Other debt reduction payments reflecting the Board's debt reduction strategy

*Gross Debt means Gross Debt per the Balance Sheet.

**EBITDA means normalised last 12 month EBITDA.

The existing gearing ratio was suspended until 1 July 2016 and interest cover ratio until 1 April 2016 (now 1 July 2016, see below). Net Debt covenant is suspended until 1 April 2016.

Further variations to covenants were agreed effective 30 June 2015 relating to:

- Consent for the bond issue and rights issue
- Mandatory prepayment program, totalling \$45 million, as a result of funds raised from the bond issue and rights issue

On 31 August 2015, following payment of the initial \$45 million in reduction of the senior debt, the Group applied a further \$2.15 million to the senior debt (bringing the total post capital raising prepayment to \$47.15 million, refer note 27) and the senior lenders agreed to vary the minimum normalised EBITDA and interest cover ratio (now suspended until 1 July 2016) covenants in senior facility documents.

At 30 June 2015 the finance facilities of the consolidated entity are secured by a combination of securities including a fixed and floating charge over the assets and undertakings of each of the entities, mortgages on specific property, and rights over assets subject to lease and hire purchase. The assets pledged as security are disclosed in note 16.

The group's policy is to centralise debt and surplus cash balances and also to match the assets and liabilities currency exposure whenever possible.

Note 26: Share-based payments

The following share-based payment arrangements existed at 30 June 2015:

Performance-based shares:

On 21 November 2014, the issue of 150,000 shares to the Managing Director, Michael Buckland, was approved by shareholders in general meeting, pursuant to the executive services agreement entered into with Michael Buckland on 4 April 2011 and subsequently extended to 30 June 2016. This executive services agreement includes an equity based remuneration component comprising of the issue of 50,000 shares to Michael Buckland in respect of each of the financial years ending on 30 June 2014, 2015 and 2016 (collectively the Bonus Shares). The issue of the Bonus Shares, which is dependent upon the achievement of certain performance targets and requirements, is at no cost to Michael Buckland. The shares relating to the 2014 financial year (the '2014 shares') were not issued to Michael Buckland as the share price performance hurdle had not been met. The equity based remuneration component of the executive services agreement is a continuation of Michael Buckland's previous remuneration structure.

Austin Engineering Ltd
Annual and Financial Report 2015

Note 26: Share-based payments (cont'd)

Performance rights:

On 30 September 2014, the company announced that it would be proceeding with the Austin Engineering Ltd (Austin) Performance Rights Plan. The Performance Rights Plan is a long term incentive aimed at creating a stronger link between employee performance and reward and increasing shareholder value by enabling senior executives to have greater involvement with, and share in the future growth and profitability of the company.

The maximum number of performance rights to be granted to the Managing Director and the Executives are 164,672 and 985,627 performance rights respectively. The proposed grant of performance rights to the Managing Director was approved at the 2014 Annual General Meeting. The grant of performance rights to Executives did not require shareholder approval.

The performance rights are exercisable into one ordinary share in Austin and have a nil exercise price. The performance rights will vest if the Performance and Exercise Conditions are achieved. The Performance Conditions consist of meeting a Total Shareholder Return (TSR) target and earnings per share (EPS) growth target relative to a selected group of peers.

On 21 November 2014 and 25 September 2014 the Managing Director and the Executives were granted 164,672 and 985,627 performance rights respectively. The performance rights were granted in two tranches. The first tranche of 281,773 performance rights is for the performance period 1 July 2013 to 30 June 2016 and the second tranche of 868,526 performance rights is for the performance period 1 July 2014 to 30 June 2017. The performance rights expire on 25 September 2019.

Options:

On 26 November 2010, 500,000 share options were granted to Managing Director Michael Buckland to take up ordinary shares at an exercise price of \$4.50 each under the Austin Engineering Ltd employee share option plan. The options had a two year vesting period and were exercisable between 26 November 2012 and 26 November 2013. The options were unlisted, held no voting rights or dividend rights and were not transferable. All of the options vested during the 2013 financial year and expired during the 2014 financial year.

All options granted are for ordinary shares in Austin Engineering Ltd which confer a right of one ordinary share for every option held and vest if service conditions are met. Whilst there are no specific performance conditions attaching to these options, the basis for the issue of the options and the setting of the exercise price is explained in page 8 of the remuneration report.

	2015		2014	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Performance rights outstanding and exercisable at the balance date are as follows:				
Outstanding at beginning of year	-	-	-	-
Granted	1,150,299	-	-	-
Expired	-	-	-	-
Exercised	-	-	-	-
Outstanding at end of year	1,150,299	-	-	-
Total exercisable at end of year	-	-	-	-
Share options outstanding and exercisable at the balance date are as follows:				
Outstanding at beginning of year	-	-	500,000	4.50
Granted	-	-	-	-
Expired	-	-	(500,000)	4.50
Exercised	-	-	-	-
Outstanding at end of year	-	-	-	-
Total exercisable at end of year	-	-	-	-

Performance rights granted:

The fair values at grant date are independently determined. The fair value of performance rights with the relative TSR performance measure is calculated at the grant date using the Monte Carlo simulation model, taking into account, amongst other things, the impact of the TSR condition and that right holders are not entitled to dividends during the vesting period. The fair value of performance rights with the relative EPS performance measure is calculated using the Black-Scholes option pricing model, taking into account that right holders are not entitled to dividends during the vesting period.

Austin Engineering Ltd
Annual and Financial Report 2015

Note 26: Share-based payments (cont'd)

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date are as follows:

	Grant date	Expiry date	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield	Weighted average fair value of rights granted	Fair value of rights	
									TSR	EPS
<i>Executive Director</i>										
Michael Buckland										
Tranche 1	21/11/2014	25/09/2019	-	\$0.80	48.28%	2.70%	11.25%	\$0.35	\$0.03	\$0.67
Tranche 2	21/11/2014	25/09/2019	-	\$0.80	48.28%	2.77%	11.25%	\$0.41	\$0.22	\$0.60
<i>All other Senior Executives</i>										
Tranche 1	25/09/2014	25/09/2019	-	\$1.175	50.00%	2.74%	7.70%	\$0.55	\$0.08	\$1.03
Tranche 2	25/09/2014	25/09/2019	-	\$1.175	50.00%	2.90%	7.70%	\$0.67	\$0.38	\$0.95

The expected price volatility is based on the historic volatility (based on the remaining life of the rights), adjusted for any expected changes to future volatility due to publicly available information.

Performance shares granted:

The fair value of the performance shares granted to the Managing Director, Michael Buckland, was calculated using the Monte Carlo simulation model. The valuation model inputs used to determine the fair value at the grant date are as follows:

	Grant date	Exercise price	Target share price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield	Fair value of performance shares granted
2015 shares	21/11/2014	-	\$1.53	\$0.80	55%	2.53%	11.25%	\$0.097
2016 shares	21/11/2014	-	\$1.53	\$0.80	55%	2.53%	11.25%	\$0.155

The performance shares will be allotted and issued if the 20 day volume-weighted average share price (VWAP), commencing immediately after the release of the full year final audited financial statements for the 2014, 2015 and 2016 financial years, exceeds the target share price. The valuation model assumes that the audited financial statements will be released on or about 30 September of each financial year. The 2014 shares did not vest as the performance hurdle was not met. The 2014 shares had a nil fair value as the grant date occurred after the measurement date.

Options granted:

There were no options issued during the 2015 and 2014 financial years.

Expenses arising from share based payment transactions:

The total expense arising from share-based payment transactions recognised during the period as part of employee benefits expense was \$223,000 (2014: \$nil).

Note 27: Events after the balance sheet date

Capital raising

Subsequent to the end of the financial year the company undertook a \$51.6 million capital raising comprising:

- A fully underwritten pro-rata accelerated non-renounceable entitlement offer that raised approximately \$31.6 million before costs. The entitlement offer comprised an institutional offer that raised \$19.1 million and a retail offer that raised \$12.5 million (comprising \$3.6 million from retail shareholders and \$8.9 million from shares placed under the retail shortfall). A total of 70,228,337 new ordinary shares were issued at an issue price of \$0.45 per share. The shares issued rank equally with existing fully paid ordinary shares.
- A subordinated loan of \$20 million provided by LIM Asia Special Situations Master Fund Limited (LIM). The loan was fully drawn down on 29 July 2015. The loan bears interest at 9% per annum, is secured by a second ranking general security over the company and is repayable within 36 months from the date of the draw down. Further to this, LIM was issued 12 million options on 29 July 2015, expiring on 31 July 2018 at various exercise prices (4 million options exercisable at \$0.60; 6 million options exercisable at \$1.00; 2 million options exercisable at \$1.75), as part consideration for the subordinated loan.

Senior facility

- \$45 million of the proceeds from the capital raising were used to reduce senior debt during July and August 2015.
- After payment of the initial \$45 million in reduction of the senior debt, the Group applied a further \$2.15 million to the senior debt (bringing the total post capital raising prepayment to \$47.15 million) and the senior lenders agreed to vary the minimum adjusted EBITDA and interest cover ratio covenants in senior facility documents.
- On 31 August 2015, the Group agreed with its senior lenders to revise its covenants in order to match its group strategy including the debt reduction strategy. As a consequence, the group committed to a further prepayment by the end of the calendar year if requested by the senior lenders.

Austin Engineering Ltd
Annual and Financial Report 2015

Note 28: Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties.

Ultimate parent company:

Austin Engineering Limited is the ultimate parent company.

Controlled entities:

Interests in controlled entities are disclosed in note 13.

Key management personnel compensation:

	Consolidated Entity	
	2015	2014
	\$	\$
Short-term employment benefits	2,324,126	2,403,301
Post-employment benefits	199,164	154,394
Long-term benefits	72,879	87,229
Share-based payments	76,052	-
	<u>2,672,221</u>	<u>2,644,924</u>

Detailed remuneration disclosures are provided in the remuneration report on pages 6 to 14.

Transactions with other related parties:

The following transactions occurred with related parties:

	Consolidated Entity	
	2015	2014
	\$	\$
<i>Purchases of services</i>		
Purchase of legal services from other related parties*	430,836	130,050
<i>Other transactions</i>		
Subscription for new ordinary shares by key management personnel as a result of:		
Share purchase plan	-	30,000
Exercise of options granted as remuneration	-	-

*Eugene Fung, a non-executive director of the company, is a partner with the law firm Thomson Geer Lawyers. The firm provided legal services to the company on normal commercial terms.

Outstanding balances arising from sales/purchases of goods and services:

	Consolidated Entity	
	2015	2014
	\$	\$
<i>Current payables (purchases of services)</i>		
Other related parties	94,623	18,564

Note 29: Financial risk management

The group's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risks. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the business. The group uses, when necessary, derivative financial instruments such as foreign exchange contracts to hedge certain market risk exposures. The group has no derivatives at the end of the financial year. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by the finance function under principles and parameters approved by the board of directors. The finance function identifies, evaluates and hedges financial risks in close co-operation with the group's operating units.

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the entity's income or the value of its holdings in financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising returns.

(i) **Foreign exchange risk:**

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Chilean Peso, Indonesian Rupiah, Colombian Peso and Peruvian Nuevo Soles as a result of its operations in the Americas and Indonesia.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The Australian dollar is the functional currency for a large part of the group's entities and business activities.

Management has put in place a policy requiring business units and group companies to manage their foreign exchange risk against their functional currency. The group companies are required to bring significant foreign currency transactions to the attention of the central finance function for evaluation as to the use of hedging using forward foreign currency contracts.

Austin Engineering Ltd
Annual and Financial Report 2015

Note 29: Financial risk management (cont'd)

Market risk: (cont'd)

A sensitivity analysis was performed at 30 June 2015, to determine how the measurement of financial instruments denominated in a foreign currency would be affected if the Australian dollar weakened or strengthened by 10%. The analysis was performed on the same basis as 2014, as indicated below:

	Consolidated Entity			
	Strengthening by 10%		Weakening by 10%	
	Equity \$'000	Profit or loss \$'000	Equity \$'000	Profit or loss \$'000
30 June 2015				
US dollar	1,374	545	(1,374)	(545)
Chilean peso	(5,618)	(152)	5,618	152
Indonesian rupiah	(803)	(141)	803	141
Colombian peso	344	(80)	(344)	80
Peruvian nuevo soles	787	909	(787)	(909)
Singapore dollar	-	7	-	(7)
Omani Rial	-	-	-	-
Total	(3,916)	1,088	3,916	(1,088)

	Consolidated Entity			
	Strengthening by 10%		Weakening by 10%	
	Equity \$'000	Profit or loss \$'000	Equity \$'000	Profit or loss \$'000
30 June 2014				
US dollar	874	(108)	(874)	108
Chilean peso	(5,152)	(117)	5,152	117
Indonesian rupiah	(601)	69	601	(69)
Colombian peso	35	206	(35)	(206)
Peruvian nuevo soles	(140)	(2)	140	2
Singapore dollar	-	16	-	(16)
Omani Rial	-	(2)	-	2
Total	(4,984)	62	4,984	(62)

Refer to notes 9 and 15 for a summary of the group's exposure to foreign exchange risk at the financial year-end in relation to current assets and current liabilities.

(ii) Price risk:

The group is not exposed to material price risk relating to equity securities and it has therefore not been included in the sensitivity analysis.

(iii) Cash flow and fair value interest rate risk:

The group's interest rate risk predominantly arises from long-term borrowings. Borrowings at variable rates expose the group to cash flow interest rate risk and fixed interest rates expose the group to fair value interest rate risk. The group analyses its interest rate exposure on an ongoing basis. Various interest rate shifts are simulated taking into account refinancing, renewal of existing positions and facilities, alternative financing and hedging. Based on these interest rate shifts, the group calculates the impact on profit and loss. The interest rate shift scenario is run only for assets and liabilities that represent the major interest-bearing positions.

The following table analyses the group's financial assets and liabilities that are subject to interest rate risk.

	30 June 2015		30 June 2014	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$000	%	\$000
Cash	0.3%	3,319	0.4%	7,385
Bank loans	5.4%	(82,224)	4.8%	(76,834)
Net exposure to cash flow interest rate risk		<u>(78,905)</u>		<u>(69,449)</u>

The group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7.

Sensitivity

Based on the simulations performed, the annual impact on profit and loss of a one per cent shift in interest rates, with all other variables held constant, is estimated to be a maximum increase or decrease of \$772,000 (2014: \$757,000). The simulation is performed on a bi-annual basis to estimate the maximum loss potential.

Credit risk:

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or contract, leading to a financial loss. Credit risk arises principally from cash deposits and receivables. Credit risk is co-operatively managed by the finance function and the operating units for customers, including outstanding receivables and committed transactions and at a group level for credit risk arising from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. Only reputable banks and financial institutions are dealt with.

Note 29: Financial risk management (cont'd)

Credit risk: (cont'd)

Trade and other receivables:

The group's exposure to credit risk for trade and other receivables is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The group enters into transactions with a number of high quality customers within the resources industry sector thereby minimising concentration of credit risk for trade and other receivables. The group has multiple contracts with its significant customers, across a number of their subsidiaries, divisions within those subsidiaries and locations. The group's activities are largely focused on the mining and mining services industry sectors and as a result its credit risk for trade and other receivables is concentrated in this sector.

Individual risk exposures are set for customers in accordance with specified limits established by management based on independent credit reports, financial information, credit references and the group's credit and trading history with the customer. Outstanding customer receivables are regularly monitored and any credit concerns highlighted to senior management. High risk projects or shipments for customers are generally covered by letters of credit or other forms of guarantee.

Included in trade receivables is one significant customers accounting for approximately 17% of trade receivables at 30 June 2015. At 30 June 2014 the group had two significant customers accounting for approximately 23% of trade receivables. Details of trade and other receivables past due but not impaired are provided in Note 9.

The maximum exposure to credit risk, without taking into account the value of any collateral or other security, in the event that other parties fail to perform their obligations under financial instruments for each class of reporting recognised financial asset at the reporting date is the carrying amount of those assets as indicated in the statement of financial position.

Refer note 9 for a summary of the group's exposure to credit risk relating to receivables at the end of the financial year.

Cash and cash equivalents:

The credit risk on cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-ratings assigned by international credit-rating agencies

Liquidity risk:

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due.

The objective of managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions. The group has established a number of policies and processes for managing liquidity risk. These include:

- Continuously monitoring cash flows on a daily basis as well as forecasting cash flows on a medium and long-term basis
- Monitoring the maturity profiles of financial assets and liabilities in order to match inflows and outflows
- Maintaining adequate reserves and support facilities
- Monitoring liquidity ratios and all constituent elements of working capital
- Maintaining adequate borrowing and finance facilities.

The group maintains backup liquidity for its operations and currently maturing debts through a combination of bank overdrafts, bank guarantees and general finance facilities, of which \$7,800,000 were undrawn at 30 June 2015 (2014: \$22,272,000). The principal terms of repayment are detailed in note 25.

The table below analyses the group's financial liabilities into maturity groupings based on the remaining period from the balance date to the contractual maturity date. As amounts disclosed in the table are the contractual undiscounted cash flows including future interest payments, these balances will not necessarily agree with the amounts disclosed on the statement of financial position.

	1 Year \$000	1 to 5 Years \$000	Total \$000
2015			
Payables	37,704	-	37,704
Bank loan	49,305 ¹	44,467	93,772
Lease liabilities	4,174	3,897	8,071
Total	91,183	48,364	139,547
2014			
Payables	26,331	-	26,331
Bank loan	6,430	90,106	96,536
Lease liabilities	5,142	6,001	11,143
Total	37,903	96,107	134,010

¹ \$45 million of the senior debt being disclosed as a current liability (refer to note 1) .

Fair value measurements:

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. Fair values are categorised into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

At 30 June 2015 the group did not have any financial instruments that were measured and recorded at fair value.

The aggregate fair values of all financial assets and liabilities approximate their carrying values at the balance date.

Austin Engineering Ltd
Annual and Financial Report 2015

Note 30: Business combinations
2015

There were no acquisitions undertaken during the year end 30 June 2015.

2014

On 7 October 2013 Austin Arrendamientos Chile Ltda, a 100% subsidiary company within the Austin Engineering Group, acquired the property, plant and equipment and the associated finance obligations for these assets, of Servigrut in northern Chile, effective 1 October 2013. No other tangible assets or liabilities were included in the acquisition. Servigrut is based in Antofagasta close to Austin's existing operations. Servigrut is a significant and successful supplier of heavy lifting equipment, transportation and site services to the mining and industrial markets in Chile. Servigrut's services are complementary to those provided by Austin's similar business in Calama and the acquisition will enable Austin to become the major provider of such services throughout the region. The total acquisition cost was USD \$21.0m and was funded by existing bank loan facilities and the Capital Raising held in December 2013. USD \$10.5m was paid in October 2013, whilst the remaining USD \$10.5m was paid in January 2014.

	Total \$000
Details of net assets and intangibles acquired are as follows:	
Purchase consideration	23,004
Fair value of net tangible assets acquired	(15,275)
Intangible assets and goodwill	<u>7,729</u>
The fair value of net tangible assets from the acquisitions is as follows:	
Property, plant and equipment	23,049
Equipment related-finance lease commitments	(6,670)
Deferred tax liability	(1,104)
Net identifiable tangible assets acquired	<u>15,275</u>
The intangible assets and goodwill acquired, net of deferred tax, arising from the acquisition are as follows:	
Customer relationships and service agreements	2,571
Goodwill	5,158
Total intangible assets and goodwill acquired	<u>7,729</u>
Purchase consideration – cash outflow:	
<i>Outflow of cash to acquire business, net of cash acquired</i>	
Total purchase consideration	23,004
Less: contingent consideration	-
Cash consideration/outflow of cash – investing activities	<u>23,004</u>

It is not practicable to determine the profit and revenue for this acquisition as if it had been acquired on 1 July 2013 or since the acquisition date to 30 June 2014 as only certain assets and liabilities were acquired which have then been combined with other assets and liabilities of the group to form the Servigrut business. However, the profit and revenue for the combined Servigrut business from the date of acquisition to 30 June 2014 was \$9,819,000 of revenue and \$1,369,000 of net profit after tax to the group. The relative contribution of this new business is expected to increase in the future as business expansion plans are implemented. The transaction costs associated with this acquisition were not material and were expensed in the profit or loss.

Directors' Declaration

The directors of the company declare:

1. The financial statements and notes, as set out in pages 24 to 55 of this report, are in accordance with the Corporations Act 2001; and
 - a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - b) give a true and fair view of the financial position at 30 June 2015 and of the performance for the year ended on that date of the consolidated entity.
2. The remuneration disclosures contained in the Remuneration Report in the Directors' Report comply with section 300A of the Corporations Act 2001.
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee. In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in note 13 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the board of directors.



Michael D Buckland
Director

28 September 2015

INDEPENDENT AUDITOR'S REPORT

To the members of Austin Engineering Limited

Report on the Financial Report

We have audited the accompanying financial report of Austin Engineering Limited, which comprises the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Austin Engineering Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Austin Engineering Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 14 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Austin Engineering Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd



C R Jenkins
Director

Brisbane, 28 September 2015

Austin Engineering Ltd
Annual and Financial Report 2015

Additional Information for Public Listed Companies

1. Substantial Shareholders at 7 September 2015

	Number of Ordinary Fully Paid Shares Held	% Held of Ordinary Shares
Belgiorno-Nettis Family	22,222,222	14.38
Thorney Investments	21,861,013	14.15
Bradken Resources	18,240,087	11.81
LIM Advisors	16,296,354	10.55
Invesco Australia	9,291,747	6.01

2. Distribution of Shareholdings at 7 September 2015

<u>Range of Holding</u>	Number of Shareholders	Number of Shares
1 - 1,000	932	352,495
1,001 - 5,000	1,072	2,995,824
5,001 - 10,000	493	3,766,264
10,001 - 100,000	672	18,427,908
100,001 and over	87	128,959,850
	<u>3,256</u>	<u>154,502,341</u>
Holding less than a marketable parcel	963	

3. Voting Rights

All ordinary shares issued by the company carry one vote per share without restriction.

4. Twenty Largest Shareholders at 7 September 2015

<u>Name</u>	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
HSBC Custody Nominees	36,321,085	23.51
Transfield Finance Pty Ltd	22,222,222	14.38
Merrill Lynch (Australia)	18,262,515	11.82
UBS Nominees Pty Ltd	8,664,535	5.61
S J Quinlivan Pty Ltd	6,130,830	3.97
J P Morgan Nominees Australia	5,560,959	3.60
National Nominees Limited	5,408,947	3.50
Mr Michael Buckland	3,193,555	2.07
Citicorp Nominees Pty Limited	2,301,726	1.49
RBC Investor Services Australia Nominees Pty Limited	1,609,642	1.04
Mr Peter Louis Pursey & Mrs Helen Elizabeth Pursey	1,225,232	0.79
Redcentre Pty Ltd	1,179,000	0.76
Mr Eugene Fung & Ms Cindy Dean	1,000,924	0.65
Depofo Pty Ltd	850,000	0.55
Mr Peter Howells	798,334	0.52
Mr Stanley James Quinlivan & Mrs Frances Marie Quinlivan	605,000	0.39
Miengrove Pty Ltd	600,000	0.39
Vanward Investments Limited	580,000	0.38
D & T Superannuation Pty Ltd	521,034	0.34
Mr David Stanley Quinlivan	487,605	0.32
	<u>117,523,145</u>	<u>76.08</u>

5. Additional Information

There is no on-market buy-back currently in effect.

**Austin Engineering Ltd
Annual and Financial Report 2015**

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Level 16
Waterfront Place
1 Eagle Street
Brisbane, 4000

Austin Engineering Ltd
Annual and Financial Report 2015

Company Information (cont'd)

Auditors:

BDO Audit Pty Ltd
Level 10, 12 Creek Street
Brisbane
Queensland 4000

Principal Bankers:

Westpac Banking Corporation
260 Queen Street
Brisbane
Queensland, 4000

Australia and New Zealand
Banking Group Limited
111 Eagle Street
Brisbane
Queensland, 4000

National Australia Bank Limited
100 Creek Street
Brisbane
Queensland, 4000

Secretary:

Scott Richardson
Jessica Neale (Co-company secretary)

Stock Exchange:

Australian Securities Exchange

Home Exchange:

Brisbane

ASX Code:

ANG

Website:

www.austineng.com.au