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**austin**engineering<sup>LTD</sup>  
ABN 60 078 480 136

**2016 Annual Report**

## Chairman's Report

Austin faced two key challenges in 2016. Firstly, the impact of the mining boom which ended with a massive and sustained downturn, impacting globally across the mining and mining services industry. Secondly, the need to address the debt on our balance sheet and to review the company's operations to best meet the mining services landscape post the boom.

The downturn was global and impacted everyone in the sector. While this period has been very challenging, there are signs now that capex budgets are slowly increasing, tenders are at a high level and orders are being placed, although the level at which these might be sustained is yet to be realised. The landscape towards the end of 2016 is significantly better than the last two years.

In relation to debt, our current financial position is significantly improved as a result of the capital raisings undertaken during the year. We commenced the 2017 financial year with net debt of \$40m, down from \$96m. There is further work to be done to fully complete our balance sheet repair however the key pillars have been put in place. The decision to raise equity in June 2016 was based on a board decision that reflected the interests of all Austin shareholders based on the options available at the time.

When I was asked to take over as Chairman in November 2015 I was aware the task ahead would not be easy and that the company faced many challenges. In particular, the company needed to review its operations to meet the challenges of the new mining services landscape and to set itself on the best footing to extract value from the market as it rebalanced.

To achieve that outcome we put in place a strategic review of the whole business structure to determine if its strategy and structure would best meet future needs. In combination with the appointment of a Chief Strategy Officer, the outcomes of that review are being implemented with improvements to the group's manufacturing processes, better coordination of engineering and IP development, clear plans for site services, marketing and customer relationships, and a more streamlined management structure.

During this period, the company also had the CEO and more recently the CFO resign, making the task more challenging in the circumstances. We were pleased to secure the services of both Charles Rottier and Christine Hayward who have contributed significantly in maintaining the operations and financial management through a very challenging period. We also expect to make an announcement shortly on permanent CEO and CFO appointments.

Changes are also being made to the financial management and structure of Austin to support and complement the financial reporting and management required to support the new operational strategy.

In combination, the changes to operational strategy and the financial structure, to support those changes, position Austin well to secure maximum advantage as the market turns and to capitalise on a range of future opportunities, all of which are designed to maximise revenue opportunities and drive profit and sustainable growth.

The board has determined no dividend will be paid for the year ended 30 June 2016, your Directors believe the best use of Austin's capital is to continue to restructure the debt profile and improve working capital levels.

The global mining services market has several thousand Austin products out there helping to deliver annual increases in production and consumption of all the key minerals we are associated with; namely coal, iron ore and copper. Many of these products are at the very end of their useable life and will need replacement very soon. We remain confident we will secure these replacement orders and there are no signs these replacements have gone to competitors or are being made in other countries.

Our products are highly regarded in the mining sector and the support we provide behind our product, as well as an expanding our site services/asset management business, is positioning us very well for the future.

Safety continues to have paramount importance for Austin. Along with our customers, we take safety very seriously and have continued to invest in this area. The Austin board established a Risk Committee during the year to assist the directors in assessing safety and risk across all of our business operations. Previously the board ran this process. Our long-term injury frequency rate reduced for the third year running.

Austin has commenced the 2017 financial year with a higher order and tender book than at the same time last year and has continued to win new contracts in the first quarter of 2017. Our strategy to balance manufacturing with maintenance and site services work has paid dividends with a number of significant multi year, renewable contracts secured in South America and Australia.

The strategic review also identified a number of other initiatives we should consider as we position ourselves in the 'new normal' mining services landscape. Now that the key structural issues have been completed, management will focus on providing productivity benefits and examine new initiatives in supporting key customers and other players in the mining services sector.

Further strategic initiatives resulted in the closure of our Brisbane manufacturing facility and the sale of COR Cooling during the year. We continue to assess all assets and business units across the Group to ensure Austin's capital is appropriately directed.

The Board has undertaken significant change during the year with the departure of two long-serving Directors as well as the more recent departure of John Nicholls. We welcome Jim Walker and Chris Indermaur to the board, both of whom have significant experience in the manufacturing and mining industry sectors.

The board constantly reviews its governance, risk, safety and business ethics and we remain committed to upholding the highest levels at all times. A review of our board skills matrix indicates that our Directors contribute the appropriate mix of skills, knowledge and experience to drive the business forward.

My goal when accepting the Chairman role was to ensure the company would be in a far better position by November 2016. I believe we have put those fundamentals in place and positioned the company for future growth in a changed mining services environment. In doing this I would like to thank our customers and our patient suppliers across the sector.

I would also like to extend thanks to all shareholders for their support and to the new shareholders who, through their investment, have recognised the work that has been done over the last 12 months to reposition the company.

Lastly I extend my thanks to my fellow directors and advisors who have worked tirelessly over the past 12 months as a team, to deliver a strengthened and better- structured Austin.



Peter Pursey AM  
Executive Chairman

**Austin Engineering Limited  
Annual Report 2016**

**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 2016.

**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 (resigned as Managing Director on 15 February 2016 and continued to serve as CEO until 15 August 2016)

*Chairman:*

Peter Pursey (Independent Non-Executive Director to 27 November 2015, Non-executive Independent Chairman from 28 November 2015 to 15 February 2016 and Executive Chairman thereafter)  
Paul Reading (former Non-Executive Chairman, retired 27 November 2015)

*Independent Non-Executive Directors:*

Eugene Fung  
Charlie Sartain  
John Nicholls (appointed 1 September 2015, retired 8 July 2016)  
Jim Walker (appointed 8 July 2016)  
Christopher Indermaur (appointed 8 July 2016)

**Secretaries**

Scott Richardson  
Jessica Neale (resigned 13 May 2016)

**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 2016	Year Ended 30 June 2015
<i>Continuing and discontinued operations</i>		
Statutory EBITDA	(30,052)	(32,789)
Normalised EBITDA	9,167	15,024
Profit/(loss) before tax	(47,989)	(49,646)
Net profit/(loss) after tax	(40,455)	(49,332)
Basic earnings/(loss) per share (cents)	(27.04)cps	(58.54)cps
<i>Continuing operations</i>		
Revenue	188,169	187,239
Statutory EBITDA	(20,589)	(34,032)
Normalised EBITDA	7,126	13,766
Profit/(loss) before tax	(37,859)	(50,023)
Net profit/(loss) after tax	(30,022)	(49,445)
Net assets	137,021	119,423
Basic earnings/(loss) per share (cents)	(20.07)cps	(58.67)cps
Total annual dividend per share (cents)	-	-

**Operations**

During 2016 market conditions continued to remain subdued within the mining industry despite increases in production levels from all the major miners. Capital spending continues to be deferred, with a continued focus on repairs and cost reduction putting further pressure on margins.

Austin's revenues continue to be supported by repair and maintenance work, however Austin has seen some encouraging signs in the second half of 2016 through an increase in orders for new and replacement truck trays, with signs the tray replacement cycle is commencing in some truck fleets.

The Australian operations produced a positive normalised EBITDA led by the Perth, COR Cooling and Austin Engineering Site Services divisions. Perth operations produced a good result in difficult conditions, with a broad spread of customers, satisfactory levels of manufacturing work and workshop repairs at consistently high levels. The East Coast operations continue to be impacted by difficult market conditions in the coal industry. The group took the decision during the year to close the Brisbane facility and transfer orders to the Hunter Valley and Mackay facilities and in May announced the sale of COR Cooling for a gross amount of \$14,489,000 (net proceeds were \$13,400,000).

The Indonesia business, after a record year of profit in FY15 had a subdued year with a number of major orders being deferred into FY2017.

The Americas produced a positive normalised EBITDA, however well below that of the prior corresponding period, due mainly to deferral of orders. Westech produced a weak normalised result due to very soft demand in North America. Servigrut produced a result below previous periods with clients deferring scheduled maintenance due to the low copper price, resulting in a decline in spot services work. Other Chilean operations continue to be supported by long-term contracts. The Colombian and Peruvian operations produced improved results supported by new contracts and orders.

Net loss after tax of (\$40,455,000) was impacted by restructuring costs (\$19,695,000), impairment charges (\$9,060,000) and legal costs (\$1,336,000).

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### Directors' Report (continued)

#### **Financial Position**

##### Net Assets:

Net assets of \$137,021,000 at 30 June 2016 were up by 15% from \$119,423,000 at June 2015. The increase reflects capital raised during the year, offset by the loss from the year. At 30 June 2016 the net tangible asset backing per share of 19.0c was down from 71.3c as at 30 June 2015 as a result of the increased number of shares on issue.

##### Cash Flow, Liquidity and Debt:

Operating cash flows for the full-year to 30 June 2016 were negative \$1,950,000, mainly resulting from non-recurring costs incurred during the year and represents a \$5,525,000 decrease from 30 June 2015.

Non-operating cash flows for the full-year included \$12,763,000 spent on capital expenditure projects, mainly in relation to equipment for a new contract in Chile, construction of rental equipment and other minor purchases across the group. Other non-operating cash flows included net proceeds from the sale of COR Cooling of \$13,400,000, net proceeds from share issues of \$57,259,000 and net repayments of finance facilities of \$47,198,000.

During the year ended 30 June 2016, the group recorded an overall cash inflow of \$9,662,000.

During the 2016 financial year, Austin repaid \$76,200,000 of senior debt. The group has incurred significant costs in restructuring finance arrangements which has included losses on sale of assets which were sold to reduce debt levels. These costs have been incurred during a time of challenging market conditions and have impacted profitability.

The net gearing ratio (net debt/net debt plus equity, including the value of issued bank guarantees) of 23% was improved from 45% at 30 June 2015.

#### **Business Strategies**

With mining companies continuing to conserve 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. Three years ago, the group made the strategic decision 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.

The group has seen an increase in the number of long-term contracts awarded over the last two years and an increase in the amount of off-site repairs, validating the strategic decision. It is the group'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.

In February 2016 an external strategic review of the group was completed. This identified the strength of Austin's core business of engineered products, and confirmed the value of the long-term site based repair contracts to the group. A series of initiatives in the areas of Engineering, Fabrication, Site Services and Marketing were identified and are being rolled out across the business during the 2017 financial year.

#### **Prospects for Future Financial Years**

Austin commences the 2017 financial year with an improved tender book and more work on hand relative to 2016. Orders and tender opportunities are expected to result in solid revenue and earnings in the second half of the 2017 financial year.

The Americas segment is expected to deliver an improved performance in the 2017 financial year with a number of orders on foot from the start of the year and some significant tender opportunities for which Austin is well positioned. In addition to manufacturing work, this segment contributes a strong proportion of repair and maintenance work for the group supported by long-term contracts.

The Australia segment commences the year with strong workshop activity in both the East and West coast with potential for a better result in the 2017 financial year than in 2016.

The Asia segment had a weak result in 2016 due to deferral of orders and tender opportunities.

#### **Business Risks**

Austin's business activities are intrinsically linked to the production levels from global mining operations and the economic and business conditions associated with the related markets. The achievement of the targeted financial result for FY17 is dependent on a continuation of current levels of work with an expected increase in the second half in business conditions.

#### **Dividends**

Interim and final dividends have not been declared for the year ended 30 June 2016.

#### **Events After Reporting Date**

Subsequent to the reporting date the group repaid Syndicated Facility C2 and closed this facility, the repayment was made using applied funds from cash cover held by the syndicate on 30 June 2016. In addition, the group made a capital repayment of \$3,519,000 on Facility A1 and increased our cash cover held with the syndicate by \$2,481,000. The group sourced this repayment from a new financing facility opened in July 2016, the facility has a limit of \$14,000,000. Austin also drew down on a working capital facility of \$2,850,000 in September 2016.

In August 2016, Austin finalised the sale of surplus land in Peru with gross sale proceeds of \$6,066,000 received. An amount of \$5,875,000 has been paid to subordinated debt holders to retire debt facilities put in place and drawn in February 2016.

#### **Corporate Social Responsibility & Sustainability**

##### **Environmental Management Systems**

The group's Colombian and Chilean facilities are accredited to ISO 14001 Environmental systems.

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

## Austin Engineering Limited Annual Report 2016

### Directors' Report (continued)

#### **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. The company takes its social responsibilities seriously and seeks to engage with client companies, local communities and Governments to support local communities through the provision of training and employment opportunities.

#### **Information on Directors**

##### **Peter Pursey, AM, Non-Executive Director from 2004 to 27 November 2015, Non-Executive Chairman from 28 November 2015 to 14 February 2016 and Executive Chairman from 15 February 2016**

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: none.

Special responsibilities: Chair of the board, Chair of audit committee.

Interests in shares and options at 30 June 2016: 2,225,232 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 Chair of nomination and remuneration committee as of 1 July 2012.

Interests in shares and options at 30 June 2016: 2,112,024 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 Senate of the University of Queensland, Chairman of the Advisory Board of the Sustainable Minerals Institute, a Board member of the Wesley Medical Research Institute, and a non-Executive Director of ASX-listed ALS Limited.

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: Chair of risk committee.

Interests in shares and options at 30 June 2016: None.

##### **Jim Walker, Non-Executive Director since 8 July 2016**

Jim Walker has over 40 years of experience in the resources sector. He is currently non-executive Chairman of Macmahon Holdings Limited, Chairman of the WA State Training Board and a non-executive director of Programmed Maintenance Services Group Limited, Seeing Machines and RACWA Holdings Pty Limited. Jim was formerly Managing Director and Chief Executive Officer of WesTrac Pty Limited, a director of Seven Group Holdings Limited and National Hire Group Limited and was formerly National President of the Australian Institute of Management. Jim is a graduate member of the Australian Institute of Company Directors (AICD) and Australian Institute of Management (AIM WA)

Qualifications: GAICD, FAIM.

Directorships held in other listed entities: Macmahon Holdings Limited, Programmed Maintenance Services Limited and Seeing Machines.

Former directorships in last 3 years: Seven Group Holdings Limited.

Special responsibilities: Member of audit committee and Member of the nomination and risk committee

Interest in shares and options at 30 June 2016: None.

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**Directors' Report (continued)  
Information on Directors (continued)**

***Christopher Indermaur, Non-Executive Director since 8 July 2016***

Christopher Indermaur has over 30 years of experience in large Australian companies in engineering and commercial roles. He is currently the non-executive Chairman of Poseidon Nickel Limited and Medibio Limited. Chris was formerly the Engineering and Contracts Manager for the QNI Nickel Refinery at Yabulu, Company Secretary for QAL and General Manager for Strategy and Development at Alinta Limited. Chris holds a Bachelor of Engineering (Mechanical) and a Graduate Diploma of Engineering (Chemical) from the West Australian Institute of Technology (now Curtin University). Chris also holds a Bachelor of Laws and a Master of Laws of the Queensland University of Technology and a Graduate Diploma in Legal Practice from the Australian National University.

Qualifications: B. Eng (Bachelor of Engineering), Graduate Diploma of Engineering (Chemical), B. Law, M. Law, Graduate Diploma in Legal Practice.

Directorships held in other listed entities: Poseidon Nickel Limited and Medibio Limited.

Former directorships in last 3 years: None.

Special responsibilities: Member of risk committee

Interest in shares and options at 30 June 2016: None.

***Michael Buckland, Managing Director from 2003 until his resignation on 15 February 2016***

Michael Buckland is a mechanical engineer with over 30 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. Michael Buckland resigned as a Director of Austin Engineering Limited on 15 February 2016 but continued to serve as Chief Executive Officer until 15 August 2016.

Qualifications: B.Eng (Mechanical)

Directorships held in other listed entities: none.

Former directorships in last 3 years: none.

Special responsibilities: Member of risk committee and Managing Director until 15 February 2016.

Interests in shares, options and rights at 15 February 2016: 4,402,555 ordinary shares, 100,000 performance shares and 469,108 performance rights.

***Paul Reading, Non-Executive Director from 1 January 2009 to 26 November 2010 and Non-Executive Chairman thereafter until retirement on 27 November 2015***

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 until 27 November 2015.

Interests in shares and options at 27 November 2015: 183,334 ordinary shares.

***John Nicholls, Non-Executive Director since 1 September 2015 until retirement on 8 July 2016***

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: Member of the risk committee and member of the nomination and remuneration committee until 8 July 2016.

Interests in shares and options at 30 June 2016: 726,000 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 finance roles with other large Australian companies including Brambles, Downer EDI, Macarthur Coal and BGW Group. On 8 September 2016, the company announced that Scott Richardson will be leaving the company within 3 months from the announcement date. The company intends to appoint a replacement as soon as practicable.

***Jessica Neale, Co-Company Secretary from 22 November 2013 until resignation on 13 May 2016***

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

## Austin Engineering Limited Annual Report 2016

### Directors' Report (continued)

#### Audited Remuneration Report

This remuneration report, about the remuneration of Austin Engineering Limited (the company) and its controlled entities (the group), 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 2016. 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 2015 Annual General Meeting:**

At the last Annual General Meeting in November 2015, the company received 96% of 'for' votes in relation to its remuneration report for the year ended 30 June 2015. The company did not receive any specific feedback at the Annual General Meeting regarding its remuneration practices.

The remuneration report in pages 8 to 15 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 group, 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; and
- 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 non-executive directors' fees paid during the financial year ended 30 June 2016 was \$336,078 (2015: \$302,500).

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, 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; and
- 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 Nomination and Remuneration Committee. There is no guaranteed base pay increases included in any executive directors or senior executive contracts.

#### *Short-term incentives:*

##### *Executive directors*

Peter Pursey was appointed Executive Chairman on 17 February 2016 and does not receive any short-term incentives. Michael Buckland, the former Managing Director, was the only executive director until the date of his resignation as a Director on 15 February 2016. Michael Buckland continued to serve as Chief Executive Officer until he resigned from the company on 15 August 2016. Michael Buckland was 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 linked remuneration to increased profitability and net worth to shareholders. No bonus was awarded where performance fell below the minimum acceptable KPI levels. 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 group'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 group 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.



**Directors' Report (continued)**

**Audited Remuneration Report (continued)**

**Principles used to determine the nature and amount of remuneration (continued)**

No cash bonus was paid in the year ended 30 June 2016 in relation to this KPI.

- Group as a whole meeting budgeted profit: In addition to the principal business unit groups meeting budget, the overall group 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 2016 in relation to this KPI.

- Business development: The ongoing development and growth of the group through acquisitions of other domestic and international business is a key objective. 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 2016 in relation to 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 group 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 group'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 group 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 group'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, Ausdrill 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 2016, as the required share price performance hurdle was not met and the shares were not issued.

**Senior executives**

Short-term incentives paid to senior executives are made on a discretionary basis as determined by the nomination and remuneration committee. 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 nomination and remuneration committee.

**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.

**Austin Engineering Limited  
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**Directors' Report (continued)**

**Audited Remuneration Report (continued)**

**Principles used to determine the nature and amount of remuneration (continued)**

(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; and
- 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 a 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 group. 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 group's growth and business development objectives. Options are issued to executives who are in a position to have a significant influence on the execution and delivery of the group's growth and business development plans.

(ii) Performance rights

On 30 September 2014, the group announced that it would be proceeding with the Austin Engineering Limited (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 group.

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 issue of 164,672 performance rights to the Managing Director was approved at the 2014 Annual General Meeting. The issue of performance rights to Executives did not require shareholder approval. The performance rights were issued 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.

On 27 November 2015 the company issued 2,132,933 performance rights to the Managing Director and Executives. The issue of 304,436 performance rights to the Managing Director was approved at the Annual General Meeting held on 27 November 2015. The issue of performance rights to Executives did not require shareholder approval. The performance rights are for the period 1 July 2015 to 30 June 2018 and expire on 27 November 2020.

Following the resignation of Michael Buckland from the company on 15 August 2016, the performance rights granted to him have been forfeited.

**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 group's performance to the performance of a group of peer companies selected by the Board (Peer Group).

These Performance Rights will vest as follows:

<b>TSR relative to Peer Group</b>	<b>% of Performance Rights assessed under TSR Performance Conditions to vest</b>
Group ranks in top half of the Peer Group	50%
Group 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:

- dividends are re-invested on the ex-dividend date;
- 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;
- tax and franking credits (or similar) will be ignored; and
- the Board has the discretion to disregard any abnormal, non-recurring or one-off items.

**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.

**Austin Engineering Limited**  
**Annual Report 2016**

**Directors' Report (continued)**

**Audited Remuneration Report (continued)**

**Principles used to determine the nature and amount of remuneration (continued)**

These Performance Rights will vest as follows:

EPS Growth relative to Peer Group	% of Performance Rights assessed under EPS Growth Performance Conditions to vest
Group ranks in top half of the Peer Group	50%
Group 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*.

*Performance indicators:*

The table below sets out summary information about the group's earnings and movements in shareholder wealth since 2012 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 2016	30 June 2015	30 June 2014	30 June 2013	30 June 2012
Revenue (\$000s) <sup>1</sup>	188,169	187,239	209,870	288,838	290,097
Earnings before interest, tax depreciation and amortisation ('EBITDA' \$000s) <sup>1</sup>	(20,589)	(34,032)	15,162	51,118	50,109
Normalised EBITDA (\$000s) <sup>1</sup>	7,126	13,766	15,162	51,118	50,109
Net profit/(loss) after tax – continuing operations (\$000's)	(30,022)	(49,445)	896	28,442	29,580
Net profit/(loss) after tax – discontinued and continuing operations (\$000's)	(40,455)	(49,332)	896	28,442	29,580
Share price at start of year (\$)	0.48	1.61	3.15	4.30	4.84
Share price at end of year (\$)	0.08	0.48	1.61	3.15	4.30
Interim dividend - fully franked (cents)	-	-	4.5	4.5	3.5
Final dividend - fully franked (cents)	-	-	-	10.5	10.5
Basic earnings/(loss) per share (cents) <sup>1</sup>	(20.07)	(58.67)	1.14	39.18	41.00
Diluted earnings/(loss) per share (cents) <sup>1</sup>	(20.07)	(58.67)	1.14	38.61	40.16

<sup>1</sup> Information is presented on a continuing operations basis including prior period restatement for 30 June 2015 only.

*Use of remuneration consultants:*

The group did not engage remuneration consultants during the financial year ended 30 June 2016 in relation to key management personnel.

**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 6 and 7 above.

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

Michael Buckland - Chief Executive Officer (resigned as a Director on 15 February 2016 and resigned as Chief Executive Officer on 15 August 2016)

Scott Richardson - Chief Financial Officer and Company Secretary

Charles Rottier - Chief Strategy Officer (appointed 3 February 2016)

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 <sup>a</sup>
<b>2016:</b>											
<i>Executive Director:</i>											
Peter Pursey <sup>1</sup>	176,088	-	-	29,728	-	-	-	205,816	-	-	
<i>Non-Executive Directors:</i>											
Eugene Fung	62,500	-	-	30,000	-	-	-	92,500	-	-	
Paul Reading <sup>2</sup>	12,917	-	-	35,000	-	-	-	47,917	-	-	
Charlie Sartain	75,475	-	-	17,025	-	-	-	92,500	-	-	
John Nicholls <sup>3</sup>	70,833	-	-	-	-	-	-	70,833	-	-	
Chris Indermaur <sup>7</sup>	-	-	-	-	-	-	-	-	-	-	
Jim Walker <sup>7</sup>	-	-	-	-	-	-	-	-	-	-	
	<b>221,725</b>	<b>-</b>	<b>-</b>	<b>82,025</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>303,750</b>			
<i>Senior Executives:</i>											
Michael Buckland <sup>4</sup>	786,600	-	35,000	-	-	3,733	-	50,767	876,100	6%	6%
Scott Richardson <sup>9</sup>	372,507	15,000	-	27,500	-	5,935	-	29,281	450,223	10%	7%
Charles Rottier <sup>5</sup>	154,080	-	-	-	-	-	-	-	154,080	-	-
	<b>1,313,187</b>	<b>15,000</b>	<b>35,000</b>	<b>27,500</b>	<b>-</b>	<b>9,668</b>	<b>-</b>	<b>80,048</b>	<b>1,480,403</b>		
<b>Total</b>	<b>1,711,000</b>	<b>15,000</b>	<b>35,000</b>	<b>139,253</b>	<b>-</b>	<b>9,668</b>	<b>-</b>	<b>80,048</b>	<b>1,989,969</b>		

**Austin Engineering Limited  
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**Directors' Report (continued)**

**Audited Remuneration Report (continued)**

**Details of remuneration of key management personnel (continued)**

	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 <sup>8</sup>
<b>2015:</b>											
<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	-	-
Peter Pursey	61,644	-	-	25,856	-	-	-	-	87,500	-	-
Paul Reading	76,250	-	-	35,000	-	-	-	-	111,250	-	-
Charlie Sartain <sup>6</sup>	19,406	-	-	1,844	-	-	-	-	21,250	-	-
	209,800	-	-	92,700	-	-	-	-	302,500	-	-
<i>Senior Executives:</i>											
Scott Richardson <sup>9</sup>	368,334	-	-	25,000	-	318	-	15,684	409,336	-	4%
<b>Total</b>	<b>1,364,730</b>	<b>-</b>	<b>35,004</b>	<b>117,700</b>	<b>-</b>	<b>54,285</b>	<b>-</b>	<b>40,695</b>	<b>1,612,414</b>		

<sup>1</sup> Peter Pursey was appointed Executive Chairman on 17 February 2016. Non-executive fees of \$32,328 were paid for the period 1 July 2015 to 17 February 2016.

<sup>2</sup> Paul Reading retired on 27 November 2015.

<sup>3</sup> John Nicholls was appointed a Director on 1 September 2015 and retired on 8 July 2016.

<sup>4</sup> Michael Buckland resigned as a Director on 15 February 2016 but continued to serve as Chief Executive Officer until his resignation from the company on 15 August 2016.

<sup>5</sup> Charles Rottier was appointed Chief Strategy Officer on 3 February 2016 and interim Chief Executive Officer on 8 July 2016.

<sup>6</sup> Charlie Sartain was appointed a Director on 1 April 2015.

<sup>7</sup> Chris Indermaur and Jim Walker were appointed as Directors on 8 July 2016.

<sup>8</sup> See pages 9 and 13 for further details.

<sup>9</sup> Scott Richardson received a discretionary bonus during the financial year in cash.

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

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 included 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 9, was at no cost to Michael Buckland. The equity based remuneration component of the executive services agreement was a continuation of Michael Buckland's previous remuneration structure.

The bonus shares relating to the 2014, 2015 and 2016 financial years were not issued to Michael Buckland as the share price performance hurdle was not met.

**Service agreements**

Remuneration for executive directors and senior executives are formalised in service agreements and employment contracts, see page 11 for the details of the amounts paid or payable.

Peter Pursey, Executive Chairman, has an executive service agreement with Austin dated 21 March 2016 increasing his fees by \$20,000 per month whilst engaged as an executive director. There is no prescribed duration in the contract, which can be terminated upon one month's written notice of termination by either party. On termination and apart from the payment of outstanding fees and expenses, Mr Pursey is not entitled to any other fees, payment or other amount whatsoever arising from his engagement or termination.

Michael Buckland, the former Managing Director/CEO, had an executive service agreement which was extended on 8 July 2014 to 30 June 2016. The agreement could be terminated by Michael Buckland upon providing six months notice. The agreement could 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 could 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.

**Austin Engineering Limited**  
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**Directors' Report (continued)**

**Audited Remuneration Report (continued)**

**Details of remuneration of key management personnel (continued)**

Scott Richardson, Chief Financial Officer and Company Secretary, 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.

Charles Rottier, Chief Strategy Officer, has an employment contract with Austin Engineering Limited dated 3 February 2016. There is no prescribed duration in the contract, which can be terminated with immediate effect upon written notice of termination by either party. On termination and apart from the payment of outstanding fees and expenses, Mr Rottier is not entitled to any other fees, payment or other amount whatsoever arising from his engagement or termination. Mr Rottier was announced as Interim Chief Executive Officer effective 8 July 2016. The termination conditions related to the Interim Chief Executive Officer role remain the same as those contained in the Chief Strategy Officer employment contract.

*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 2016 (2015: Nil).

There were no options that lapsed during the year ended 30 June 2016 due to a failure to satisfy a vesting condition.

*Performance shares:*

There were no Performance Shares granted to and vested by the former Managing Director/CEO of Austin Engineering Limited, Michael Buckland, during the 2016 financial year.

Value of performance shares granted, vested and lapsed for the former Managing Director/CEO of Austin Engineering Limited as part of compensation during the year ended 30 June 2016 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 (resigned 15 August 2016)	12,600	-	4,000	-

There were no performance shares granted to other key management personnel of the group as part of compensation during the year ended 30 June 2016 (2015: nil).

*Performance rights:*

The number of Performance Rights over ordinary shares granted to and vested by the former Managing Director/CEO 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 2016	Number of rights vested during the year 2016
<i>Managing Director/CEO</i>		
Michael Buckland (resigned 15 August 2016)	304,436	-
<i>Senior Executives</i>		
Scott Richardson	151,210	-

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 2016 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>Managing Director/CEO</i>				
Michael Buckland (resigned 15 August 2016)	76,109	-	-	-
<i>Senior Executives</i>				
Scott Richardson	37,803	-	-	-

**Austin Engineering Limited**  
**Annual Report 2016**

**Directors' Report (continued)**

**Audited Remuneration Report (continued)**

**Details of remuneration of key management personnel (continued)**

The terms and conditions of each grant of rights over ordinary shares affecting remuneration of the former Managing Director/CEO and Senior Executives in this financial year or future reporting periods are as follows:

Grant date	Exercise price	Fair value of rights		Performance period	Expiry date
		Total shareholder return	Earnings per share		
27 November 2015	\$0.00	\$0.08	\$0.19	1 July 2015 to 30 June 2018	27 November 2020

**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 2016.

**Options held by key management personnel**

There were no options held by key management personnel at 30 June 2016 and 30 June 2015.

**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 related parties, is set out below:

Name	Balance at the start of the year No.	Granted No.	Vested No.	Expired/forfeited /other No.	Balance at the end of the year No.
<b>Managing Director/CEO</b>					
Michael Buckland (resigned 15 August 2016)	164,672	304,436	-	-	469,108
<b>Senior Executives</b>					
Scott Richardson	79,518	151,210	-	-	230,728
Total	244,190	455,646	-	-	699,836

**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 No.	Granted No.	Vested No.	Expired/forfeited /other No.	Balance at the end of the year No.
<b>Managing Director/CEO</b>					
Michael Buckland (resigned 15 August 2016)	100,000	-	-	(50,000)	50,000

**Shares held by key management personnel**

Name	Balance at beginning of year No.	Options exercised during the year No.	Bought during the year No.	Granted during the year No.	Sold during the year and other changes No.	Balance at end of year No.
Michael Buckland <sup>1</sup>	3,817,000	-	585,555	-	-	4,402,555
Eugene Fung	786,831	-	1,325,193	-	-	2,112,024
Peter Pursey	1,003,010	-	1,222,222	-	-	2,225,232
Paul Reading	100,000	-	83,334	-	(183,334)	-
Charlie Sartain	-	-	-	-	-	-
John Nicholls	-	-	726,000	-	-	726,000
Chris Indermaur	-	-	-	-	-	-
Jim Walker	-	-	-	-	-	-
Charles Rottier	-	-	-	-	-	-
Scott Richardson	25,000	-	225,000	-	-	250,000
Total	5,731,841	-	4,167,304	-	(183,334)	9,715,811

<sup>1</sup> Michael Buckland resigned on 15 August 2016.

No other key management personnel held shares at 30 June 2016 and 30 June 2015.

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 Limited  
Annual Report 2016**

**Directors' Report (continued)**

**Audited Remuneration Report (continued)**

**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 group on normal commercial terms to the value of \$841,890 during the year. Approximately \$140,908 was outstanding to Thomson Geer Lawyers at 30 June 2016 for work performed in the year to 30 June 2016.

**(End of Remuneration Report)**

**Shares under option**

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 option
29 July 2015	31 July 2018	\$0.60	4,000,000
29 July 2015	31 July 2018	\$1.00	6,000,000
29 July 2015	31 July 2018	\$1.75	2,000,000

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
25 September 2014	25 September 2019	\$0.00	164,672
21 November 2014	21 November 2019	\$0.00	985,627
27 November 2015	27 November 2020	\$0.00	2,132,933

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 2016. There are no shares available as at 30 June 2016.

**Shares issued on the exercise of options**

There were no options exercised during the year ended 30 June 2016. 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 2016. 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 &amp; Remuneration Committee</u>		<u>Risk 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>	<u>Eligible to Attend</u>	<u>Attended</u>
<i>Executive</i>								
Peter Pursey	22	22	2	2	-	-	-	-
Michael Buckland <sup>1</sup>	18	17	-	-	-	-	1	1
<i>Non-executive</i>								
Eugene Fung	22	22	2	2	6	6	-	-
Charles Sartain	22	21	-	-	-	-	3	3
John Nicholls <sup>2</sup>	20	20	-	-	6	6	3	3
Paul Reading <sup>3</sup>	6	6	1	1	-	-	-	-
Chris Indermaur <sup>4</sup>	-	-	-	-	-	-	-	-
Jim Walker <sup>4</sup>	-	-	-	-	-	-	-	-

<sup>1</sup> Michael Buckland resigned as a Director on 15 February 2016

<sup>2</sup> John Nicholls was appointed a Director on 1 September 2015 and retired on 8 July 2016

<sup>3</sup> Paul Reading retired on 27 November 2015

<sup>4</sup> Chris Indermaur and Jim Walker were appointed on 8 July 2016

**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.

**Austin Engineering Limited  
Annual Report 2016**

**Directors' Report (continued)**

**Proceedings on behalf of the Company**

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.

**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 2016:

	Consolidated Entity	
	2016	2015
	\$	\$
Auditor of the parent entity (BDO Audit Pty Ltd):		
Taxation services	224,948	177,001
Corporate advisory services	41,800	44,259
	<u>266,748</u>	<u>221,260</u>
Network firms of BDO Audit Pty Ltd:		
Taxation services	31,929	31,874
Corporate advisory services	-	14,162
	<u>31,929</u>	<u>46,036</u>
Remuneration of other auditors (non BDO Audit Pty Ltd or related Network firms):		
Taxation services	105,401	73,668
Corporate advisory services	20,410	-
	<u>125,811</u>	<u>73,668</u>
Total remuneration for non-audit services	<u>424,488</u>	<u>340,964</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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 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.



**Peter Pursey AM**

Executive Chairman  
28 September 2016





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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 2016, 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', is written over a faint, light-colored signature line.

**C R Jenkins**  
Director

**BDO Audit Pty Ltd**

Brisbane, 28 September 2016

## **Corporate Governance Statement**

### **Introduction**

The board of Austin Engineering Limited (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 2016 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](http://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 Limited 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/Chief Executive Officer, subject to certain financial limits. The Managing Director/Chief Executive Officer 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 2016 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 12 and 13 of this Annual Report.

Corporate Governance Statement

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT (continued)

**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
- 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 7 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 2016, female employees represented approximately 8% (2015: 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 2016	Status of the objective at 30 June 2015
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.	3.2%	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.	4.8% <sup>1</sup>	5.9%
Increase the number of women on the Board by 2020.	Equal employment treatment is to be given without regard to gender.	Nil	Nil

<sup>1</sup> The decrease was due to redundancies across the group during the 2016 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 general undertake annual self-assessment in accordance with their relevant charters during the financial year including a one-on-one session by the chairman with each director. A number of director changes occurred throughout the financial year with self-assessment process taking place as director appointments were confirmed. 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 reporting period were: Eugene Fung (Chairman), Paul Reading (retired 27 November 2015) and John Nicholls (appointed on 1 September 2015). 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/Chief Executive Officer and board members at least annually.

On an annual basis, the nomination and remuneration committee reviews the performance of the Managing Director/Chief Executive Officer against qualitative and quantitative criteria, which include profit performance, other financial measures and achievement of the company's strategic objectives as disclosed on page 5 of this Annual Report.

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 2016 financial year.

## Corporate Governance Statement

### 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), Paul Reading (retired 27 November 2015) and John Nicholls (appointed on 1 September 2015). 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 given 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 nomination and remuneration, including the review of the Managing Director/Chief Executive Officer 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 the 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 and experience comprised in the current Board, and that the Board would look to maintain and to build on include:

- Related industry experience (experience in the mining services industry sector);
- Corporate strategy (setting and reviewing organisational strategy, organic growth and merger and acquisition opportunities);
- Corporate Governance and compliance (knowledge, experience and commitment to the highest standards of corporate governance);
- Health and safety (implementing workplace health and safety measures, proactive identification and prevention of health and safety risks);
- Financial acumen (knowledge of accounting and reporting processes, financial and capital management strategies and corporate finance issues);
- Leadership (driving engagement and enablement, strategic workforce planning and leading organizational change); and
- Remuneration (executive scorecard setting, incentive arrangements and executive remuneration).

The Board aspires to have a Board comprised of individuals' diverse experience and expertise and takes these requirements into account when making director appointments.

#### **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 6 and 7 of this Annual Report.

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

The board currently comprises five directors, four of whom, are non-executive and independent directors. The Company's Chairman is currently appointed as Executive Chairman while the recruitment for a new Chief Executive Officer is completed. Following the appointment of the new Chief Executive Officer, the board will comprise five non-executive and independent directors. Profiles of the directors are set out on pages 6 and 7 of this Annual Report. All directors are subject to retirement by rotation but may stand for re-election by the shareholders every three years.

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:

## **Corporate Governance Statement**

### **PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (continued)**

#### ***Recommendation 2.4 (continued)***

*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;
- 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, equity capital raising, 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***

Paul Reading was Non-Executive Chairman until his retirement from the Board of Directors on 27 November 2015. Peter Pursey was appointed Non-Executive Chairman on an interim basis on 27 November 2015 and formally appointed as Executive Chairman on 17 February 2016 following the resignation of Michael Buckland as Managing Director on 15 February 2016, Michael Buckland continued to serve as CEO for the remainder of his contracted term until 15 August 2016.

The former chairman, Paul Reading, was an independent director. He was responsible for the leadership of the board and he had no other positions that hindered the effective performance of this role. Following the appointment of Peter Pursey as Executive Chairman, on 17 February 2016, the Executive Chairman is not currently considered to be independent. The nomination and remuneration committee and the Board considered that the appointment of Peter Pursey as an Executive Chairman is in the interests of shareholders in order to utilise the proven leadership qualities and significant experience of Peter Pursey through a challenging period for the Company and to ensure the ongoing commercial success of the Company. Furthermore, Peter Pursey has been with the company since 2004 and has therefore provided stability and continuity through his detailed understanding of the group's operations and the markets in which it operates.

#### ***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 program 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/Chief Executive Officer, 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.

## Corporate Governance Statement

### 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

The audit committee consists of: Peter Pursey (Executive Chairman), and Eugene Fung. Paul Reading was a member of the committee until his resignation as a director on 27 November 2015. Peter Pursey is no longer considered to be independent following his appointment as Executive Chairman of the Board of Directors on 17 February 2016. Consequently the committee does not comply with Recommendation 4.1 as its chair is not independent and is also chair of the board. Following the recruitment and appointment of a new Chief Executive Officer, Peter Pursey will revert to Independent Non-executive Chairman as he will no longer hold an executive position within the company. The other members of the committee are independent non-executive Directors. The Managing Director/Chief Executive Officer 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.

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 Managing Director/Chief Executive Officer (who is the Executive Chairman) 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 Managing Director/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 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.

## **Corporate Governance Statement**

### **PRINCIPLE 5: MAKE TIMELY AND BALANCES DISCLOSURE (Continued)**

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.

### **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*

## Corporate Governance Statement

### PRINCIPLE 7: RECOGNISE AND MANAGE RISK (continued)

The board established a risk committee in November 2015 with risk assessment a whole of board responsibility up until the risk committee was established. The committee consists of two independent directors and the Managing Director/Chief Executive Officer and is chaired by Charlie Sartain, an Independent director. The risk committee charter is available on the company's website.

**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**

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.

The Managing Director/Chief Executive Officer 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 the risk management standard is currently being reviewed to determine 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.

The Managing Director/Chief Executive Officer, Chief Financial Officer are primarily responsible for reporting to the risk committee and audit committee chairs and then through 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), Paul Reading (retired 27 November 2015) and John Nicholls (appointed on 1 September 2015). 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/Chief Executive Officer 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.



Corporate Governance Statement

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY (continued)

**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 8 to 15 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/Chief Executive Officer and Executives. The Managing Director/Chief Executive Officer 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.

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Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2016

	Notes	Consolidated Entity	
		2016 \$000	2015 \$000 <sup>(1)</sup>
<b>Revenue from continuing operations</b>	2	188,169	187,239
<b>Expenses</b>			
Raw materials and consumables used		(39,938)	(47,775)
Change in inventories and work in progress		(6,973)	1,022
Employment expenses		(87,593)	(89,831)
Subcontractor expenses		(10,451)	(3,045)
Occupancy and utility expenses		(13,054)	(5,632)
Depreciation expense		(10,277)	(10,371)
Amortisation expense		(863)	(860)
Other expenses		(41,663)	(33,819)
Finance costs	3	(6,156)	(6,071)
Impairment expense	15	(9,060)	(40,880)
<b>Loss before income tax</b>	3	(37,859)	(50,023)
Income tax benefit	4	7,837	578
<b>Loss for the year from continuing operations</b>		(30,022)	(49,445)
<b>(Loss)/profit from discontinued operation</b>	6	(10,433)	113
<b>Loss for the period</b>		(40,455)	(49,332)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences, net of tax		(1,991)	2,891
Other comprehensive income for the year, net of tax		(1,991)	2,891
<b>Total comprehensive income for the year</b>		(42,446)	(46,441)
Loss for the year is attributable to:			
Owners of Austin Engineering Limited		(40,455)	(49,332)
Total comprehensive income for the year is attributable to:			
Owners of Austin Engineering Limited		(42,446)	(46,441)
Total comprehensive income for the year attributable to the owners of Austin Engineering Limited arises from:			
Continuing operations		(32,013)	(46,554)
Discontinued operation		(10,433)	113
		(42,446)	(46,441)
<b>Earnings per share from continuing operations attributable to the owners of Austin Engineering Limited:</b>			
Basic earnings/(loss) per share (cents per share)	8	(20.07)	(58.67)
Diluted earnings/(loss) per share (cents per share)	8	(20.07)	(58.67)
<b>Earnings per share from continuing and discontinued operations attributable to owners of Austin Engineering Limited:</b>			
Basic earnings/(loss) per share (cents per share)	8	(27.04)	(58.54)
Diluted earnings/(loss) per share (cents per share)	8	(27.04)	(58.54)

<sup>(1)</sup> Certain balances do not correspond to the 30 June 2015 financial statements as amounts have been re-presented to separately show operations classified as discontinued. Refer to note 6.

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

Consolidated statement of financial position as at 30 June 2016

	Notes	Consolidated Entity	
		2016 \$000	2015 \$000
<b>Current Assets</b>			
Cash and cash equivalents	9	12,832	3,319
Trade receivables	10	29,371	34,851
Inventories	11	15,814	24,997
Current tax assets	18	1,809	205
Assets classified as held for sale	28	8,740	-
Other receivables and other assets	12	11,985	7,582
<b>Total Current Assets</b>		<b>80,551</b>	<b>70,954</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	13	113,308	125,233
Intangible assets	15	37,268	59,288
Deferred tax assets	19	17,632	9,497
Other assets	12	-	6,639
<b>Total Non-Current Assets</b>		<b>168,208</b>	<b>200,657</b>
<b>Total Assets</b>		<b>248,759</b>	<b>271,611</b>
<b>Current Liabilities</b>			
Trade and other payables	16	36,509	37,704
Financial liabilities	17	19,657	50,325
Current tax liabilities	18	15	-
Provisions	20	8,247	6,554
<b>Total Current Liabilities</b>		<b>64,428</b>	<b>94,583</b>
<b>Non-Current Liabilities</b>			
Financial liabilities	17	32,593	47,017
Provisions	20	4,205	-
Deferred tax liabilities	19	10,512	10,588
<b>Total Non-Current Liabilities</b>		<b>47,310</b>	<b>57,605</b>
<b>Total Liabilities</b>		<b>111,738</b>	<b>152,188</b>
<b>Net Assets</b>		<b>137,021</b>	<b>119,423</b>
<b>Equity</b>			
Contributed equity	21	145,829	87,344
Reserves	22	(4,213)	(3,781)
Retained earnings		(4,595)	35,860
<b>Total Equity</b>		<b>137,021</b>	<b>119,423</b>

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

Consolidated statement of changes in equity for the year ended 30 June 2016

	Contributed Equity \$000	Options/ Performance Rights Reserve \$000	Foreign Currency Translation Reserve \$000	Retained Earnings \$000	Total \$000
<b>Consolidated Entity</b>					
Opening balance at 1 July 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
<b>Total comprehensive income for the year</b>	-	-	2,891	(49,332)	(46,441)
<b>Transactions with owners in their capacity as owners:</b>					
Share-based payments	-	223	-	-	223
	-	223	-	-	223
<b>At 30 June 2015</b>	<b>87,344</b>	<b>1,842</b>	<b>(5,623)</b>	<b>35,860</b>	<b>119,423</b>
Total comprehensive income for the year:					
Loss for the year	-	-	-	(40,455)	(40,455)
<i>Other comprehensive income, net of tax:</i>					
Currency translation differences	-	-	(1,991)	-	(1,991)
<b>Total comprehensive income for the year</b>	-	-	(1,991)	(40,455)	(42,446)
<b>Transactions with owners in their capacity as owners:</b>					
Issue of share capital	61,346	-	-	-	61,346
Share issue costs	(2,861)	-	-	-	(2,861)
Share-based payments	-	1,559	-	-	1,559
	58,485	1,559	-	-	60,044
<b>At 30 June 2016</b>	<b>145,829</b>	<b>3,401</b>	<b>(7,614)</b>	<b>(4,595)</b>	<b>137,021</b>

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

**Consolidated statement of cash flows for the year ended 30 June 2016**

	Notes	Consolidated Entity	
		2016	2015
		\$000	\$000
<b>Cash flows from operating activities</b>			
Receipts from customers		230,671	244,810
Payments to suppliers and employees		(227,040)	(235,506)
Interest received		27	1,315
Finance costs		(5,747)	(6,071)
Income tax refund		1,234	-
Income tax paid		(1,095)	(973)
<b>Net cash (used in) / provided by operating activities</b>	25a	<b>(1,950)</b>	<b>3,575</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(12,763)	(3,355)
Proceeds from sale of property, plant and equipment		914	-
Release of funds from Escrow in relation to Calama land		-	4,251
Proceeds from sale of COR Cooling Pty Ltd	6	13,400	-
<b>Net cash provided by investing activities</b>		<b>1,551</b>	<b>896</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares, net of transaction costs		57,259	-
Proceeds from borrowings		34,202	2,000
Repayment of borrowings		(81,400)	(11,122)
<b>Net cash provided by / (used in) financing activities</b>		<b>10,061</b>	<b>(9,122)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>9,662</b>	<b>(4,651)</b>
Cash and cash equivalents at the beginning of the year		3,319	7,385
Effects of exchange rate changes on cash and cash equivalents		(149)	585
<b>Cash and cash equivalents at the end of the year</b>	9	<b>12,832</b>	<b>3,319</b>

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

**Austin Engineering Limited**  
**Annual Report 2016**  
Notes to the financial statements

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 (the 'company') 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 2016.

**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.

**Going concern basis of preparation**

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.

**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**

*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.

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.

(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:

<b>Class of fixed asset</b>	<b>Depreciation rate</b>
Buildings	2%-3%
Plant and equipment	5%-40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 non-financial 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 20 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*

Liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recorded as non-current. 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 statement of financial position 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) **Provisions**

A provision is recognised in the consolidated statement of financial position when there is a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amounts has been reliably estimated. Provisions are not recognised for future operating losses.

*Warranties*

Provision is made in respect of the consolidated group's estimated liability on all products and services under warranty at reporting 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.

*Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived by the consolidated group from a contract are lower than the unavoidable cost meeting its obligations under the contract. 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.

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

(r) **Discontinued operations**

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement profit or loss and other comprehensive income.

(s) **Assets held for sale**

Assets are classified as held for sale when its carrying value is recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

(t) **Comparative figures**

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

(u) **Rounding of amounts**

The parent entity has applied the relief available to it under ASIC Corporations (Rounding in Financial/Directors' Reports) instrument 2016/191 and accordingly, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(v) **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 15.

*Contractual customer relationships*

The useful life of contractual customer relationships of 10 to 20 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 2016 and 2015 financial years did not differ materially from the expected attrition rates. The carrying value of contractual customer relationships is disclosed in note 15.

*Taxation – Carried forward tax losses*

The group has tax losses mainly in Australian, 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.

**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.

*Going concern*

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

Austin repaid \$76.2m of senior debt during the reporting period and had net current assets at the reporting date of \$16.1m (2015: net current deficiency of \$23.6m). 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 return to profitability and the cash flows will improve due to the improved outlook and exit from the Australian banking syndicate.

(w) **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 2016 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.

**AASB 16 Leases**

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 Statement of Cash Flows. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 contains disclosure requirements for lessees.

The group will adopt this standard from 1 January 2019 but the impact of its adoption is yet to be assessed by the group.

**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.

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	<b>Consolidated Entity</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>Note 2: Revenue from continuing operations</b>		
<i>Sales revenue:</i>		
Sale of goods	98,285	90,220
Services	88,917	95,114
	<u>187,202</u>	<u>185,334</u>
<i>Other revenue:</i>		
Interest income	27	1,311
Other	940	594
	<u>967</u>	<u>1,905</u>
<b>Total revenue from continuing operations</b>	<b><u>188,169</u></b>	<b><u>187,239</u></b>
<b>Note 3: Loss for the year</b>		
<i>Loss for the year is derived after charging:</i>		
Cost of goods sold	131,937	120,994
Finance costs	6,156	6,071
Rental expense on operating leases	9,253	3,404
Defined contribution superannuation costs	3,466	3,508
Net foreign currency exchange losses	976	400
	<u>976</u>	<u>400</u>
<b>Note 4: Income tax</b>		
<b>Components of income tax expense/(benefit):</b>		
The components of tax expense/(benefit) comprise:		
Current tax - current period	676	(90)
Deferred tax - origination and reversal of temporary differences	(7,557)	(126)
Over-provision in respect of prior years	(653)	(98)
	<u>(7,534)</u>	<u>(314)</u>
<b>Income tax expense/(benefit) is attributable to:</b>		
Profit/(loss) from continuing operations	(7,837)	(578)
Profit/(loss) from discontinued operation	303	264
	<u>(7,534)</u>	<u>(314)</u>
<b>Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable:</b>		
Profit/(loss) from continuing operations before income tax expense	(37,859)	(50,023)
Profit/(loss) from discontinued operation before income tax expense	(10,130)	377
	<u>(47,989)</u>	<u>(49,646)</u>
Tax at the Australian tax rate of 30% (2015 – 30%)	(14,397)	(14,894)
Tax effect of:		
Non-allowable items	7,231	9,526
Over-provision for tax in prior years	(653)	(98)
Share options expensed in the year	52	67
Differences in overseas tax rates	524	(354)
Non-assessable items and other allowances:		
Deferred tax assets not recognised on tax losses	128	5,664
Other	(419)	(225)
<b>Income tax benefit</b>	<b><u>(7,534)</u></b>	<b><u>(314)</u></b>
<b>Note 5: Auditor's remuneration</b>		
Auditor of the parent entity (BDO Audit Pty Ltd) for:		
Auditing or reviewing the financial reports of any entity in the group	275,555	271,730
Entities related to BDO Audit Pty Ltd:		
Taxation services	224,948	177,001
Corporate advisory services	41,800	44,259
	<u>266,748</u>	<u>221,260</u>
Network firms of BDO Audit Pty Ltd:		
Auditing or reviewing the financial reports	143,991	173,000
Taxation services	31,929	31,874
Corporate advisory services	-	14,162
	<u>175,920</u>	<u>219,036</u>
Remuneration of other auditors (non BDO Audit Pty Ltd or related Network firms):		
Auditing or reviewing the financial reports	105,124	84,216
Taxation services	105,401	73,668
Other services	24,410	-
	<u>234,935</u>	<u>157,884</u>
<b>Total auditors' remuneration</b>	<b><u>953,158</u></b>	<b><u>869,910</u></b>

**Consolidated Entity**  
**2016**                      **2015**  
**\$000**                      **\$000**

**Note 6: Discontinued operation**

**Description**

On 18 May 2016, the company entered into a sale agreement to dispose of COR Cooling Pty Limited. COR Cooling Pty Limited provides and manufactures a range of industrial cooling and heating transfer equipment in Australia. The carrying amount of the related net assets exceeded the proceeds of sale. The disposal of COR Cooling Pty Limited is consistent with the group's initiatives to reduce and refinance senior debt exposures by exiting one of the group's secondary divisions. The disposal was completed on 20 May 2016, on which date control of the COR Cooling operations passed to the acquirer.

**Financial performance and cash flow information**

Revenue	21,595	23,187
Expenses	(20,336)	(22,810)
Profit before income tax	1,259	377
Income tax expense	(303)	(264)
Profit after income tax of discontinued operation	956	113
Loss on sale of the subsidiary after income tax (see below)	(11,389)	-
(Loss)/profit from discontinued operation	(10,433)	113
Net cash outflow from operating activities	(651)	(59)
Net cash inflow/(outflow) from investing activities (2016 includes an inflow of \$13.4m from the sale of the subsidiary)	13,478	(494)
Net cash inflow/(outflow) from financing activities	-	-
Net increase/(decrease) in cash generated by the subsidiary	12,827	(553)

**Details of the sale of the subsidiary**

Consideration received or receivable:	
Cash	13,400
Carrying amount of net assets sold	24,789
Loss on sale before income tax	(11,389)
Income tax expense on gain	-
Loss on sale after income tax	(11,389)

The carrying amount of assets and liabilities as at the date of sale (20 May 2016) were:

Property, plant and equipment	2,991
Trade receivables	3,613
Inventories	3,593
Intangible assets	17,957
Other assets	996
Total assets	29,150
Trade and other payables	3,563
Employee benefit obligations	798
Total liabilities	4,361
Net assets	24,789

**Note 7: Dividends**

**Recognised amounts:**

There were no interim and final dividends paid during the year ended 30 June 2016 and 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 2016 (2015: Nil cents per share).

**Franked dividends:**

The directors have not declared a final fully-franked dividend for the financial year ended 30 June 2016, therefore there will be no effect on franking credits.

Franking credits available for subsequent financial years based on a tax rate of 30% (2015 - 30%)	26,627	27,438
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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.

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**Note 8: Earnings per share**

	<b>Consolidated Entity</b>	
	<b>2016</b>	<b>2015</b>
	Cents per share	Cents per share
<b>Basic earnings per share</b>		
From continuing operations	(20.07)	(58.67)
From discontinued operation	(6.97)	0.13
Total basic earnings per share	<u>(27.04)</u>	<u>(58.54)</u>
<b>Diluted earnings per share</b>		
From continuing operations	(20.07)	(58.67)
From discontinued operation	(6.97)	0.13
Total diluted earnings per share	<u>(27.04)</u>	<u>(58.54)</u>
	<b>\$000</b>	<b>\$000</b>
<b>Reconciliation of earnings to profit/(loss):</b>		
Profit/(loss) after tax:		
From continuing operations	(30,022)	(49,445)
From discontinued operation	(10,433)	113
Earnings/(loss) used to calculate basic and diluted earnings/(loss) per share	<u>(40,455)</u>	<u>(49,332)</u>
	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
Used to calculate basic earnings per share	149,613,457	84,274,004
Effect of dilutive securities - share options	-	-
Used to calculate diluted earnings per share	<u>149,613,457</u>	<u>84,274,004</u>

Options granted to employees under the employee share option plan, rights granted to senior executives under the performance rights plan, performance shares granted to the former Managing Director and options issued as part consideration for the subordinated loan 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.

	<b>\$000</b>	<b>\$000</b>
<b>Note 9: Cash and cash equivalents</b>		
Cash at bank and in hand	<u>12,832</u>	<u>3,319</u>

Included in the balance of cash and cash equivalents above, \$8,622,000 was held in a restricted account on escrow with our banking syndicate. These funds were restricted at the reporting date and held as security for financial liabilities due to the syndicate at reporting date. Upon settlement of these financial liabilities, the cash will be made available to the group.

	<b>\$000</b>	<b>\$000</b>
<b>Note 10: Trade receivables</b>		
Trade receivables	29,537	35,038
Provision for impairment of receivables	(166)	(187)
	<u>29,371</u>	<u>34,851</u>

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

Australian dollars	13,249	15,979
US dollars (Australian dollar equivalent)	5,280	6,152
Chilean pesos (Australian dollar equivalent)	5,714	6,070
Indonesian rupiah (Australian dollar equivalent)	59	3,603
Colombian pesos (Australian dollar equivalent)	1,614	1,690
Peruvian nuevo soles (Australian dollar equivalent)	3,455	1,357
	<u>29,371</u>	<u>34,851</u>

As at 30 June 2016 a provision for impairment of \$166,000 was raised for current trade receivables (2015: \$187,000).

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

Balance at beginning of the year	187	153
(Credit)/charge for the year	(21)	34
Balance at end of the year	<u>166</u>	<u>187</u>

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

30 days	4,107	8,704
31-60 days	1,823	2,616
61-90 days	726	1,533
	<u>6,656</u>	<u>12,853</u>

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

**Consolidated Entity**  
**2016**                      **2015**  
**\$000**                      **\$000**

**Note 11: Inventories**

At cost:

Raw materials and consumables	9,246	16,433
Work-in-progress	6,212	8,220
Finished goods	356	344
	<b>15,814</b>	<b>24,997</b>

**Note 12: Other receivables, other assets**

**Current**

Prepayments	2,199	2,177
Other receivables	9,786	5,405
	<b>11,985</b>	<b>7,582</b>

**Non-current**

Other assets	-	6,639
	<b>-</b>	<b>6,639</b>

**Total**

	<b>11,985</b>	<b>14,221</b>
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**Note 13: Property, plant and equipment**

**Freehold land:**

Cost	20,154	20,557
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**Buildings:**

Cost	42,134	49,886
Accumulated depreciation	(5,606)	(5,746)
Total buildings	<b>36,528</b>	<b>44,140</b>
Total land and buildings	<b>56,682</b>	<b>64,697</b>

**Capital work in progress:**

Cost	322	251
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**Plant and equipment:**

Cost	102,386	101,617
Accumulated depreciation	(46,082)	(41,332)
	<b>56,304</b>	<b>60,285</b>

**Total property, plant and equipment**

	<b>113,308</b>	<b>125,233</b>
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**Movements in carrying amounts:**

	Freehold Land \$000	Buildings \$000	Capital Work in Progress \$000	Plant And Equipment \$000	Total \$000
<b>Consolidated Entity:</b>					
Balance at 1 July 2014	26,448	43,148	821	61,355	131,772
Additions	-	171	659	5,245	6,075
Reallocation of capital work in progress	-	793	(1,265)	472	-
Disposals	(5,077)	(4)	-	(26)	(5,107)
Transfers <sup>1</sup>	(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)
<b>Balance at 30 June 2015</b>	<b>20,557</b>	<b>44,140</b>	<b>251</b>	<b>60,285</b>	<b>125,233</b>
Additions	-	571	169	12,023	12,763
Reallocation of capital work in progress	-	-	(73)	73	-
Disposals	-	(511)	(30)	(834)	(1,375)
Disposal of subsidiary	-	(392)	-	(2,599)	(2,991)
Transfers <sup>2</sup>	(730)	(3,198)	-	(355)	(4,283)
Foreign currency exchange movements	327	197	5	(190)	339
Impairment <sup>3</sup>	-	(2,887)	-	(2,654)	(5,541)
Depreciation expense	-	(1,392)	-	(9,445)	(10,837)
<b>Balance at 30 June 2016</b>	<b>20,154</b>	<b>36,528</b>	<b>322</b>	<b>56,304</b>	<b>113,308</b>

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

<sup>2</sup> Reclassification to assets classified as held for sale.

<sup>3</sup> Refer to note 15 for details.

**Non-current assets pledged as security:**

Refer to note 17 for information on non-current assets pledged as security by the group.



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**Note 13: Property, plant and equipment (continued)**  
**Assets under finance lease arrangements included in the totals noted above are as follows:**

	Plant and Equipment \$000	Total \$000
Balance at 1 July 2014	18,056	18,056
Additions	1,784	1,784
Assets no longer under finance lease arrangements	(4,560)	(4,560)
Disposals	-	-
Foreign currency exchange movements	860	860
Depreciation expense	(1,303)	(1,303)
<b>Balance at 30 June 2015</b>	<b>14,837</b>	<b>14,837</b>
Additions	6,989	6,989
Assets no longer under finance lease arrangements	(4,799)	(4,799)
Disposals	(655)	(655)
Foreign currency exchange movements	36	36
Depreciation expense	(1,350)	(1,350)
<b>Balance at 30 June 2016</b>	<b>15,058</b>	<b>15,058</b>

**Note 14: Other financial assets**

	Place of business/country of incorporation	Percentage Owned*	
		2016	2015
<b>Parent entity</b>			
Austin Engineering Limited	Australia		
<b>Subsidiaries of Austin Engineering Limited</b>			
Aust Bore 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%
PHG Services Pty Ltd	Australia	100%	100%
Pilbara Hire Group Pty Ltd	Australia	100%	100%
<b>Subsidiaries of Austin Engineering USA Inc.</b>			
Western Technology Services International Inc.	USA	100%	100%
<b>Subsidiaries of Austin Engineering South America (No.1) Pty Ltd</b>			
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%
<b>Subsidiaries of Austin Engineering South America (No.2) Pty Ltd</b>			
Austin Inversiones Chile Ltda.	Chile	1%	1%
<b>Subsidiaries of Austin Engineering Singapore Pte Ltd</b>			
Austin Engineering Offshore Pte Ltd	Singapore	100%	100%
Austin Engineering Batam Pte Ltd	Singapore	100%	100%
<b>Subsidiaries of Western Technology Services International Inc.</b>			
WOTCO Inc.	USA	100%	100%
<b>Subsidiaries of Austin Inversiones Chile Ltda.</b>			
Austin Ingenieros Chile Ltda.	Chile	99%	99%
Austin Arrendamientos Chile Ltda	Chile	99.99%	99.99%
<b>Subsidiaries of Austin Ingenieros Chile Ltda.</b>			
Austin Ingenieros Colombia S.A.S	Colombia	100%	100%
Austin Engineering Peru S.A.C	Peru	1%	1%
<b>Subsidiaries of Austin Engineering Offshore Pte Ltd</b>			
PT Austin Engineering Indonesia	Indonesia	1%	1%
<b>Subsidiaries of Austin Engineering Batam Pte Ltd</b>			
PT Austin Engineering Indonesia	Indonesia	99%	99%

\* 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 \$229,000 (2015: \$379,000). There are no other restrictions on exporting capital from any of the other foreign entities within the group.

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**Note 14: Other financial assets (continued)**

**Parent entity information:**

	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>Assets</b>		
Current assets	153,807	84,031
Non-current assets	57,484	110,802
<b>Total assets</b>	<b>211,291</b>	<b>194,833</b>
<b>Liabilities</b>		
Current liabilities	31,431	65,427
Non-current liabilities	23,966	37,891
<b>Total liabilities</b>	<b>55,397</b>	<b>103,318</b>
<b>Net assets</b>	<b>155,894</b>	<b>91,515</b>
<b>Equity</b>		
Contributed equity	145,829	87,344
Options reserve	3,401	1,842
Retained earnings	6,664	2,329
<b>Total equity</b>	<b>155,894</b>	<b>91,515</b>
<b>Financial performance</b>		
Profit/(loss) for the year	4,335	(42,704)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>4,335</b>	<b>(42,704)</b>

**Contractual commitments**

At 30 June 2016 and 30 June 2015 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 2016 and 30 June 2015. For information about guarantees given by the parent entity, see below.

**Guarantees in relation to the debts of subsidiaries**

Austin Engineering Limited and its former wholly-owned subsidiary COR Cooling Pty Ltd were parties to a deed of cross guarantee. Following the sale of COR Cooling Pty Ltd in May 2016, the deed was terminated. By entering into the deed, COR Cooling Pty Ltd had 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 represented a 'closed group' for the purposes of the Class Order, and as there were no other parties to the deed of cross guarantee that were controlled by Austin Engineering Limited, they also represented the 'extended close group'. No deficiencies of assets existed in any of these companies during the duration of the deed. 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 for the 30 June 2015 financial year:

	<b>2015</b>
	<b>\$000</b>
<b>Consolidated statement of comprehensive income</b>	
Revenue	83,913
Raw materials and consumables used	(31,706)
Change in inventories and work in progress	3,887
Employment expenses	(37,245)
Subcontractor expenses	(2,875)
Occupancy and utility expenses	(7,004)
Depreciation and amortisation expense	(2,691)
Other expenses from ordinary activities	(11,756)
Finance costs	(4,924)
Impairment expense	(35,268)
Loss before income tax	(45,669)
Income tax benefit/(expense)	3,079
<b>Net loss for the year</b>	<b>(42,590)</b>
Other comprehensive income	-
Total comprehensive income for the year	<b>(42,590)</b>

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**Note 14: Other financial assets (continued)**

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

**Summary of movements in consolidated retained earnings**

Retained earnings at the beginning of the financial year	51,123
Loss for the year	(42,590)
Dividends paid	-
Retained earnings at the end of the financial year	<u>8,533</u>

**Consolidated statement of financial position**

**Current Assets**

Cash and cash equivalents	141
Trade and other receivables	79,261
Inventories	11,224
Current tax assets	187
Other assets	1,029
<b>Total Current Assets</b>	<u>91,842</u>

**Non-Current Assets**

Property, plant and equipment	16,124
Other financial assets	70,282
Intangible assets	21,037
Deferred tax assets	5,766
<b>Total Non-Current Assets</b>	<u>113,209</u>
<b>Total Assets</b>	<u>205,051</u>

**Current Liabilities**

Trade and other payables	19,336
Financial liabilities	45,383
Current tax liabilities	-
Provisions	3,693
<b>Total Current Liabilities</b>	<u>68,412</u>

**Non-Current Liabilities**

Financial liabilities	37,217
Deferred tax liabilities	1,703
<b>Total Non-Current Liabilities</b>	<u>38,920</u>
<b>Total Liabilities</b>	<u>107,332</u>
<b>Net Assets</b>	<u>97,719</u>

**Equity**

Contributed equity	87,344
Reserves	1,842
Retained earnings	8,533
<b>Total Equity</b>	<u>97,719</u>

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**Note 15: Intangible assets**

	<b>Goodwill</b>	<b>Customer</b>	<b>Brands</b>	<b>Other</b>	<b>Total</b>
	<b>\$000</b>	<b>relationships*</b>	<b>\$000</b>	<b>intangibles</b>	<b>\$000</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Year ended 30 June 2015</b>					
Opening net book amount	74,724	13,592	2,749	534	91,599
Additions	1,319	-	-	180	1,499
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	<b>45,216</b>	<b>10,693</b>	<b>2,749</b>	<b>630</b>	<b>59,288</b>
<b>At 30 June 2015</b>					
Cost	78,129	16,394	2,749	1,054	98,326
Accumulated amortisation and impairment	(32,913)	(5,701)	-	(424)	(39,038)
<b>Net book amount</b>	<b>45,216</b>	<b>10,693</b>	<b>2,749</b>	<b>630</b>	<b>59,288</b>
<b>Year ended 30 June 2016</b>					
Opening net book amount	45,216	10,693	2,749	630	59,288
Additions	-	-	-	106	106
Disposal of subsidiary	(14,423)	(731)	(2,699)	(104)	(17,957)
Release of deferred taxes	(108)	-	-	-	(108)
Exchange differences	330	94	-	4	428
Amortisation charge	-	(932)	-	(38)	(970)
Impairment	(3,519)	-	-	-	(3,519)
Closing net book amount	<b>27,496</b>	<b>9,124</b>	<b>50</b>	<b>598</b>	<b>37,268</b>
<b>At 30 June 2016</b>					
Cost	64,250	14,688	50	675	79,663
Accumulated amortisation and impairment	(36,754)	(5,564)	-	(77)	(42,395)
<b>Net book amount</b>	<b>27,496</b>	<b>9,124</b>	<b>50</b>	<b>598</b>	<b>37,268</b>

\* Customer relationships have a remaining amortisation period of between 12 and 14 years.

\*\* Brands are assessed as having an indefinite useful life.

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

	<b>Consolidated Entity</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
Austin Mackay	1,189	1,189
Austbore Pty Ltd	8,310	8,310
Pilbara Hire Group	6,982	7,022
COR Cooling	-	14,404
Western Technology Services International Inc. ("Westech")	3,706	6,979
Austin Ingenieros	2,487	2,488
Austin Arrendamientos Chile Ltda ("Servigrut")	4,822	4,824
Net carrying value	<b>27,496</b>	<b>45,216</b>

**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 \$9.060 million (2015: \$40.880 million). During the year impairment of \$3.519 million has been allocated against goodwill (2015: \$32.913 million), no impairments were made to identifiable intangible assets (2015: \$1.906 million), no impairments were made to work in progress (2015: \$4.892 million), \$5.541 million (\$0.153 million) to property, plant and equipment and no impairments were made to trade and other receivables (2015: \$1.016 million). The impairment expense was allocated to the following cash generating units (CGUs):

	<b>Consolidated Entity</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
Austin Ingenieros	2,654	25,767
Western Technology Services International Inc. ("Westech")	3,519	-
PT Austin Engineering Indonesia	2,887	-
Austin Engineering Peru	-	10,298
Austin Engineering Hunter Valley	-	3,298
Austin Mackay	-	1,517
	<b>9,060</b>	<b>40,880</b>

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 15: Intangible assets (continued)**

**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; and
- (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 Chilean based cash generating units, including Austin Ingenieros Chile and Austin Arrendamientos Chile (Servigrut) is 16.45% (2015: 14.97%). The pre-tax discount rates used for the Colombian based cash generating unit, including Austin Colombia is 20.13% (2015: 20.15%). The pre-tax discount rates used for the Indonesian based cash generating unit, including PT Austin Engineering Indonesia is 19.81% (2015: 22.34%). The pre-tax discount rates used for the USA based cash generating unit, including Austin Engineering USA Inc. is 16.67% (2015: 15.85%). The pre-tax discount rates used for the Australian based cash generating units, including Austbore and Pilbara Hire Group is 15.71% (2015: 13.44%).

The perpetual growth rates used for the cash generating units are 3% (2015: 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**

The impairments recorded during the year were on consideration of future discounted cash flows at 31 December 2015. At 30 June 2016, all cash generating units had a positive difference between their recoverable amounts and carrying value.

**Note 16: Trade and other payables**

**Current unsecured liabilities:**

Trade payables	22,860	20,286
Sundry payables and accrued expenses	10,632	13,708
Progress payments in advance	3,017	3,710
	<b>36,509</b>	<b>37,704</b>

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

Australian dollars	15,635	20,384
Chilean pesos (Australian dollar equivalent)	6,385	6,717
US dollars (Australian dollar equivalent)	6,056	4,360
Other <sup>1</sup> (Australian dollar equivalent)	8,433	6,243
	<b>36,509</b>	<b>37,704</b>

<sup>1</sup> Other refers to Indonesian rupiah, Peruvian Nuevo soles, Singapore dollars and Colombian pesos.

For information about the consolidated entity's exposure to foreign exchange risk refer to note 30.

**Note 17: Financial liabilities**

**Current secured liabilities:**

Hire purchase and lease obligations	3,360	3,753
Bank loans	9,695	46,572
Subordinated loan	6,602	-
	<b>19,657</b>	<b>50,325</b>

**Non-current secured liabilities:**

Hire purchase and lease obligations	7,913	3,824
Bank loans	4,928	43,193
Subordinated loan	19,752	-
	<b>32,593</b>	<b>47,017</b>

**Total of current and non-current secured liabilities:**

Hire purchase and lease obligations	11,273	7,577
Bank loans	14,623	89,765
Subordinated loan	26,354	-
	<b>52,250</b>	<b>97,342</b>

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	<b>Consolidated Entity</b>	
	<b>2016</b>	<b>2015</b>
<b>Note 17: Financial liabilities (continued)</b>	<b>\$000</b>	<b>\$000</b>
<b>Assets pledged as security – fixed/floating charge:</b>		
<b>Current</b>		
Cash and cash equivalents	12,832	3,319
Receivables	29,371	34,851
Inventories	15,814	24,997
	<b>58,017</b>	<b>63,167</b>
<b>Non-current</b>		
Property, plant and equipment	113,308	125,233
	<b>113,308</b>	<b>125,233</b>
<b>Total</b>	<b>171,325</b>	<b>188,400</b>

Refer to note 25(b) for additional information on the type of security held.

**Note 18: Current tax asset and liability**

Income tax asset	1,809	927
Income tax liability	(15)	(722)
	<b>1,794</b>	<b>205</b>

**Note 19: Deferred tax**

**Deferred tax assets - non-current:**

Employee leave entitlements	1,698	1,653
Warranty and other provisions	1,898	122
Transaction costs on equity issue	1,266	241
Tax losses	7,974	3,940
Other	4,796	3,541
<b>Total deferred tax assets</b>	<b>17,632</b>	<b>9,497</b>

**Deferred tax liabilities - non-current:**

Revaluation of assets on acquisition	-	35
Intangibles	2,415	3,457
Asset financing	6,460	4,095
Other	1,637	3,001
<b>Total deferred tax liabilities</b>	<b>10,512</b>	<b>10,588</b>

<b>Movements:</b>	<b>Opening balance</b>	<b>Recognised in profit or loss</b>	<b>Recognised in equity</b>	<b>Disposals</b>	<b>Closing balance</b>
<b>2016</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Deferred tax assets</b>					
Employee leave entitlements	1,782	168	7	(259)	1,698
Warranty and other provisions	233	1,681	3	(19)	1,898
Transaction costs on equity issue	241	-	1,025	-	1,266
Tax losses	3,940	4,033	1	-	7,974
Other	3,301	1,627	-	(132)	4,796
<b>Deferred tax liabilities</b>					
Revaluation of assets on acquisition	(35)	35	-	-	-
Intangibles	(3,457)	1,041	1	-	(2,415)
Asset financing	(4,095)	(2,370)	5	-	(6,460)
Other	(3,001)	1,342	22	-	(1,637)
	<b>(1,091)</b>	<b>7,557</b>	<b>1,064</b>	<b>(410)</b>	<b>7,120</b>

<b>Movements:</b>	<b>Opening balance</b>	<b>Recognised in profit or loss</b>	<b>Recognised in equity</b>	<b>Acquisitions</b>	<b>Other</b>	<b>Closing balance</b>
<b>2015</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Deferred tax assets</b>						
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
<b>Deferred tax liabilities</b>						
Revaluation of assets on acquisition	(35)	-	-	-	-	(35)
Intangibles	(3,888)	-	-	431	-	(3,457)
Asset financing	(4,495)	(630)	(271)	-	1,301	(4,095)
Other	(1,022)	(685)	(71)	-	(1,223)	(3,001)
	<b>(1,706)</b>	<b>126</b>	<b>(102)</b>	<b>431</b>	<b>160</b>	<b>(1,091)</b>

**Consolidated Entity**  
**2016**                      **2015**  
**\$000**                      **\$000**

**Note 20: Provisions**

**Current**

Employee leave entitlements	5,488	6,049
Onerous operating leases	1,382	-
Warranty provisions	542	503
Other	835	2
<b>Total</b>	<b>8,247</b>	<b>6,554</b>

**Non-current**

Onerous operating leases	<b>4,205</b>	<b>-</b>
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Movements in each class of provision during the financial year, other than employee leave entitlements and other provisions, are set out below:

**2016**

	<b>Warranty \$000</b>	<b>Onerous operating leases \$000</b>
Balance at beginning of year	503	-
Provided during the year	553	6,292
Utilised during the year	(179)	(705)
Released during the year	(335)	-
Foreign currency exchange differences	-	-
<b>Balance at end of year</b>	<b>542</b>	<b>5,587</b>

**Warranty**

Provision is made for potential warranty claims at the reporting 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.

**Onerous operating leases**

The onerous operating lease provision relates to the Brisbane workshop closure.

**Note 21: Contributed equity**

	<b>2016</b>		<b>2015</b>	
	<b>No.</b>	<b>\$000</b>	<b>No.</b>	<b>\$000</b>
<b>Ordinary shares (fully paid)</b>				
Balance at beginning of year	84,274,004	87,344	84,274,004	87,344
Shares issued during the year:				
Non-renounceable entitlement offer	70,228,337	31,603	-	-
Share placement	20,908,911	1,673	-	-
Renounceable entitlement offer	350,822,504	28,070	-	-
Cost of share issues	-	(2,861)	-	-
<b>Balance at end of year</b>	<b>526,233,756</b>	<b>145,829</b>	<b>84,274,004</b>	<b>87,344</b>

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.

On 29 July 2015 and 14 August 2015 the company issued 42,396,059 and 27,832,278 ordinary shares respectively, pursuant to the institutional and retail components of an accelerated non-renounceable entitlement offer. The shares were issued at \$0.45 per share.

On 1 June 2016 the company issued 20,908,911 fully paid ordinary shares at an issue price of \$0.08 per share to institutional and sophisticated investors in terms of a share placement.

On 30 June 2016 the company issued 350,822,504 ordinary shares pursuant to a renounceable entitlement offer. The shares were issued at \$0.08 per share.

All shares issued in the year to 30 June 2016 ranked equally with all existing fully paid ordinary shares from the date of issue of the respective shares and the proceeds were used to reduce the group's debt.

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

**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 27.

**Capital management**

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

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**Note 21: Contributed equity (continued)**

**Capital management (continued)**

The group's total capital is defined as the shareholders' net equity plus net debt and amounted to \$176,439,000 at 30 June 2016 (30 June 2015: \$213,446,000). 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 30 November 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 2016 and 30 June 2015 are as follows:

	<b>Consolidated Entity</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
Total borrowings	52,250	97,342
Value of bank guarantees issued	525	1,910
Less cash and cash equivalents	(12,832)	(3,319)
Net debt	39,943	95,933
Total equity	137,021	119,423
Total capital (including bank guarantees)	176,964	215,356
Net gearing ratio	23%	45%

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 22: 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 23: Capital and leasing commitments**

**Finance and hire purchase lease commitments:**

	<b>Consolidated Entity</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
Not later than one year	3,752	4,174
Between one and five years	8,453	3,897
Minimum lease payments	12,205	8,071
Less: future finance charges	(932)	(494)
	11,273	7,577
Representing lease liabilities:		
Current (note 17)	3,360	3,753
Non-current (note 17)	7,913	3,824
	11,273	7,577

Plant and equipment is leased from 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	3,434	5,436
Between one and five years	9,182	17,511
Greater than 5 years	741	6,158
	13,357	29,105

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. Operating lease commitments include those in respect of the Brisbane workshop which has been provided for as an onerous lease.

**Capital commitments:**

Property, plant and equipment purchases	342	95
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These capital commitments are payable within twelve months. No capital commitments are payable after twelve months.



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**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) and Asia (currently Indonesia for mining equipment and other 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 2016 and 30 June 2015 is as follows:

	Australia		Americas		Asia		Total	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Total segment revenue from continuing operations - from external customers	92,237	83,635	89,678	87,478	6,254	16,126	188,169	187,239
EBITDA from continuing operations	(11,252)	(2,317)	(557)	3,353	279	5,812	(11,530)	6,848
<i>Other segment information</i>								
Depreciation and amortisation	2,951	3,319	7,231	6,912	958	1,000	11,140	11,231
Impairment	-	4,815	6,170	36,065	2,890	-	9,060	40,880
Segment assets	81,735	102,179	155,664	153,326	11,360	16,106	248,759	271,611
Total assets include:								
Additions to non-current assets (other than financial assets and deferred tax)	894	1,439	11,943	6,095	32	40	12,869	7,574
Segment Liabilities	60,000	111,098	50,016	39,373	1,722	1,717	111,738	152,188

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	
	2016 \$000	2015 \$000
EBITDA used for segment reporting*	(11,530)	6,848
Impairment expense	(9,060)	(40,880)
Reported EBITDA	(20,590)	(34,032)
Depreciation	(10,277)	(10,371)
Amortisation	(863)	(860)
Interest revenue	27	1,311
Finance costs	(6,156)	(6,071)
Loss before income tax from continuing operations	(37,859)	(50,023)

\*The 30 June 2016 EBITDA includes restructuring costs and Westech legal fees totalling \$18.656m (2015: \$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 \$88,379,000 (2015 - \$86,343,000), and total revenue from external customers attributed to all foreign countries is \$99,790,000 (2015 - \$103,896,000). Revenues from external customers attributed to the USA and Chile, as individual foreign countries, are material and amounted to \$20,593,000 (2015 - \$21,184,000) and \$41,744,000 (2015 - \$42,852,000) respectively.

In 2016, \$27,299,000 of revenues were derived from a single external customer. These revenues were attributable to the Australia segment.

In 2015, \$32,380,000 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 \$42,095,000 (2015 - \$66,001,000) and non-current assets located in foreign countries amounted to \$108,481,000 (2015 - \$114,194,000). 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 \$78,776,000 (2015 - \$74,786,000). Assets classified as held for sale of \$8,740,000 (2015 - nil), together with the fair value reduction of assets classified as held for sale of \$2,169,000 (2015 - nil), are attributable to the Americas segment.

**Consolidated Entity**  
**2016**                      **2015**  
**\$000**                      **\$000**

**Note 25: Cash flow information**

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

Loss after income tax	(40,455)	(49,332)
Depreciation and amortisation	11,807	12,101
Impairment expense	9,060	40,880
Fair value reduction of assets classified as held for sale	2,169	-
Loss on disposal of property, plant and equipment	268	55
Loss on disposal of subsidiary	11,389	-
Share options expense	400	223
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	2,356	(3,691)
(Increase)/decrease in inventories	4,382	(5,053)
(Increase)/decrease in other assets	(4,510)	(1,636)
Increase/(decrease) in payables	3,962	10,998
Increase/(decrease) in income taxes payable and deferred	(9,306)	(1,012)
Increase/(decrease) in provisions	6,528	42
<b>Net cash (used in)/provided by operating activities</b>	<b>(1,950)</b>	<b>3,575</b>

**b) Financing facilities**

The group had access to the following financing facilities at the reporting date:

Total facilities		
Bank facilities	45,809	122,094
Subordinated loan	26,354	-
	<u>72,163</u>	<u>122,094</u>
Utilised		
Bank facilities	38,884	114,294
Subordinated loan	26,354	-
	<u>65,238</u>	<u>114,294</u>
Unused		
Bank facilities	6,925	7,800
Subordinated loan	-	-
	<u>6,925</u>	<u>7,800</u>

**Bank facilities**

At reporting date, the group had access to syndicated bank facilities of \$19,034,000 (2015: \$115,000,000). Except for the LC facility of \$10,222,000 which expires in December 2016, all other facilities expire in March 2017. All facilities attract variable interest rates.

The syndicated bank facilities are summarised as follows:

**Facility A1 - Australian Dollar revolving cash advance facility of up to \$6,012,000**

In 2013, 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 \$10,222,000**

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 \$2,800,000**

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

The syndicated bank facilities 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 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.

**Subordinated loans**

The group entered into a subordinated loan agreement with LIM Asia Special Situations Master Fund Limited (LIM) for \$20,000,000, which 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 as part consideration for the subordinated loan.

In February 2016, the group entered into a separate short term financing facility with LIM and Transfield Finance Pty Limited for US\$2,225,000 and \$3,214,000 respectively. The majority of these funds were used to repay syndicated debt. After the reporting date, repayments were made of US\$2,147,000 and \$3,085,000 to LIM and Transfield Finance Pty Limited respectively.

The group must maintain covenants relating to the debt drawn down under the syndicated facilities and these covenants include a maximum leverage.

**Other**

In addition to the syndicated banking facilities and subordinated loan, there are other bank guarantees and other minor leasing and bank loans in various jurisdictions within the group totalling \$26,775,000 (2015 - \$16,200,000).

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**Note 26: 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.

**Note 27: Share-based payments**

The following share-based payment arrangements existed at 30 June 2016:

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 included 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 was dependent upon the achievement of certain performance targets and requirements, was at no cost to Michael Buckland. The bonus shares relating to the 2014, 2015 and 2016 financial years (the '2014 shares', the '2015 shares' and 'the 2016 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 was a continuation of Michael Buckland's previous remuneration structure.

Performance rights:

On 30 September 2014, the company announced that it would be proceeding with the Austin Engineering Limited (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 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 issue of 164,672 performance rights to the Managing Director was approved at the 2014 Annual General Meeting. The issue of performance rights to Executives did not require shareholder approval. The performance rights were issued 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.

On 27 November 2015 the company issued 2,132,933 performance rights to the Managing Director and to Executives. The issue of 304,436 performance rights to the Managing Director was approved at the Annual General Meeting held on 27 November 2015. The issue of performance rights to Executives did not require shareholder approval. The performance rights are for the period 1 July 2015 to 30 June 2018 and expire on 27 November 2020.

Options:

The company granted 12 million options on 29 July 2015 to LIM Asia Special Situations Master Fund Limited (LIM) as part consideration for a subordinated loan from LIM. The options expire 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).

	2016		2015	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Performance rights outstanding and exercisable at the reporting date are as follows:				
Outstanding at beginning of year	1,150,299	-	-	-
Granted	2,132,933	-	1,150,299	-
Expired	-	-	-	-
Exercised	-	-	-	-
Forfeited/lapsed	-	-	-	-
Outstanding at end of year	<u>3,283,232</u>	-	<u>1,150,299</u>	-
Total exercisable at end of year	<u>281,773</u>	-	<u>-</u>	-

	2016		2015	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Share options outstanding and exercisable at the reporting date are as follows:				
Outstanding at beginning of year	-	-	-	-
Granted	12,000,000	0.99	-	-
Expired	-	-	-	-
Exercised	-	-	-	-
Outstanding at end of year	<u>12,000,000</u>	<u>0.99</u>	<u>-</u>	-
Total exercisable at end of year	<u>12,000,000</u>	<u>0.99</u>	<u>-</u>	-

**Note 27: Share-based payments (continued)**

Options (continued):

The options outstanding at 30 June 2016 had a weighted average remaining contractual life of 2.08 years.

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.

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>Managing Director/CEO</i>									
<i>Michael Buckland</i>									
27/11/2015	27/11/2020	-	\$0.25	57.46%	2.09%	8.67%	\$0.25	\$0.08	\$0.19
<i>All other Senior Executives</i>									
27/11/2015	27/11/2020	-	\$0.25	57.46%	2.09%	8.67%	\$0.25	\$0.08	\$0.19

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.

Options granted:

The fair value of the options shares granted to LIM Asia Special Situations Master Fund Limited (LIM) as part consideration for a subordinated loan from LIM, was calculated using the Binomial simulation model. The valuation model inputs used to determine the fair value at the grant date are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Estimated volatility	Risk free interest rate	Dividend yield	Fair value at grant date
29/07/2015	31/07/2018	\$0.46	\$0.60	64.82%	2.139%	4.5%	\$0.14
29/07/2015	31/07/2018	\$0.46	\$1.00	64.82%	2.139%	4.5%	\$0.08
29/07/2015	31/07/2018	\$0.46	\$1.75	64.82%	2.139%	4.5%	\$0.04

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 \$400,000 (2015: \$223,000).

**Note 28: Events after the reporting date**

Subsequent to the reporting date the group repaid Syndicated Facility C2 and closed this facility, the repayment was made using applied funds from cash cover held by the syndicate on 30 June 2016. In addition, the group made a capital repayment of \$3,519,000 on Facility A1 and increased our cash cover held with the syndicate by \$2,481,000. The group sourced this repayment from a new financing facility opened in July 2016, the facility has a limit of \$14,000,000. Austin also drew down on a working capital facility of \$2,850,000 in September 2016.

In August 2016, Austin finalised the sale of surplus land in Peru with gross sale proceeds of \$6,066,000 received, this amount was classified as an asset classified as held for sale. An amount of \$5,875,000 has been paid to subordinated debt holders to retire debt facilities put in place and drawn in February 2016.

**Note 29: 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 14.

**Key management personnel compensation:**

	Consolidated Entity	
	2016	2015
	\$	\$
Short-term employment benefits	1,761,000	2,324,126
Post-employment benefits	139,253	199,164
Long-term benefits	9,668	72,879
Share-based payments	80,048	76,052
	<u>1,989,969</u>	<u>2,672,221</u>

Detailed remuneration disclosures are provided in the remuneration report on pages 8 to 15. Due to changes in key management personnel, the total remuneration for the year ended 30 June 2015 on page 12 is different to the amount shown above.

**Note 29: Related party transactions (continued)**

**Transactions with other related parties:**

The following transactions occurred with related parties:

	<b>Consolidated Entity</b>	
	<b>2016</b>	<b>2015</b>
	\$	\$
<i>Purchases of services</i>		
Purchase of legal services from other related parties*	841,890	430,836

\*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:**

	<b>Consolidated Entity</b>	
	<b>2016</b>	<b>2015</b>
	\$	\$
<i>Current payables (purchases of services)</i>		
Other related parties	140,908	94,623

**Note 30: 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. The group's policy is to centralise debt and surplus cash balances and also to match the assets and liabilities currency exposure whenever possible.

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, Colombian Peso, Peruvian Nuevo Soles and Indonesian Rupiah 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.

A sensitivity analysis was performed at 30 June 2016, 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 2016, as indicated below:

	<b>Consolidated Entity</b>			
	<b>Strengthening by 10%</b>		<b>Weakening by 10%</b>	
	<b>Equity</b>	<b>Profit or loss</b>	<b>Equity</b>	<b>Profit or loss</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>30 June 2016</b>				
US dollar	(1,748)	259	1,748	(259)
Chilean peso	(5,997)	1,080	5,997	(1,080)
Indonesian rupiah	(1,144)	42	1,144	(42)
Colombian peso	(934)	92	934	(92)
Peruvian nuevo soles	(657)	8	657	(8)
<b>Total</b>	<b>(10,480)</b>	<b>1,481</b>	<b>10,480</b>	<b>(1,481)</b>

**Note 30: Financial risk management (continued)**

**Market risk: (continued)**

	Consolidated Entity			
	Strengthening by 10%		Weakening by 10%	
	Equity \$'000	Profit or loss \$'000	Equity \$'000	Profit or loss \$'000
<b>30 June 2015</b>				
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)
<b>Total</b>	<b>(3,916)</b>	<b>1,088</b>	<b>3,916</b>	<b>(1,088)</b>

Refer to notes 10 and 16 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 2016		30 June 2015	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
Cash	0.3%	\$12,832	0.3%	\$3,319
Financial liabilities	7.2%	(52,250)	5.4%	(82,224)
Net exposure to cash flow interest rate risk		<u>(39,418)</u>		<u>(78,905)</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 \$394,000 (2015: \$772,000). 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.

**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 customer accounting for approximately 26% of trade receivables at 30 June 2016. At 30 June 2015 the group had one significant customer accounting for approximately 17% of trade receivables. Details of trade and other receivables past due but not impaired are provided in Note 10.

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.

**Note 30: Financial risk management (continued)**

**Credit risk: (continued)**

Refer note 10 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; and
- 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 \$6,925,000 were undrawn at 30 June 2016 (2015: \$7,800,000). 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 reporting 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.

	<b>1 Year \$000</b>	<b>1 to 5 Years \$000</b>	<b>Total \$000</b>
<b>2016</b>			
Payables	36,509	-	36,509
Bank loan	9,695	4,928	14,623
Subordinated loan	6,602	20,607	27,209
Lease liabilities	3,752	8,453	12,205
<b>Total</b>	<b>56,558</b>	<b>33,988</b>	<b>90,546</b>
<b>2015</b>			
Payables	37,704	-	37,704
Bank loan	49,305	44,467	93,772
Lease liabilities	4,174	3,897	8,071
<b>Total</b>	<b>91,183</b>	<b>48,364</b>	<b>139,547</b>

**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 2016 the group did not have any financial instruments that were measured and recorded at fair value. The following methods and assumptions are used to determine the fair values of financial assets and financial liabilities.

Cash and cash equivalents and other receivables

The carrying values approximate their fair value as they are short term in nature or are receivable on demand.

Receivables and other assets

The carrying value approximates their fair value as they are short term in nature.

Short-term borrowings and other payables

The carrying value approximates their fair value as they are short term in nature.

Long-term borrowings

The fair value of variable rate borrowings, and fixed rate borrowings repriced within twelve months, approximates the carrying value. Discounted cash flow model was used to calculate the fair value of other fixed term long-term borrowings. The Australian CGU discount rate as disclosed in note 15 was applied.

The carrying value of fixed rate borrowings not repriced within twelve months is \$19,752,000. This borrowing has a fair value of \$19,715,000.

**Directors' Declaration**

The directors of the company declare:

1. The financial statements and notes, as set out in pages 26 to 55 of this report, are in accordance with the Corporations Act 2001; and
  - a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
  - b) give a true and fair view of the financial position at 30 June 2016 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.

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.



**Peter Pursey AM**  
Executive Chairman

28 September 2016

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## 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 consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the 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.

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## 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 2016 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 8 to 15 of the directors' report for the year ended 30 June 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit Pty Ltd**



**C R Jenkins**  
Director

Brisbane, 28 September 2016

**Austin Engineering Limited**  
**Annual Report 2016**

**Additional Information for Public Listed Companies**

**1. Substantial Shareholders at 16 September 2016**

	Number of Ordinary Fully Paid Shares Held	% Held of Ordinary Shares
Thorney Investments	129,819,149	24.67
LIM Advisors	48,889,062	9.29
Discovery Asset Management Pty Limited	34,820,432	6.62

**2. Distribution of Shareholdings at 16 September 2016**

Range of Holding	Number of Shareholders	Number of Shares
1 - 1,000	840	289,460
1,001 - 5,000	815	2,274,828
5,001 - 10,000	449	3,442,178
10,001 - 100,000	1,009	39,633,433
100,001 and over	314	480,593,857
	<u>3,427</u>	<u>526,233,756</u>
Holding less than a marketable parcel	<u>1,556</u>	

**3. Voting Rights**

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

**4. Twenty Largest Shareholders at 16 September 2016**

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
HSBC Custody Nominees	139,803,453	26.57
UBS Nominees Pty Ltd	62,391,644	11.86
Merrill Lynch (Australia)	35,082,800	6.67
Transfield Finance Pty Ltd	22,222,222	4.22
BNP Paribas Noms Pty Ltd	20,348,676	3.87
S J Quinlivan Pty Ltd	18,392,490	3.50
Brispot Nominees Pty Ltd	16,286,431	3.10
RBC Investor Services Australia Nominees Pty	14,581,802	2.77
Limited J P Morgan Nominees Australia	13,494,113	2.56
Citicorp Nominees Pty Limited	11,528,251	2.19
Wattle Laboratories Pty Ltd	6,522,533	1.24
Mr Peter Howells	3,641,850	0.69
Depofo Pty Ltd	3,453,942	0.66
Mr Sanjay Sharma & Dr Seema Sharma	2,336,610	0.44
Mr Michael Buckland	2,256,055	0.43
Mr Peter Louis Pursey & Mrs Helen Elizabeth Pursey	2,225,232	0.42
Mr Eugene Fung & Ms Cindy Dean	2,112,024	0.40
Mr David Zalmon Baffsky	2,000,000	0.38
Southern Steel Investments Ptd Ltd	1,850,000	0.35
Pershing Australia Nominees	1,850,000	0.35
	<u>382,380,128</u>	<u>72.66</u>

**5. Additional Information**

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

**Austin Engineering Limited  
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**Company Information**

**Registered Office, Principal Place of Business and Brisbane Operation:**

173 Cobalt Street  
Carole Park  
Queensland, 4300  
P: +61 7 3271 2622  
F: +61 7 3271 3689

**Principal Australian Operations:**

**Queensland:**

**Mackay:**

Austin Mackay  
55 Len Shield St.  
Paget, Qld 4740  
P: +61 7 4952 4533  
F: +61 7 4952 4687

**Mackay:**

Aust Bore Pty Ltd  
12-16 Progress Drive  
Paget, Qld 4740  
P: +61 7 4952 6223  
F: +61 7 4952 6223

**Western Australia:**

**Perth:**

Austin WA  
100 Chisholm Crescent  
Kewdale, WA 6105  
P: +61 8 9334 0666  
F: +61 8 9359 2390

**Mandurah:**

Pilbara Hire Group Pty Ltd  
Unit 8, 21-23 Sholl Street  
Mandurah, WA 6210  
P: +61 8 9583 5995  
F: +61 8 9583 5998

**New South Wales:**

**Hunter Valley:**

Austin Hunter Valley  
34 Carramere Road  
Muswellbrook, NSW 2333  
P: +61 2 6541 0111  
F: +61 2 6541 0222

**International Operations:**

**USA:**

Western Technology Services International Inc.  
415 First Street  
Mills  
Wyoming, 82644  
P: +1 307 235 6475  
F: +1 307 235 3306

**Chile:**

Austin Ingenieros Chile Ltda.  
Camino A La Minera No.224  
La Negra, Antofagasta  
Chile  
P: +56 55 657400

**Chile:**

Austin Ingenieros Chile Ltda.  
Camino a Chiu-Chiu, Manzana 1 Sitio 5  
Calama  
Chile  
P: +56 55 2657450

**Chile:**

Austin Arrendamientos Ltda.  
21 de Mayo No. 730  
La Negra, Antofagasta  
Chile  
P: +56 55 2893946

**Peru:**

Austin Engineering Peru S.A.C  
Calle Los Tulipanes No. 147  
Edificio Blu Building , Oficina 901, Piso 9  
Santiago de Surco, Lima, Peru  
P: + 51 1 6344400

**Colombia:**

Austin Ingenieros Colombia S.A.S  
Calle 4, No. 11 Sur-85  
Municipio de Malambo  
Depto. Atlantico, Colombia  
P: +57 5 3819333

**Indonesia:**

PT Austin Engineering Indonesia  
Jl. Mas Surya Negara Kav.B2  
Kawasan Industrial Terpadu Kab Batu  
Beasr Nongsa, Batam, 29467  
P: +62 778 711 999

**Share Registry:**

Advanced Share Registry Services  
110 Stirling Highway, Nedlands, WA 6009  
P.O. Box 1156  
Nedlands  
Western Australia, 6909  
P: +61 8 9389 8033  
F: +61 8 9262 3723

**Lawyers:**

Thomson Geer Lawyers  
Level 16  
Waterfront Place  
1 Eagle Street  
Brisbane, 4000

**Austin Engineering Limited  
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**Company Information (continued)**

**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

**Stock Exchange:**

Australian Securities Exchange

**Home Exchange:**

Brisbane

**ASX Code:**

ANG

**Website:**

[www.austineng.com.au](http://www.austineng.com.au)

**ABN:**

60 078 480 136

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