

austinengineering^{LTD}
ABN 60 078 480 136

2014 Annual Report

Austin Engineering Ltd
Annual and Financial Report 2014

Chairman's Report

I am pleased to present my Chairman's Report to you, the owners of the Company. The year ended 30 June 2014, has been a very difficult year. The results for the full year show a decrease in revenues of \$79m, down 27%. This major reduction in revenue has obviously had a dramatic effect on profitability with EBITDA down 70% to \$15.2m and a net profit after tax down 97% to \$0.9m.

The EBITDA drop of 76% in the Australian operations is largely attributable to a reduction in the Perth manufacturing operations, compared to the very strong performance last year. This reduction combined with the continuation of inconsistent activity in the East Coast operations, particularly in the first half of the financial year, relating to the coal industry more than offset the improved performances from Pilbara Hire and COR Cooling. The Americas delivered a year on year EBITDA decrease of 52%. North America delivered a satisfactory performance in a weakening market, however the manufacturing operations in South America were all affected by reductions in demand. The Calama and Servigrut service businesses however performed well. The Indonesian facility only managed a breakeven EBITDA result compared to \$1.9m last year, as a consequence of the significant reduction in demand from the coal industry in that country. The second half however benefited by work in the oil and gas sector. The Middle East joint venture, involved in the repair of aluminium smelter equipment, completed the outstanding contracts and the shares in the JV were sold by Austin.

We expect challenging conditions to continue in Australia, at least for the first half of the 2014/2015 financial year. I said last year that it is not sustainable for the miners to continue deferring expenditure on replacement products and repair and maintenance, due to the wearing out of their equipment. This is still my very firm view. Austin's products and services are associated with the production from, and the expansion of, existing mines and as such are governed by the quantity of commodities extracted. While there has been a similar story in South America we have won a number of multi-year contracts and are expecting further wins in the next few months. Indonesia is expected to benefit from existing oil and gas contracts with further opportunities anticipated.

The Company has budgeted for an increased full-year result in the 2014/2015 financial year, based on the increased level of activity we are experiencing in our markets. We also are of the view that our strategic geographical locations and their existing production capacities will be seen to be of important value as the miners increase their drive for productivity and product specialisation.

Prior to the end of the 2013/2014 financial year the company renegotiated its banking covenants and was in compliance with them at 30 June 2014. Despite significant capital expenditure in South America during the year, gearing at year-end was 35.7%.

Your Board elected not to pay a final dividend for the year, due to the reduction in cash flow performance, as a result of the fall in revenues. An interim fully franked dividend of 4.5 cents was paid in March 2014.

Difficult years bring out the best in good management and I would like to thank our Managing Director, Mr Michael Buckland, his management and staff for their efforts throughout this difficult year. I would also wish to acknowledge the valuable support of our shareholders.

Austin Engineering Limited will hold its Annual General Meeting at 10.30 am on Friday the 21st of November 2014 at the Brisbane Marriot Hotel, 515 Queen Street, Brisbane. I look forward to meeting with shareholders and updating them on the progress of their company at that time.



Paul Reading
Non-Executive Chairman

Austin Engineering Ltd

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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 2014.

Directors

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

Managing Director:

Michael Buckland

Chairman and Independent Non-Executive Director:

Paul Reading

Independent Non-Executive Directors:

Eugene Fung

Peter Pursey

Secretaries

Scott Richardson (appointed 13 January 2014)

Jessica Neale (appointed 22 November 2013)

Colin Anderson (resigned 22 November 2013)

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 2014	Year Ended 30 June 2013	Change %
Revenue (\$m)	209.87	288.84	-27%
EBITDA (\$m)	15.16	51.12	-70%
PBT (\$m)	0.04	39.58	-99%
NPAT (\$m)	0.90	28.44	-97%
Basic earnings per share (cents)	1.14	39.18	-97%
Net assets (\$m)	165.64	153.45	+8%
Final dividend per share (cents)	-	10.5	-100%
Total annual dividend per share (cents)	4.5	15.0	-70%

Operations

The inconsistent business conditions flagged in February 2014 continued through to June 2014 and as a result the amount of revenue was much lower than expected for Austin. The continued reduced capital spending in the mining sector has delayed expenditure on new and replacement equipment as well as on maintenance programs. The flow on effect for Austin was much lower utilisation of productive capacity.

Australia:

Revenue for the Australian business units decreased by 37% over the previous year. The main workshop facilities in Perth, Western Australia experienced lower demand in the period due to a continuation of the deferral of truck body replacement cycles by major clients. This business was still a very good performer but not to the exceptional levels reached in FY13.

The business units on the eastern seaboard of Australia, which mainly service coal mining operations, suffered reduced and inconsistent levels of activity due to cost reduction programs by miners and contractors. The COR Cooling business produced a result in line with expectations for the period which was pleasing and was a significant improvement on FY13.

Americas:

The Americas produced a comparable revenue result to the previous year with the addition of Servigrut filling the gap left by reductions in other businesses in the region. The Westech business in North America produced a relatively comparable result to last year albeit in a market with weak growth prospects.

The La Negra manufacturing operation in Chile produced a reduced result compared to the previous year due to suspensions in capital spending by customers as well as a delay in the commencement of the Vale contract.

The Calama operations in Chile, comprising of on and off site repair and equipment lifting services, finished the year with a good result on the back of multi-year contract wins during the period.

The Servigrut business, which was acquired in October 2013, performed well and in-line with expectations.

Peru produced a reduced result compared to last year due to anticipated site service contracts not eventuating as well as the impact of delayed decision making brought about by the market downturn.

The Colombian workshop facility in Barranquilla produced a result below budget with clients holding off purchases due to lower than expected coal pricing.

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Directors' Report (cont'd)

Operations (cont'd)

Asia:

The group's Indonesian business unit on Batam Island experienced very low revenue from mining. This was due to a depressed coal market and recently introduced mining regulations in Indonesia. However, success was achieved in securing oil and gas-related manufacturing work.

Overall Group Result:

In accordance with the lower revenues, EBITDA was much lower than FY13 with reduced sales opportunities, inconsistent activity and a corresponding reduction in overhead recoveries affecting the result. NPBT of nil and NPAT of \$0.9m were both down on the prior corresponding period, reflecting the movements in the underlying EBITDA result.

A tax credit has been recorded for the year predominantly due to non-assessable foreign dividends received during 2014. There were also tax changes in Chile, which allow a deduction for goodwill in certain circumstances, taken up for the first time in 2014. The depreciation expense of \$10.5m for the period was up on the prior period level of \$8.1m due to additional depreciation charges from investment in new facilities in Indonesia and South America. Additional interest costs were incurred on the draw-down of bank loans to finance the acquisition of the new Servigrut operation in October 2013 as well as to fund capital expenditure requirements and operational cash flow.

Financial Position

Net Assets:

Net assets of \$165.6m at June 2014 were up by 8% from \$153.4m at June 2013. The increase reflects the proceeds from equity raisings undertaken, offset by dividends paid in October 2013 and March 2014, as well as foreign currency translation differences relating to balance day adjustments. At June 2014 the net tangible asset backing per share of 87.9c was in-line with 88.8c for the June 2013 full-year period.

Cash Flow, Liquidity and Debt:

Operating cash flows for the full-year to June 2014 were negative \$6.5m. This was due to the utilisation of advance payments from customers obtained in prior periods for work done in this period, reduced operating results and higher than optimal inventory levels at present.

Non-operational cash flows for the full-year included \$18.6m spent on capital expenditure projects, the most notable of which were the purchase of a new workshop facility in Calama Chile and a 43,000m² block of land in Peru for future expansion. Other non-operating cash flows included \$23.0m on the acquisition of the Servigrut business in Chile, \$11.5m expended on dividend payments for FY14, \$30.5m of new net borrowings primarily consisted of the funding of the acquisition of Servigrut and the new leases taken on as part of the Servigrut acquisition.

The net gearing ratio (net debt/net debt plus equity, including the value of issued bank guarantees) of 35.7% was up from 30.9% at June 2013 but was within bank covenant requirements.

Business Strategies

Growth of the business will remain a key focus and the current downturn may present opportunities to assist future growth for the group. Further business acquisitions to expand the group's product range and service capabilities will continue to be sought domestically and overseas.

The group is very well positioned to capitalise on the expected emerging recovery cycle. It is anticipated that in the near future customers are likely to be seeking productivity gains from their capital allocations and equipment that has exceeded its life cycle. Austin's range of customised products are designed specifically to customer specification to achieve productivity advantages.

Expansion into Africa, which is a region of substantial mining activity with equipment and service requirements within Austin's capabilities, will continue to be pursued.

Prospects for Future Financial Years

Cost cutting measures on mine sites have been implemented and our view is the next stage will be a re-focus by customers on productivity improvements. Mine sites continue to produce at record levels, but customers have cut back on costs to maintain and replace the equipment used to produce these elevated quantities. The ongoing deferment of replacing and repairing equipment and the strain on existing equipment cannot be sustained and we expect that the signs of increased enquiry and tendering in the market is likely to continue and improve.

Austin is very well placed to meet the anticipated increase in replacement equipment through our strategic locations globally. Austin has varying product ranges tailored specifically to clients needs which are designed specifically to assist them to achieve the required productivity improvements they will demand from capital expenditure projects. Additionally, Austin can now provide innovative ideas to assist customers such as pay per tonne arrangements, complete supply and maintenance contracts, as well as alternative finance packages. South America is starting to show improved workloads and the multi-year contracts announced during FY14 will provide a good base to build from and improve workshop efficiencies.

FY15 will see a focus on debt reduction, by reducing steel stocks and improving cash-flow. There will also be a heavy emphasis on innovative design and productivity improvements for customers. From a financial result perspective, FY15 will include a full-year result from the Servigrut and the South American contract wins announced during FY14. We expect the first half of FY15 to continue the inconsistent conditions we have experienced in FY14 but then expect business conditions to stabilise for the second half of FY15.

Market conditions over the next 6 months will provide key indicators for future growth and spending in the mining sector, however Austin has budgeted for an increased full-year result in FY15 based on the increased level of activity beginning to show in the market.

Business Risks

Austin's business activities are intrinsically linked to international commodities markets and economic and business conditions associated with these. The achievement of the targeted financial result for FY15 is largely linked to a return to more normalised business conditions, particularly with miners ceasing to defer the procurement of equipment and services against a background of consistent or growing productive output. The commencement of orders from the supply agreement with Vale in Brazil, announced in January 2014, is also a key factor in the delivery of an increased financial contribution by the Chilean and Colombian business units.

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Directors' Report (cont'd)

Dividends

A fully-franked interim dividend of 4.5c per share was paid in March 2014. No final dividend for FY14 has been declared due to the reduced NPAT level.

After Balance Date Events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the group's operations in future financial years, the results of those operations, or the group's state of affairs in future financial years.

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.

Information on Directors

Michael Buckland, Managing Director since 2003

Michael Buckland is a mechanical engineer with over 28 years of experience encompassing operational, business development and senior management positions with several large engineering organisations. He held a variety of general management positions with the ANI Group from 1979 to 1998, which were chiefly within fabrication and engineering operations in Australia and overseas. He served as chief executive officer of Kirkfield Engineering and Construction Pty Ltd and Minproc Ghana Pty Ltd from 1998 to 2000 and was chief executive officer of aiEngineering Pty Ltd from 2000 to 2001. He was a director of West Australian Metals Ltd from January 2003 to March 2004.

Qualifications: B.Eng (Mechanical)

Directorships held in other listed entities: none.

Former directorships in last 3 years: none.

Special responsibilities: Managing Director.

Interests in shares and options at 30 June 2014: 3,717,498 ordinary shares.

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

Paul Reading is an experienced company director who has sat on a number of boards both in Australia and overseas. He has a commercial background and his executive career was spent in the manufacturing and heavy engineering industries. He is 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, ACA (NZ), FAICD

Directorships held in other listed entities: none.

Former directorships in last 3 years: none.

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

Interests in shares and options at 30 June 2014: 75,000 ordinary shares.

Peter Pursey, AM, Non-Executive Director since 2004

Peter Pursey is an experienced company director of both listed and non-listed public companies. In the last decade his commercial interests have included the resources, energy, defence and pharmaceutical industry sectors. He is experienced in executive management and leadership and currently provides business advisory services to emerging and growth companies, particularly in the areas of strategic planning, capital raising, operational matters, leadership and project management. He completed an executive career in the military in 1999 as a Brigadier, having held various significant leadership and command positions. He is a Member of the Australian Institute of Company Directors and a Fellow of the Australian College of Defence and Strategic Studies.

Qualifications: MBA, ACDSS, psc

Honours and Awards: Order of Australia (AM).

Directorships held in other listed entities: none.

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

Special responsibilities: Chair of audit committee.

Interests in shares and options at 30 June 2014: 1,003,010 ordinary shares.

Eugene Fung, Non-Executive Director since 2004

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

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

Directorships held in other listed entities: none.

Former directorships in last 3 years: none.

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

Interests in shares and options at 30 June 2014: 786,831 ordinary shares.

Information on Company Secretaries

Scott Richardson, Co-Company Secretary since 13 January 2014

Scott Richardson (B.Bus (Accounting), GDBA, FCPA) joined Austin Engineering Ltd on 13 January 2014 in the position of Chief Financial Officer and Company Secretary and is a fellow of CPA Australia. Scott has over 20 years' experience in various senior financial roles with other large Australian companies including Brambles, Downer EDI, Macarthur Coal and BGW Group.

Jessica Neale, Co-Company Secretary since 22 November 2013

Jessica Neale (B.ECom (Accounting), CA) is a Chartered Accountant with over 8 years' experience in accounting firms and commerce.

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Directors' Report (cont'd)

Colin Anderson, Company Secretary from January 2007 to 29 November 2013

Colin Anderson (B.A (Business and Administration), C.A.) is a chartered accountant with over 25 years' experience encompassing strategic business planning, financial control and systems development with a number of engineering and manufacturing companies in Australia and overseas. He was a member of the formative senior management team when the Austin Engineering business was purchased in 2003 and chief financial officer and company secretary up to August 2005 and from 31 January 2007 to 22 November 2013.

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Directors' Report (cont'd)

Audited Remuneration Report

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Austin Engineering Limited's key management personnel for the financial year ended 30 June 2014. 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 2013 Annual General Meeting:

At the last Annual General Meeting in November 2013, the company received 97% of 'for' votes in relation to its remuneration report for the year ended 30 June 2013. The company did not receive any specific feedback at the Annual General Meeting regarding its remuneration practices.

The remuneration report in pages 6 to 11 communicates, in clear and concise terms, the basis for determining short and long-term incentives paid to key management personnel and the link between these and the performance of the company, as delivered through increased profitability, net worth and dividends paid to shareholders.

Principles used to determine the nature and amount of remuneration

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

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

Non-executive directors:

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

Non-executive directors' fees and payments are reviewed annually by the board. Non-executive directors' fees are determined with an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$500,000 and was approved by shareholders at the general meeting on 23 November 2012. The total directors' fees paid during the financial year ended 30 June 2014 was \$255,000 (2013: \$255,000).

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

Key management personnel - executive directors and senior executives:

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

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

Base pay and benefits:

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

Short-term incentives:

Executive directors

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

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Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

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

Short-term incentives:

Executive directors

Financial performance incentives:

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

The use of EBITDA is considered an appropriate measure as it is a reliable indicator of core operating performance that can be easily determined and benchmarked. The cash bonus payable in relation to this KPI is 10% of base salary for each principal business unit group that meets budget EBITDA, subject to a maximum of 60% of base salary.

The cash bonus paid in the year ended 30 June 2014 was in relation to the achievement of the principal business unit groups meeting budget for the financial year ended 30 June 2013 and a bonus of 20% of base salary was paid for this KPI.

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

No cash bonus was paid in the year ended 30 June 2014 in relation this KPI.

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

No cash bonus was paid in the year ended 30 June 2014 in relation this KPI.

Market capitalisation incentive:

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

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

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

Where:

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

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

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

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

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

This KPI was not met in relation to the financial year ended 30 June 2013 as the required share price performance hurdle was not met and the shares were not issued.

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Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

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

Short-term incentives:

Senior executives

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

Long-term incentives:

Long-term performance incentives are delivered through the grant of options 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. The issue of options is based upon a number of factors including, but not limited to:

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

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

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth since 2010 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 2014	30 June 2013	30 June 2012	30 June 2011	30 June 2010
Revenue (\$000s)	209,870	288,838	290,097	203,714	144,008
Earnings before interest, tax depreciation and amortisation ('EBITDA' \$000s)	15,162	51,118	50,109	35,705	29,044
Profit after tax (\$000s)	896	28,442	29,580	21,468	19,264
Share price at start of year (\$)	3.15	4.30	4.84	3.33	1.53
Share price at end of year (\$)	1.61	3.15	4.30	4.84	3.33
Interim dividend - fully franked (cents)	4.5	4.5	3.5	3.0	2.0
Final dividend - fully franked (cents)	-	10.5	10.5	8.5	7.5
Basic earnings per share (cents)	1.14	39.18	41.00	30.37	28.25
Diluted earnings per share (cents)	1.14	38.61	40.16	29.29	26.97

Despite fluctuations in the company's share price, which have been influenced by wider global economic issues particularly in relation to growth and demand for commodities from China and other emerging economies. Over the period 2007 to 2014 compounded annual growth of 20% has been returned for revenue and 11% for EBITDA. These growth rates were affected by the mining downturn during the 2014 financial year and as a result, are significantly lower than those reported last year. The growth of operations into existing and emerging markets will continue to be a primary focus and the full benefits of expansion into South America and Indonesia will be realised over coming years.

The Company is considering using performance rights instead of options for executives' long term incentives. As at 30 June 2014, no mutual agreement has been reached on any performance rights with key management personnel.

Use of remuneration consultants:

The company did not engage remuneration consultants during the financial year ended 30 June 2014.

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 page 4 above.

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

- Scott Richardson - Chief Financial Officer and Company Secretary (appointed 13 January 2014)
- Colin Anderson - Chief Financial Officer and Company Secretary (resigned 29 November 2013)
- Gerard See - Co-Company Secretary (resigned 14 September 2012)
- Steve Shellenberger - President and Chief Executive Officer, Western Technology Services International, Inc.
- Steve Warner - Operations Manager, Middle East
- Warren Arthur - Chief Executive Officer, COR Cooling Pty Ltd (appointed 18 February 2013)
- Chris Lees - Chief Executive Officer, COR Cooling Pty Ltd (resigned 1 March 2013)

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Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

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

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

	Short-Term Benefits			Post-Employment Benefits	Long-Term Benefits	Share Based Payments - Equity Settled		Total	Total % Performance Related	Total % Options Related	
	Salary & Fees	Cash Bonus	Other	Super-Annuation	Termination Benefits	Leave	Shares				Options
2014:											
<i>Executive Director:</i>											
Michael Buckland	736,600	144,000 ³	35,004	50,000	-	22,132	-	-	987,736	15	-
<i>Non-Executive Directors:</i>											
Eugene Fung	68,804	-	-	6,196	-	-	-	-	75,000	-	-
Peter Pursey	73,396	-	-	6,604	-	-	-	-	80,000	-	-
Paul Reading	91,743	-	-	8,257	-	-	-	-	100,000	-	-
	233,943	-	-	21,057	-	-	-	-	255,000		
<i>Senior Executives:</i>											
Scott Richardson ¹	158,794	-	-	11,975	-	17,239	-	-	188,008	-	-
Colin Anderson ²	151,110	-	-	13,978	-	11,739	-	-	176,827	-	-
Steve Shellenberger	310,357	137,285 ³	1,725	11,645	-	6,631	-	-	467,643	29	-
Steve Warner	197,000	9,153 ³	-	19,069	-	19,916	-	-	245,138	4	-
Warren Arthur	288,330	-	-	26,670	-	9,572	-	-	324,572	-	-
	1,105,591	146,438	1,725	83,337	-	65,097	-	-	1,402,188		
Total	2,076,134	290,438	36,729	154,394	-	87,229	-	-	2,644,924		
2013:											
<i>Executive Director:</i>											
Michael Buckland	712,728	538,650 ⁷	35,004	50,000	-	11,879	-	56,250	1,404,511	38	4
<i>Non-Executive Directors:</i>											
Eugene Fung	68,804	-	-	6,196	-	-	-	-	75,000	-	-
Peter Pursey	73,396	-	-	6,604	-	-	-	-	80,000	-	-
Paul Reading	91,743	-	-	8,257	-	-	-	-	100,000	-	-
	233,943	-	-	21,057	-	-	-	-	255,000		
<i>Senior Executives:</i>											
Colin Anderson	374,391	132,110 ⁷	-	25,000	-	-	-	-	531,501	25	-
Gerard See ⁴	40,014	-	-	3,601	20,096 ⁸	-	-	-	63,711	-	-
Steve Shellenberger	266,438	210,321 ⁷	-	10,187	-	-	-	-	486,946	43	-
Steve Warner	192,068	36,697 ⁷	-	20,160	-	23,617	-	-	272,542	13	-
Warren Arthur ⁵	101,273	-	-	9,115	-	-	-	-	110,388	-	-
Chris Lees ⁶	172,029	-	-	15,482	62,896 ⁹	-	-	-	250,407	-	-
	1,146,213	379,128	-	83,545	82,992	23,617	-	-	1,715,495		
Total	2,092,884	917,778	35,004	154,602	82,992	35,496	-	56,250	3,375,006		

¹ Scott Richardson commenced employment on 13 January 2014

² Colin Anderson resigned on 29 November 2013

³ Cash bonus payments are in relation to the achievement of KPIs for the financial year ended 30 June 2013

⁴ Gerard See ceased employment on 14 September 2012

⁵ Warren Arthur commenced employment on 18 February 2013

⁶ Chris Lees ceased employment on 1 March 2013

⁷ Cash bonus payments are in relation to the achievement of KPIs for the financial year ended 30 June 2012

⁸ Termination benefits consisted of statutory annual leave entitlements

⁹ Termination benefits consisted of statutory annual leave entitlements and payment in lieu of notice

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

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Directors' Report (cont'd)

Audited Remuneration Report (cont'd)

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

On 25 November 2011, the issue of 150,000 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. This executive services agreement includes an equity based remuneration component comprising of the issue of 50,000 shares to Michael Buckland in respect of each of the financial years ending on 30 June 2011, 2012 and 2013. The issue of the shares, which is dependent upon the achievement of certain performance targets and requirements, as described on page 7, is at no cost to Michael Buckland. The equity based remuneration component of the executive services agreement is a continuation of Michael Buckland's previous remuneration structure.

The shares relating to the 2013, 2012 and 2011 financial years (the '2013 shares', the '2012 shares' and the '2011 shares') were not issued to Michael Buckland as the share price performance hurdle was not met.

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

	Included in remuneration \$	% vested in year*	% forfeited in year**
<i>Executive Director:</i>			
Michael Buckland	144,000	18	82
<i>Senior Executives:</i>			
Steve Shellenberger	137,285	50	50
Steve Warner	9,153	100	Nil

* The bonuses were paid on the achievement of predetermined profit and business development KPI targets set for the financial year ended 30 June 2013.

No part of the bonus is payable in future years.

** The amounts forfeited are due to the performance criteria not being met in relation to the financial year ended 30 June 2013.

Service agreements

Remuneration for executive directors and senior executives are formalised in service agreements and employment contracts, see page 9 for the details of the amounts paid or payable.

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

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

The company can terminate the agreement under the following conditions:

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

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

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

Colin Anderson, the former Chief Financial Officer and Company Secretary, had an employment contract with Austin Engineering Limited dated 13 December 2006. There was no prescribed duration in the contract, which could be terminated with three months' notice by either party. There was no provision in the contract for a payout on termination other than accrued pay, leave entitlements or other statutory payments.

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

**Austin Engineering Ltd
Annual and Financial Report 2014**

**Directors' Report (cont'd)
Audited Remuneration Report (cont'd)
Service agreements (cont'd)**

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

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

Share-based compensation

Options:

There were no options issued to directors of Austin Engineering Limited and other key management personnel of the group as part of compensation during the year ended 30 June 2014 (2013: Nil).

There were no options that lapsed during the year ended 30 June 2014 due to a failure to satisfy a vesting condition.

Shares provided on exercise of remuneration options:

There were no remuneration options exercised by directors of Austin Engineering Limited and other key management personnel of the group during the year ended 30 June 2014.

Options held by key management personnel

	Balance at beginning of year	Granted during the year as compensation	Exercised during the year	Other changes	Balance at end of year	Total vested at reporting date	Total exercisable at reporting date
	No.	No.	No.	No.	No.	No.	No.
2014:							
Michael Buckland	500,000	-	-	(500,000)	-	-	-
Total	500,000	-	-	(500,000)	-	-	-

No other key management personnel held options at 30 June 2014 and 30 June 2013.

Shares held by key management personnel

	Balance at beginning of year	Options exercised during the year	Bought during the year	Granted during the year	Sold during the year and other changes ¹	Balance at end of year
	No.	No.	No.	No.	No.	No.
2014:						
Michael Buckland	3,564,000	-	153,498	-	-	3,717,498
Eugene Fung	778,048	-	8,783	-	-	786,831
Peter Pursey	1,001,448	-	1,562	-	-	1,003,010
Paul Reading	34,483	-	40,517	-	-	75,000
Scott Richardson	-	-	13,090	-	-	13,090
Colin Anderson	334,000	-	-	-	(334,000)	-
Steve Shellenberger	135,668	-	-	-	-	135,668
Steve Warner	40,051	-	1,562	-	-	41,613
Total	5,887,698	-	219,012	-	(334,000)	5,772,710

¹ Includes the removal from the table of the shareholdings for key management personnel who have resigned during the period

No other key management personnel held shares at 30 June 2014 and 30 June 2013.

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.

Other transactions with key management personnel

Eugene Fung, a non-executive director of the company, is a partner with the law firm Thomson Geer Lawyers (previously Thomsons Lawyers). The firm provided legal services to the company on normal commercial terms to the value of \$130,050 during the year. Approximately \$18,564 was outstanding to Thomson Geer Lawyers at 30 June 2014 for work performed in the year to 30 June 2014.

(End of Remuneration Report)

Options

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

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

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

Shares issued on the exercise of options

There were no options exercised during the year ended 30 June 2014. No shares have been issued since that date.

**Austin Engineering Ltd
Annual and Financial Report 2014**

Directors' Report (cont'd)

Meetings of Directors

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

	<u>Board of Directors</u>		<u>Audit Committee</u>		<u>Nomination & Remuneration Committee</u>	
	<u>Eligible to Attend</u>	<u>Attended</u>	<u>Eligible to Attend</u>	<u>Attended</u>	<u>Eligible to Attend</u>	<u>Attended</u>
Michael Buckland	11	11	-	-	-	-
Paul Reading	11	11	4	4	2	2
Peter Pursey	11	11	4	4	-	-
Eugene Fung	11	10	4	4	2	2

Indemnification of Directors and Officers

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

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

Proceedings on behalf of the Company

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 2014:

	Consolidated Entity	
	2014	2013
	\$	\$
Auditor of the parent entity (BDO Audit Pty Ltd):		
Taxation services	73,384	81,585
Corporate advisory services	13,896	14,561
	<u>87,280</u>	<u>96,146</u>
Network firms of BDO Audit Pty Ltd:		
Taxation services	22,449	58,525
Corporate advisory services	41,065	-
	<u>63,514</u>	<u>58,525</u>
Remuneration of other auditors (non BDO Audit Pty Ltd or related Network firms):		
Taxation services	92,436	24,542
Corporate advisory services	3,550	1,480
	<u>95,986</u>	<u>26,022</u>
Total remuneration for non-audit services	<u>246,780</u>	<u>180,693</u>

Auditor's Independence Declaration

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

Rounding of Amounts

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

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



Michael D Buckland

Director
29 September 2014

DECLARATION OF INDEPENDENCE BY CRAIG JENKINS TO THE DIRECTORS OF AUSTIN ENGINEERING LIMITED

As lead auditor of Austin Engineering Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

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



C R Jenkins

Director

BDO Audit Pty Ltd

Brisbane, 29 September 2014

Austin Engineering Ltd Annual and Financial Report 2014

Corporate Governance Statement

Introduction

The board of Austin Engineering Ltd 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, including corporate governance practices and suggested disclosures, have been adopted by the company for the year ended 30 June 2014 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.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions

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

The key responsibilities of the board are to:

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

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

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives

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

On an annual basis, the Nomination and Remuneration Committee reviews the performance of the Managing Director against qualitative and quantitative criteria, which include profit performance, other financial measures and achievement of the Company's strategic objectives as disclosed on page 7. During the 2014 financial year, the Managing Director's performance was reviewed in accordance with the process specified.

The Company maintains a performance evaluation process which measures other senior executives against previously agreed Key Performance Indicators as disclosed on page 8. The process is performed formally once a year and took place for each senior executive during the 2014 financial year.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1: A majority of the Board should be independent directors

The board presently comprises four directors, three of whom, including the chairman, are non-executive and independent directors. The managing director is an executive director. Profiles of the directors are set out on page 4 of this annual report. All directors (except the managing director) are subject to retirement by rotation but may stand for re-election by the shareholders every three years. The terms of the managing director's appointment are governed by his terms of engagement.

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

The majority of directors ought to be independent.

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

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

Austin Engineering Ltd
Annual and Financial Report 2014

Corporate Governance Statement (cont'd)

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

Recommendation 2.1: A majority of the Board should be independent directors (cont'd)

The majority of directors ought to be independent.

- 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 (previously Thomsons 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 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.

The Board has a policy of enabling directors to seek independent professional advice at the Company's expense.

Recommendation 2.2: The chair should be an independent director

The chairman, Paul Reading, is an independent director. He is responsible for the leadership of the board and he has no other positions that hinder the effective performance of this role.

Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual

The role of chairman is held by Paul Reading whilst the role of managing director (equivalent to CEO) is held by Michael Buckland.

Recommendation 2.4: The Board should establish a nomination committee

A separate nomination and remuneration committee exists with the members being Eugene Fung (Chairman) and Paul Reading. During the reporting period the committee had only two members and not a minimum of three as set out in the recommendation. The board considers the current size of this committee to be appropriate in light of the size of the board and the particular circumstances of the company. The committee operates pursuant to a nomination and remuneration committee charter. The nomination and remuneration committee is responsible for various aspects of remuneration and nomination, including the review of the managing director and board members at least annually. The charter sets out the responsibilities of the committee including reviewing board succession plans to ensure an appropriate balance of skills and expertise, developing policies and procedures for the appointments of directors and identifying directors with appropriate qualifications to fill board committee vacancies. The term of non-executive directorships is set out in the company's constitution.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors

The board and its committees undertook self-assessment in accordance with their relevant charters during the financial year including a one-on-one session with each director in July 2014. 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.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code to guide the directors, managing director, the chief financial officer and other key executives in responsible decision-making

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

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

Corporate Governance Statement (cont'd)

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING (cont'd)

Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy

Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board

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 2014, female employees represented approximately 9% (2013: 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 boilermaking, welding and fabricating. Participation rates of woman 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 2014	Status of the objective at 30 June 2013
Maintain current level of participation by women in Operations (employees excluding those in finance and administration).	Equal employment treatment is to be given without regard to gender.	2.8%	3.0%
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.	6.6%	6.0%
Increase the number of women on the Board by 2020.	Equal employment treatment is to be given without regard to gender.	Nil	Nil

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1: The board should establish an audit 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.

Recommendation 4.2: The audit committee should be structured so that it consists only of non-executive directors, consists of a majority of independent directors, is chaired by an independent chair, who is not chair of the board and has at least three members

The composition of the company's audit committee was consistent in all aspects of recommendation 4.1. The audit committee consists of:

Peter Pursey (Chairman)
 Eugene Fung
 Paul Reading

Each of the members of the committee are independent non-executive directors and the chairman of the committee is not the chairman of the board. The managing director and the chief financial officer/company secretary may attend the meetings at the invitation of the committee.

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

The audit committee will provide 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;
- 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.

Corporate Governance Statement (cont'd)

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

Recommendation 4.3: The audit committee should have a formal charter

A formal audit committee charter has been adopted by the board. This charter sets out the role and responsibilities, composition, structure and membership requirement of the audit committee.

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 to ensure accountability at a senior executive level for that compliance and disclose those policies

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

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

- immediate notification to the ASX of information concerning the company that a reasonable person would expect to have a material effect on the price or value of the company's securities as prescribed under listing rule 3.1, 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.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy

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 shareholders 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, subject to availability, 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.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

The board has overall responsibility to all stakeholders for the identification, assessment, management and monitoring of the risks faced by the company. The company currently has in place policies and procedures for risk management which cover areas including workplace health and safety, control of key resources, delegation authorities, financial, commercial, manufacturing, and other critical business processes. The operational risks are managed at the senior management level and escalated to the board for direction where the issue is exceptional, non-recurring or may impose a material financial or operational burden on the company. The relatively small size of the company means that communication and decision-making is largely centralised ensuring early identification of risks by senior management.

Corporate Governance Statement (cont'd)

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

Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks

Given the relatively small centralised management team, the nature of the products and services supplied by the company and that all of the independent directors sit on the audit committee, the board is continuously kept informed of the effectiveness of the company's internal control systems.

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

Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

In accordance with section 295A of the Corporations Act, the CEO and CFO have provided a written statement to the Board that:

- 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 CEO and CFO 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.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1: The board should establish a remuneration committee

The committee operates pursuant to a nomination and remuneration committee charter. The nomination and remuneration committee are responsible for various aspects of remuneration, including the review of the managing director and board members at least annually.

Recommendation 8.2: The remuneration committee should be structured so that it:

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

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

Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives

Non-executive directors are remunerated by way of fees. In the past the company has provided options to non-executive directors as part of their remuneration but any options can only be granted subject to shareholder approval. 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.

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Statement of profit or loss and other comprehensive income for the year ended 30 June 2014

	Notes	Consolidated Entity	
		2014 \$000	2013 \$000
Revenue	2	209,870	288,838
Expenses			
Raw materials and consumables used		(53,017)	(87,609)
Change in inventories and work in progress		(1,289)	(6,522)
Employment expenses		(96,684)	(100,675)
Subcontractor expenses		(1,620)	(8,521)
Occupancy and utility expenses		(8,034)	(6,730)
Depreciation expense	12	(10,498)	(8,126)
Amortisation expense - customer relationships and other intangibles		(919)	(851)
Other expenses		(33,921)	(27,508)
Finance costs	3	<u>(3,852)</u>	<u>(2,721)</u>
Profit before income tax		36	39,575
Income tax credit/(expense)	4	<u>860</u>	<u>(11,133)</u>
Net profit for the year		<u>896</u>	<u>28,442</u>
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences, net of tax		<u>(11,824)</u>	<u>6,708</u>
Other comprehensive income for the year, net of tax		<u>(11,824)</u>	<u>6,708</u>
Total comprehensive income for the year		<u><u>(10,928)</u></u>	<u><u>35,150</u></u>
Profit for the year is attributable to:			
Owners of Austin Engineering Limited		<u><u>896</u></u>	<u><u>28,442</u></u>
Total comprehensive income for the year is attributable to:			
Owners of Austin Engineering Limited		<u><u>(10,928)</u></u>	<u><u>35,150</u></u>
Earnings per share attributable to owners of Austin Engineering Limited:			
Basic earnings per share (cents per share)	7	1.14	39.18
Diluted earnings per share (cents per share)	7	1.14	38.61

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

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Statement of financial position as at 30 June 2014

	Notes	Consolidated Entity	
		2014 \$000	2013 \$000
Current Assets			
Cash and cash equivalents	8	7,385	6,337
Trade receivables	9	30,756	34,857
Inventories	10	29,501	30,789
Other receivables and other assets	11	6,703	5,555
Total Current Assets		<u>74,345</u>	<u>77,538</u>
Non-Current Assets			
Property, plant and equipment	12	131,772	106,561
Investments accounted for using the equity method		-	1,334
Intangible assets	14	91,599	88,468
Deferred tax assets	18	7,734	4,337
Total Non-Current Assets		<u>231,105</u>	<u>200,700</u>
Total Assets		<u>305,450</u>	<u>278,238</u>
Current Liabilities			
Trade and other payables	15	26,331	38,994
Financial liabilities	16	7,520	5,200
Current tax liabilities	17	74	3,333
Provisions	19	6,238	5,753
Total Current Liabilities		<u>40,163</u>	<u>53,280</u>
Non-Current Liabilities			
Financial liabilities	16	90,206	62,063
Deferred tax liabilities	18	9,440	9,447
Total Non-Current Liabilities		<u>99,646</u>	<u>71,510</u>
Total Liabilities		<u>139,809</u>	<u>124,790</u>
Net Assets		<u>165,641</u>	<u>153,448</u>
Equity			
Contributed equity	20	87,344	52,749
Reserves	21	(6,895)	4,929
Retained earnings		85,192	95,770
Total Equity		<u>165,641</u>	<u>153,448</u>

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

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Statement of changes in equity for the year ended 30 June 2014

	Contributed Equity \$000	Options Reserve \$000	Foreign Currency Translation Reserve \$000	Retained Earnings \$000	Total \$000
Consolidated Entity					
Opening balance at 1 July 2012	48,938	1,563	(3,398)	78,182	125,285
Total comprehensive income for the year:					
Profit for the year	-	-	-	28,442	28,442
<i>Other comprehensive income, net of tax:</i>					
Currency translation differences	-	-	6,708	-	6,708
Total comprehensive income for the year	-	-	6,708	28,442	35,150
Transactions with owners in their capacity as owners:					
Issue of share capital	3,825	-	-	-	3,825
Share issue costs	(14)	-	-	-	(14)
Dividends paid	-	-	-	(10,854)	(10,854)
Share-based payments	-	56	-	-	56
	3,811	56	-	(10,854)	(6,987)
At 30 June 2013	52,749	1,619	3,310	95,770	153,448
Total comprehensive income for the year:					
Profit for the year	-	-	-	896	896
<i>Other comprehensive income, net of tax:</i>					
Currency translation differences	-	-	(11,824)	-	(11,824)
Total comprehensive income for the year	-	-	(11,824)	896	(10,928)
Transactions with owners in their capacity as owners:					
Issue of share capital	35,551	-	-	-	35,551
Share issue costs	(956)	-	-	-	(956)
Dividends paid	-	-	-	(11,474)	(11,474)
Share-based payments	-	-	-	-	-
	34,595	-	-	(11,474)	23,121
At 30 June 2014	87,344	1,619	(8,514)	85,192	165,641

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

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Statement of cash flows for the year ended 30 June 2014

	Notes	Consolidated Entity	
		2014	2013
		\$000	\$000
Cash flows from operating activities			
Receipts from customers		229,827	315,667
Payments to suppliers and employees		(224,815)	(280,595)
Interest received		143	155
Finance costs		(3,852)	(2,721)
Income tax paid		(7,824)	(10,868)
Net cash (used in) / provided by operating activities	25a	(6,521)	21,638
Cash flows from investing activities			
Payments for acquisitions of businesses/subsidiaries, net of cash acquired	30	(23,004)	(1,854)
Payments for property, plant and equipment		(18,637)	(17,153)
Distribution from joint venture		1,130	1,002
Net cash used in investing activities		(40,511)	(18,005)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs		34,188	3,813
Proceeds from borrowings		66,159	3,462
Repayment of borrowings		(40,444)	(9,945)
Dividends paid	6	(11,474)	(10,854)
Net cash provided by / (used in) financing activities		48,429	(13,524)
Net increase / (decrease) in cash and cash equivalents		1,397	(9,891)
Cash and cash equivalents at the beginning of the year		6,337	15,748
Effects of exchange rate changes on cash and cash equivalents		(349)	480
Cash and cash equivalents at the end of the year	8	7,385	6,337

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

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

Note 1: Statement of compliance and significant accounting policies

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

The financial statements were authorised for issue by the directors on 29 September 2014.

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 and available-for-sale financial instruments 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.

The adoption of AASB 10 *Consolidated Financial Statements* and AASB 11 *Joint Arrangements* resulted in changes in accounting policies but did not result in any adjustments to the amounts recognised in the financial statements. The other standards only affected the disclosures in the notes to the financial statements.

Early adoption of standards

The Group has elected to early adopt AASB 2013-3 "Amendments to AASB 136 – *Recoverable Amount Disclosures for Non-Financial Assets*". These amendments remove a requirement to disclose the recoverable amount for all cash generating units that contain goodwill or identifiable assets with indefinite lives, regardless of impairment. This requirement was introduced by AASB 13 and would otherwise become applicable from 1 January 2014.

The group has not elected to apply any other pronouncements before their operative date in the annual reporting period beginning 1 July 2013.

Changes in accounting policy

Austin Engineering Limited had to change some of its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2013.

The affected policies and standards are:

- Principles of consolidation – new standard AASB 10 *Consolidated Financial Statements*, and
- Interests in Joint Ventures – new standard AASB 11 *Joint Arrangements*.

(i) Principles of consolidation

AASB 10 was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and in Interpretation 112 *Consolidation – Special Purpose Entities*. Under the new principles, 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 over the entity.

The group has reviewed its investments in other entities to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

(ii) Interests in Joint Arrangements

Under AASB 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. Austin Engineering Limited has assessed the nature of its joint arrangements and determined to have only joint ventures.

The accounting for the group's joint venture has not changed as a result of the adoption of AASB 11. The group continues to equity account for its interest in the joint venture. Under this method, the interest is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income in profit or loss and other comprehensive income respectively.

Significant accounting policies

Except for the changes explained above under *Changes in accounting policy*, the group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) **Principles of Consolidation**

(i) *Subsidiaries*

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

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Notes to the financial statements

(i) *Subsidiaries (cont'd)*

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.

(ii) *Associates*

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

(iii) *Joint arrangements*

Under AASB 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Austin Engineering Limited has only joint ventures.

Joint operations

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

Joint ventures

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

(iv) *Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

(v) *Changes in ownership interests*

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate

(b) **Income Tax**

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

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

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

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

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

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

(c) **Inventories**

Raw materials, consumables and work in progress

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

Construction work in progress

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

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

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

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

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

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

Depreciation

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

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

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

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

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(e) **Research and Development Expenditure**

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

(f) **Leases**

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

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

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

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

(g) **Impairment of Assets**

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

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

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

(h) **Intangibles**

Goodwill

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

Customer relationships

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

Brands

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

Other intangibles

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

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

Functional and presentation currency

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

Transaction and balances

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

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

Group companies

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

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

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

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(j) **Employee Benefits**

(i) *Short-term obligations*

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

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

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

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

(k) **Equity-settled Compensation**

The group operates equity-settled share-based payment employee share and option schemes. 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 is ascertained using a Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(l) **Provision for Warranties**

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

(m) **Provision for Doubtful Debts**

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

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

(n) **Cash and Cash Equivalents**

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

(o) **Revenue and Other Income**

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

Sale of goods

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

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

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

Construction contracts

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

Rendering of services

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

Dividends and interest income

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

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

(p) **Borrowing Costs**

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

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

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

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

(r) **Government Grants**

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

(s) **Comparative Figures**

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

(t) **Rounding of Amounts**

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

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

Key Estimates

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

Impairment of intangibles

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

Contractual customer relationships

The useful life of contractual customer relationships of 10 to 18 years is based on management's expectation of future attrition rates based on historical rates. An increase in attrition rates may lead to a reduction in the estimated useful life and an increase in the amortisation charge. The actual attrition rates for the 2014 and 2013 financial years did not differ materially from the expected attrition rates. The carrying value of contractual customer relationships is disclosed in note 14.

Taxation – Carried forward tax losses

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

Determination of fair values in a business combination

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

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

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

Key Judgements

Contractual customer relationships

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

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

New accounting standards and interpretations have been published that are not compulsory for the 30 June 2014 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. Since December 2013, it also sets out new rules for hedge accounting. The standard is not applicable until 1 January 2017 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 group has not yet assessed how its own hedging arrangements would be affected by the new rules, and it has not yet decided whether to adopt any parts of 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.

IFRS 15 Revenue from contracts with customers

IFRS 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.

IFRS 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 2017.

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

Other standards and interpretations

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

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	Consolidated Entity	
	2014	2013
	\$000	\$000
Note 2: Revenue		
Revenue		
<i>Sales revenue:</i>		
Sale of goods	115,845	201,559
Services	92,948	86,536
	<u>208,793</u>	<u>288,095</u>
<i>Other revenue:</i>		
Interest - bank deposits	143	155
Other	934	588
	<u>1,077</u>	<u>743</u>
Total revenue	<u>209,870</u>	<u>288,838</u>

Note 3: Profit for the year

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

Cost of goods sold	134,559	189,941
Finance costs - bank loans	3,852	2,721
Rental expense on operating leases - minimum lease payments	6,098	5,155
Defined contribution superannuation costs	4,036	4,367
Loss on sale of investment in Oman ¹	289	-
Realised foreign currency exchange (gains)/losses - net	377	69
Unrealised foreign currency exchange (gains)/losses - net	52	(340)
	<u>52</u>	<u>(340)</u>

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

Note 4: Income tax expense

Components of tax expense:

The components of tax expense comprise:

Current tax - current period	2,895	10,720
Deferred tax - origination and reversal of temporary differences	(3,668)	485
Over-provision in respect of prior years	(87)	(72)
	<u>(860)</u>	<u>11,133</u>

Prima facie tax reconciliation:

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

Prima facie tax payable on profit before income tax at 30%

(2013: 30%)

	11	11,872
Tax effect of:		
Non-allowable items	1,351	1,220
Over-provision for tax in prior years	(87)	(72)
Share options expensed in the year	-	87
Differences in overseas tax rates	134	(487)
Non-assessable items and other allowances		
Foreign tax adjustment for goodwill	(2,264)	-
Other	(5)	(344)
Tax losses	-	(1,143)
Income tax expense	<u>(860)</u>	<u>11,133</u>

Consolidated Entity

2014 **2013**

\$ **\$**

Note 5: Auditor's remuneration

Auditor of the parent entity (BDO Audit Pty Ltd) for:

Auditing or reviewing the financial reports of any entity in the group

175,000 163,000

Entities related to BDO Audit Pty Ltd:

Taxation services	73,384	81,585
Corporate advisory services	13,896	14,561
	<u>87,280</u>	<u>96,146</u>

Network firms of BDO Audit Pty Ltd:

Auditing or reviewing the financial reports	78,470	89,495
Taxation services	22,449	58,525
Corporate advisory services	41,065	-
	<u>141,984</u>	<u>148,020</u>

Remuneration of other auditors (non BDO Audit Pty Ltd or related Network firms):

Auditing or reviewing the financial reports	69,539	71,431
Taxation services	92,436	24,542
Corporate advisory services	3,550	1,480
	<u>165,525</u>	<u>97,453</u>

Total auditors' remuneration

569,789 504,619

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Consolidated Entity
2014 **2013**
\$000 **\$000**

Note 6: Dividends

Recognised amounts:

Distributions paid - final dividends:

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

7,682 -

Fully franked ordinary dividend of 10.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2012, paid on 12 October 2012

- 7,593

Distributions paid - interim dividends:

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

3,792 -

Fully franked ordinary dividend of 4.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2013, paid on 22 March 2013

- 3,261

11,474 10,854

Unrecognised amounts:

The directors have not declared a final fully-franked dividend for the financial year ended 30 June 2014 (2013: 10.5 cents per share).

- 7,682

Franked dividends:

The directors have not declared a final fully-franked dividend for the financial year ended 30 June 2014, therefore there will be no effect on franking credits.

Franking credits available for subsequent financial years based on a tax rate of 30% (2013 - 30%)

10,130 15,116

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 (2013 - \$3,292,000).

Note 7: Earnings per share

Reconciliation of earnings to profit:

Profit after tax

896 28,442

Earnings used to calculate basic and diluted earnings per share

896 28,442

Weighted average number of ordinary shares:

Used to calculate basic earnings per share

78,532,742 72,590,653

Effect of dilutive securities - share options

- 1,073,750

Used to calculate diluted earnings per share

78,532,742 73,664,403

Options granted to employees under the employee share option plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details of the options are set out in remuneration report in the directors' report.

Note 8: Cash and cash equivalents

Cash at bank and in hand

7,385 6,337

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Consolidated Entity
2014 **2013**
\$000 **\$000**

Note 9: Trade receivables

Trade receivables	30,909	34,857
Provision for impairment of receivables	(153)	-
	30,756	34,857

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

Australian dollars	19,105	20,024
US dollars (Australian dollar equivalent)	4,304	7,989
Chilean pesos (Australian dollar equivalent)	4,664	3,949
Indonesian rupiah (Australian dollar equivalent)	1,507	877
Colombian pesos (Australian dollar equivalent)	356	206
Peruvian nuevo soles (Australian dollar equivalent)	820	1,812
	30,756	34,857

As at 30 June 2014 a provision for impairment of \$153,000 was raised for current trade receivables (2013: Nil).

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

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

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

30 days	4,682	4,480
31-60 days	437	412
61-90 days	339	253
	5,458	5,145

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

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

Note 10: Inventories

At Cost:

Raw materials and consumables	14,596	20,294
Work-in-progress	14,580	10,131
Finished goods	325	364
	29,501	30,789

Note 11: Other receivables and other assets

Prepayments	4,061	2,409
Other receivables	2,642	2,275
Other assets	-	871
	6,703	5,555

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Consolidated Entity
2014 **2013**
\$000 **\$000**

Note 12: Property, plant and equipment

Freehold land:

Cost	26,448	17,670
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Buildings:

Cost	46,160	44,229
Accumulated depreciation	(3,012)	(2,033)
Total buildings	43,148	42,196
Total land and buildings	69,596	59,866

Capital work in progress:

Cost	821	2,187
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Plant and equipment:

Cost	92,963	68,702
Accumulated depreciation	(31,608)	(24,194)
	61,355	44,508

Total property, plant and equipment

131,772 **106,561**

Movements in carrying amounts:

	Freehold Land \$000	Buildings \$000	Capital Work in Progress \$000	Plant And Equipment \$000	Total \$000
Consolidated Entity:					
Balance at 1 July 2012	15,561	37,077	665	39,549	92,852
Additions	1,670	4,238	1,631	7,995	15,534
Additions through acquisitions of entities	-	-	-	85	85
Reallocation of capital work in progress	-	118	(161)	43	-
Disposals	-	-	-	(72)	(72)
Foreign currency exchange movements	439	1,807	52	3,990	6,288
Depreciation expense	-	(1,044)	-	(7,082)	(8,126)
Balance at 30 June 2013	17,670	42,196	2,187	44,508	106,561
Additions	9,305	4,213	897	9,580	23,995
Additions through acquisitions of entities	1,625	-	-	21,424	23,049
Reallocation of capital work in progress	(139)	1,454	(1,851)	536	-
Disposals	-	(1)	(9)	(763)	(773)
Foreign currency exchange movements	(2,013)	(3,289)	(403)	(4,857)	(10,562)
Depreciation expense	-	(1,425)	-	(9,073)	(10,498)
Balance at 30 June 2014	26,448	43,148	821	61,355	131,772

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

	Plant and Equipment \$000	Total \$000
Balance at 1 July 2012	11,697	11,697
Additions	869	869
Assets no longer under finance lease arrangements	(4,504)	(4,504)
Foreign currency exchange movements	835	835
Depreciation expense	(1,090)	(1,090)
Balance at 30 June 2013	7,807	7,807
Additions	2,442	2,442
Additions through acquisitions of entities	11,624	11,624
Assets no longer under finance lease arrangements	(1,034)	(1,034)
Disposals	-	-
Foreign currency exchange movements	(1,329)	(1,329)
Depreciation expense	(1,454)	(1,454)
Balance at 30 June 2014	18,056	18,056

Non-current assets pledged as security:

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

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Note 13: Other financial assets

	Place of business/ country of incorporation	Percentage Owned**	
		2014	2013
Parent entity			
Austin Engineering Ltd	Australia		
Subsidiaries of Austin Engineering Ltd			
Austbore Pty Ltd	Australia	100%	100%
Austin Engineering USA Inc.	USA	100%	100%
Austin Engineering South America (No.1) Pty Ltd	Australia	100%	100%
Austin Engineering South America (No.2) Pty Ltd	Australia	100%	100%
Austin Engineering Singapore Pte Ltd	Singapore	100%	100%
COR Cooling Pty Ltd*	Australia	100%	100%
PHG Services Pty Ltd	Australia	100%	100%
Pilbara Hire Group Pty Ltd	Australia	100%	100%
Subsidiaries of Austin Engineering USA Inc.			
Western Technology Services International Inc.	USA	100%	100%
Subsidiaries of Austin Engineering South America (No.1) Pty Ltd			
Austin Inversiones Chile Ltda.	Chile	99%	99%
Austin Ingenieros Chile Ltda.	Chile	1%	1%
Austin Ingenieros Peru S.A.C	Peru	99%	99%
Austin Arrendamientos Chile Ltda	Chile	0.01%	-
Subsidiaries of Austin Engineering South America (No.2) Pty Ltd			
Austin Inversiones Chile Ltda.	Chile	1%	1%
Subsidiaries of Austin Engineering Singapore Pte Ltd			
Austin Engineering Offshore Pte Ltd	Singapore	100%	100%
Austin Engineering Batam Pte Ltd	Singapore	100%	100%
Subsidiaries of COR Cooling Pty Ltd			
COR Engineered Cooling Pty Ltd	Australia	100%	100%
COR Radiator Services Pty Ltd	Australia	100%	100%
Subsidiaries of Western Technology Services International Inc.			
Wotco Inc.	USA	100%	100%
Global Mining Supply & Technology Inc.	USA	100%	100%
Global Mfg. Inc.	USA	100%	100%
Subsidiaries of Austin Inversiones Chile Ltda.			
Austin Ingenieros Chile Ltda.	Chile	99%	99%
Austin Arrendamientos Chile Ltda	Chile	99.99%	-
Subsidiaries of Austin Ingenieros Chile Ltda.			
Austin Ingenieros Colombia S.A.S	Colombia	100%	100%
Austin Ingenieros Peru S.A.C	Peru	1%	1%
Subsidiaries of Austin Ingenieros Colombia S.A.S			
Austin Ingenieros Servicios S.A.S	Colombia	100%	100%
Subsidiaries of Austin Engineering Offshore Pte Ltd			
PT Austin Engineering Indonesia	Indonesia	0.01%	0.01%
Subsidiaries of Austin Engineering Batam Pte Ltd			
PT Austin Engineering Indonesia	Indonesia	99.99%	99.99%
Subsidiaries of COR Radiator Services Pty Ltd			
COR Radiator Unit Trust	Australia	100%	100%

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

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

Cash and short-term deposits held in Asian countries (including Indonesia) are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from those countries, other than through normal dividends. The carrying amount of the assets included within the consolidated financial statements to which these restrictions apply is \$438,000 (2013: \$1,011,000). There are no other restrictions on exporting capital from any of the other foreign entities within the group.

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Note 13: Other financial assets (cont'd)

Parent entity information:

	2014	2013
	\$000	\$000
Assets		
Current assets	113,074	74,964
Non-current assets	112,746	112,296
Total assets	225,820	187,260
Liabilities		
Current liabilities	14,438	25,089
Non-current liabilities	77,386	54,929
Total liabilities	91,824	80,018
Net assets	133,996	107,242
Equity		
Contributed equity	87,344	52,749
Options reserve	1,619	1,619
Retained earnings	45,033	52,874
Total equity	133,996	107,242
Financial performance		
Profit for the year	3,633	16,967
Other comprehensive income	-	-
Total comprehensive income	3,633	16,967

Contractual commitments

At 30 June 2014, there were no contractual commitments entered into in respect of capital expenditure projects (2013: \$Nil).

Contingent liabilities

The parent entity did not have any contingent liabilities at 30 June 2014 and 30 June 2013. For information about guarantees given by the parent entity, see below.

Guarantees in relation to the debts of subsidiaries

The Austin Group restructured its principal banking arrangements into a new multi-currency syndicated facility agreement in the 2014 financial year. Refer to Note 25(c) for detailed information on banking facilities. Previously Austin Engineering Limited had signed a deed of cross guarantee in favour of National Australia Bank Limited in relation to financing provided to Austin Engineering Limited and its subsidiaries. As at 30 June 2013 \$62,914,000 was owing to National Australia Bank under this facility.

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

	2014	2013
	\$000	\$000
Consolidated statement of comprehensive income		
Revenue	97,222	167,077
Raw materials and consumables used	(24,989)	(50,790)
Change in inventories and work in progress	(2,735)	(10,189)
Employment expenses	(39,886)	(51,312)
Subcontractor expenses	(1,478)	(7,720)
Occupancy and utility expenses	(6,901)	(5,795)
Depreciation expense	(2,854)	(2,678)
Other expenses from ordinary activities	(11,128)	(12,582)
Finance costs	(2,733)	(2,106)
Profit before income tax	4,518	23,905
Income tax credit/(expense)	699	(6,911)
Net profit for the year	5,217	16,994
Other comprehensive income	-	-
Total comprehensive income for the year	5,217	16,994

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Note 13: Other financial assets (cont'd)

	2014	2013
	\$000	\$000
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	57,380	51,240
Profit for the year	5,217	16,994
Dividends paid	(11,474)	(10,854)
Retained earnings at the end of the financial year	<u>51,123</u>	<u>57,380</u>
Consolidated statement of financial position		
Current Assets		
Cash and cash equivalents	3,212	1,859
Trade and other receivables	108,438	63,522
Inventories	7,338	10,073
Other assets	1,100	1,213
Total Current Assets	<u>120,088</u>	<u>76,667</u>
Non-Current Assets		
Property, plant and equipment	17,478	18,812
Other financial assets	69,551	69,236
Intangible assets	25,744	28,885
Deferred tax assets	3,069	1,329
Total Non-Current Assets	<u>115,842</u>	<u>118,262</u>
Total Assets	<u>235,930</u>	<u>194,929</u>
Current Liabilities		
Trade and other payables	12,608	20,478
Financial liabilities	816	511
Current tax liabilities	258	2,506
Provisions	3,617	3,595
Total Current Liabilities	<u>17,299</u>	<u>27,090</u>
Non-Current Liabilities		
Financial liabilities	77,225	54,723
Deferred tax liabilities	1,320	1,368
Total Non-Current Liabilities	<u>78,545</u>	<u>56,091</u>
Total Liabilities	<u>95,844</u>	<u>83,181</u>
Net Assets	<u>140,086</u>	<u>111,748</u>
Equity		
Contributed equity	87,344	52,749
Reserves	1,619	1,619
Retained earnings	51,123	57,380
Total Equity	<u>140,086</u>	<u>111,748</u>

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Note 14: Intangible assets

	Goodwill \$000	Customer relationships* \$000	Brands** \$000	Other intangibles \$000	Total \$000
Year ended 30 June 2013					
Opening net book amount	69,346	12,707	2,749	466	85,268
Additions	-	-	-	91	91
Additions - acquisitions	1,592	-	-	-	1,592
Release of deferred taxes	(215)	-	-	-	(215)
Exchange differences	2,583	-	-	-	2,583
Amortisation charge	-	(798)	-	(53)	(851)
Closing net book amount	73,306	11,909	2,749	504	88,468
At 30 June 2013					
Cost	73,306	13,820	2,749	815	90,690
Accumulated amortisation and impairment	-	(1,911)	-	(311)	(2,222)
Net book amount	73,306	11,909	2,749	504	88,468
Year ended 30 June 2014					
Opening net book amount	73,306	11,909	2,749	504	88,468
Additions	-	-	-	59	59
Additions - acquisitions	5,196	2,573	-	-	7,769
Release of deferred taxes	-	-	-	-	-
Exchange differences	(3,778)	-	-	-	(3,778)
Amortisation charge	-	(890)	-	(29)	(919)
Closing net book amount	74,724	13,592	2,749	534	91,599
At 30 June 2014					
Cost	74,724	16,394	2,749	874	94,741
Accumulated amortisation and impairment	-	(2,802)	-	(340)	(3,142)
Net book amount	74,724	13,592	2,749	534	91,599

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

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

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

	Consolidated Entity	
	2014 \$000	2013 \$000
Austin Mackay (formerly Kaldura Industries)	2,706	2,706
Austbore Pty Ltd	8,310	8,310
Pilbara Hire Group	7,281	7,281
Austin Engineering Hunter Valley (formerly Phillips Engineering)	1,757	1,757
COR Cooling	14,555	14,555
Western Technology Services Inc. ("Westech")	5,826	5,987
Austin Ingenieros Chile (formerly "Conymet")	23,357	26,364
Austin Ingenieros Calama (formerly "V & V")	2,434	2,431
Austin Engineering Peru (formerly "Petroaceros S.A.C")	3,949	3,915
Austin Arrendamientos Chile Ltda ("Servigrut")	4,549	-
Net carrying value	74,724	73,306

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

There were no impairment charges in the year (2013: nil).

Key assumptions used for value in use calculations

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

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

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Note 14: Intangible assets (con't)

The Company has determined the assumptions based on past performance and expectations for the future.

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. Specific risk premiums have been incorporated into the calculation of the discount rates where appropriate.

The pre-tax discount rates used for the cash generating units are between 12.01% and 16.51% (2013: 12%).

The perpetual growth rates used for the cash generating units are 3% (2013: 2%).

Impact of reasonably possible changes in key assumptions

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

The difference between the carrying value and recoverable amount of these cash generating units as at 30 June 2014 is as follows:

(a)	Austin Mackay:	\$ 0.666 million
(b)	Austin Peru:	\$ 1.568 million
(c)	Austin Ingenieros Chile:	\$16.571 million
(d)	Austin Ingenieros Calama:	\$ 0.854 million

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

EBITDA Margin

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

Austin Mackay: a reduction of 0.72% in the EBITDA margins used would result in impairment.

Austin Peru: a reduction of 1.19% in the EBITDA margins used would result in impairment.

Austin Ingenieros Chile: a reduction of 5.26% in the EBITDA margins used would result in impairment.

Austin Ingenieros Calama: a reduction of 0.97% in the EBITDA margins used would result in impairment.

Discount rates

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

Austin Mackay: an increase of 0.77% in the pre-tax discount rate would result in impairment.

Austin Peru: an increase of 1.50% in the pre-tax discount rate would result in impairment.

Austin Ingenieros Chile: an increase of 3.08% in the pre-tax discount rate would result in impairment.

Austin Ingenieros Calama: an increase of 0.63% in the pre-tax discount rate would result in impairment.

Growth rate

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

Austin Mackay: a reduction to 1.9% in the long term growth rate would result in impairment.

Austin Peru: a reduction to 0.57% in the long term growth rate would result in impairment.

Austin Ingenieros Chile: a reduction to -1.95% in the long term growth rate would result in impairment.*

Austin Ingenieros Calama: a reduction to 2.09% in the long term growth rate would result in impairment.

* Austin Ingenieros Chile has forecast an increase in revenue and profit from FY16 onwards which relates to the Vale contract announced in January 2014. A reduction of more than 52.7% in the revenue levels expected for this contract would result in impairment.

	Consolidated Entity	
	2014	2013
	\$000	\$000

Note 15: Trade and other payables

Current unsecured liabilities:

Trade payables	16,712	21,197
Sundry payables and accrued expenses	7,893	8,047
Progress payments in advance	1,726	9,750
	26,331	38,994

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

Australian dollars	15,912	22,485
Chilean pesos (Australian dollar equivalent)	5,075	7,623
US dollars (Australian dollar equivalent)	3,289	5,574
Other ¹ (Australian dollar equivalent)	2,055	3,312
	26,331	38,994

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

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

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	Consolidated Entity	
	2014	2013
	\$000	\$000
Note 16: Financial liabilities		
Current secured liabilities:		
Hire purchase and lease obligations	4,816	2,474
Bank loans	2,704	2,726
	7,520	5,200
Non-current secured liabilities:		
Hire purchase and lease obligations	5,689	3,093
Bank loans	84,517	58,970
	90,206	62,063
Total of current and non-current secured liabilities:		
Hire purchase and lease obligations	10,505	5,567
Bank loans	87,221	61,696
	97,726	67,263
Assets pledged as security – fixed/floating charge:		
Current		
Cash and cash equivalents	6,484	4,138
Receivables	23,254	28,013
Inventories	10,799	14,898
	40,537	47,049
Non-current		
Property, plant and equipment	47,662	56,400
	47,662	56,400
Total	88,199	103,449

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

Note 17: Current tax liabilities

Income tax	74	3,333
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Note 18: Deferred tax

Deferred tax assets - non-current:

Non-current deferred tax assets comprise:

Employee leave entitlements	1,434	1,438
Warranty and other provisions	158	132
Transaction costs on equity issue	326	64
Tax losses	3,568	786
Other	2,248	1,917
Total deferred tax assets	7,734	4,337

Deferred tax liabilities - non-current:

Non-current deferred tax liabilities comprise:

Revaluation of assets on acquisition	35	67
Intangibles	3,888	7,657
Asset financing	4,495	1,057
Other	1,022	666
Total deferred tax liabilities	9,440	9,447

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

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Note 18: Deferred tax (cont'd)

Movements: 2013	Opening balance \$000	Recognised in profit or loss \$000	Recognised in equity \$000	Acquisitions \$000	Prior year restatements \$000	Closing balance \$000
Deferred tax assets						
Employee leave entitlements	1,268	166	-	4	-	1,438
Warranty and other provisions	318	(186)	-	-	-	132
Transaction costs on equity issue	137	(73)	-	-	-	64
Prior period losses	901	147	-	-	(262)	786
Other	1,631	158	-	-	128	1,917
Deferred tax liabilities						
Revaluation of assets on acquisition	(111)	44	-	-	-	(67)
Intangibles	(6,525)	(1,314)	(34)	216	-	(7,657)
Asset financing	(1,497)	600	(160)	-	-	(1,057)
Other	(539)	(27)	-	-	(100)	(666)
	<u>(4,417)</u>	<u>(485)</u>	<u>(194)</u>	<u>220</u>	<u>(234)</u>	<u>(5,110)</u>

Consolidated Entity

2014 **2013**
\$000 **\$000**

Note 19: Provisions

Current

Employee leave entitlements	5,620	5,261
Warranty provisions	576	460
Other	42	32
Total current provisions	6,238	5,753

Warranty provisions:

Balance at beginning of year	460	1,103
Provided during the year	570	1,330
Utilised during the year	(343)	(466)
Released during the year	(88)	(1,536)
Foreign currency exchange differences	(23)	29
Balance at end of year	<u>576</u>	<u>460</u>

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

Note 20: Contributed equity

	2014		2013	
	No. 000	\$000	No. 000	\$000
Ordinary shares (fully paid)				
Balance at beginning of year	73,165	52,749	72,315	48,938
Shares issued during the year:				
Share placement	9,375	30,000	-	-
Share purchase plan	1,734	5,551	-	-
Exercise of options	-	-	850	3,825
Cost of share issues	-	(1,360)	-	(14)
Deferred tax adjustment to cost of share issues	-	404	-	-
Balance at end of year	84,274	87,344	73,165	52,749

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.

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

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

Ordinary shares issued in the year to 30 June 2013 comprised of the following:

- 25 February 2013: 30,000 shares at \$4.50 each (\$135,000) in relation to the exercise of employee options
- 4 March 2013: 120,000 shares at \$4.50 each (\$540,000) in relation to the exercise of employee options
- 5 March 2013: 700,000 shares at \$4.50 each (\$3,150,000) in relation to the exercise of employee options

Options

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

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Note 20: Contributed equity (cont'd)

Capital management

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

The group's total capital is defined as the shareholders' net equity plus net debt and amounted to \$255,982,000 at 30 June 2014 (30 June 2013: \$214,374,000). 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 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 2014 and 30 June 2013 are as follows:

	Consolidated Entity	
	2014	2013
	\$000	\$000
Total borrowings	97,726	67,263
Value of bank guarantees issued	2,587	7,667
Less cash and cash equivalents	<u>(7,385)</u>	<u>(6,337)</u>
Net debt	92,928	68,593
Total equity	<u>165,641</u>	<u>153,448</u>
Total capital (including bank guarantees)	<u>258,569</u>	<u>222,041</u>
Net gearing ratio	36%	31%

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. The group has complied with the financial covenants of its borrowing facilities during the 2014 and 2013 reporting periods.

Note 21: Reserves

Foreign currency translation reserve

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

Option reserve

The option reserve records items recognised as expenses on the valuation of director and employee share options.

Note 22: Capital and leasing commitments

	Consolidated Entity	
	2014	2013
	\$000	\$000
Finance and hire purchase lease commitments:		
Not later than one year	5,142	2,554
Between one and five years	6,001	3,348
Minimum lease payments	<u>11,143</u>	<u>5,902</u>
Less: future finance charges	<u>(638)</u>	<u>(335)</u>
	<u>10,505</u>	<u>5,567</u>
Representing lease liabilities:		
Current (note 16)	4,816	2,474
Non-current (note 16)	<u>5,689</u>	<u>3,093</u>
	<u>10,505</u>	<u>5,567</u>

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

Operating lease commitments:

Not later than one year	5,513	5,292
Between one and five years	18,483	18,660
Greater than 5 years	<u>9,761</u>	<u>17,320</u>
	<u>33,757</u>	<u>41,272</u>

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.

Capital commitments:

Property, plant and equipment purchases	<u>762</u>	<u>8,903</u>
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These capital commitments are payable within twelve months. No capital commitments are payable after twelve months.

Note 23: Contingent liabilities

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

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

Executive management monitors segment performance based on EBITDA. Segment information for the years ended 30 June 2014 and 30 June 2013 is as follows:

	Australia		Americas		Middle East		Asia		Total	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Total segment revenue - from external customers	125,658	200,331	79,499	78,692	391	2,455	4,322	7,360	209,870	288,838
EBITDA	8,245	33,940	7,047	14,496	29	783	(159)	1,899	15,162	51,118
Depreciation and amortisation	4,887	4,581	5,526	3,587	-	-	1,004	809	11,417	8,977
Share of net profit of joint ventures accounted for using the equity method	-	-	-	-	25	691	-	-	25	691
Segment assets	110,575	112,404	180,088	145,820	-	1,334	14,787	18,680	305,450	278,238
Total assets include: Investments in joint ventures	-	-	-	-	-	1,334	-	-	-	1,334
Additions to non- current assets (other than financial assets and deferred tax)	3,608	6,951	20,034 ¹	5,931	-	-	412	4,335	24,054	17,217
Segment Liabilities	103,108	89,585	35,739	32,864	-	-	962	2,341	139,809	124,790

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

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 profit before income tax is as follows:

	2014 \$000	2013 \$000
EBITDA	15,162	51,118
Depreciation	(10,498)	(8,126)
Amortisation	(919)	(851)
Interest revenue	143	155
Finance costs	(3,852)	(2,721)
Profit before income tax	36	39,575

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 \$124,589,000 (2013 - \$199,975,000), and total revenue from external customers attributed to all foreign countries is \$85,281,000 (2013 - \$88,863,000). Revenues from external customers attributed to the USA and Chile, as individual foreign countries, are material and amounted to \$21,302,000 (2013 - \$27,723,000) and \$28,809,000 (2013 - \$22,200,000) respectively.

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

In 2013, \$72,912,000 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 \$77,440,000 (2013 - \$75,460,000) and non-current assets located in foreign countries amounted to \$153,665,000 (2013 - \$119,569,000). 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 \$101,426,000 (2013 - \$70,028,000).

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Consolidated Entity
2014 **2013**
\$000 **\$000**

Note 25: Cash flow information

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

Profit after income tax	896	28,442
Depreciation and amortisation	11,417	8,977
Share of joint venture profits	(25)	(691)
Group loss on termination of joint venture	289	-
Share options expense	-	56
Changes in operating assets and liabilities, net of effects from purchase of controlled entities:		
(Increase)/decrease in receivables	3,214	17,025
(Increase)/decrease in inventories	(2,970)	1,615
(Increase)/decrease in other assets	(2,060)	(741)
Increase/(decrease) in payables	(10,577)	(33,087)
Increase/(decrease) in income taxes payable	(7,294)	40
Increase/(decrease) in provisions	589	2
Net cash (used in) / provided by operating activities	(6,521)	21,638

b) Non-cash investing and financing activities

The acquisition of businesses is disclosed in note 30.

c) Bank facilities

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

Total facilities	138,809	123,597
Utilised	(116,537)	(74,942)
Unused	<u>22,272</u>	<u>48,655</u>

In December 2013, the group restructured its principal banking arrangements into a new multi-currency syndicated facilities agreement for \$155.0m. In June 2014 the group entered into a variation of its structured debt facilities resulting in a reduction in the total facility limit to \$115.0m. The syndicated facilities expire in December 2016 and they all attract variable interest rates. In addition to the syndicated banking facilities, there are bank guarantees and other minor leasing and bank loans in various jurisdictions within the group.

As part of the new syndication facilities completed in December 2013, the new banking syndicate required the release of properties in Chile which were mortgaged with Banco De Credito E Inversiones in Chile. In lieu of the mortgaged properties, Westpac Banking Corporation raised a USD\$11.0m bank guarantee in favour of Banco De Credito E Inversiones, in effect raising the total contingent liability balance by this amount.

The syndicated facilities are summarised as follows:

Facility A1 - Australian Dollar revolving cash advance facility of up to A\$65.9m

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

Facility A2 - United States Dollar revolving cash advance facility of up to US\$27.1m (A\$28.9m)

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 C - Non-amortising revolving multi-option facility of up to A\$20.0m

This facility is used to assist with the group's day to day working capital requirements and comprises a cash advance facility, LC facility and overdraft facility. The facility cannot be used for core debt purposes (such as those purposes for which funds may be used from Facility A1 and Facility A2).

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

The group must maintain covenants relating to the debt drawn down under the syndicated facilities. These covenants include a minimum EBITDA, interest cover, gearing and debt servicing and the group was in compliance with these covenants throughout the financial year ended 30 June 2014. In June 2014 the group entered into a variation of its restructured debt facilities for financial covenants in order to reflect current and expected market and trading conditions through to 30 September 2015 and 31 March 2016.

At 30 June 2014 the bank facilities of the consolidated entity are secured by a combination of securities including a fixed and floating charge over the assets and undertakings of each of the entities, mortgages on specific properties and rights over assets subject to lease and hire purchase. The assets pledged as security are disclosed in note 16. Assets in Chile and Peru will be pledged as security under the relevant Facility Agreement dated 30 June 2014, however, the securities pledging those assets are yet to be executed and registered pursuant to the condition subsequent in that Facility Agreement.

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

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Note 26: Share-based payments

The following share-based payment arrangements existed at 30 June 2014:

Performance-based shares:

On 25 November 2011, the issue of 150,000 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. This executive services agreement includes an equity based remuneration component comprising of the issue of 50,000 shares to Michael Buckland in respect of each of the financial years ending on 30 June 2011, 2012 and 2013. The issue of the shares, which is dependent upon the achievement of certain performance targets and requirements, is at no cost to Michael Buckland. The shares relating to the 2013, 2012 and 2011 financial years (the '2013 shares', the '2012 shares' and the '2011 shares') were not issued to Michael Buckland as the share price performance hurdle had not been met. The equity based remuneration component of the executive services agreement is a continuation of Michael Buckland's previous remuneration structure.

Options:

- On 26 March 2010, 850,000 share options were granted to employees to take up ordinary shares at an exercise price of \$4.50 each, under the Austin Engineering Ltd employee share option plan. The options had a two year vesting period and were exercisable between 26 March 2012 and 26 March 2013. The options were unlisted, held no voting rights or dividend rights and were not transferable. All options vested during the 2012 financial year and were exercised during the 2013 financial year.
- On 26 November 2010, 500,000 share options were granted to Managing Director Michael Buckland to take up ordinary shares at an exercise price of \$4.50 each under the Austin Engineering Ltd employee share option plan. The options had a two year vesting period and were exercisable between 26 November 2012 and 26 November 2013. The options were unlisted, held no voting rights or dividend rights and were not transferable. All of the options vested during the 2013 financial year and expired during the 2014 financial year.

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

	2014		2013	
	Number of options	Weighted Average Exercise Price \$	Number of options	Weighted Average Exercise Price \$
Outstanding at beginning of year	500,000	4.50	1,350,000	4.50
Granted	-	-	-	-
Expired	(500,000)	4.50	-	-
Exercised	-	-	(850,000)	4.50
Outstanding at end of year	-	-	500,000	4.50
Total exercisable at end of year	-	-	500,000	4.50

There were no options outstanding at 30 June 2014. The options outstanding at 30 June 2013 had a weighted average remaining contractual life of 0.41 years and the exercise price for these options was \$4.50. The weighted average share price at the date of exercise of options during the 2013 year was \$5.05.

The fair values at grant date are independently determined using an option pricing model that takes into account the exercise price, the term of the option, the share price at grant date, expected volatility of the underlying share, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

There were no options issued during the 2014 and 2013 financial years.

Since there are no options on issue at 30 June 2014, there has been no expense recorded in the profit or loss under employee benefits expense (2013: \$56,250).

Note 27: Events after the balance sheet date

Final dividend

The Directors have not declared a final dividend for the financial year ended 30 June 2014.

There were no other events after balance sheet date.

Note 28: Related party transactions

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

Ultimate parent company:

Austin Engineering Limited is the ultimate parent company.

Controlled entities:

Interests in controlled entities are disclosed in note 13.

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Note 28: Related party transactions (cont'd)

Key management personnel compensation:

	Consolidated Entity	
	2014	2013
	\$	\$
Short-term employment benefits	2,403,301	3,045,666
Post-employment benefits	154,394	237,594
Long-term benefits	87,229	35,496
Share-based payments	-	56,250
	2,644,924	3,375,006

Detailed remuneration disclosures are provided in the remuneration report on pages 6 to 11.

Transactions with other related parties:

The following transactions occurred with related parties:

	Consolidated Entity	
	2014	2013
	\$	\$
<i>Purchases of services</i>		
Purchase of legal services from other related parties*	130,050	67,222
<i>Other transactions</i>		
Subscription for new ordinary shares by key management personnel as a result of:		
Share purchase plan	30,000	-
Exercise of options granted as remuneration	-	2,777,500

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

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

	Consolidated Entity	
	2014	2013
	\$	\$
<i>Current payables (purchases of services)</i>		
Other related parties	18,564	3,889

Note 29: Financial risk management

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

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

Market risk:

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

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

(i) Foreign exchange risk:

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

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

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

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Note 29: Financial risk management (cont'd)

A sensitivity analysis was performed at 30 June 2014, 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 2013, as indicated below:

	Consolidated Entity			
	Strengthening by 10%		Weakening by 10%	
	Equity \$'000	Profit or loss \$'000	Equity \$'000	Profit or loss \$'000
30 June 2014				
US dollar	874	(108)	(874)	108
Chilean peso	(5,152)	(117)	5,152	117
Indonesian rupiah	(601)	69	601	(69)
Colombian peso	35	206	(35)	(206)
Peruvian nuevo soles	(140)	(2)	140	2
Singapore dollar	-	16	-	(16)
Omani Rial	-	(2)	-	2
Total	(4,984)	62	4,984	(62)
30 June 2013				
US dollar	(866)	(298)	866	298
Chilean peso	(3,462)	(304)	3,462	304
Indonesian rupiah	(830)	(79)	830	79
Colombian peso	(133)	6	133	(6)
Peruvian nuevo soles	(168)	(70)	168	70
Singapore dollar	-	6	-	(6)
Omani Rial	-	(63)	-	63
Total	(5,459)	(802)	5,459	802

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

(ii) Price risk:

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

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

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

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

	30 June 2014		30 June 2013	
	Weighted average interest rate	Balance \$'000	Weighted average interest rate	Balance \$'000
Cash	0.4%	7,385	1.0%	6,337
Bank loans	4.8%	(76,834)	2.8%	(54,089)
Net exposure to cash flow interest rate risk		<u>(69,449)</u>		<u>(47,752)</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 \$757,000 (2013: \$621,000). 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.

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Note 29: Financial risk management (cont'd)

Credit risk (cont'd):

Trade and other receivables:

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

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

Included in trade receivables are two significant customers accounting for approximately 23% of trade receivables at 30 June 2014. At 30 June 2013 the group had one significant customer accounting for approximately 11% of trade receivables. Details of trade and other receivables past due but not impaired are provided in Note 9.

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

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

Cash and cash equivalents:

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

Liquidity risk:

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

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

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

The group maintains backup liquidity for its operations and currently maturing debts through a combination of bank overdrafts, bank guarantees and general finance facilities, of which \$22,272,000 were undrawn at 30 June 2014 (2013: \$48,655,000). The principal terms of repayment are detailed in note 25.

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

	1 Year \$000	1 to 5 Years \$000	Total \$000
2014			
Payables	26,331	-	26,331
Bank loan	6,430	90,106	96,536
Lease liabilities	5,142	6,001	11,143
Total	<u>37,903</u>	<u>96,107</u>	<u>134,010</u>
2013			
Payables	38,994	-	38,994
Bank loan	4,127	59,831	63,958
Lease liabilities	2,554	3,348	5,902
Total	<u>45,675</u>	<u>63,179</u>	<u>108,854</u>

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Note 29: Financial risk management (cont'd)

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 2014 the group did not have any financial instruments that were measured and recorded at fair value.

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

Note 30: Business combinations

2014

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

Details of net assets and intangibles acquired are as follows:

Purchase consideration	23,004
Fair value of net tangible assets acquired	(15,275)
Intangible assets and goodwill	<u>7,729</u>

The fair value of net tangible assets from the acquisitions is as follows:

Property, plant and equipment	23,049
Equipment related-finance lease commitments	(6,670)
Deferred tax liability	(1,104)
Net identifiable tangible assets acquired	<u>15,275</u>

The intangible assets and goodwill acquired, net of deferred tax, arising from the acquisition are as follows:

Customer relationships and service agreements	2,571
Goodwill	5,158
Total intangible assets and goodwill acquired	<u>7,729</u>

Purchase consideration – cash outflow:

<i>Outflow of cash to acquire business, net of cash acquired</i>	
Total purchase consideration	23,004
Less: contingent consideration	-
Cash consideration/outflow of cash – investing activities	<u>23,004</u>

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

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Note 30: Business combinations (cont'd)

2013

On 6 July 2012 COR Cooling Pty Ltd, a 100% subsidiary company of Austin Engineering Ltd, acquired the business and assets of Beltrax Pty Ltd (trading as Bells Radiator Services), a specialised manufacturer and repairer of cooling products based in Toronto, Hunter Valley, Australia. The purchase price, which was paid in cash, was \$1.64m.

	Total \$000
Details of net assets and intangibles acquired are as follows:	
Purchase consideration	1,616
Fair value of net tangible assets acquired	<u>(16)</u>
Intangible assets and goodwill	<u><u>1,600</u></u>
The fair value of net tangible assets from the acquisitions is as follows:	
Property, plant and equipment	85
Inventories and work-in-progress	23
Payables	(58)
Employee leave entitlements	<u>(66)</u>
Net identifiable tangible assets acquired	<u><u>(16)</u></u>
The intangible assets and goodwill acquired, net of deferred tax, arising from the acquisition are as follows:	
Goodwill	<u>1,600</u>
Total intangible assets and goodwill acquired	<u><u>1,600</u></u>
Purchase consideration – cash outflow:	
<i>Outflow of cash to acquire business, net of cash acquired</i>	
Total purchase consideration	1,616
Less: contingent consideration	<u>-</u>
Cash consideration/outflow of cash – investing activities	<u><u>1,616</u></u>

From the date of acquisition to 30 June 2013, the acquired business contributed \$1,571,000 of revenue and \$92,000 of net profit after tax to the group. If the acquisition had occurred on 1 July 2012, the revenue and net profit after tax of the group on a pro-forma, pro-rata basis would have been \$1,597,000 and net profit after tax would have been \$93,000. The relative contribution of this new business is expected to increase in the future as business expansion plans are implemented.

A payment of \$238,000 was made in August 2012 in relation to the purchase of the business divisions of Petroceros S.A.C.

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Directors' Declaration

The directors of the company declare:

1. The financial statements and notes, as set out in pages 19 to 49 of this report, are in accordance with the Corporations Act 2001; and
 - a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - b) give a true and fair view of the financial position at 30 June 2014 and of the performance for the year ended on that date of the consolidated entity.
2. The remuneration disclosures contained in the Remuneration Report in the Directors' Report comply with section 300A of the Corporations Act 2001.
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee. In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in note 13 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

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

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



Michael D Buckland
Director

29 September 2014

INDEPENDENT AUDITOR'S REPORT

To the members of Austin Engineering Ltd

Report on the Financial Report

We have audited the accompanying financial report of Austin Engineering Ltd, which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Austin Engineering Ltd, 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 Ltd 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 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 11 of the directors' report for the year ended 30 June 2014. 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 Ltd for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd



C R Jenkins
Director

Brisbane, 29 September 2014

Austin Engineering Ltd
Annual and Financial Report 2014

Additional Information for Public Listed Companies

1. Substantial Shareholders at 12 September 2014

	Number of Ordinary Fully Paid Shares Held	% Held of Ordinary Shares
Bradken Resources Pty Ltd	15,708,218	21.47
Thorney Opportunities Ltd/Thorney International Pty Ltd	9,351,844	11.10
Invesco Australia Limited	4,961,112	6.01

2. Distribution of Shareholdings at 12 September 2014

<u>Range of Holding</u>	Number of Shareholders	Number of Shares
1 - 1,000	1,101	455,121
1,001 - 5,000	1,334	3,722,442
5,001 - 10,000	582	4,395,011
10,001 - 100,000	657	16,577,672
100,001 and over	46	59,123,758
	<u>3,720</u>	<u>84,274,004</u>
Holding less than a marketable parcel	<u>611</u>	

3. Voting Rights

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

4. Twenty Largest Shareholders at 12 September 2014

<u>Name</u>	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
Merrill Lynch (Australia) Nominees Pty Limited	17,850,785	21.18
HSBC Custody Nominees (Australia) Limited	14,633,953	17.37
JP Morgan Nominees Australia Limited	4,259,427	5.05
National Nominees Limited	4,070,076	4.83
S J Quinlivan Pty Ltd	3,254,089	3.86
Mr Michael Buckland	2,638,000	3.13
UBS Nominees Pty Ltd	1,618,236	1.92
Citicorp Nominees Pty Limited	1,493,678	1.77
Redcentre Pty Ltd	1,116,000	1.32
Mr Peter Louis Pursey & Mrs Helen Elizabeth Pursey	1,003,010	1.19
Mr Eugene Fung and Ms Cindy Dean	786,831	0.93
BNP Paribas Noms Pty Ltd	691,939	0.82
Depofo Pty Ltd	503,448	0.60
Mr Iain Macgregor Hepburn & Mrs Rachael Frances Hepburn <The Hepburn Super Fund A/C>	470,000	0.56
Achim Decker Holdings Pty Ltd <Decker 27 Super Fund A/C>	378,699	0.45
Mr Craig Austin Lowe	340,000	0.40
Mr Stanley James Quinlivan & Mrs Frances Marie Quinlivan <Frankston Super Fund A/C>	330,000	0.39
WRG Investments Pty Ltd	307,288	0.37
Mr Livio Pietro Divitini <L P Divitini Family A/C>	276,562	0.33
Mr David Stanley Quinlivan	260,966	0.31
	<u>56,282,987</u>	<u>66.79</u>

5. Additional Information

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

**Austin Engineering Ltd
Annual and Financial Report 2014**

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:

Austbore Pty Ltd
12-16 Progress Drive
Paget, Qld 4740
P: +61 7 4952 6222
F: +61 7 4952 6223

Brisbane:

COR Cooling Pty Ltd
960 Lytton Road
Murarrie, Qld 4172
P: + 61 7 3390 8190
F: + 61 7 3390 8290

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 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 Ingenieros 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
Bear 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 Ltd
Annual and Financial Report 2014

Company Information (cont'd)

Auditors:

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

Principal Bankers:

Westpac Banking Corporation
260 Queen Street
Brisbane
Queensland, 4000

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

National Australia Bank Limited
100 Creek Street
Brisbane
Queensland, 4000

Secretary:

Scott Richardson
Jessica Neale (Co-company secretary)

Stock Exchange:

Australian Securities Exchange

Home Exchange:

Brisbane

ASX Code:

ANG

Website:

www.austineng.com.au