# Austin Engineering Limited

# Annual Report 2013

austinengineering LTD

# About Austin Engineering

Austin Engineering is a leading designer and manufacturer of customised dump truck bodies, buckets and ancillary products used in the mining industry.

It is also a complete service provider, offering on and off-site repair and maintenance and heavy equipment lifting services. Customers include miners, mining contractors and original equipment manufacturers.

With a presence in some of the world's principal mining regions, Austin Engineering provides high quality, cost effective solutions, delivered on-time and backed by through-life product support.

**Austin Engineering on the web**
Information about Austin Engineering is available on our website - www.austineng.com.au - and the 2013 Annual Report and many other publications can be viewed on and downloaded from the site.

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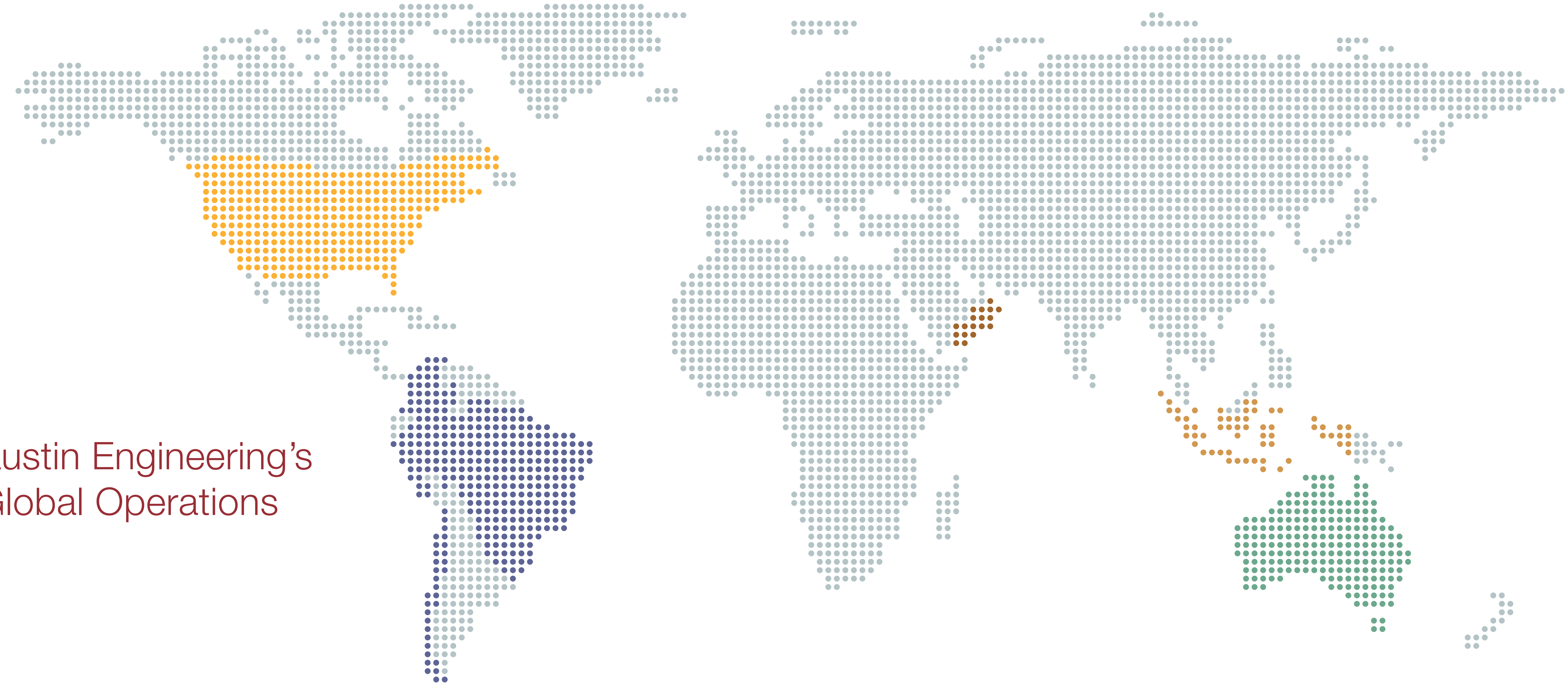
**Top to bottom:**
Westech dump truck bodies in operation on site
Expanded workshop facilities on Batam Island, Indonesia
Austin Engineering excavator bucket
Austin’s stand at the Perumin mining exhibition in Peru, September 2013



# Austin Engineering's Global Operations

| | | |
|---|---|---|
| Australia | **Brisbane, Queensland & Hunter Valley, New South Wales** | The Brisbane facility manufactures Westech and OEM dump truck bodies as well as the 'JEC' range of products including buckets and water tanks for customers in Queensland and New South Wales. The workshop facility in Muswellbrook in the Hunter Valley provides workshop-based and on-site repair and maintenance services to key mining customers. COR Cooling supports customers from its facilities in Singleton and Toronto. |
| | **Mackay, Queensland** | The Mackay facilities, comprising of Austin Mackay, Austbore and COR Cooling, manufacture and supply mining products such as dump truck bodies, buckets and industrial cooling systems. They also offer repair, maintenance and machining services to customers in the Bowen Basin area of Central Queensland and Indonesia. |
| | **Perth, Mandurah, Kalgoorlie & Pilbara Region, Western Australia** | The WA workshop facilities manufacture Westech and OEM dump truck bodies as well as the 'JEC' product range of buckets, tyre handlers, service modules, water tanks and associated equipment. Pilbara Hire offers site-based repair and maintenance services for fixed and mobile equipment across the Pilbara region whilst COR Cooling supplies new and overhauled cooling products to customers in the Pilbara and Kalgoorlie mining regions. |
| South America | **Chile, Antofagasta** | The workshop facilities in La Negra, Antofagasta manufacture dump truck bodies and other mining products and have service capabilities for large miners in Chile and other countries such as Bolivia. Repair and maintenance as well as equipment lifting and transportation services are also provided to customers in northern Chile from operations based in Calama. |
| | **Peru, Lima** | Austin Engineering Peru's presence has grown since the establishment of operations in the region in 2012. Workshop and on-site capabilities include the manufacture of Austin's mining product range and the provision of repair and maintenance services for mining customers. |
| | **Colombia, Barranquilla** | The workshop in Barranquilla in northern Colombia enables Austin to provide the full range of its products and services to customers based in Colombia and other countries in the region with mining resources. |
| | **Brazil, Belo Horizonte** | The Brazilian mining market continues to be an area of particular business development focus. It is intended that Austin's existing manufacturing bases in Chile and Colombia, together with the potential purchase or set-up of facilities in Brazil, will meet the needs of mining customers in this significant market. |
| North America | **Casper, Wyoming** | The workshop facilities in Casper, Wyoming manufacture a range of purpose-built Westech dump truck body designs as well as buckets, water tanks, cable reels and other specialised equipment. It serves the North American, Canadian and West African mining and resources markets. |
| Indonesia | **Batam Island** | The establishment of full operations in the region in 2011, including the completion of large workshop facilities in late 2011 and expanded facilities in 2013, enables Austin to meet the product and service requirements of mining and oil and gas-related customers across Indonesia and Asia. |
| Oman | **Sohar** | Through a strong joint venture relationship with Special Technical Services LLC, Austin manufactures specialised equipment used in aluminium smelters across the Middle East. |

"the Board is pleased to be able once again to increase the full year dividend to 15 cents per share, an increase of 7% on the previous year"

I am pleased to present my Chairman's Report to you, the owners of the Company. The year ended 30 June 2013 has been challenging, with solid business conditions in the first half being balanced by more variable and quieter conditions in the second half. Overall the results for the full year show EBITDA of $51.1m, up 2% and net profit after tax of $28.4m down 4%, achieved on constant revenues of $289m. The variation in trend between EBITDA and NPAT relates to increased depreciation expense due to the expansion of the group's operations in South America and Indonesia.

The EBITDA gain of 3% in the Australian operations is largely attributable to a very strong performance in the Perth manufacturing operation and improved performances from the Pilbara Hire and Hunter Valley businesses. However the Queensland manufacturing operations returned a lower contribution due to lower demand for equipment used in the extraction of coal while COR Cooling also saw a reduction in contribution. The Americas delivered a year-on-year EBITDA increase of 18%, underpinned by strong gains in Calama (Chile) with satisfactory first full year performances from the manufacturing operations in Peru and Colombia. Reductions in performance were recorded by the La Negra (Chile) and Westech (North America) operations due to lower activity levels. The Indonesian facility suffered an EBITDA reduction of 52% as a consequence of the significant reduction in demand from the coal industry in that country. The Middle East joint venture, involved in the repair of aluminium smelter equipment, was marginally down in dollar terms on the previous year. At 30 June 2013 our net gearing level was 31% which sits comfortably within our bank covenant requirements.

We expect challenging conditions to continue in Australia, with miners deferring expenditure on replacement products and repair and maintenance. There will come a time however when this is not sustainable due to the wearing out of equipment. 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. The diversification of Austin into South America and Indonesia has allowed us to better weather the downturn in the Australian mining industry and we expect continued growth from these regions.

The Managing Director and his team will continue to look at other geographies where it may be appropriate to take our products and expertise, both in terms of the export of product and the creation of new facilities. This approach is consistent with what we have done in South America.

Your Directors are anticipating a flat year in 2013/14 with a decreased contribution in the Australian operations, offset by growth in South America and Indonesia. On current indications it is expected that, unlike the year just completed, performance in the first half will be weaker than the second half.

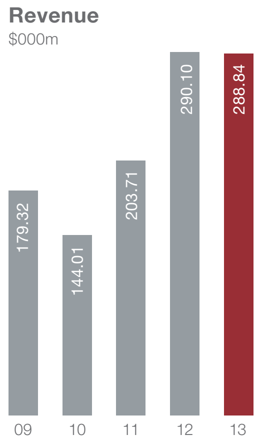
The Board is pleased to be able once again to increase the full year dividend to 15 cents per share, an increase of 7% on the previous year. This reflects a dividend payout ratio of approximately 39%.

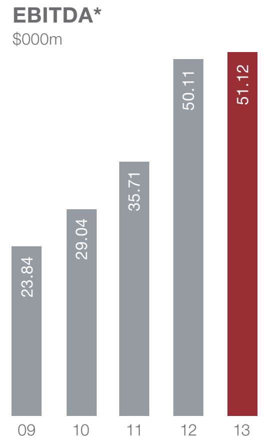
I would like to thank our Managing Director Mr Michael Buckland, his management and staff for their efforts throughout the year. I would also wish to acknowledge the valuable support of our shareholders.

Austin Engineering Limited will hold its Annual General Meeting at 10.00 am on Friday, 22nd  November 2013 in Studio One of the Crown Perth, Great Eastern Highway, Perth. I look forward to meeting with shareholders and updating them on the progress of their company at that time.

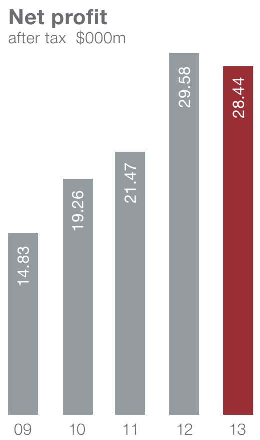
**Paul Reading**

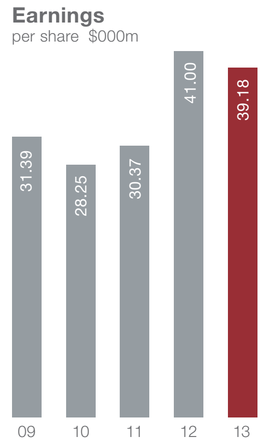
Non-Executive Chairman

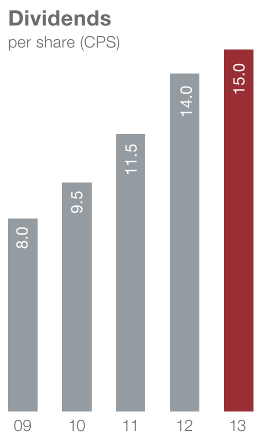


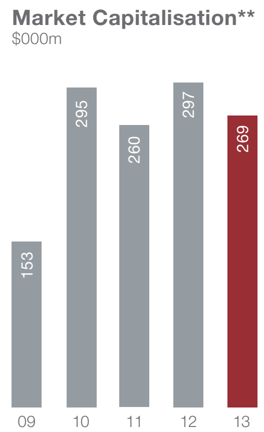




*Excludes gain on sale of properties in 2006




** 2013 based on company's share price at 5 September 2013

# 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 2013.

## Directors and Secretaries

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*

Colin Anderson
Gerard See (co-company secretary, resigned 14 September 2012)

## 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 & Results

### *Operations*

Overall business conditions for FY 12/13 were more variable than the previous year. The first half of FY 12/13 was marked by consistent workloads for Austin's larger business units, but the second half saw a moderation of activity, particularly for the business units servicing the needs of coal mining operations in Australia and overseas. This change resulted in lower levels of capacity utilisation in the second half of the year although underlying productive performance and EBITDA margins for the group as a whole were slightly up over the full year.

The EBITDA result for the full year, together with PBT and NPAT, also only partly reflected the potential of the group's strategic expansion initiatives into South America over the past few years.

Australia:

The Australian business units posted revenue of $200m compared to $202m in the previous year. The main manufacturing operation in Perth, Western Australia experienced high demand for Westech dump truck bodies and other products from major iron ore miners throughout the year and this resulted in increased levels of revenue and profit. On-site repair and maintenance support for Pilbara-based customers in Western Australia was higher than the previous year and performance was satisfactory within this tough commercial environment.

The manufacturing and service support operations based across the east coast of Australia were impacted by curtailed expenditure on mining equipment and repair and maintenance programs by coal mining customers. Revenue and profit contribution from these operations declined accordingly compared to the previous financial year. The COR Cooling business experienced fluctuating trading conditions throughout the year although very good progress was made with developing its presence in, and contribution from, the Hunter Valley region in New South Wales.

EBITDA from this sector of $33.9m was up 3%, with the margin firming to just under 17%.

|  | Year Ended 30 June 2013 | Year Ended 30 June 2012 | Change % |
|---|---|---|---|
| Revenue ($m) | 288.84 | 290.10 | - |
| EBITDA ($m) | 51.12 | 50.10 | +2% |
| PBT ($m) | 39.58 | 41.21 | -4% |
| NPAT ($m) | 28.44 | 29.58 | -4% |
| Basic earnings per share (cents) | 39.18 | 41.00 | -4% |
| Net assets ($m) | 153.45 | 125.29 | +22% |
| Final dividend per share (cents) | 10.5 | 10.5 | - |
| Total annual dividend per share (cents) | 15.0 | 14.0 | +7% |



Americas:

The Americas generated revenue of $79m, up 12% from $70m in FY 11/12. The Westech business unit in North America saw the emergence of benefits from an expansion of its product range and customer base. Activity levels remained higher than longer-term averages throughout the year despite slower conditions in traditional markets such as the Powder River coal basin. Productive performance was also solid throughout the year as workshop efficiencies improved.

After a busier first half, the La Negra manufacturing facility in Antofagasta, Chile was not as busy in the second half of the year as copper miners in the region deferred the purchase of mining equipment. However the Calama operation in northern Chile, which was established in January 2012 and provides heavy equipment lifting and repair and maintenance services to copper miners in the region, performed very well throughout the year and the profit contribution was above expectations.

Austin Engineering Peru mainly focussed on the provision of on-site repair and maintenance services for two mining customers during the year. This was supplemented by ancillary support services and workshop-based manufacture of mining products for other Peruvian customers. Whilst its revenue and profit contribution were below internal targets, the operation expanded its commercial presence and capabilities in this developing mining nation.

The Colombian operation returned a positive operating result although the full potential benefits of expansion into this mining region were not fully realised in the year. However the operation gained important experience with the manufacture of a range of mining products and also gained considerable exposure to Colombian and overseas mining customers.

EBITDA for the Americas business segment was $14.5m, up 18% on the prior corresponding period, with the margin lifting to over 18%.

Asia:

The Asian business segment currently consists of workshop operations based on Batam Island, Indonesia. Demand for mining products and services within Austin's range and capabilities was relatively weak throughout the year as miners across Indonesia adjusted coal output in light of market conditions. Revenue of $7m for the Indonesian operation was down from $15m in the previous year, with its EBITDA contribution falling accordingly from $4.0m to $1.9m. Despite the reduction in activity levels, EBITDA margins of 26% were consistent with FY 11/12, with the shortfall in mining products revenue being offset by oil and gas-related work.

Middle East:

The operation in Oman continued to provide maintenance support and equipment installation services for aluminium smelter customers in the Middle East. Revenue was steady at over $2m whilst EBITDA of $0.8m was down from $0.9m in FY 11/12.

Overall Group Result:

EBITDA for the year of $51.1m was up 2% from the previous year's level of $50.1m, with margins increasing by around 0.5% to just under 18%.

NPBT of $39.6m and NPAT of $28.4m were both below last year's levels by 4%, mainly due to the booking of full-year depreciation expense arising from investment in new production facilities in Indonesia and Colombia and the acquisition of businesses during FY 11/12.

Our skilled workforce is key to the delivery of quality, market-leading products and services

***Financial Position***

Net Assets:

Net assets of $153m at the end of FY 12/13 were up 22% from the previous year-end. Cash balances were $6m at the end of the year, down from $16m at June 2012, after using $20m of cash to reduce debt and interest costs (2012: $14m of cash was used). Net working capital increased from $10m to $27m over the year, with the main factors behind this being the utilisation of advance progress payments for work undertaken during the year plus additional holdings of steel inventories. Receivables and trade and other payables were higher at 30 June 2012 due to intense productive activity in the months leading up to the end of the 2012 financial year, resulting in higher levels of customer invoicing and the purchase of goods and services and associated payables.

Fixed assets increased from $93m to $107m, which included $17m of capital expenditure on new workshops in Colombia and Indonesia as well as investment in other productivity-enhancing and business growth initiatives, offset by depreciation for the year. Intangible assets increased from $85m to $88m due to a combination of the acquisition of the Bells Radiators business in Australia and foreign currency exchange movements.

Contributed equity increased by approximately $4m over the year following the exercise and conversion of employee share options whilst the increase in retained earnings and reserves reflected the NPAT result for the year, partly offset by the payment of $11m of dividends. Net tangible asset backing per share increased by 60% from 55.3c to 88.8c.

Cash Flow, Liquidity and Debt:

Total net cash outflows for the year to June 2013 were $10m compared to a net outflow $21m in the previous year. Operating cash flows for FY 12/13 were $20m and reflected normal sale and purchase settlement terms and conditions. Operating cash flows for the year also included the utilisation of advance progress payments received in FY 11/12 for work undertaken in the current year. Had these payments been received in the current year, operating cash flows would have been more closely correlated to NPAT adjusted for non-cash flow items such as depreciation and amortisation.

Non-operational cash flows for the year included $17m of capital expenditure, $2m of business acquisition costs, $4m of new equity, a net $6m repayment of borrowings and $11m of dividend payments.

The management of debt continued to be a particular focus during the year and $68m of expiring bank facilities were extended until July 2014 pending the establishment of expanded and longer-term facilities in the new financial year. Net debt of $61m (defined as gross debt offset with all available cash), was up from $55m at the end of the previous year. The net gearing ratio (net debt/net debt plus equity, including $8m of issued bank guarantees) of 31.0% was down from 33.4% at June 2012. It, together with the operating leverage ratio (net debt/EBITDA) of 1.35:1 were well within bank covenant requirements throughout the year and continue to be so.

***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 be sought domestically and overseas, but particularly in South America in order to take advantage of anticipated ongoing growth in this mining region. Some success has already been achieved with this early in FY 13/14, as evidenced by the signing of new long-term contracts with a major Chilean mining customer in August 2013.

In addition, the pursuit of new commercial relationships with large mining entities such as Vale in Brazil and BHP Escondida in Chile will be a major focus for Austin's management team as the operational and financial benefits could be significant given the scale and diversity of these customer's business activities.

Investment in new production facilities in Peru will be undertaken in FY 13/14 and the purchase and development of a 40,000m² block of land is already underway. The construction of the new workshop on this land will enable manufacturing operations to be undertaken in a new purpose-built facility which will expand productive capacity and improve production efficiencies.

The diversification of operations into Russia, Africa and Mongolia, all of which are regions of existing significant or emerging mining activity with equipment and service requirements within Austin's capabilities, will also be considered.

The development of new, innovative products and production methodologies continues to be of significant importance to the company in the pursuit of revenue growth and improved customer service. Ongoing investment in the development of market-leading products, such as the 'JEC' range of lightweight dump truck bodies, underground dump truck bodies, tyre handlers and water tanks is planned for the forthcoming financial year and beyond in order to retain a competitive edge and to deliver growth in revenue and profitability.

***Prospects for Future Financial Years***

The mining industry is continuing on a trend of cash conservation and cost control and the current cycle of reduced capital and maintenance spending is likely, at June 2013, to last for at least the next six to twelve months.

However the production levels of the miners are being maintained, and in some cases increased, and this will put considerable strain on existing fleets of mining equipment as it is utilised harder and for longer. This will lead to increased demand for replacement equipment and repair and maintenance services and Austin is well-placed to benefit from this.

In addition, the mining industry is seeking to improve production efficiencies in order to improve profitability. Austin is working with customers to develop equipment that will have enhanced payload-carrying capabilities and to offer more value-adding repair and maintenance services.

Over the course of FY 13/14 the group's operations on the east coast of Australia, North America and Indonesia, which are mostly linked to the coal industry, will continue to experience subdued business conditions. Operations in Western Australia have seen some orders, for which deposits have been received, delayed until the next financial year as iron ore mining customers seek to maintain output by working their existing assets more intensively. As these assets are linked to production, replacement will ultimately take place and Austin's superior product range will place it in a very good commercial position.

Whilst Austin's Australian operations are expected to show reduced profit contribution in FY 13/14, the Americas business segment is forecast to generate increased profitability, especially in South America in the second half of the year. Activity in Chile, Peru and Colombia is expected to increase as new contracts are secured and the group's commercial presence and capabilities become more established. The recent announcements of new contracts for our business unit in Calama in northern Chile confirm Austin's strategy for pursuing expansion in the region with the aim of increasing the diversity of earnings.

A flat financial result is targeted for FY 13/14, with a distinct bias of earnings towards the second half of the year, based on current forecasts and orders. Once business conditions stabilise and improve Austin is well-placed for improved results and business growth.

***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 FY 13/14 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. Success with securing a long-term commercial arrangement with Vale in Brazil is also a key factor in the delivery of an increased financial contribution by the Chilean and Colombian business units.

***Dividends***

In recognition of the group's financial performance during FY 12/13, a fully-franked final dividend of 10.5c per share has been declared, which is consistent with the previous year's final dividend. This brings total dividends for the financial year to 15.0c, an increase of 7%, and a dividend payout ratio of approximately 39%. The record date for determining entitlement to the final dividend was 2 September 2013 with payment being made on 11 October 2013.

***After Balance Date Events***

A fully-franked final dividend of 10.5c has been declared for FY 12/13, consistent with the final dividend for the previous year, payable on 11 October 2013. The aggregate amount of the dividend to be paid out of retained profits based on the number of ordinary shares issued at 30 June 2013, but not recognised as a liability at the end of the year, is $7,682,000.

Other than the above, 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 aiEngineeering 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 2013: 3,564,000 ordinary shares and 500,000 options.*

***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 2013: 34,483 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 2013: 1,001,448 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 2013: 778,048 ordinary shares.*

## Information on Company Secretaries

***Colin Anderson, Company Secretary since January 2007***

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 he re-joined the group on 31 January 2007.

***Gerard See, Co-Company Secretary from 8 June 2011 to 14 September 2012***

Gerard See (B Comm, CA, MBA) was appointed co-company secretary on 8 June 2011. He was Chief Financial Officer of Austin Engineering Ltd's subsidiary, COR Cooling Pty Ltd. Gerard is a chartered accountant with over 20 years' commercial experience working for multinational, public and private corporations in industries covering manufacturing, engineering, pharmaceutical and professional services. He has extensive experience in financial control, acquisitions/divestiture and process and ERP system planning and implementation.

## 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 2013. 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 2012 Annual General Meeting:***

At the last Annual General Meeting in November 2012, the company received 98% of 'for' votes in relation to its remuneration report for the year ended 30 June 2012. The company did not receive any specific feedback at the Annual General Meeting regarding its remuneration practices.

The remuneration report in pages 8 to 13 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 2013 was $255,000 (2012: $285,163).

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 and none are proposed for consideration at the 2013 Annual General Meeting.

Key management personnel - executive directors and senior executives:

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

- Base pay and benefits
- Short-term performance incentives
- Long-term incentives through the issue of options
- Other remuneration such as superannuation

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 or 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:

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 2013 was in relation to the achievement of the principal business unit groups meeting budget for the financial year ended 30 June 2012 and a bonus of 50% 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%.

  The cash bonus paid in the year ended 30 June 2013 was in relation to the achievement of the company as a whole meeting and exceeding the budget for the financial year ended 30 June 2012 and a bonus of 30% of base salary was paid for 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.

  The cash bonus paid in the year ended 30 June 2013 was in relation to the achievement of this for the establishment of operations in Indonesia and a bonus of 10% of base salary was paid for 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.

# Directors' report

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

As announced on 26 October 2012, this KPI was not met in relation to the financial year ended 30 June 2012 as the required share price performance hurdle was not met and the shares were not issued.

*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 2009 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 2013 | 30 June 2012 | 30 June 2011 | 30 June 2010 | 30 June 2009 |
|---|---|---|---|---|---|
| Revenue ($000s) | 288,838 | 290,097 | 203,714 | 144,008 | 179,316 |
| Earnings before interest, tax depreciation and amortisation ('EBITDA' $000s) | 51,118 | 50,109 | 35,705 | 29,044 | 23,840 |
| Profit after tax ($000s) | 28,442 | 29,580 | 21,468 | 19,264 | 14,832 |
| Share price at start of year ($) | 4.30 | 4.84 | 3.33 | 1.53 | 2.09 |
| Share price at end of year ($) | 3.15 | 4.30 | 4.84 | 3.33 | 1.53 |
| Interim dividend - fully franked (cents) | 4.5 | 3.5 | 3.0 | 2.0 | 1.5 |
| Final dividend - fully franked (cents) | 10.5 | 10.5 | 8.5 | 7.5 | 6.5 |
| Basic earnings per share (cents) | 39.18 | 41.00 | 30.37 | 28.25 | 31.39 |
| Diluted earnings per share (cents) | 38.61 | 40.16 | 29.29 | 26.97 | 29.39 |

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, the company has continued to deliver consistently strong and resilient results measured in terms of EBITDA, profit after tax and dividends paid. Over the period 2007 to 2013 compounded annual growth of 28% has been returned for revenue and 35% for EBITDA. 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.

Share-based payments currently comprise of the granting of options. It is the company's practice, prior to the issue of shares upon the exercise of options, to request disclosure by the option holder of any financial arrangements that have been entered into, such as the utilisation of margin loan products, either at the date of exercise or subsequent to the issue of shares. There are no margin products in existence at 30 June 2013.

*Use of remuneration consultants:*

The company did not engage remuneration consultants during the financial year ended 30 June 2013.



***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 7 and 8 above.

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

| | |
|---|---|
| Colin Anderson | Chief Financial Officer and Company Secretary |
| 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) |

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 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary & Fees | Cash Bonus | Motor Vehicle | Super-annuation | Termination Benefits | Long Service Leave | Shares | Options | Total | Total % Performance Related | Total % Options Related |
| **2013:** | | | | | | | | | | | |
| *Executive Director:* | | | | | | | | | | | |
| Michael Buckland | 712,728 | 538,650[4] | 35,004 | 50,000 | - | 11,879 | - | 56,250 | 1,404,511 | 38 | 4 |
| *Non-Executive Directors:* | | | | | | | | | | | |
| 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 | | |
| *Senior Executives:* | | | | | | | | | | | |
| Colin Anderson | 374,391 | 132,110[4] | - | 25,000 | - | - | - | - | 531,501 | 25 | - |
| Gerard See[1] | 40,014 | - | - | 3,601 | 20,096[5] | - | - | - | 63,711 | - | - |
| Steve Shellenberger | 266,438 | 210,321[4] | - | 10,187 | - | - | - | - | 486,946 | 43 | - |
| Steve Warner | 192,068 | 36,697[4] | - | 20,160 | - | 23,617 | - | - | 272,542 | 13 | - |
| Warren Arthur[2] | 101,273 | - | - | 9,115 | - | - | - | - | 110,388 | - | - |
| Chris Lees[3] | 172,029 | - | - | 15,482 | 62,896[6] | - | - | - | 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 | | |
| **2012**: | | | | | | | | | | | |
| *Executive Director:* | | | | | | | | | | | |
| Michael Buckland | 585,870 | 367,500[8] | 34,016 | 52,728 | - | 9,765 | 50,000[9] | 135,000 | 1,234,879 | 34 | 11 |
| *Non-Executive Directors:* | | | | | | | | | | | |
| Peter Fitch[7] | 27,673 | - | - | 2,490 | - | - | - | - | 30,163 | - | - |
| Eugene Fung | 68,804 | - | - | 6,196 | - | - | - | - | 75,000 | - | - |
| Peter Pursey | 73,396 | - | - | 6,604 | - | - | - | - | 80,000 | - | - |
| Paul Reading | 91,743 | - | - | 8,257 | - | - | - | - | 100,000 | - | - |
| | 261,616 | - | - | 23,547 | - | - | - | - | 285,163 | | |
| *Senior Executives:* | | | | | | | | | | | |
| Colin Anderson | 320,369 | 76,789[8] | - | 35,744 | - | - | - | 28,272 | 461,174 | 17 | 6 |
| Gerard See | 173,267 | 18,500[8] | - | 17,259 | - | - | - | - | 209,026 | 9 | - |
| Steve Shellenberger | 230,823 | 174,250[8] | - | 10,044 | - | - | - | 16,963 | 432,080 | 40 | 4 |
| Steve Warner | 172,759 | 29,358[8] | - | 12,614 | - | - | - | 16,963 | 231,694 | 13 | 7 |
| Chris Lees | 249,003 | 30,103[8] | - | 23,522 | - | - | - | - | 302,628 | 10 | - |
| | 1,146,221 | 329,000 | - | 99,183 | - | - | - | 62,198 | 1,636,602 | | |
| **Total** | 1,993,707 | 696,500 | 34,016 | 175,458 | - | 9,765 | 50,000 | 197,198 | 3,156,644 | | |

1 Gerard See ceased employment on 14 September 2012
2 Warren Arthur commenced employment on 18 February 2013
3 Chris Lees ceased employment on 1 March 2013
4 Cash bonus payments are in relation to the achievement of KPIs for the financial year ended 30 June 2012
5 Termination benefits consisted of statutory annual leave entitlements
6 Termination benefits consisted of statutory annual leave entitlements and payment in lieu of notice
7 Peter Fitch retired on 25 November 2011
8 Cash bonus payments are in relation to the achievement of KPIs for the financial year ended 30 June 2011
9 The expense of $50,000 (which was not paid in cash during the year) is in relation to the potential issue of 150,000 ordinary shares, as approved by shareholders at the Annual General Meeting on 25 November 2011

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

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 9, 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.

On 8 November 2010, 50,000 shares in respect of the 30 June 2010 financial year (the '2010 shares') were issued to Michael Buckland in recognition of the achievement of the performance targets pursuant to his previous executive services agreement. The weighted average fair value of the 2010 shares at the measurement date was $4.72 each. The shares relating to the 2012 and 2011 financial years (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** |
|---|---|---|---|
| *Executive Director:* | | | |
| Michael Buckland | 538,650 | 82 | 18 |
| *Senior Executives:* | | | |
| Colin Anderson | 132,110 | 64 | 36 |
| Steve Shellenberger | 210,321 | 100 | Nil |
| Steve Warner | 36,697 | 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 2012. 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 2012.

***Service agreements***

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

Michael Buckland, Managing Director, has an executive service agreement which was extended on 4 April 2011 to 1 July 2014. 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. Any new agreements or variations to this agreement in the future will recognise that termination benefits payable may be limited to a maximum of twelve months of base salary and that shareholder approval will be required for payments greater than twelve months base pay.

Colin Anderson, Chief Financial Officer and Company Secretary, has an employment contract with Austin Engineering Limited dated 13 December 2006. 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.

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

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



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

Chris Lees, the former Chief Executive Officer of COR Cooling Pty Ltd, had an employment contract with COR Cooling Pty Ltd dated 7 June 2010. 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.

Gerard See, the former Co-Company Secretary, had an employment contract with COR Cooling Pty Limited dated 31 August 2010. There was no prescribed duration in the contract, which could be terminated with one month's 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.

***Share-based compensation***

*Options issued during the year:*

There were no options issued to directors and other key management personnel as part of compensation during the year ended 30 June 2013.

*Shares provided on exercise of remuneration options:*

Details of ordinary shares in the company provided as a result of the exercise of remuneration options to each director of Austin Engineering Limited and other key management personnel of the group are set out below.

| Name | Number of ordinary shares issued on exercise of options during the year | Value at exercise date ($) |
|---|---|---|
| Colin Anderson | 250,000 | 1,262,500 |
| Steve Shellenberger | 150,000 | 757,500 |
| Steve Warner | 150,000 | 757,500 |

The value at the exercise date of options that were granted as part of remuneration and were exercised during the year has been determined as the intrinsic value of the options at that date.

*Unexercised options at the end of the year:*

At 30 June 2013 the following options were unexercised:

| | Number | Grant Date | Vesting Period | First Exercise Date | Last Exercise and Expiry Date | Value per Option at Grant Date $ | Exercise Price $ | Vested % |
|---|---|---|---|---|---|---|---|---|
| Executive Director: | | | | | | | | |
| Michael Buckland | 500,000 | 26 Nov 2010 | 2 years | 26 Nov 2012 | 26 Nov 2013 | 0.52 | 4.50 | 100 |

***(End of Remuneration Report)***

## Options

At the date of this report, the total number of unissued ordinary shares of Austin Engineering Limited under option was as follows:

| Date Options Granted | Expiry Date | Exercise Price | Number of Options |
|---|---|---|---|
| 26 Nov 2010 | 26 Nov 2013 | $4.50 | 500,000 |

No option holder has any right under the options to participate in any other share issue, or receive dividends, of the company or any other entity.

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***

The following ordinary shares of Austin Engineering Limited were issued during the year ended 30 June 2013 on the exercise of options granted to employees. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

| Date Options Granted | Exercise Price | Number of Shares Issued |
|---|---|---|
| 26 March 2010 | $4.50 | 850,000 |

# Directors' report

### Meetings of Directors

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

| | Board of Directors | | Audit Committee | | Nomination & Remuneration Committee | |
|---|---|---|---|---|---|---|
| | Eligible to Attend | Attended | Eligible to Attend | Attended | Eligible to Attend | Attended |
| Michael Buckland | 10 | 10 | - | - | - | - |
| Paul Reading | 10 | 9 | 4 | 4 | 2 | 2 |
| Peter Pursey | 10 | 10 | 4 | 4 | - | - |
| Eugene Fung | 10 | 9 | 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 2013:

| Consolidated Entity | 2013 $ | 2012 $ |
|---|---|---|
| Auditor of the parent entity (BDO Audit Pty Ltd): | | |
| Taxation services | 81,585 | 90,830 |
| Corporate advisory services | 14,561 | 7,100 |
| | 96,146 | 97,930 |
| Network firms of BDO Audit Pty Ltd: | | |
| Taxation services | 58,525 | - |
| Remuneration of other auditors: | | |
| Taxation services | 24,542 | 5,087 |
| Corporate advisory services | 1,480 | 189 |
| | 26,022 | 5,276 |
| Total remuneration for non-audit services | 180,693 | 103,206 |

### 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

27 September 2013



BDO

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**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 2013, 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, 27 September 2013

# 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 2013 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 a 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 pages 9 and 10. During the 2013 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 10. The process is performed formally once a year and took place for each senior executive during the 2013 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 pages 7 and 8 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;
- 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 Thomsons Lawyers. Thomsons 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 Thomsons 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.

Transactions during the year with director-related parties are disclosed in note 29 of the notes to the financial statements. 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 2013. 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 & 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.

*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 2013, female employees represented approximately 9% (2012: 8%) 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.

Over the course of the coming year the Board intends to improve 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 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. | 3% |
| 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% |
| Increase the number of women on the Board by 2014. | Equal employment treatment is to be given without regard to gender. | Nil |

***Principle 4:***

Safeguard the 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.

*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 to 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.

*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.



# Financial Statements

for the year ended 30 June 2013

**Contents**

# Statement of profit or loss and other comprehensive income

for the year ended 30 June 2013

| | Notes | 2013 $000 | 2012 $000 |
|---|---|---|---|
| **Revenue** | 2 | 288,838 | 290,097 |
| **Expenses** | | | |
| Raw materials and consumables used | | (87,609) | (109,235) |
| Change in inventories and work in progress | | (6,522) | 9,645 |
| Employment expenses | | (100,675) | (102,462) |
| Subcontractor expenses | | (8,521) | (5,833) |
| Occupancy and utility expenses | | (6,730) | (6,521) |
| Depreciation expense | 13 | (8,126) | (5,621) |
| Amortisation expense - customer relationships and other intangibles | | (851) | (773) |
| Other expenses from ordinary activities | | (27,508) | (25,204) |
| Finance costs | 3 | (2,721) | (2,883) |
| **Profit before income tax** | | 39,575 | 41,210 |
| Income tax expense | 4 | (11,133) | (11,630) |
| **Net profit for the year** | | **28,442** | **29,580** |
| Other comprehensive income | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Foreign currency translation differences | | 6,708 | (303) |
| Other comprehensive income for the year | | 6,708 | (303) |
| **Total comprehensive income for the year** | | **35,150** | **29,277** |
| Profit for the year is attributable to: | | | |
| Owners of Austin Engineering Limited | | 28,442 | 29,580 |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of Austin Engineering Limited | | 35,150 | 29,277 |
| **Earnings per share attributable to owners of Austin Engineering Limited:** | | | |
| Basic earnings per share (cents per share) | 8 | 39.18 | 41.00 |
| Diluted earnings per share (cents per share) | 8 | 38.61 | 40.16 |

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



# Statement of financial position

as at 30 June 2013

| | Notes | 2013 $000 | 2012 $000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | 9 | 6,337 | 15,748 |
| Trade receivables | 10 | 34,857 | 50,687 |
| Inventories | 11 | 30,789 | 30,842 |
| Other receivables and other assets | 12 | 5,555 | 4,344 |
| **Total Current Assets** | | 77,538 | 101,621 |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 13 | 106,561 | 92,852 |
| Investments accounted for using the equity method | 14 | 1,334 | 1,645 |
| Intangible assets | 15 | 88,468 | 85,268 |
| Deferred tax assets | 19 | 4,337 | 4,255 |
| **Total Non-Current Assets** | | 200,700 | 184,020 |
| **Total Assets** | | 278,238 | 285,641 |
| **Current Liabilities** | | | |
| Trade and other payables | 16 | 38,994 | 71,872 |
| Financial liabilities | 17 | 5,200 | 3,451 |
| Current tax liabilities | 18 | 3,333 | 3,733 |
| Provisions | 20 | 5,753 | 5,593 |
| **Total Current Liabilities** | | 53,280 | 84,649 |
| **Non-Current Liabilities** | | | |
| Financial liabilities | 17 | 62,063 | 67,035 |
| Deferred tax liabilities | 19 | 9,447 | 8,672 |
| **Total Non-Current Liabilities** | | 71,510 | 75,707 |
| **Total Liabilities** | | 124,790 | 160,356 |
| **Net Assets** | | **153,448** | **125,285** |
| **Equity** | | | |
| Contributed equity | 21 | 52,749 | 48,938 |
| Reserves | 22 | 4,929 | (1,835) |
| Retained earnings | | 95,770 | 78,182 |
| **Total Equity** | | **153,448** | **125,285** |

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

# Statement of changes in equity

for the year ended 30 June 2013

| | Contributed Equity $000 | Options Reserve $000 | Foreign Currency Translation Reserve $000 | Retained Earnings $000 | Total $000 |
|---|---|---|---|---|---|
| **Consolidated Entity** | | | | | |
| Opening balance at 1 July 2011 | 48,251 | 1,332 | (3,095) | 57,254 | 103,742 |
| Total comprehensive income for the year: | | | | | |
| Profit for the year | - | - | - | 29,580 | 29,580 |
| *Other comprehensive income:* | | | | | |
| Currency translation differences | - | - | (303) | - | (303) |
| Total comprehensive income for the year | - | - | (303) | 29,580 | 29,277 |
| Transactions with owners in their capacity as owners: | | | | | |
| Issue of share capital | 675 | - | - | - | 675 |
| Share issue costs | (6) | | | - | (6) |
| Deferred tax relating to equity items | 18 | - | - | - | 18 |
| Dividends paid | - | - | - | (8,652) | (8,652) |
| Share-based payments | - | 231 | - | - | 231 |
| | 687 | 231 | - | (8,652) | (7,734) |
| **At 30 June 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 |
| *Other comprehensive income:* | | | | | |
| 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** |

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

# Statement of cash flows

for the year ended 30 June 2013

| | Notes | **2013 $000** | 2012 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 315,667 | 288,735 |
| Payments to suppliers and employees | | (280,595) | (251,703) |
| Interest received | | 155 | 378 |
| Finance costs | | (2,721) | (2,883) |
| Income tax paid | | (10,868) | (9,903) |
| **Net cash provided by operating activities** | 26a | **21,638** | **24,624** |
| **Cash flows from investing activities** | | | |
| Payments for acquisitions of businesses/subsidiaries, net of cash acquired | 31 | (1,854) | (33,273) |
| Payments for property, plant and equipment | | (17,153) | (18,788) |
| Distribution from joint venture entity | 14 | 1,002 | 753 |
| Settlement of contingent consideration of business combination | | - | (813) |
| **Net cash used in investing activities** | | **(18,005)** | **(52,121)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares, net of transaction costs | | 3,813 | 687 |
| Proceeds from borrowings | | 3,462 | 40,663 |
| Repayment of borrowings | | (9,945) | (26,144) |
| Dividends paid | 7 | (10,854) | (8,652) |
| **Net cash (used in)/provided by financing activities** | | **(13,524)** | **6,554** |
| **Net decrease in cash and cash equivalents** | | **(9,891)** | **(20,943)** |
| Cash and cash equivalents at the beginning of the year | | 15,748 | 37,416 |
| Effects of exchange rate changes on cash and cash equivalents | | 480 | (725) |
| **Cash and cash equivalents at the end of the year** | 9 | **6,337** | **15,748** |

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

# Notes to the consolidated financial statements
for the year ended 30 June 2013

## **Note 1:** Statement of compliance and significant accounting policies

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

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 27 September 2013.

### 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*
None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

*Early adoption of standards*
The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2012.

Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

### a. Principles of Consolidation

A controlled entity is any entity over which Austin Engineering Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered. A list of controlled entities is contained in note 14 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

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.

### 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 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.

## Note 1: Statement of compliance and significant accounting policies *(cont'd)*

### 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. Interests in Joint Ventures

The consolidated group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. The consolidated group's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method. Details of the consolidated group's interests are shown at Note 14.

### i. 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.

### j. 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.

### k. Employee Benefits

Provision is made for the group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within twelve months of the reporting date have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than twelve months of the reporting date have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

### l. 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.

### m. 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.

### n. 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.

### o. 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.

### p. 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.

## Note 1: Statement of compliance and significant accounting policies *(cont'd)*

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.

### q. 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.

### r. 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.

### s. 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.

### t. Comparative Figures

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

### u. Rounding of Amounts

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

### v. Critical Accounting Estimates and Judgments

*Key Estimates*

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

*Options*

The amounts disclosed for remuneration relating to options are the assessed fair values at grant date using, where appropriate, a Black Scholes pricing model that takes into account the exercise price, the term of the option, the share price at grant date, expected price volatility and dividend yield of the underlying share and the risk-free interest rate for the term of the option. The assumptions and estimates used in the valuation process are based on reasonable forward estimates and expectations which may subsequently be different over time due to market and wider economic factors. For information relating to option valuation inputs refer to note 27.

*Impairment of intangibles*

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and require the group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value. For information relating to the value-in-use calculations refer to note 15.

*Contractual customer relationships*

The useful life of contractual customer relationships of 10 to 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 2013 and 2012 financial years did not differ materially from the expected attrition rates. The carrying value of contractual customer relationships is disclosed in note 15.

*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 31.

*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.

### w. New accounting standards and interpretations issued but not yet effective

New accounting standards and interpretations have been published that are not compulsory for the 30 June 2013 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 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2015)*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its 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. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

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 derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

*AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) (effective 1 January 2013)*

This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make changes to the accounting for defined benefit plans and the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. The latter will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken. The adoption of the revised standard from 1 July 2013 is expected to reduce the reported annual leave liability of the consolidated entity.

The consolidated entity will adopt the new standard from its operative date which means that it will be applied in the annual reporting period ending 30 June 2014.

*AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)*

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The consolidated entity will adopt the new standard from its operative date which means that it will be applied in the annual reporting period ending 30 June 2014.

## Note 1: Statement of compliance and significant accounting policies *(cont'd)*

*AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in other Entities and revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures (effective 1 January 2013)*

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 112 Consolidation – special purpose entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation; however the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The group does not anticipate that this standard will have any significant impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments.

The consolidated entity will adopt the new standards from their operative date. They will therefore be applied in the financial statements for the annual reporting period ending 30 June 2014.

*AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments include clarification of the requirements for comparative information under AASB101: Presentation of Financial Statements.

*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.

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **Note 2:** Revenue and other income | | |
| **Revenue** | | |
| *Sales revenue:* | | |
| Sale of goods | 201,559 | 212,053 |
| Services | 86,536 | 77,354 |
| | 288,095 | 289,407 |
| *Other revenue:* | | |
| Interest - bank deposits | 155 | 378 |
| Other | 588 | 312 |
| | 743 | 690 |
| **Total revenue** | **288,838** | **290,097** |
| **Note 3:** Profit for the year | | |
| Profit for the year is derived after charging/(crediting): | | |
| Cost of goods sold | 189,941 | 156,862 |
| Finance costs - bank loans | 2,721 | 2,883 |
| Rental expense on operating leases - minimum lease payments | 5,155 | 4,785 |
| Defined contribution superannuation costs | 4,367 | 4,153 |
| Earn-out expense arising on business combination | - | 638 |
| Realised foreign currency exchange (gains)/losses - net | 69 | (293) |
| Unrealised foreign currency exchange (gains)/losses - net | (340) | 364 |
| **Note 4:** Income tax expense | | |
| **Components of tax expense:** | | |
| The components of tax expense comprise: | | |
| Current tax - current period | 10,720 | 11,257 |
| Deferred tax - origination and reversal of temporary differences | 485 | 484 |
| Over-provision in respect of prior years | (72) | (111) |
| | **11,133** | **11,630** |
| **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% (2012:30%) | 11,872 | 12,363 |
| Tax effect of: | | |
| Non-allowable items | 1,220 | 1,173 |
| Over-provision for tax in prior years | (72) | (260) |
| Share options expensed in the year | 87 | 69 |
| Differences in overseas tax rates | (487) | (620) |
| Non-assessable items and other allowances | (344) | (584) |
| Tax losses | (1,143) | (511) |
| **Income tax expense** | **11,133** | **11,630** |
| **Amounts recognised directly in equity:** | | |
| Net deferred tax - (credited) directly to equity | - | (18) |

| | **2013 $** | 2012 $ |
|---|---|---|
| **Note 5:** Key management personnel disclosures | | |
| **Remuneration for key management personnel:** | | |
| Short-term employment benefits | 3,045,666 | 2,724,223 |
| Post-employment benefits | 237,594 | 175,458 |
| Long-term benefits | 35,496 | 9,765 |
| Share-based payments | 56,250 | 247,198 |
| | **3,375,006** | **3,156,644** |

## Note 5: Key management personnel disclosures *(cont'd)*

| | Balance at beginning of year No. | Granted during the year as compen-sation No. | Exercised during the year No. | Balance at end of year No. | Total vested at reporting date No. | Total exercisable at reporting date No. |
|---|---|---|---|---|---|---|
| **Options held by key management personnel:** | | | | | | |
| *2013:* | | | | | | |
| Michael Buckland | 500,000 | - | - | 500,000 | 500,000 | 500,000 |
| Eugene Fung | - | - | - | - | - | - |
| Peter Pursey | - | - | - | - | - | - |
| Paul Reading | - | - | - | - | - | - |
| Colin Anderson | 250,000 | - | (250,000) | - | - | - |
| Steve Shellenberger | 150,000 | - | (150,000) | - | - | - |
| Steve Warner | 150,000 | - | (150,000) | - | - | - |
| Total | 1,050,000 | - | (550,000) | 500,000 | 500,000 | 500,000 |
| *2012:* | | | | | | |
| Michael Buckland | 500,000 | - | - | 500,000 | - | - |
| Peter Fitch* | - | - | - | - | - | - |
| Eugene Fung | - | - | - | - | - | - |
| Peter Pursey | - | - | - | - | - | - |
| Paul Reading | - | - | - | - | - | - |
| Colin Anderson | 400,000 | - | (150,000) | 250,000 | 250,000 | 250,000 |
| Steve Shellenberger | 300,000 | - | (150,000) | 150,000 | 150,000 | 150,000 |
| Steve Warner | 150,000 | - | - | 150,000 | 150,000 | 150,000 |
| Total | 1,350,000 | - | (300,000) | 1,050,000 | 550,000 | 550,000 |

* Mr Peter Fitch retired as a director on 25 November 2011

| | Balance at beginning of year No. | Options exercised during the year No. | Bought during the year No. | Granted during the year No. | Sold during the year and other changes No. | Balance at end of year No. |
|---|---|---|---|---|---|---|
| **Shares held by key management personnel:** | | | | | | |
| *2013:* | | | | | | |
| Michael Buckland | 3,564,000 | - | - | - | - | 3,564,000 |
| Eugene Fung | 778,048 | - | - | - | - | 778,048 |
| Peter Pursey | 1,001,448 | - | - | - | - | 1,001,448 |
| Paul Reading | 34,483 | - | - | - | - | 34,483 |
| Colin Anderson | 339,252 | 250,000 | - | - | (255,252) | 334,000 |
| Steve Shellenberger | 120,000 | 150,000 | - | - | (134,332) | 135,668 |
| Steve Warner | 100,000 | 150,000 | - | - | (209,949) | 40,051 |
| Total | 5,937,231 | 550,000 | - | - | (599,533) | 5,887,698 |
| *2012:* | | | | | | |
| Michael Buckland | 3,550,000 | - | 14,000 | - | - | 3,564,000 |
| Peter Fitch* | 503,939 | - | - | - | (503,939) | - |
| Eugene Fung | 778,048 | - | - | - | - | 778,048 |
| Peter Pursey | 1,001,448 | - | - | - | - | 1,001,448 |
| Paul Reading | 34,483 | - | - | - | - | 34,483 |
| Colin Anderson | 204,000 | 150,000 | - | - | (14,748) | 339,252 |
| Steve Shellenberger | - | 150,000 | - | - | (30,000) | 120,000 |
| Steve Warner | 100,000 | - | - | - | - | 100,000 |
| Total | 6,171,918 | 300,000 | 14,000 | - | (548,687) | 5,937,231 |

* Mr Peter Fitch retired as a director on 25 November 2011

No other key management personnel held shares at 30 June 2013 and 30 June 2012.

**Other transactions with key management personnel:**

Other transactions with key management personnel are disclosed in note 29.

## Note 6: Auditor's remuneration

| | 2013 $ | 2012 $ |
|---|---|---|
| Auditor of the parent entity (BDO Audit Pty Ltd) for: | | |
| Auditing or reviewing the financial reports of any entity in the group | 163,000 | 155,156 |
| Taxation services | 81,585 | 90,830 |
| Corporate advisory services | 14,561 | 7,100 |
| | 259,146 | 253,086 |
| Network firms of BDO Audit Pty Ltd: | | |
| Auditing or reviewing the financial reports | 89,495 | 22,261 |
| Taxation services | 58,525 | - |
| | 148,020 | 22,261 |
| Remuneration of other auditors: | | |
| Auditing or reviewing the financial reports | 71,431 | 62,755 |
| Taxation services | 24,542 | 5,087 |
| Corporate advisory services | 1,480 | 189 |
| | 97,453 | 68,031 |
| Total auditors' remuneration | 504,619 | 343,378 |

## Note 7: Dividends

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **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 2012, paid on 12 October 2012 | 7,593 | - |
| Fully franked ordinary dividend of 8.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2011, paid on 7 October 2011 | - | 6,121 |
| *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 2013, paid on 22 March 2013 | 3,261 | - |
| Fully franked ordinary dividend of 3.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2012, paid on 23 March 2012 | - | 2,531 |
| | **10,854** | **8,652** |
| **Unrecognised amounts:** | | |
| The directors have declared a final fully-franked dividend of 10.5 cents per share for the financial year ended 30 June 2013 (2012: 10.5 cents per share) payable on 11 October 2013. The aggregate amount of the dividend to be paid out of retained profits based on the number of ordinary shares issued at 30 June 2013, but not recognised as a liability at the end of the year, is | 7,682 | 7,593 |
| **Franked dividends:** | | |
| The franked portion of the final dividend recommended after 30 June 2013 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2014. | | |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2012 - 30%) | 15,116 | 13,077 |

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.

The impact on the franking account of the dividend recommended by the directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of $3,292,000 (2012 - $3,254,000).

| | 2013 $000 | 2012 $000 |
|---|---|---|

## Note 8: Earnings per share

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Reconciliation of earnings to profit:** | | |
| Profit after tax | 28,442 | 29,580 |
| Earnings used to calculate basic and diluted earnings per share | **28,442** | **29,580** |
| **Weighted average number of ordinary shares:** | **No.** | **No.** |
| Used to calculate basic earnings per share | 72,590,653 | 72,148,778 |
| Effect of dilutive securities - share options | 1,073,750 | 1,515,625 |
| Used to calculate diluted earnings per share | 73,664,403 | 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 note 27.

## Note 9: Cash and cash equivalents

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Cash at bank and in hand | 6,337 | 15,748 |
| | **6,337** | **15,748** |

## Note 10: Trade receivables

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Trade receivables | 34,857 | 50,687 |
| | **34,857** | **50,687** |
| The carrying amounts of the consolidated entity's trade receivables are denominated in the following currencies: | | |
| Australian dollars | 20,024 | 29,359 |
| US dollars (Australian dollar equivalent) | 7,989 | 9,559 |
| Chilean pesos (Australian dollar equivalent) | 3,949 | 8,640 |
| Indonesian rupiah (Australian dollar equivalent) | 877 | 2,646 |
| Colombian pesos (Australian dollar equivalent) | 206 | 20 |
| Peruvian nuevo soles (Australian dollar equivalent) | 1,812 | 463 |
| | 34,857 | 50,687 |
| As at 30 June 2013 and 30 June 2012 trade receivables were not impaired. | | |
| Movements in the provision for impairment of receivables are as follows: | | |
| Balance at beginning of the year | - | 63 |
| Receivables written off during the year as uncollectible | - | (63) |
| Balance at end of the year | - | - |
| The age of trade receivables that were past due but not impaired was as follows: | | |
| 30 days | 4,480 | 10,781 |
| 31-60 days | 412 | 1,176 |
| 61-90 days | 253 | (451) |
| | 5,145 | 11,506 |

The trade receivables that were past due but not impaired relate to a number of customers for whom there is no recent history of default or other indicators of impairment. Refer to note 30 for more information on the consolidated entity's risk management policy, the credit quality of trade receivables and credit risk.

## Note 11: Inventories

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **At Cost:** | | |
| Raw materials and consumables | 20,294 | 15,824 |
| Work-in-progress | 10,131 | 14,689 |
| Finished goods | 364 | 329 |
| | **30,789** | **30,842** |



## Note 12: Other receivables and other assets

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Prepayments | 2,409 | 2,082 |
| Other receivables | 2,275 | 1,076 |
| Other assets | 871 | 1,186 |
| | **5,555** | **4,344** |

## Note 13: Property, plant and equipment

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Freehold land:** | | |
| Cost | 17,670 | 15,561 |
| **Buildings:** | | |
| Cost | 44,229 | 38,066 |
| Accumulated depreciation | (2,033) | (989) |
| Total buildings | 42,196 | 37,077 |
| Total land and buildings | 59,866 | 52,638 |
| **Capital work in progress:** | | |
| Cost | 2,187 | 665 |
| **Plant and equipment:** | | |
| Cost | 68,702 | 56,661 |
| Accumulated depreciation | (24,194) | (17,112) |
| | 44,508 | 39,549 |
| **Total property, plant and equipment** | **106,561** | **92,852** |

| | Freehold Land $000 | Buildings $000 | Capital Work in Progress $000 | Plant and Equipment $000 | Total $000 |
|---|---|---|---|---|---|
| **Movements in carrying amounts:** | | | | | |
| Balance at 1 July 2011 | 8,574 | 26,181 | 3,181 | 15,734 | 53,670 |
| Additions | - | 12,811 | 633 | 5,741 | 19,185 |
| Additions through acquisitions of entities | 5,620 | 168 | - | 20,466 | 26,254 |
| Reallocation of capital work in progress | 1,680 | (1,436) | (3,112) | 2,868 | - |
| Disposals | - | - | - | (387) | (387) |
| Foreign currency exchange movements | (313) | (128) | (37) | 229 | (249) |
| Depreciation expense | - | (519) | - | (5,102) | (5,621) |
| **Balance at 30 June 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** |

## Note 13: Property, plant and equipment *(cont'd)*

| | Plant and Equipment $000 | Total $000 |
|---|---|---|
| Assets under finance lease arrangements included in the totals noted above are as follows: | | |
| Balance at 1 July 2011 | 3,003 | 3,003 |
| Additions | 8,900 | 8,900 |
| Additions through acquisitions of entities | 1,282 | 1,282 |
| Assets no longer under finance lease arrangements | (507) | (507) |
| Disposals | (164) | (164) |
| Depreciation expense | (817) | (817) |
| **Balance at 30 June 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** |

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

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

## Note 14: Other financial assets

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Investments accounted for using the equity method:** | | |
| Joint venture entity: | | |
| Majan Aluminium Services Company LLC | **1,334** | **1,645** |
| **Movements during the year in investments accounted for using the equity method:** | | |
| Joint venture entity: | | |
| Balance at beginning of the year | 1,645 | 1,554 |
| Share of profits of joint venture entity | 691 | 844 |
| Distribution from joint venture entity | (1,002) | (753) |
| Balance at end of the year | 1,334 | 1,645 |

**Joint venture entity:**

Austin Engineering Limited has a 50% (2012: 50%) interest in Majan Aluminium Services Company LLC, incorporated in Oman, which was formed for the purpose of manufacturing aluminium busbars for the Sohar Aluminium Company in Oman. The interest in Majan Aluminium Services Company LLC is accounted for in the financial statements using the equity method of accounting. Information relating to the joint venture entity is set out below.

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Share of joint venture entity assets and liabilities** | | |
| Current assets | 2,009 | 2,138 |
| Non-current assets | 95 | 247 |
| **Total assets** | 2,104 | 2,385 |
| Current liabilities | 770 | 740 |
| **Total liabilities** | 770 | 740 |
| **Net assets** | 1,334 | 1,645 |
| **Share of joint venture entity revenue, expenses and results** | | |
| Revenues | 2,455 | 2,393 |
| Expenses | (1,672) | (1,434) |
| **Profit before income tax** | 783 | 959 |

**Contingent liabilities relating to joint ventures**

There are no contingent liabilities that require to be disclosed in connection with the joint venture entity.



## Note 14: Other financial assets *(cont'd)*

| | Country of Incorporation | Percentage Owned** 2013 | 2012 |
|---|---|---|---|
| **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% |
| **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% |
| **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.

## Note 14: Other financial assets *(cont'd)*

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Parent entity information:** | | |
| **Assets** | | |
| Current assets | 74,964 | 94,939 |
| Non-current assets | 112,296 | 104,859 |
| **Total assets** | **187,260** | **199,798** |
| **Liabilities** | | |
| Current liabilities | 25,089 | 43,943 |
| Non-current liabilities | 54,929 | 58,592 |
| **Total liabilities** | **80,018** | **102,535** |
| **Net assets** | **107,242** | **97,263** |
| **Equity** | | |
| Contributed equity | 52,749 | 48,941 |
| Options reserve | 1,619 | 1,563 |
| Retained earnings | 52,874 | 46,759 |
| **Total equity** | **107,242** | **97,263** |
| **Financial performance** | | |
| Profit for the year | 16,967 | 18,969 |
| Other comprehensive income | - | - |
| **Total comprehensive income** | **16,967** | **18,969** |

**Contractual commitments**

At 30 June 2013, there were no contractual commitments entered into in respect of capital expenditure projects (2012: $227,000).

**Contingent liabilities**

The parent entity did not have any contingent liabilities at 30 June 2013 and 30 June 2012. For information about guarantees given by the parent entity, see below.

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

Austin Engineering Limited has 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 (2012: $66,937,000) 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:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Consolidated statement of comprehensive income** | | |
| **Revenue** | 167,077 | 174,658 |
| Raw materials and consumables used | (50,790) | (66,868) |
| Change in inventories and work in progress | (10,189) | 3,512 |
| Employment expenses | (51,312) | (56,165) |
| Subcontractor expenses | (7,720) | (4,763) |
| Occupancy and utility expenses | (5,795) | (5,515) |
| Depreciation expense | (2,678) | (2,256) |
| Other expenses from ordinary activities | (12,582) | (11,705) |
| Finance costs | (2,106) | (2,274) |
| Profit before income tax | 23,905 | 28,624 |
| Income tax expense | (6,911) | (6,684) |
| **Net profit for the year** | 16,994 | 21,940 |
| Other comprehensive income | - | - |
| **Total comprehensive income for the year** | 16,994 | 21,940 |
| **Summary of movements in consolidated retained earnings** | | |
| Retained earnings at the beginning of the financial year | 51,240 | 37,952 |
| Profit for the year | 16,994 | 21,940 |
| Dividends paid | (10,854) | (8,652) |
| Retained earnings at the end of the financial year | 57,380 | 51,240 |
| **Consolidated statement of financial position** | | |
| **Current Assets** | | |
| Cash and cash equivalents | 1,859 | 9,115 |
| Trade and other receivables | 63,522 | 76,456 |
| Inventories | 10,073 | 15,922 |
| Other assets | 1,213 | 996 |
| **Total Current Assets** | 76,667 | 102,489 |
| **Non-Current Assets** | | |
| Property, plant and equipment | 18,812 | 17,355 |
| Other financial assets | 69,236 | 64,513 |
| Intangible assets | 28,885 | 24,066 |
| Deferred tax assets | 1,329 | 1,389 |
| **Total Non-Current Assets** | 118,262 | 107,323 |
| **Total Assets** | 194,929 | 209,812 |
| **Current Liabilities** | | |
| Trade and other payables | 20,478 | 41,408 |
| Financial liabilities | 511 | 228 |
| Current tax liabilities | 2,506 | 2,829 |
| Provisions | 3,595 | 3,789 |
| **Total Current Liabilities** | 27,090 | 48,254 |
| **Non-Current Liabilities** | | |
| Financial liabilities | 54,723 | 58,416 |
| Deferred tax liabilities | 1,368 | 1,398 |
| **Total Non-Current Liabilities** | 56,091 | 59,814 |
| **Total Liabilities** | 83,181 | 108,068 |
| **Net Assets** | **111,748** | **101,744** |
| **Equity** | | |
| Contributed equity | 52,749 | 48,941 |
| Reserves | 1,619 | 1,563 |
| Retained earnings | 57,380 | 51,240 |
| **Total Equity** | **111,748** | **101,744** |

## Note 15: Intangible assets

| | Goodwill | Customer relationships* | Brands** | Other intangibles | Total |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| **Year ended 30 June 2012** | | | | | |
| Opening net book amount | 61,995 | 9,758 | 2,749 | 406 | 74,908 |
| Additions | - | - | - | 119 | 119 |
| Additions - acquisitions | 7,369 | 3,593 | - | 70 | 11,032 |
| Release of deferred taxes | (207) | - | - | - | (207) |
| Exchange differences | 189 | - | - | - | 189 |
| Amortisation charge | - | (644) | - | (129) | (773) |
| Closing net book amount | **69,346** | **12,707** | **2,749** | **466** | **85,268** |
| **At 30 June 2012** | | | | | |
| Cost | 69,346 | 13,820 | 2,749 | 724 | 86,639 |
| Accumulated amortisation and impairment | - | (1,113) | - | (258) | (1,371) |
| **Net book amount** | **69,346** | **12,707** | **2,749** | **466** | **85,268** |
| **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** |

*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:

| | 2013 | 2012 |
|---|---|---|
| | $000 | $000 |
| Austin Mackay (formerly Kaldura Industries) | 2,706 | 2,706 |
| Austbore Pty Ltd | 8,310 | 8,310 |
| Pilbara Hire Group | 7,281 | 7,400 |
| Austin Engineering Hunter Valley (formerly Phillips Engineering) | 1,757 | 1,789 |
| COR Cooling | 14,555 | 13,027 |
| Western Technology Services Inc. ("Westech") | 5,987 | 5,846 |
| Austin Ingenieros Chile (formerly "Conymet") | 26,364 | 24,099 |
| Austin Ingenieros Calama (formerly "V & V") | 2,431 | 2,198 |
| Austin Engineering Peru (formerly "Petroaceros S.A.C") | 3,915 | 3,971 |
| Net carrying value | 73,306 | 69,346 |

### Key assumptions used for value-in-use calculations

The recoverable amount of goodwill in each cash generating unit is based on value in-use calculations, using cash flow projections based on the following year's budget, extended over five years. The cash flows are discounted using an estimated pre-tax average cost of capital of 12% (2012: 12%) which is a common benchmark used by management to assess investment proposals and operating performance. The pre-tax average cost of capital of 12% has been applied to all cash flows due to the inherent similarity of operations for the business units, which are mostly involved in the manufacture, repair and maintenance of mining products.

The underlying operating assumptions are based on management's assessment of the group's market position, industry conditions in the past, likely business conditions in the future and forecast operating margins.

Future cash flows for the Austin Mackay and Austbore businesses reflect slower market conditions in the year ending 30 June 2014 due to reduced demand for products and services from coal mining customers in Queensland, Australia. Thereafter annual growth has been set at an average of 4% in recognition of an expected return to more normalised business conditions. Pilbara Hire Group's future cash flows reflect a relatively stable profit contribution in the year ending 30 June 2014 and average growth of 2% per annum thereafter in recognition that there will be a moderate increase in activity as it pursues new customers and sources of activity. Austin Engineering Hunter Valley's cash flows for the year ending 30 June 2014 reflect a combination of further improvements in productivity and market share, levelling off to average annual growth of 3% per annum as coal miners in the region return to more normal operating conditions. COR Cooling is anticipating an improved financial result and associated cash flows in the year ending 30 June 2014 as it consolidates its operations and market position. Growth has been set at 3% thereafter in light of expected improvements in market conditions.

Westech is expecting activity and associated workloads, profit and cash flows in the year ending 30 June 2014 to be lower than the year ended 30 June 2013 but nevertheless above long-term averages. Thereafter growth has been set at an average of 2% per annum as the North American mining industry stabilises and improves. Revenue growth for Austin Ingenieros Chile, Austin Ingenieros Calama and Austin Engineering Peru in the first year of the budget reflects the normalisation of activities and more consistent workloads as the three business units consolidate and grow their market position and embark upon intended growth initiatives. Thereafter, average annual growth rates are 4% to 6%, reflecting the assessed business development potential of the mining markets in Chile and Peru. Significant changes in the underlying major assumptions would be required to generate an impairment charge.

## Note 16: Trade and other payables

| | 2013 | 2012 |
|---|---|---|
| | $000 | $000 |
| **Current unsecured liabilities:** | | |
| Trade payables | 21,197 | 40,411 |
| Sundry payables and accrued expenses | 8,047 | 13,469 |
| Progress payments in advance | 9,750 | 17,992 |
| | **38,994** | **71,872** |

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

| | 2013 | 2012 |
|---|---|---|
| Australian dollars | 22,485 | 43,917 |
| US dollars (Australian dollar equivalent) | 5,574 | 7,959 |
| Chilean pesos (Australian dollar equivalent) | 7,623 | 12,221 |
| Indonesian rupiah (Australian dollar equivalent) | 1,920 | 5,542 |
| Colombian peso (Australian dollar equivalent) | 989 | 1,669 |
| Peruvian nuevo soles (Australian dollar equivalent) | 403 | 1,144 |
| | 38,994 | 72,452 |

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

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Note 17:** Financial liabilities | | |
| **Current secured liabilities:** | | |
| Hire purchase and lease obligations | 2,474 | 2,237 |
| Bank loans | 2,726 | 1,214 |
| | **5,200** | **3,451** |
| **Non-current secured liabilities:** | | |
| Hire purchase and lease obligations | 3,093 | 4,325 |
| Bank loans | 58,970 | 62,710 |
| | **62,063** | **67,035** |
| **Total of current and non-secured liabilities:** | | |
| Hire purchase and lease obligations | 5,567 | 6,562 |
| Bank loans | 61,696 | 63,924 |
| | **67,263** | **70,486** |
| **Assets pledged as security – fixed/floating charge:** | | |
| **Current** | | |
| Cash and cash equivalents | 4,138 | 10,543 |
| Receivables | 28,013 | 38,918 |
| Inventories | 14,898 | 20,606 |
| | 47,049 | 70,067 |
| **Non-current** | | |
| Property, plant and equipment | 56,400 | 57,045 |
| | 56,400 | 57,045 |
| **Total** | **103,449** | **127,112** |

Refer to note 26 (c) for additional information on the type of security held

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Note 18:** Current tax liabilities | | |
| Income tax | 3,333 | 3,733 |
| | **3,333** | **3,733** |

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Note 19:** Deferred tax | | |
| *Deferred tax assets - non-current:* | | |
| Non-current deferred tax assets comprise: | | |
| Employee leave entitlements | 1,438 | 1,268 |
| Warranty and other provisions | 132 | 318 |
| Transaction costs on equity issue | 64 | 137 |
| Prior period losses | 786 | 901 |
| Other | 1,917 | 1,631 |
| **Total deferred tax assets** | **4,337** | **4,255** |
| *Deferred tax liabilities - non-current:* | | |
| Non-current deferred tax liabilities comprise: | | |
| Revaluation of assets on acquisition | 67 | 111 |
| Intangibles | 8,714 | 8,022 |
| Other | 666 | 539 |
| **Total deferred tax liabilities** | **9,447** | **8,672** |

| | Opening balance $000 | Recognised in profit or loss $000 | Foreign exchange differences $000 | Acquisitions and goodwill offset $000 | Prior year restatements $000 | Closing balance $000 |
|---|---|---|---|---|---|---|
| **Movements:** | | | | | | |
| **2013** | | | | | | |
| **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 | (8,022) | (714) | (194) | 216 | - | (8,714) |
| Other | (539) | (27) | - | - | (100) | (666) |
| | (4,417) | (485) | (194) | 220 | (234) | (5,110) |

| | Opening balance $000 | Recognised in profit or loss $000 | Recognised in other comp-rehensive income $000 | Foreign exchange differences $000 | Acquisitions $000 | Closing balance $000 |
|---|---|---|---|---|---|---|
| **Movements:** | | | | | | |
| **2012** | | | | | | |
| **Deferred tax assets** | | | | | | |
| Employee leave entitlements | 1,037 | 231 | - | - | - | 1,268 |
| Warranty and other provisions | 199 | 119 | - | - | - | 318 |
| Transaction costs on equity issue | 216 | (79) | - | - | - | 137 |
| Prior period losses | 557 | 344 | - | - | - | 901 |
| Other | 519 | 1,112 | - | - | - | 1,631 |
| **Deferred tax liabilities** | | | | | | |
| Revaluation of assets on acquisition | (155) | 44 | - | - | - | (111) |
| Intangibles | (5,799) | (2,174) | - | 44 | (93) | (8,022) |
| Other | (464) | (81) | - | 6 | - | (539) |
| | (3,890) | (484) | - | 50 | (93) | (4,417) |

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Note 20:** Provisions | | |
| **Current** | | |
| Employee leave entitlements | 5,261 | 4,338 |
| Warranty provisions | 460 | 1,103 |
| Other | 32 | 152 |
| **Total current provisions** | **5,753** | **5,593** |
| **Warranty provisions:** | | |
| Balance at beginning of year | 1,103 | 624 |
| Provided during the year | 1,330 | 1,260 |
| Utilised during the year | (466) | (250) |
| Released during the year | (1,536) | (542) |
| Foreign currency exchange differences | 29 | 11 |
| Balance at end of year | 460 | 1,103 |

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.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | No. 000 | $000 | No. 000 | $000 |

## Note 21: Contributed equity

| Ordinary shares (fully paid) | 2013 No. 000 | 2013 $000 | 2012 No. 000 | 2012 $000 |
|---|---|---|---|---|
| Balance at beginning of year | 72,315 | 48,938 | 71,865 | 48,251 |
| Shares issued during the year: | | | | |
| Exercise of options | 850 | 3,825 | 450 | 675 |
| Cost of share issues | - | (14) | - | (6) |
| Deferred tax adjustment to cost of share issues | - | - | - | 18 |
| **Balance at end of year** | **73,165** | **52,749** | **72,315** | **48,938** |

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 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 2013 comprised of the following:

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

Ordinary shares issued in the year to 30 June 2012 comprised of the following:

(a) 8 September 2011: 150,000 shares at $1.50 each ($225,000) in relation to the exercise of employee options
(b) 13 December 2011: 150,000 shares at $1.50 each ($225,000) in relation to the exercise of employee options
(c) 14 December 2011: 150,000 shares at $1.50 each ($225,000) in relation to the exercise of employee options

There is no current on-market share buy-market.

### 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 27: Share-based payments.

### Capital management

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

The group's total capital is defined as the shareholders' net equity plus net debt and amounted to $214,374,000 at 30 June 2013 (30 June 2012: $180,023,000). 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-equity ratio of less than 40%. The group has a policy of maintaining a flexible financing structure within the aforementioned limit so as to be able to take advantage of investment opportunities when they arise.

The gearing ratios for the years ended 30 June 2013 and 30 June 2012 are as follows:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Total borrowings | 67,263 | 70,486 |
| Value of bank guarantees issued | 7,667 | 8,180 |
| Less cash and cash equivalents | (6,337) | (15,748) |
| Net debt | 68,593 | 62,918 |
| Total equity | 153,448 | 125,285 |
| Total capital | 222,041 | 188,203 |
| Net gearing ratio | 31% | 33% |

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. Austin Engineering Limited has complied with the financial covenants of its borrowing facilities during the 2013 and 2012 reporting periods.

## Note 22: 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 23: Capital and leasing commitments

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Finance and hire purchase lease commitments:** | | |
| Not later than one year | 2,554 | 2,549 |
| Between one and five years | 3,348 | 4,514 |
| Minimum lease payments | 5,902 | 7,063 |
| Less: future finance charges | (335) | (501) |
| | 5,567 | 6,562 |
| Representing lease liabilities: | | |
| Current (note 17) | 2,474 | 2,237 |
| Non-current (note 17) | 3,093 | 4,325 |
| | 5,567 | 6,562 |

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.

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Operating lease commitments:** | | |
| Not later than one year | 5,292 | 4,499 |
| Between one and five years | 18,660 | 13,587 |
| Greater than 5 years | 17,320 | 12,197 |
| | 41,272 | 30,283 |

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.

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Capital commitments:** | | |
| Property, plant and equipment purchases | 8,903 | 10,553 |
| | 8,903 | 10,553 |

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

## Note 24: 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 working capital facilities shown in note 26.

## **Note 25:** 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 2013 and 30 June 2012 is as follows:

| | Australia | | Americas | | Middle East | | Asia | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2013 $000** | 2012 $000 | **2013 $000** | 2012 $000 | **2013 $000** | 2012 $000 | **2013 $000** | 2012 $000 | **2013 $000** | 2012 $000 |
| Total segment revenue | | | | | | | | | | |
| - from external customers | 200,331 | 202,187 | 78,692 | 70,369 | 2,455 | 2,393 | 7,360 | 15,148 | 288,838 | 290,097 |
| EBITDA | 33,940 | 32,865 | 14,496 | 12,334 | 783 | 959 | 1,899 | 3,951 | 51,118 | 50,109 |
| Depreciation and amortisation | 4,581 | 4,179 | 3,587 | 1,797 | - | - | 809 | 418 | 8,977 | 6,394 |
| Share of net profit of joint ventures accounted for using the equity method | - | - | - | - | 691 | 844 | - | - | 691 | 844 |
| Segment assets | 112,404 | 132,246 | 145,820 | 134,380 | 1,334 | 1,645 | 18,680 | 17,370 | 278,238 | 285,641 |
| Total assets include: | | | | | | | | | | |
| Investments in joint ventures | - | - | - | - | 1,334 | 1,645 | - | - | 1,334 | 1,645 |
| Additions to non- current assets (other than financial assets and deferred tax) | 6,951 | 5,908 | 5,931 | 18,218 | - | - | 4,335 | 6,210 | 17,217 | 30,336 |
| Segment Liabilities | 89,585 | 114,680 | 32,864 | 39,143 | - | - | 2,341 | 6,533 | 124,790 | 160,356 |

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:

| | **2013 $000** | 2012 $000 |
|---|---|---|
| EBITDA | 51,118 | 50,109 |
| Depreciation | (8,126) | (5,621) |
| Amortisation | (851) | (773) |
| Interest revenue | 155 | 378 |
| Finance costs | (2,721) | (2,883) |
| Profit before income tax | 39,575 | 41,210 |

**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 $199,975,000 (2012 - $200,966,000), and total revenue from external customers attributed to all foreign countries is $88,863,000 (2012 - $89,131,000). Revenues from external customers attributed to the USA, as an individual foreign country, are material and amount to $27,723,000 (2012 - $29,310,000).

In 2013, $72,912,000 of revenues were derived from a single external customer. These revenues were attributable to the Australia segment. In 2012 revenues of approximately $78,620,000 are derived from two single customers:

Customer 1 - $43,251,000 (in relation to Australia)
Customer 2 - $35,369,000 (of which $24,181,000 is in relation to Australia, $8,728,000 for the USA, and $2,460,000 for Chile)

Non-current assets located in Australia amounted to $75,460,000 (2012 - $73,268,000) and non-current assets located in foreign countries amounted to $119,569,000 (2012 - $104,852,000). These non-current assets exclude financial instruments, deferred tax assets and post-employment benefit assets. Non-current assets located in Chile are material as an individual foreign country and amounted to $70,028,000 (2012 - $65,812,000).



## **Note 26:** Cash flow information

| | **2013 $000** | 2012 $000 |
|---|---|---|
| **a) Reconciliation of cash flow from operations with profit after income tax** | | |
| Profit after income tax | 28,442 | 29,580 |
| Depreciation and amortisation | 8,977 | 6,394 |
| Share of joint venture profits | (691) | (844) |
| Share options expense | 56 | 231 |
| Changes in operating assets and liabilities, net of effects from purchase of controlled entities: | | |
| (Increase)/decrease in receivables | 17,025 | (20,632) |
| (Increase)/decrease in inventories | 1,615 | (9,066) |
| (Increase)/decrease in other assets | (741) | (1,560) |
| Increase/(decrease) in payables | (33,087) | 17,606 |
| Increase/(decrease) in income taxes payable | 40 | 1,985 |
| Increase/(decrease) in provisions | 2 | 930 |
| **Net cash provided by operating activities** | **21,638** | **24,624** |

**b) Non-cash investing and financing activities**

The acquisition of businesses and the deferred settlement on the purchase of the Pilbara Hire Group is disclosed in note 31.

**c) Bank facilities**

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

| | **2013 $000** | 2012 $000 |
|---|---|---|
| Business acquisition finance facilities | 82,787 | 80,552 |
| Utilised | (54,089) | (57,935) |
| Unused | 28,698 | 22,617 |
| Asset finance facilities | 27,439 | 25,934 |
| Utilised | (12,241) | (13,027) |
| Unused | 15,198 | 12,907 |
| Working capital facilities | 13,371 | 13,251 |
| Utilised | (8,612) | (8,391) |
| Unused | 4,759 | 4,860 |
| Total facilities | 123,597 | 119,737 |
| Utilised | (74,942) | (79,353) |
| Unused | 48,655 | 40,384 |

During the year the group maintained principal banking facilities with National Australia Bank Limited, First Interstate Bank (USA), Banco BCI and Banco Santander (Chile), Bancolombia (Colombia), Banco Credito Peru (Peru) and Mandiri Bank (Indonesia). The major facilities are summarised as follows:

*Business acquisition finance facilities:*

These facilities consist of a USD 19m facility (2012: USD 19m) which lasts until 31 July 2014 in relation to the refinancing of a bank loan that was originally drawn-down to accommodate the purchase of Western Technology Services International Inc. on 30 November 2007. USD 16m of this facility has been drawn-down in US dollars at 30 June 2013. The facility is revolving and variable interest-only until the end of its term. The facilities also include a total of $34m, which lasts until 30 June 2015, in relation to the purchase in the year ended 30 June 2011 of Pilbara Hire Group Pty Ltd and Pilbara Hire Services Pty Ltd (together the "Pilbara Hire Group"), the business and assets of Phillips Engineering Aus Pty Ltd and COR Cooling Pty Ltd. $23m of this facility has been drawn-down at 30 June 2013. These facilities are revolving and variable interest-only until the end of their term. The facilities also include $28m, which lasts until 31 July 2014, in relation to the acquisition of the business of V&V in Calama in Chile in January 2012. $14m of these facilities has been drawn-down at 30 June 2013 and the facilities are revolving and variable interest-only until the end of their term.

## Note 26: Cash flow information *(cont'd)*

**c) Bank facilities** *(cont'd)*

*Asset finance facilities:*

These facilities have been granted to assist with the purchase of property, plant and equipment for use in the group's operations and attract various variable and fixed interest rates applicable at the date of utilisation. The facilities include a USD 8m loan for the construction of new workshop facilities in Indonesia (which was unutilised at 30 June 2013). This facility lasts until 31 July 2014, attracts variable interest rates and is reviewable at the end of its term. The facilities also include a $6.6m Australian dollar equivalent loan loan for the construction of a workshop in La Negra, Chile, of which $5.3m was utilised at 30 June 2013 (2012: $6.0m). This facility has fixed monthly repayments for its term to December 2016 and attracts a fixed interest rate.

*Working capital facilities:*

These facilities are used to provide working capital support as well as security for the performance and delivery of products and services delivered by the group. These facilities are multi-option and multi-currency and can be utilised in the form of commercial bills, guarantees or standby letters of credit. The facilities are subject to review on 31 July 2014. Commercial bills attract variable interest rates applicable at the date of utilisation whilst guarantees and standby letters of credit are priced at a set fee every quarter.

At 30 June 2013 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 17. The group must maintain covenants relating to the debt drawn under the bank's credit facilities. These covenants relate to interest cover, gearing and debt servicing and the company was in compliance with these covenants throughout the financial year ended 30 June 2013. The group's policy is to centralise debt and surplus cash balances and also to match the assets and liabilities currency exposure whenever possible.

## Note 27: Share-based payments

The following share-based payment arrangements existed at 30 June 2013:

*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 2012 and 2011 financial years (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 22 December 2008, a total of 1,050,000 share options were granted to employees to take up ordinary shares at an exercise price of $1.50 each under the Austin Engineering Ltd employee share option plan. 950,000 of the options had a two year vesting period and were exercisable between 22 December 2010 and 22 December 2011 whilst 100,000 had a one year vesting period and were exercisable by 22 December 2010. The options were unlisted, held no voting rights or dividend rights and were not transferable. All options vested during the 2011 financial year and 600,000 options were exercised during that year. During the 2012 financial year, the remaining 450,000 options were exercised.
- 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 are 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 have a two year vesting period and are exercisable between 26 November 2012 and 26 November 2013. The options are unlisted, hold no voting rights or dividend rights and are not transferable. During the year, all of the options vested, leaving 500,000 unexercised at the balance date.

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 10 of the remuneration report. Share options outstanding and exercisable at the balance date are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ |
| Outstanding at beginning of year | 1,350,000 | 4.50 | 1,800,000 | 3.75 |
| Granted | - | - | - | - |
| Exercised | (850,000) | 4.50 | (450,000) | 1.50 |
| Outstanding at end of year | 500,000 | 4.50 | 1,350,000 | 4.50 |
| Total exercisable at end of year | 500,000 | 4.50 | 850,000 | 4.50 |

The options outstanding at 30 June 2013 had a weighted average remaining contractual life of 0.41 years (2012: 0.93 years). The exercise price for these options is $4.50 (2012: $4.50). The weighted average share price at the date of exercise of options during the year was $5.05 (2012: $4.14).

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 2013 and 2012 financial years.

Included under employee benefits expense in profit or loss is $56,250 (2012: $281,000) and this relates, in full, to equity-settled share-based payment transactions.

## Note 28: Events after the balance sheet date

A fully-franked final dividend of 10.5c has been declared for FY 12/13, consistent with the final dividend for the previous year, payable on 11 October 2013. The aggregate amount of the dividend to be paid out of retained profits based on the number of ordinary shares issued at 30 June 2013, but not recognised as a liability at the end of the year, is $7,682,000.

On 7 August 2013 the company announced that a subsidiary company, Austin Ingenieros Chile Ltda, had been successful in securing a three-year contract for on-site services and off-site repairs on dump truck trays, buckets and other mobile equipment for Codelco's Ministro Hales mine. Codelco is the state-owned copper mining company of Chile and Ministro Hales is its new multi-billion dollar copper and silver operation located near Calama in northern Chile.

On 13 August 2013 the company also announced that Austin Ingenieros Chile Ltda had been successful in securing a five-year contract for the provision of heavy lifting equipment and support services for Codelco's Gabriela Mistral ("Gaby") mine located near Calama in northern Chile.

## Note 29: Related party transactions

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

**Ultimate parent company:**

Austin Engineering Limited is the ultimate parent company.

**Controlled entities:**

Interests in controlled entities are disclosed in note 14.

**Transactions with director-related parties:**

Eugene Fung, a non-executive director of the company, is a partner with the law firm Thomsons Lawyers. The firm provided legal services to the company on normal commercial terms to the value of $67,222 during the year (2012: $78,806). Approximately $3,889 was outstanding to Thomsons Lawyers at 30 June 2013 for work performed in the year to 30 June 2013 (2012: $5,000).

## **Note 30:** Financial risk management

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

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.

A sensitivity analysis was performed at 30 June 2013, 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 2012, 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 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 |
| **30 June 2012** | | | | |
| US dollar | (167) | (384) | 167 | 384 |
| Chilean peso | (2,318) | (364) | 2,318 | 364 |
| Indonesian rupiah | (500) | (251) | 500 | 251 |
| Colombian peso | (208) | 61 | 208 | (61) |
| Peruvian nuevo soles | (155) | (7) | 155 | 7 |
| Singapore dollar | - | - | - | - |
| Omani Rial | - | (76) | - | 76 |
| **Total** | (3,348) | (1,021) | 3,348 | 1,021 |

Refer to notes 10 and 16 for a summary of the group's exposure to foreign exchange risk at the financial year-end in relation to current assets and current liabilities.

*(ii) Price risk:*

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

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

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

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

| | **30 June 2013** | | 30 June 2012 | |
|---|---|---|---|---|
| | **Weighted average interest rate %** | **Balance $000** | Weighted average interest rate % | Balance $000 |
| Cash | 1.0% | 6,337 | 2.0% | 15,787 |
| Bank loans | 2.8% | (54,089) | 3.7% | (57,935) |
| Net exposure to cash flow interest rate risk | | (47,752) | | (42,148) |

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 $621,000 (2012: $558,000). The simulation is performed on a bi-annual basis to estimate the maximum loss potential.

### Credit risk:

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

*Trade and other receivables:*

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

Concentrations of credit risk in relation to customers are detailed in note 25. There were no other significant concentrations of credit risk.

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

*Cash and cash equivalents:*

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

## Note 30: Financial risk management *(cont'd)*

**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 $48,655,000 were undrawn at 30 June 2013 (2012: $40,384,000). The principal terms of repayment are detailed in note 26.

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 |
|---|---|---|---|
| **2013** | | | |
| Payables | 38,994 | - | 38,994 |
| Bank loan | 4,127 | 59,831 | 63,958 |
| Lease liabilities | 2,554 | 3,348 | 5,902 |
| Total | 45,675 | 63,179 | 108,854 |
| **2012** | | | |
| Payables | 71,872 | - | 71,872 |
| Bank loan | 3,135 | 64,087 | 67,222 |
| Lease liabilities | 2,549 | 4,513 | 7,062 |
| Total | 77,556 | 68,600 | 146,156 |

**Fair value measurements:**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(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).

The following table presents the group's assets and liabilities measured and recognised at fair value at 30 June 2013 and 30 June 2012:

| | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|---|
| **At 30 June 2013** | | | | |
| Contingent consideration | - | - | - | - |
| **At 30 June 2012** | | | | |
| Contingent consideration | - | - | 30 | 30 |

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The contingent consideration of $30,000, was valued using discounted cash flow analysis and represents the fair value of the earn-out at the date of acquisition of businesses by COR Cooling Pty Ltd during the 2012 year. Refer to note 31.

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

## Note 31: Business combinations

**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.
Details of net assets and intangibles acquired are as follows:

| | Total $000 |
|---|---|
| Purchase consideration | 1,616 |
| Fair value of net tangible assets acquired | (16) |
| Intangible assets and goodwill | 1,600 |
| 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 | (66) |
| Net identifiable tangible assets acquired | (16) |
| The intangible assets and goodwill acquired, net of deferred tax, arising from the acquisition are as follows: | |
| Goodwill | 1,600 |
| Total intangible assets and goodwill acquired | 1,600 |
| Purchase consideration – cash outflow: | |
| *Outflow of cash to acquire business, net of cash acquired* | |
| Total purchase consideration | 1,616 |
| Less: contingent consideration | - |
| Cash consideration/outflow of cash – investing activities | 1,616 |

The purchase consideration may be adjusted in the year after acquisition if the business does not meet predefined profit targets.

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 Petroaceros S.A.C. Details of the business combination arising in the year ended 30 June 2012 are disclosed in b) below.

**2012**

a) Acquisition of business of V&V in Calama, northern Chile:

On 3 January 2012, Austin Ingenieros Chile Limitada, a 100% subsidiary of Austin Engineering Ltd, completed the acquisition of the business of V&V, based in Calama in northern Chile, for a cash consideration of $24.38m. V&V is a site-based equipment hire and repair and maintenance business located next to the majority of mines in northern Chile. The acquisition was a strategic development to expand business activities and gain more exposure to repair and maintenance operations in this important mining region. The acquisition was funded by existing bank loan facilities.

b) Acquisition of business of Petroaceros S.A.C in Lima, Peru:

On 20 April 2012, Austin Engineering South America No. 1 Pty Ltd, a 100% subsidiary of Austin Engineering Ltd, completed the acquisition of two of the mining services divisions of Petroaceros S.A.C, based in Lima in Peru, for a cash consideration of $5.48m plus $0.83m for inventories and work-in-progress. The fabrication, repair and maintenance ('FRM') division manufactures and repairs dump truck bodies, buckets and other mining equipment. The second division undertakes the on-site maintenance and repair of equipment for large miners in the region. The acquisition was a strategic development to expand business activities and gain more exposure to repair and maintenance operations in an important and growing mining region. The acquisition was funded by available existing cash resources.

c) Acquisition of various businesses in Queensland, New South Wales and South Australia:

During the year, COR Cooling Pty Ltd, a 100% subsidiary of Austin Engineering Ltd, acquired the following businesses as part of a strategic development to expand business activities into important mining regions in Australia:

29 July 2011: the business and assets of Noceid Pty Ltd trading as Diecon Engineering, with operations based in Brisbane, for a cash consideration of $0.77m. Diecon Engineering is a specialised manufacturer and repairer of industrial and marine cooling products. The acquisition was funded by way of available existing cash resources.

## Note 31: Business combinations *(cont'd)*

30 September 2011: the business and assets of Southstate Industrial Services Pty and Motrad Pty Ltd (together the "Southstate Industrial Radiators" Group), with operations based in Adelaide, for a cash consideration of $0.14m. Southstate Industrial Radiators is a specialised industrial radiator repair business. The acquisition was funded by way of available existing cash resources.

31 October 2011: the business and assets of Tonkins Radiators Mansfield Park Pty Ltd ("Tonkins Radiators"), with operations based in Adelaide, for a cash consideration of $0.78m. Tonkins Radiators is a specialised industrial radiator repair business. The acquisition was funded by way of existing available cash resources.

5 March 2012: the business and assets of Radiator Express Pty Ltd, with operations based in Singleton in the Hunter Valley region of New South Wales, for a cash consideration of $1.15m. Radiator Express is a specialised industrial radiator repair business. The acquisition was funded by way of available existing cash resources.

Acquisition-related costs of $150,000, comprising of legal and other fees, were recognised in the period and were included within other expenses from ordinary activities in the consolidated statement of comprehensive income.

Details of net assets and intangibles acquired are as follows:

| | V&V $000 | Divisions of Petroaceros S.A.C $000 | Businesses acquired by COR Cooling $000 | Total $000 |
|---|---|---|---|---|
| Purchase consideration | 24,384 | 6,316 | 2,847 | 33,547 |
| Fair value of net tangible assets acquired | (20,093) | (1,754) | (966) | (22,813) |
| Intangible assets and goodwill | 4,291 | 4,562 | 1,881 | 10,734 |
| The fair value of net tangible assets from the acquisitions is as follows: | | | | |
| Property, plant and equipment | 23,911 | 1,939 | 404 | 26,254 |
| Inventories and work-in-progress | - | 834 | 755 | 1,589 |
| Receivables | - | - | 72 | 72 |
| Payables | - | - | (44) | (44) |
| Employee leave entitlements | - | (363) | (221) | (584) |
| Financial liabilities | (3,818) | (656) | - | (4,474) |
| Net identifiable tangible assets acquired | 20,093 | 1,754 | 966 | 22,813 |
| The intangible assets and goodwill acquired, net of deferred tax, arising from the acquisitions are as follows: | | | | |
| Customer relationships and service agreements | 2,093 | 500 | 1,000 | 3,593 |
| Non-compete agreement | - | - | 70 | 70 |
| Goodwill | 2,198 | 4,062 | 1,111 | 7,371 |
| Deferred tax liability | - | - | (300) | (300) |
| Total intangible assets and goodwill acquired | 4,291 | 4,562 | 1,881 | 10,734 |
| Purchase consideration – cash outflow: | | | | |
| Outflow of cash to acquire subsidiaries, net of cash acquired | | | | |
| Total purchase consideration | 24,384 | 6,316 | 2,847 | 33,547 |
| Less: deferred consideration | - | (244) | - | (244) |
| Less: contingent consideration | - | - | (30) | (30) |
| Outflow of cash – investing activities | 24,384 | 6,072 | 2,817 | 33,273 |

Due to the relative immateriality of the businesses acquired by COR Cooling Pty Ltd, the net assets acquired, goodwill and purchase consideration of the acquired businesses have been combined for disclosure purposes. The acquired businesses have been absorbed into the existing business and operations of COR Cooling Pty Ltd.

The assets arising from the acquisition are recognised at fair value, taking into account the age and condition of the assets acquired and the expected remaining useful life in the production environment in which they are operated. The fair value of acquired inventories, work-in-progress and trade receivables approximates to their carrying value.

Goodwill is attributable to the profitability of the acquired business and the significant business development opportunities that are expected to arise after the group's acquisition of the respective businesses.

From the dates of their respective acquisitions to 30 June 2012, the acquired businesses contributed $9,037,000 of revenue and $1,286,000 of net profit after tax to the group. If the acquisitions had occurred on 1 July 2011, the revenue of the group on a pro-forma, pro-rata basis would have been $301,000,000 and net profit after tax would have been $31,642,000. The relative contribution of these new businesses is expected to increase in the future as business expansion plans are implemented and investments are made in new facilities.



# Directors' Declaration

The directors of the company declare:

1. The financial statements and notes, as set out in pages 22 to 56 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 2013 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 14 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

27 September 2013

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**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 2013, 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 disclosing entity 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 disclosing entity 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 disclosing entity'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 disclosing entity'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 2013 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 8 to 13 of the directors' report for the year ended 30 June 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit Pty Ltd**

BDO

**C R Jenkins**
Director

Brisbane, 27 September 2013





# Additional Information for Public Listed Companies

**1. Substantial Shareholders at 5 September 2013**

| | Number of Ordinary Fully Paid Shares Held | % Held of Ordinary Shares |
|---|---|---|
| Bradken Resources Pty Ltd | 15,708,218 | 21.47 |
| Thorney Investment Group Australia Pty Ltd | 5,325,319 | 7.28 |

**2. Distribution of Shareholdings at 5 September 2013**

| Range of Holding | Number of Shareholders | Number of Shares |
|---|---|---|
| 1 - 1,000 | 1,146 | 510,637 |
| 1,001 - 5,000 | 1,189 | 3,214,308 |
| 5,001 - 10,000 | 444 | 3,424,992 |
| 10,001 - 100,000 | 475 | 11,480,299 |
| 100,001 and over | 36 | 54,534,167 |
| | 3,290 | 73,164,403 |
| Holding less than a marketable parcel | 346 | |

**3. Voting Rights**

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

**4. Twenty Largest Shareholders at 5 September 2013**

| Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|
| Merrill Lynch (Australia) Nominees Pty Limited | 15,730,558 | 21.50 |
| HSBC Custody Nominees (Australia) Limited | 10,741,834 | 14.68 |
| National Nominees Limited | 6,581,564 | 9.00 |
| JP Morgan Nominees Australia Limited | 4,758,212 | 6.50 |
| S J Quinlivan Pty Ltd | 3,132,527 | 4.28 |
| Michael Buckland | 2,561,552 | 3.50 |
| BNP Paribas Noms Pty Ltd | 2,262,070 | 3.09 |
| Citicorp Nominees Pty Limited | 1,798,699 | 2.46 |
| Redcentre Pty Ltd | 1,002,448 | 1.37 |
| Mr Peter Louis Pursey & Mrs Helen Elizabeth Pursey <The Pursey Super Fund A/C> | 1,001,448 | 1.37 |
| Mr Eugene Fung and Ms Cindy Dean | 778,048 | 1.06 |
| Mr Iain Macgregor Hepburn & Mrs Rachael Frances Hepburn <The Hepburn Super Fund A/C> | 440,000 | 0.60 |
| Depofo Pty Ltd | 403,448 | 0.55 |
| Achim Decker Holdings Pty Ltd <Decker 27 Super Fund A/C> | 400,000 | 0.55 |
| WRG Investments Pty Ltd | 363,458 | 0.50 |
| UBS Nominees Pty Ltd <TP00014 15 A/C> | 360,472 | 0.49 |
| Mr Livio Pietro Divitini <L P Divitini Family A/C> | 250,000 | 0.34 |
| Mr Peter Howells | 210,000 | 0.29 |
| Mr Paul James O'Driscoll | 208,360 | 0.29 |
| Mr Alexander Stefan Blaszczyk | 202,222 | 0.28 |
| | 53,186,920 | 72.70 |

**5. Additional Information**

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

# Company Information

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***Principal Bankers:***

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100 Creek Street
Brisbane, Queensland, 4000

Westpac Banking Corporation
260 Queen Street
Brisbane, Queensland, 4000

***Secretary:***
Colin Anderson

***Stock Exchange:***
Australian Securities Exchange

***Home Exchange:***
Brisbane

***ASX Code:***
ANG

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