Austin Engineering Limited (ABN 60 078 480 136) and controlled entities

Results for announcement to the market

Preliminary Final Report for the year ended 30 June 2018

Results	**Year to 30 June 2018 $'000**		**Year to 30 June 2017 $'000**
Revenue from continuing operations	**275,181**	***up*** *28.1* ***% from***	**214,888**
Net loss after tax for the year from continuing operations attributable to members	**(1,960)**	***down*** *87.4* ***% from***	**(15,562)**

Brief explanation of results

Continuing operations

Revenue and net loss after tax for the year ended 30 June 2018 from continuing operations improved as a result of continued gains in cost reduction through internal efficiencies, and improved market conditions in the mining services sector. Included in the net loss after tax from continuing operations for the year ended 30 June 2018 was an impairment charge of $5.707m (2017: $13.171m).

A review of the market conditions of the Group and the results of these operations for the year is set out in the announcement released to the market on 28 August 2018, a copy of which is attached herewith on page 15 to 17. Please also refer to the associated presentation that was released to the market on 28 August 2018.

Dividends and Dividend Reinvestment Plans

There were no interim or final dividends paid during the year ended 30 June 2018.

There were no dividend reinvestment plans in operation during the period.

Net Tangible Assets per Security

	30 June 2018 Cents	**30 June 2017 Cents**
Net tangible asset backing per ordinary security (cents)	16.2	16.5

Control Gained or Lost Over Entities Having a Material Effect

There were no acquisitions or disposals undertaken during the year ended 30 June 2018.

Associates or Joint Ventures

There are no associates or joint ventures.

Audit

The financial data in this report is in the process of being audited, pending completion of the Company’s statutory financial report and the issue of the accompanying independent auditor’s report. The audit process has not identified any material adjustments or misstatements that require the financial data included in this preliminary final report to be corrected.

Austin Engineering Limited (ABN 60 078 480 136) and controlled entities

Results for announcement to the market

Preliminary Final Report for the year ended 30 June 2018

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Austin Engineering Limited
Financial Highlights
For the year ended 30 June 2018

	Change %	Consolidated entity 2018 $000	Consolidated entity 2017 $000
Continuing and discontinued operations			
Revenue	25.2	293,362	234,344
Reported EBITDA loss	(93.2)	(522)	(7,731)
Normalised EBITDA	62.6	23,191	14,263
Continuing operations			
Revenue	28.1	275,181	214,888
Reported EBITDA	n/a	8,946	(2,278)
Normalised EBITDA	73.4	20,391	11,759
Loss before tax	(75.0)	(3,744)	(14,996)
Loss after tax	(87.4)	(1,960)	(15,562)
Basic loss per share (cents)	(87.8)	(0.34)	(2.78)
Dividend per share	-	-	-
Net assets	(7.1)	104,208	112,178

Significant movements

Continuing operations

Revenue and net loss after tax for the year ended 30 June 2018 from continuing operations improved as a result of continued gains in cost reduction through internal efficiencies, and improved market conditions in the mining services sector. Included in the net loss after tax from continuing operations for the year ended 30 June 2018 was an impairment charge of $5.707m (2017: $13.171m).

The improved activity and revenue growth increased requirements for working capital. Trade and other receivables increased by $5.067m and inventories increased by $5.454m, whilst trade and other payables increased by $2.351m.

Impairment charges of $5.707m were allocated against customer relationship intangible assets associated with the acquisition of Pilbara Hire Group Pty Ltd of $4.707m and goodwill of Aust Bore Pty Ltd of $1.000m. Refer to Note 4 for more detailed information.

Discontinued operations

The Group's crane hire business in Chile, Austin Arrendamientos Chile Ltda, has been identified by Austin as a non-core business. A confidential sale process is being undertaken and the optimal disposal process is an asset sale and liquidation of the company. This process is expected to be completed by 31 December 2018.

An impairment charge of $11.973m was recognised at 30 June 2018 (2017: $6.644m) in respect to this business. The remaining value of properties, plant and equipment of $15.028m were transferred to assets classified as held for sale.

Continuing and discontinued operations

Operating cash inflows of $1.204m for the financial year were predominately a result of increased trading volumes, offset by an investment in working capital of $8.170m.

Property, plant and equipment and intangible assets decreased during the year, mainly due to reclassification to held for sale, impairment, depreciation and amortisation, offset by capital expenditure.

During the year, the Group refinanced its core debt resulting in an increase in available facilities. Refer to Note 10 for further details.

Austin Engineering Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

		Consolidated entity	
		2018	**2017[(1)]**
	Notes	**$'000**	**$'000**
Revenue from continuing operations	3	275,181	214,888
Expenses			
Raw materials and consumables used		(90,287)	(67,734)
Changes in inventories and work in progress		5,528	15,855
Employment expenses		(107,948)	(95,541)
Subcontractor expenses		(23,685)	(14,396)
Occupancy and utility expenses		(7,710)	(5,568)
Depreciation expense		(7,043)	(6,794)
Amortisation expense	9	(432)	(883)
Production operational expenses		(11,396)	(13,239)
Other expenses		(25,029)	(23,372)
Finance costs		(5,216)	(5,041)
Impairment expense	9, 4	(5,707)	(13,171)
Loss before income tax		**(3,744)**	**(14,996)**
Income tax benefit/(expense)		1,784	(566)
Loss for the year from continuing operations		**(1,960)**	**(15,562)**
Loss from discontinued operation	5	(9,979)	(12,071)
Loss for the year		**(11,939)**	**(27,633)**
Other comprehensive income			
Item that may be reclassified to profit or loss			
Foreign currency translation differences, net of tax		3,976	(5,135)
Other comprehensive income for the year		**3,976**	**(5,135)**
Total comprehensive income for the year		**(7,963)**	**(32,768)**
Loss for the year is attributable to:			
Owners of Austin Engineering Limited		(11,939)	(27,633)
Total comprehensive income for the year is attributable to:			
Owners of Austin Engineering Limited		(7,963)	(32,768)

	Notes	**Cents**	**Cents**
Earnings per share from continuing operations attributable to the owners of Austin Engineering Limited:			
Basic loss per share (cents per share)	6	(0.34)	(2.78)
Diluted loss per share (cents per share)	6	(0.34)	(2.78)
Earnings per share from continuing and discontinued operations attributable to owners of Austin Engineering Limited:			
Basic loss per share (cents per share)	6	(2.06)	(4.94)
Diluted loss per share (cents per share)	6	(2.06)	(4.94)

(1) Certain balances do not correspond to the 30 June 2017 financial statements as amounts have been re-presented to separately show operations classified as discontinued. Refer to note 5.

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

Austin Engineering Limited
Consolidated statement of financial position
As at 30 June 2018

	Notes	Consolidated entity 2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents		5,580	3,923
Trade and other receivables		50,379	45,312
Inventories		37,071	31,617
Current tax assets		914	545
Other receivables and other assets		17,844	14,814
		111,788	**96,211**
Assets classified as held for sale	5	18,713	-
Total current assets		**130,501**	**96,211**
Non-current assets			
Property, plant and equipment	8	66,681	105,327
Intangible assets	9	10,831	16,768
Deferred tax assets		13,256	13,242
Other non-current assets		2,564	-
Total non-current assets		**93,332**	**135,337**
Total assets		**223,833**	**231,548**
Current liabilities			
Trade and other payables		58,012	55,661
Financial liabilities	10	23,939	17,045
Current tax liabilities		1,329	1,931
Provisions		7,688	5,927
		90,968	**80,564**
Financial liabilities directly associated with assets classified as held for sale	5	15,210	-
Total current liabilities		**106,178**	**80,564**
Non-current liabilities			
Financial liabilities	10	12,335	32,446
Deferred tax liabilities		565	5,862
Provisions		547	498
Total non-current liabilities		**13,447**	**38,806**
Total liabilities		**119,625**	**119,370**
Net assets		**104,208**	**112,178**
Equity			
Share capital		153,927	153,927
Retained earnings		(42,226)	(30,500)
Reserves		(7,493)	(11,249)
Total equity		**104,208**	**112,178**

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

Austin Engineering Limited
Consolidated statement of changes in equity
For the year ended 30 June 2018

Consolidated entity	Notes	Contributed equity $'000	Other reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
Opening balance at 1 July 2016		**145,829**	**3,401**	**(7,614)**	**(4,595)**	**137,021**
Total comprehensive income for the year:						
Loss for the year		-	-	-	(27,633)	(27,633)
Other comprehensive income, net of tax:						
Currency translation differences		-	-	(5,135)	-	(5,135)
Total comprehensive income for the year		**-**	**-**	**(5,135)**	**(27,633)**	**(32,768)**
Transactions with owners in their capacity as owners:						
Issue of share capital		8,416	-	-	-	8,416
Share issue costs		(318)	-	-	-	(318)
Share-based payments		-	(173)	-	-	(173)
Transfers		-	(1,728)	-	1,728	-
		8,098	**(1,901)**	**-**	**1,728**	**7,925**
Balance at 30 June 2017		**153,927**	**1,500**	**(12,749)**	**(30,500)**	**112,178**
Balance at 1 July 2017		**153,927**	**1,500**	**(12,749)**	**(30,500)**	**112,178**
Total comprehensive income for the year:						
Loss for the year		-	-	-	(11,939)	(11,939)
Other comprehensive income, net of tax:						
Currency translation differences		-	-	3,976	-	3,976
Total comprehensive income for the year		**-**	**-**	**3,976**	**(11,939)**	**(7,963)**
Transactions with owners in their capacity as owners:						
Share-based payments		-	(7)	-	-	(7)
Transfers		-	(213)	-	213	-
		-	**(220)**	**-**	**213**	**(7)**
Balance at 30 June 2018		**153,927**	**1,280**	**(8,773)**	**(42,226)**	**104,208**

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

Austin Engineering Limited
Consolidated statement of cash flows
For the year ended 30 June 2018

	Notes	Consolidated entity 2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		295,570	231,138
Payments to suppliers and employees		(287,498)	(241,175)
Interest received		280	88
Finance costs		(5,744)	(6,102)
Income tax refund		1,075	1,209
Income tax paid		(2,479)	-
Net cash provided by/(used in) operating activities		**1,204**	**(14,842)**
Cash flows from investing activities			
Payments for property, plant and equipment	8	(3,034)	(6,736)
Payments for intangibles	9	(87)	(70)
Proceeds from sale of property, plant and equipment		3,173	3,437
Proceeds from sale of assets held for sale		-	5,959
Net cash provided by investing activities		**52**	**2,590**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		-	7,962
Proceeds from borrowings		114,017	37,867
Repayment of borrowings		(113,623)	(42,412)
Net cash provided by financing activities		**394**	**3,417**
Net increase/(decrease) in cash and cash equivalents		**1,650**	**(8,835)**
Cash and cash equivalents at the beginning of the financial year		3,923	12,832
Effects of exchange rate changes on cash and cash equivalents		7	(74)
Cash and cash equivalents at end of the year		**5,580**	**3,923**

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

1 Basis of preparation of Preliminary Final Report

The 30 June 2018 preliminary final report has been prepared on an accruals basis and is based on historical costs modified, where appropriate, by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

The preliminary final report does not include all the notes of the type normally included in annual financial statements. Accordingly, this preliminary final report should be read in conjunction with the annual financial statements for the year ended 30 June 2017 and any public announcements made by Austin Engineering Limited during the year in accordance with the continuous disclosure requirements of the Australian Securities Exchange and the Corporations Act 2001.

The accounting policies applied in the preliminary report are the same as those applied by the Company in the financial report as at and for the year ended 30 June 2017. The principal accounting policies have been consistently applied to the periods presented, unless otherwise stated.

Going concern

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

Although the Company has incurred a net loss of $11.939m, the earnings before tax, interest, depreciation, amortisation and impairment charge was positive at $17.158m (2017: positive $12.085m). At reporting date, the excess of current assets over current liabilities was $24.323m (2017: $15.647m). The Director's expectations of returning to profitability and continued compliance with current and proposed financing covenants is based on approved budgets and forecasts. These forecasts are necessarily based on best estimate assumptions that may or may not occur as expected and are subject to influences and events outside the control of the Group. The forecasts take into account reasonable possible changes in trading performance.

The Directors believe that at the date of releasing the preliminary final report, there are reasonable and supportable grounds to believe the consolidated entity has sufficient funds to meet its obligations as and when they fall due and are of the opinion that the use of the going concern basis remains appropriate.

2 Segment information

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

Executive management monitors segment performance based on EBITDA. Segment information for the years ended 30 June 2018 and 30 June 2017 is as follows:

	Australia		Americas		Asia		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Continuing operations								
Total segment revenue	**124,043**	**111,855**	**136,171**	**92,830**	**22,417**	**17,424**	**282,631**	**222,109**
Less: Inter-segment revenue	**-**	**-**	**-**	**-**	**(7,450)**	**(7,221)**	**(7,450)**	**(7,221)**
Total segment revenue from continuing operations - from external customers*	**124,043**	**111,855**	**136,171**	**92,830**	**14,967**	**10,203**	**275,181**	**214,888**
Normalised EBITDA/(LBITDA) from continuing operations*	**7,908**	**9,460**	**8,147**	**(765)**	**4,336**	**3,064**	**20,391**	**11,759**
Other segment information								
Depreciation and amortisation*	**2,648**	**2,543**	**3,941**	**4,204**	**886**	**930**	**7,475**	**7,677**
Impairment*	**5,707**	**12,425**	**-**	**3,538**	**-**	**(2,792)**	**5,707**	**13,171**
Continuing and discontinued operations								
Total segment assets	**70,770**	**71,759**	**128,535**	**139,023**	**24,528**	**20,766**	**223,833**	**231,548**
Total assets includes:								
Additions to non-current assets (other than financial assets and deferred tax)	**1,295**	**2,316**	**1,659**	**4,250**	**80**	**170**	**3,034**	**6,736**
Total segment liabilities	**54,330**	**57,922**	**54,183**	**54,398**	**11,112**	**7,050**	**119,625**	**119,370**

*Balances to the 30 June 2017 have been re-presented to exclude results from discontinued operation. Refer to Note 5.

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

The reconciliation of EBITDA to loss before income tax is as follows:

	Continuing and discontinued operations		Continuing operations	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Normalised EBITDA used for segment reporting	**23,191**	**14,263**	**20,391**	**11,759**
Non-impairment one-off items	(6,033)	(2,178)	(5,738)	(866)
Impairment expense	(17,680)	(19,815)	(5,707)	(13,171)
Reported EBITDA/(LBITDA)	**(522)**	**(7,730)**	**8,946**	**(2,278)**
Depreciation expense	(10,406)	(10,311)	(7,043)	(6,794)
Amortisation expense	(432)	(883)	(432)	(883)
Interest revenue	165	152	165	152
Finance costs	(5,745)	(6,254)	(5,381)	(5,193)
Loss before income tax	**(16,940)**	**(25,026)**	**(3,744)**	**(14,996)**

3 Revenue

The Group derives the following types of revenue:

	Consolidated entity 2018 $'000	2017* $'000
Sale of goods	174,179	124,169
Services	100,722	90,436
Other income	280	283
Total revenue from continuing operations	**275,181**	**214,888**

*Balances to the 30 June 2017 have been re-presented to exclude results from discontinued operation. Refer to Note 5.

4 Expenses

(a) Loss for the year from continuing operations includes the following expenses:

	Consolidated entity 2018 $'000	2017* $'000
Cost of goods sold	219,973	152,172
Rental expense on operating leases	2,516	1,129
Defined contribution superannuation costs	3,372	3,344
Net foreign currency exchange losses	5	378

*Balances to the 30 June 2017 have been re-presented to exclude results from discontinued operation. Refer to Note 5.

(b) Impairment charge

Impairment charges from continuing operations of $5.707m were allocated against customer relationship intangible assets associated with the acquisition of Pilbara Hire Group Pty Ltd of $4.707m and goodwill of Aust Bore Pty Ltd of $1.000m. In 2017, Impairment charges from continuing operations of $13.171m have been allocated against goodwill of $11.238m, to identifiable intangible assets of $1.333m and to property, plant and equipment $0.600m. Refer to Note 9.

5 Discontinued operation

(a) Discontinued operation

The Group has been actively seeking a buyer for its cranes business in Chile. The sale process is expected to be completed within the next 6 months. The Group recognised impairment losses totalling $11.973m in respect to plant and equipment of the cranes business based on a comparison between carrying value and fair value less costs to sell. Property, plant and equipment of the business were reclassified as held for sale at the end of the reporting period. The results of the cranes business in Chile has been disclosed as discontinued operations. The comparative profit and cash flows from discontinued operations for the year are set out below.

5 Discontinued operation (continued)

(a) Discontinued operation (continued)

	Consolidated entity	
	2018	2017
	$'000	$'000
Revenue	18,181	19,456
Expenses	(31,377)	(29,485)
Income tax benefit/(expense)	3,217	(2,042)
Loss from discontinued operation	**(9,979)**	**(12,071)**
Net cash inflow from operating activities	1,360	1,720
Net cash inflow/(outflow) from investing activities	1,219	(1,796)
Net cash (outflow)/inflow from financing activities	(2,374)	10
Net increase in cash generated by the subsidiary	**205**	**(66)**

The assets and its associated liabilities relating to the cranes business in Chile are presented as held for sale. See (b) below.

There was no discontinued operation at 30 June 2017.

(b) Assets and liabilities classified as held for sale

The Group intends to dispose properties and equipment that it no longer requires in the next 12 months. The properties and equipment are located in Chile, Australia and Peru. The properties available for sale in Chile are related to the discontinued operations in Chile.

	Consolidated entity 2018 $'000
Plant and equipment	13,068
Land and buildings	1,960
Discontinued cranes business operation in Chile	**15,028**
Land and buildings in Hunter Valley	1,571
Land and buildings in Peru	1,829
Plant and equipment in Peru	285
Other properties held for sale	**3,685**
Total assets classified as held for sale	**18,713**
Financial liabilities associated with discontinued cranes business operation in Chile	**15,210**

6 Earnings per share

	Consolidated entity	
	2018	2017
Basic earnings per share	**Cents**	**Cents**
From continuing operations	(0.34)	(2.78)
From discontinued operations	(1.72)	(2.16)
Total basic earnings per share	**(2.06)**	**(4.94)**
Diluted earnings per share		
From continuing operations	(0.34)	(2.78)
From discontinued operations	(1.72)	(2.16)
Total diluted earnings per share	**(2.06)**	**(4.94)**

6 Earnings per share (continued)

Reconciliation of earnings to loss	Consolidated entity 2018 $'000	2017 $'000
Loss after tax:		
Earnings used in basic and diluted earnings per share calculation	(1,960)	(15,562)
From discontinued operation	(9,979)	(12,071)
Loss attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**(11,939)**	**(27,633)**

Weighted average number of shares used as the denominator	Consolidated entity 2018 Number	2017 Number
Weighted average number of ordinary shares used in calculating basic earnings per share	578,833,756	558,946,633
Effect of dilutive securities - share options	-	-
Used to calculate diluted earnings per share	578,833,756	558,946,633

Performance rights granted to employees under the performance rights plan, rights granted to senior executives under the performance rights plan and options issued as part consideration for the subordinated loan are considered to be potential ordinary shares. Whilst that is the case, because of the net loss after tax, these have not been included in the determination of diluted earnings per share as they are considered to be anti-dilutive.

7 Dividends

Recognised amounts

There were no interim or final dividends paid during the year ended 30 June 2018 and 30 June 2017.

Dividends not recognised at the end of the reporting period

Since the end of financial year the Directors have not declared a final dividend for the financial year ended 30 June 2018 (2017: Nil cents per share).

8 Property, plant and equipment

	Consolidated entity 2018 $'000	2017 $'000
Freehold land		
Cost	21,378	22,748
	21,378	**22,748**
Freehold buildings		
Cost	35,456	43,486
Accumulated depreciation	(8,569)	(13,239)
	26,887	**30,247**
Plant and equipment		
Cost	63,904	102,947
Accumulated depreciation	(45,592)	(51,124)
	18,312	**51,823**
Capital work in progress		
Cost	104	509
	104	**509**
	66,681	**105,327**

8 Property, plant and equipment (continued)

Consolidated entity	Freehold land $'000	Buildings $'000	Capital work in progress $'000	Plant and equipment $'000	Total $'000
Year ended 30 June 2018					
Opening net book amount	22,748	30,247	509	51,823	**105,327**
Additions	-	408	472	2,154	**3,034**
Reallocation of capital work in progress	-	60	(847)	787	**-**
Disposals	(138)	(223)	(30)	(3,283)	**(3,674)**
Transfers to inventory	-	-	-	(1,151)	**(1,151)**
Exchange differences	933	924	-	2,380	**4,237**
Impairment loss (refer to Note 5)	-	-	-	(11,973)	**(11,973)**
Depreciation charge	-	(1,334)	-	(9,072)	**(10,406)**
Transfer to assets classified as held for sale	(2,165)	(3,195)	-	(13,353)	**(18,713)**
Closing net book amount	**21,378**	**26,887**	**104**	**18,312**	**66,681**

Consolidated entity	Freehold land $'000	Buildings $'000	Capital work in progress $'000	Plant and equipment $'000	Total $'000
Year ended 30 June 2017					
Opening net book amount	20,154	36,528	322	56,304	**113,308**
Additions	-	910	438	5,388	**6,736**
Reallocation of capital work in progress	(200)	75	-	125	**-**
Disposals	(845)	-	(35)	(1,517)	**(2,397)**
Transfers to inventory	4,892	(2,458)	-	1,756	**4,190**
Exchange differences	(1,253)	(2,851)	(216)	(1,279)	**(5,599)**
Impairment loss	-	(600)	-	-	**(600)**
Depreciation charge	-	(1,357)	-	(8,954)	**(10,311)**
Closing net book amount	**22,748**	**30,247**	**509**	**51,823**	**105,327**

9 Intangible assets

	Goodwill $'000	Brands $'000	Customer relationships $'000	Other intangibles $'000	Total $'000
Year ended 30 June 2018					
Opening net book amount	11,105	-	5,099	564	16,768
Additions	-	-	-	87	87
Exchange differences	110	-	-	5	115
Amortisation charge	-	-	(392)	(40)	(432)
Impairment charge	(1,000)	-	(4,707)	-	(5,707)
Closing net book amount	**10,215**	**-**	**-**	**616**	**10,831**
At 30 June 2018					
Cost	65,794	50	15,192	877	81,913
Accumulated amortisation and impairment	(55,579)	(50)	(15,192)	(261)	(71,082)
Net book amount	**10,215**	**-**	**-**	**616**	**10,831**

9 Intangible assets (continued)

	Goodwill $'000	Brands $'000	Customer relationships $'000	Other intangibles $'000	Total $'000
Year ended 30 June 2017					
Opening net book amount	27,496	50	9,124	598	37,268
Additions	-	-	-	70	70
Exchange differences	(346)	-	(205)	79	(472)
Amortisation charge	-	-	(700)	(183)	(883)
Impairment charge	(16,045)	(50)	(3,120)	-	(19,215)
Closing net book amount	**11,105**	**-**	**5,099**	**564**	**16,768**
At 30 June 2017					
Cost	63,749	50	14,938	824	79,561
Accumulated amortisation and impairment	(52,644)	(50)	(9,839)	(260)	(62,793)
Net book amount	**11,105**	**-**	**5,099**	**564**	**16,768**

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.

Goodwill is allocated to the cash generating units ("CGU") as follows:

	Consolidated entity	
Cash generating unit	**2018 $'000**	**2017 $'000**
Aust Bore Pty Ltd	5,310	6,310
Austin Engineering USA Inc.	3,716	3,606
Austin Mackay	1,189	1,189
Net carrying value	**10,215**	**11,105**

Impairment charge

The impairment was the result of the Company reassessing the recoverable values of its CGU in light of the anticipated risks and opportunities that exist in each CGU.

During the year, a net impairment charge of $5.707m (2017: $19.215m) has been allocated to the following intangible assets and cash generating units (CGUs):

Impairment charges - 2018	Goodwill $ '000	Customer relationships $ '000	Consolidated entity $ '000
Pilbara Hire Group Pty Ltd	-	4,707	**4,707**
Aust Bore Pty Ltd	1,000	-	**1,000**
Total impairment	**1,000**	**4,707**	**5,707**

Impairment charges - 2017	Goodwill $ '000	Other intangible assets $ '000	Consolidated entity $ '000
Pilbara Hire Group Pty Ltd	6,982	50	7,032
Austin Arrendamientos Chile Ltda	4,857	1,787	6,644
Austin Ingenieros Chile Ltda	2,206	1,333	3,539
Aust Bore Pty Ltd	2,000	-	2,000
Total impairment	**16,045**	**3,170**	**19,215**

9 Intangible assets (continued)

Key assumptions used for value in use calculations

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

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

(a) Growth rates used within the forecast period;
(b) Discount rates; and
(c) Growth rates used to extrapolate cash flows beyond the forecast period.

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

Pre-tax WACC

Region	2018 %	2017 %
Australia	14.48	15.44
USA	13.00	15.40
Chile	13.87	15.73
Colombia	18.70	20.24
Peru	16.73	17.18
Indonesia	14.76	16.18

Perpetual growth rates are applied based on the CGU’s location. The average perpetual growth rates used for the CGU are 3% (2017: 3%) based on the long-term growth rates experienced in the group’s end-markets and external forecasts.

Impact of reasonably possible changes in key assumptions

The impairments recorded during the year were based on management determination on the CGU's recoverable amount, after taking into consideration of any possible change in key assumptions of value-in-use calculation of the CGU's. At 30 June 2018, after the impairment charges, and applying reasonable sensitivity analysis, the recoverable amount of each CGU exceeds its carrying value.

10 Financial liabilities

	2018 Current $'000	2018 Non-current $'000	2017 Current $'000	2017 Non-current $'000
Secured liabilities				
Facilities associated with continuing operations				
Bank facilities	2,311	1,397	3,784	-
Non-bank core debt	21,628	10,938	-	20,080
Other	-	-	8,424	904
	23,939	**12,335**	**12,208**	**20,984**
Facilities associated with discontinued operations				
Finance liabilities associated with assets held for sale in cranes business	15,210	-	4,837	11,462
	39,149	**12,335**	**17,045**	**32,446**

Financial liabilities associated with assets held for sale

Financial liabilities due from Austin Arrendamientos Chile Ltda will be settled in conjunction with asset sales to which the liabilities are secured against. On the basis that the Group intends to dispose of the secured assets within 12 months, the financial liabilities have been classified as current.

11 Contingent liabilities

There are no contingent liabilities other than bank guarantees that are issued to third parties arising out of dealings in the normal course of business.

12 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

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ASX ANNOUNCEMENT (ASX Code: ANG) **28 August 2018**

Turnaround Strategy delivers return to Profit on 25% lift in Revenue

Austin Engineering Limited (ASX: ANG - "Austin") has delivered a net profit after tax, before impairments and one-off charges, of $5.4 million. This represents a turnaround from the $1.5 million loss in FY17 and signifies Austin's return to profitability following extensive restructuring activity including Board renewal and the appointment of a new management team.

Summary of Business Performance

- Group revenue of $293.4 million, a 25% increase on FY17
- Normalised EBITDA of $23.2 million, up 62% from $14.3 million the previous year
- Statutory reported loss of $11.9 million after booking impairments and one-off charges of $23.7 million in relation to the Chile crane business and goodwill in Australian Site Services and Aust Bore
- Revenue from the Americas increased 37% to $154.4 million and earnings (EBITDA) rose from $1.7 million in FY17 to $11.0 million, supported by a substantial improvement in margins following business turnaround activities
- Revenue from Australia increased 11% to $124.0 million, delivering earnings of $7.9 million
- Asian operation continues to generate the highest profit margins, increasing revenue by 29% to $22.4 million and EBITDA by 39% to $4.3 million
- Balance sheet repair complete following the refinancing of Austin's debt facilities with gearing of 30.6% including a net cash position of $5.6 million
- Cash flow from operations generated $1.2 million in cash compared to negative $14.8 million in FY17
- Executive management team further strengthened with the appointment of a Global Manager Operations and Global Manager Market Development and Innovation.

Financial Summary	FY18	FY17 Statutory	Change	FY18	FY17 Normalised*	Change
	$m	$m	%	$m	$m	%
Revenue	**293.4**	234.3	25%	**293.4**	234.3	25%
EBITDA	**(0.5)**	(7.7)	(94%)	**23.2**	14.3	62%
Net Profit Before Tax	**(16.9)**	(25.0)	(32%)	**7.7**	(2.1)	↑
Net Profit After Tax	**(11.9)**	(27.6)	(57%)	**5.4**	(1.5)	↑
EPS (cents)	**(2.06)**	(4.94)	(58%)	**0.93**	(0.27)	↑
Cash from operations	**1.2**	(14.8)	↑	**1.2**	(14.8)	↑
Net debt (continuing ops)	**31.0**	45.6	(32%)	**31.0**	45.6	(32%)

*Excluding impairment/one-off costs

Results Commentary

Commenting on the results, Austin's Managing Director Peter Forsyth said: this result is evidence that our turnaround strategy is delivering.

"Activity levels across our business improved strongly during the year, particularly in the Americas that benefited from a strong increase in revenue from our US operations. While our Australian operations increased revenue, earnings were impacted by product mix. During the year we closed unprofitable workshops in the Hunter Valley, NSW and Karratha, WA. This is consistent with our broader strategy to rationalise and simplify Austin's asset base and operations, a process that is ongoing" Mr Forsyth said.

"There are, however, other fundamental changes underway in our business that are placing an increased emphasis on delivering industry leading engineered solutions, supported by our global manufacturing footprint. The formation of our Production Efficiency Group (PEG) will provide continuous improvement opportunities, enhancing our quality standards and state of the art manufacturing techniques to improve efficiencies and minimise operating costs. Our clients will continue to achieve productivity enhancements through our customised products while we work to ensure Austin is profitable through the cycle and over the long term."

Americas

This region delivered the strongest revenue and profit contribution in the Group with EBITDA (normalised) increasing from $1.7 million in FY17 to $11.0 million on a 37% increase in revenue to $154.4 million. Copper accounts for more than half the revenue from this region with operations in the USA delivering the highest contribution to EBITDA with ongoing strong demand for products and intense focus on improving workshop efficiencies.

Operations in Chile returned to profit in FY18 due to the strength of the copper market and ongoing improvements in cost efficiency. Colombia maintained profitability from the previous year while Peru approached break-even, following a reduction in indirect costs and a shift away from on-site services.

Australia

While Australia as a region is now second to the Americas in revenue and earnings, its Perth operations continue to contribute the highest EBITDA (normalised) in the Group. Earnings however fell relative to FY17 that had the benefit of delivering a major replacement cycle for a large client.

On the east coast, Austin's operations in Mackay, as well as the Aust Bore machining business, improved earnings as a result of the improved demand for coal in Queensland.

Two unprofitable operations were closed during the year, in the Hunter Valley, NSW and Karratha, WA.

Asia

Our Asian business, based in Indonesia, continued to perform strongly with growth in revenue (+29%) and earnings (+39%). Asia contributes 7% of revenue but is highly profitable and has the capacity to deliver continued growth from increased throughput.

Cash Flow and Working Capital

During the year cash flow generated from operations was $1.2 million, a significant turnaround from the negative $14.8 million the previous year, due to a strong increase in earnings.

Careful attention to working capital management as production levels increased throughout the year, resulted in Austin finishing FY18 with a net cash balance of $5.6 million.

Balance Sheet and Gearing

"Rebuilding the balance sheet has been a major priority and our new longer term debt facilities provide greater flexibility around management of receivables as well as improved terms. Most importantly they enable us to plan for future growth with a greater level of confidence and certainty."

"With the anticipated sale of the Chile crane assets, net debt will further decrease providing the Group with improved financial stability and readiness for growth opportunities" Mr Forsyth said.

Outlook

The outlook for capital expenditure among Austin's client base is positive as projections for spending by the top five global mining companies indicate growth for the first time in four years. This is supported by the trend in new surface mining equipment deliveries that has consistently increased since the beginning of 2016 but remains well below the peak in 2012.

The three key commodities that Austin's operations have greatest exposure to, iron ore, copper and coal, are all expected to remain in strong demand over the next 2-3 years. Two large miners announced the opening of new iron ore mines in Western Australia and a range of new copper mines, and the expansion of existing mines, in the Americas are scheduled over the next two years. Coal remains in demand with improved pricing in recent years leading to increased capex requirements from miners on the east coast of Australia.

Based on our current order book, committed work and tender opportunities, Austin expects to deliver an EBITDA (normalised) of $25 million – $28 million for FY19, excluding the Chile crane hire business. Our order book and committed work is in line with the same time last year, however the tender book and pipeline opportunities are significantly higher. We also have an increased confidence of converting these to orders due to the implementation of a new client account management strategy in the last six months, including the appointment of senior executives focused on sales and market development.

End

For further information contact:

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About Austin Engineering: An Australian based engineering company, headquartered in Brisbane, with operations in Australia, Asia, North and South America. In Australia Austin manufactures, assembles, repairs and maintains (on and off-site) products used in the mining and resources sector. Key product lines include dump truck bodies, water tanks, excavator buckets and materials handling equipment. In Australia and South America specialised field services to the mining industry are provided by Austin's site services divisions. The equipment and service needs of mining and oil and gas-related customers in Asia are delivered through a world class production facility on Batam Island in Indonesia. Austin's facility in the USA is based in Casper, Wyoming and is an industry-leading designer and manufacturer of high-efficiency dump truck bodies and water tanks. It services the North American, Mexican and Canadian mining markets. In South America, Austin has operations located in Chile, Peru and Colombia that manufacture, repair and maintain dump truck bodies and other mining products for their respective markets. For more information visit www.austineng.com.au