AUSGROUP LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No 200413014R)

Disclaimer of Opinion by Auditor of the Financial Statements for Year Ended 30 June 2016 and Material Adjustments to the Unauditied Results For Year Ended 30 June 2016

Pursuant to Rule 704(5) of the Listing Manual, the Board of Directors of AusGroup Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to announce that the independent auditor of the Company, PricewaterhouseCoopers LLP, has issued a disclaimer of opinion in their Independent Auditor's Report dated 24 November 2016 for the financial statements of the Company and the Group for the financial year ended 30 June 2016.

Please refer to the copy of the aforementioned Auditor's Report (Appendix 1), together with an extract of the relevant notes to the Financial Statements (Appendix 2) for further information.

Pursuant to Rule 704(6) of the Listing Manual, the Board would also like to announce the material adjustments arising from the variances between the Financial Statements for the year ended 30 June 2016 and the unaudited financial statements announced on 29 August 2016 (the "Preliminary Unaudited FY 2016 Financial Results") annexed to this announcement as Appendix 3.

By Order of the Board
AusGroup Limited

Eng Chiaw Koon
Managing Director
24 November 2016

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Appendix 1 - Independent auditor's report to the members of AusGroup Limited

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of AusGroup Limited (the "Company") and its subsidiaries (the "Group") set out on pages 19 to 85, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 30 June 2016, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Singapore Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion section, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

(a) The Group's non-current assets at 30 June 2016 include property, plant and equipment of A$50.7 million (note 11) and intangible assets of A$33.4 million (note 13) relating to the Port and Marine cash-generating-unit ("CGU").

As described in note 24(a) to the financial statements, management has estimated the recoverable amount of the Port and Marine CGU based on a fair-value-less-costs-of-disposal valuation model. We were unable to obtain sufficient appropriate audit evidence regarding the appropriateness of the various critical estimates and assumptions (note 24(b)) made by management in estimating the recoverable amount of the Port and Marine CGU, as the Group was unable to provide sufficient documentary support for these estimates and assumptions. Consequently, we were unable to determine whether any adjustment to the accompanying financial statements was necessary.

(b) The Group incurred a net loss of A$258,922,000 for the financial year ended 30 June 2016 and had net liabilities of A$14,867,000 as at that date. In addition, the Company had net liabilities of A$9,362,000 as at 30 June 2016. Furthermore, as described in note 2(a) to the financial statements, the ability of the Group and the Company to meet the terms and conditions of their borrowings is dependent on the ability of the Group and the Company to generate sufficient cash flow and their ability to successfully implement the various options referred to in the same note. These matters indicate the existence of material uncertainties that cast significant doubt about the ability of the Group and of the Company to operate as going concerns.

We were unable to obtain sufficient appropriate audit evidence regarding the ability of the Group and the Company to generate sufficient cash flow and the likely outcome of the options being considered by the Group and the Company. We were therefore unable to conclude whether the use of the going concern assumption, which has been adopted for the preparation of the accompanying financial statements, is appropriate. If the Group and the Company are unable to continue in operational existence for the foreseeable future, several adjustments would have to be made to the accompanying financial statements to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded. In addition, the Group and the Company may have to provide for further liabilities that might arise. The accompanying financial statements do not reflect these adjustments.

Independent auditor's report to the members of AusGroup Limited (continued)

Report on the Financial Statements (continued)

(c) Included in the Company's non-current assets at 30 June 2016 is an investment in a subsidiary of A$30.9 million (note 10(a)). The subsidiary holds investments in other subsidiaries that operate the Group's Port and Marine business. As described in note 10(a) to the financial statements, management has estimated the recoverable amount of the investment in subsidiary based on the recoverable amount of the Group's Port and Marine CGU.

As a result of the inability to obtain sufficient appropriate audit evidence over the recoverable amount of the Group's Port and Marine CGU as described in (a) above, we were unable to determine whether any adjustment to the accompanying financial statements was necessary.

As a consequence of the standalone materiality of these items and the possible impact upon other balances within the financial statements, we considered the potential impact to be pervasive to the overall financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion section, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the accompanying financial statements.

Report on other Legal and Regulatory Requirements

In our opinion, except for the possible effects of the matters described in the Basis for Disclaimer of Opinion paragraph, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore, of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants

Singapore, 24 November 2016

Appendix 2 - Extracts from the financial statements for the year ended 30 June 2016

2 Summary of significant accounting policies

(a) *Basis of preparation*

Going Concern

The Group has recognised a net loss after tax of AU$258.9 million for the year ended 30 June 2016 and as at that date, current liabilities exceed current assets by AU$115.2 million and total liabilities exceed total assets by AU$14.9 million. In addition, the Group has breached covenants on its major debt facilities during the year and there are also uncertainties regarding the valuation of the major port assets as explained below.

Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations as and when they fall due. The paragraphs below outline the going concern basis.

Renegotiation of debt facilities

The Group is currently discussing its debt arrangements with DBS Bank with the expectation that the current short term facility repayment date will be extended to a mutually agreed repayment date after considering the forecast cashflow projections of the Group.

During the year the Group had been in breach of a number of the financial covenants attached to the S$110m Multi Currency Notes (the “Notes”) and facilities from DBS Bank Limited (the “DBS facilities”) (refer to note 17). At 30 June 2016, the Group was in breach of three of its financial covenants for each of the Notes and DBS facilities. DBS Bank Limited waived its rights for these covenant breaches in relation to the DBS facilities for the relevant assessment period (refer to notes 17 and 34). The Group is in the process of agreeing appropriate covenants with DBS Bank Limited going forward, however, the Group has received a waiver from DBS for Quarter 1 and Quarter 2 of the 2017 financial year. Subsequent to year end, an extension of the maturity date of the Notes facility to 20 October 2018, with an option to extend to 20 October 2019 on the approval of the Noteholders, together with the removal of the financial covenant requirements, was approved by the Noteholders on 5 October 2016. This will result in these debt obligations being reclassified from current to non-current liabilities (i.e. not due within one year) after the year end. As part of the renegotiation of the Notes facility, the Group agreed to provide security to the Noteholders over the Port and Marine assets. The Notes will be secured, on a shared first ranking basis, against all property and assets of Ezion Offshore Logistics Hub (Tiwi) Pty Ltd on a fixed and floating basis and 100% of the shares of Ezion Offshore Logistics Hub Pte. Ltd, although the first AU$20 million of this security will be reserved for future financing issued to the Port and Marine business from lenders other than the Noteholders.

In addition, the Group has in issue loans from Ezion Holdings Limited, a substantial shareholder of the Group which are currently due to be repaid not before December 2017 (refer to note 30(g)). The Group is in the process of renegotiating the terms and maturity of these loans and expects to secure an extension of maturity as part of this process.

2 Summary of significant accounting policies (continued)

(a) *Basis of preparation (continued)*

Going Concern (continued)

Valuation of port assets

There have been delays in the Group's plans to fully commercialise its strategically important port facilities due to an ongoing dispute between a local environmental activist group and the Australian Federal Department of Environment (refer to note 34), combined with a prolonged downturn in the oil and gas industry. Consequently, there were impairment indicators present for the assets in the Port and Marine cash-generating-unit ("CGU") at 30 June 2016, and as such the Group engaged an external specialist in the field of Port and Marine Services with specific expertise in the economic forecast for oil and gas developments to perform a fair value less costs of disposal ("FVLCD") valuation on a discounted cash flow basis as at 30 June 2016 for the Port and Marine CGU. In arriving at the valuation of $70.0 million for the Port and Marine CGU at 30 June 2016, management used the external specialist's FVLCD valuation and included additional fair value derived from the existing operations of the Port and Marine CGU and from other sources; which were not included in the external specialist's valuation model.

The range of values assessed for a long life asset (at least 40 years) is wide and, in some cases, may result in no impairments being required for the Port and Marine CGU. Assessing the appropriate carrying value at the early stages of commercialisation of a long life asset is inherently difficult as it is contingent on economic and geo-political forecast conditions over a 40 year life. Whilst the Group acknowledged this wide range of values in considering the appropriate carrying value of the assets at 30 June 2016, an impairment of AU$119.9 million has been recognised in these financial statements (represented by a AU$136.1 million impairment of non-current assets, combined with a reduction of AU$16.2 million in the related deferred tax liability), to write down the recoverable value of Port and Marine CGU to AU$70.0 million (refer to note 24).

By their nature, these assessments make use of a number of assumptions which can have a significant impact on the valuation result as set out in note 24. Due to the uncertainties around the assumptions used in determining the valuation amount, and given the materiality of the carrying amount of these assets to the Group position and debt security, the Group acknowledges that there remains an inherent uncertainty surrounding the Group's ability to realise the Port and Marine assets at the values included in the financial statements for the year ended 30 June 2016, however, the Group considers that there is an equal probability that the Group may be able to realise a value in excess of this carrying amount.

Management's plans to address these uncertainties

In considering the impact of the carrying value of the Port and Marine CGU and the impact of this on the current debt profile of the business, it was critical for the Group to assess the potential options for the Group to service, repay and potentially restructure the debt position going forward. As part of the assessment of going concern, management has reviewed the Group's cash flow forecasts over the period to October 2018. These indicate that the Group has sufficient cash flows in order to meet its liabilities as they fall due, notwithstanding the uncertainties identified above. These forecasts represent managements' best estimate of revenues and costs in the coming periods. As well as cash inflows from work already awarded to the Group, these forecasts include growth expected from the Group's existing contracts and client base. In addition, there are some amounts included in forecast cash flows which relate to winning work from new clients through a competitive tender process and whilst uncertain, management remains confident that sufficient new work will be won in order to meet the Group's targets. A number of tenders have recently been entered into and new contacts have been awarded to the Group since the balance sheet date and prior to the date of signing these financial statements. In the event that the Note facility is not extended beyond 20 October 2018, the Group will need to consider the options available to extinguish this liability, which will involve a restructure of the Notes including the potential conversion of Notes to equity; a refinancing of the Notes; and options over the potential divestment of assets or businesses which may be realised to extinguish the Group's debt obligations.

2 Summary of significant accounting policies (continued)

(a) *Basis of preparation (continued)*

Going Concern (continued)

Management's plans to address these uncertainties (continued)

Management have assessed the options available in order to ensure that sufficient cash flow is in place to enable the Group to meet its obligations as they fall due. There are a number of options that the Group is considering which, amongst others, include the potential for some of the Group's current debt providers to convert their debt to equity which has the dual impact of reducing the liability position and reducing the cash outflows from debt servicing after conversion, the potential for raising new equity and the potential divestment of the Group's assets / businesses over the forecast period. The Group is also in ongoing discussions with its principal banker regarding appropriate debt facilities going forward.

Preparation of the financial report on a going concern basis

As a result of the matters outlined above, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business at the amounts stated in the financial statements. However, after assessing the above factors and the non-cash impairment impact of the carrying value of the Port and Marine CGU, the directors consider that the Group continues to be able to meet its obligations as and when they fall due based on:

1) The forecasted cashflows from the Group including the expected revenue from existing customers and contracts, the expected growth in cashflow from existing customers and contracts and the expected successful conversion of current market tendering opportunities into future revenues;
2) the current funding facilities available to the Group;
3) the options for the Group to restructure and potentially extend its current debt facilities and the initiatives being pursued, which may include a conversion of some of these debts to equity;
4) the forecasted cashflows being sufficient to service and potentially reduce the Group's debt position over the period to October 2018; and
5) the options over the potential divestment of assets or businesses which may be realised to extinguish the Group's debt obligations.

Accordingly, the directors have prepared the report on a going concern basis.

10 Investments in subsidiaries

	Company 2016 AU$'000	2015 AU$'000
Non-current		
Investment in subsidiaries	**83,632**	114,212

(b) *Investment in subsidiaries*

	Company 2016 AU$'000	2015 AU$'000
Equity investment at cost		
Beginning of financial year	**114,212**	61,465
Acquisition of subsidiaries (note 32)	**-**	41,140
Impairment at cost	**(34,146)**	-
Currency translation movement	**3,566**	11,607
End of financial year	**83,632**	114,212

The Group has announced the planned closure of Fabrication and Manufacturing - Singapore in the coming financial year and provided for impairment of certain of its assets as discussed in note 24. The Company has also reviewed the carrying value of its investment in the subsidiary and has recognised an impairment charge of AU$19.3 million, fully writing down the balance in the year, as a result of the pending closure.

In addition, following the impairment recognised at Group level in relation to its Port and Marine assets (refer to note 24), the Company has performed a review of the carrying value of its investments in relevant subsidiaries. The Company has estimated the recoverable amount of the investment in subsidiary based on recoverable amount of the Group's Port and Marine CGU. As a result, an impairment of AU$14.9 million has been recognised against investments, as well as allowances against receivables from these subsidiaries as described in note 9. At 30 June 2016, the carrying amount (net of impairment allowance) of the relevant subsidiaries amounted to AU$30.9 million.

11 Property, plant and equipment (extract)

(i) *Impairment loss*

During the year ended 30 June 2016, the Group recognised an impairment loss of AU$90.9 million (2015: $0.2 million) with respect to property, plant and equipment. Refer to note 24 for further details. At 30 June 2016, the carrying amount (net of impairment) of property, plant and equipment relating to the Port and Marine CGU amounted to AU$50.7 million.

13 Other intangible assets (extract)

(ii) *Impairment loss*

During the year ended 30 June 2016, the Group recognised an impairment loss of AU$54.3 million (2015: AU$0.3 million). Refer to note 24 for further details of the charge in 2016. At 30 June 2016, the carrying amount (net of impairment) of intangible assets relating to the Port and Marine CGU amounted to AU$33.4 million.

24 Impairment of non-current assets (extract)

(a) *Impairment charges recognised in the financial statements (extract)*

The following table shows the impairment charges recognised in the financial statements as a result of these assessments:

Impairment based on year end assessment of CGUs	Class of asset	2016 Method	2016 Impairment charge	2015 Method	2015 Impairment charge
			AU$'000		AU$'000
Port and Marine	Property, plant and equipment	FVLCD	**82,030**	VIU	-
Port and Marine	Other intangible assets	FVLCD	**54,037**	VIU	-

(i) *Impairment based on year end assessment of CGUs (extract)*

Port and Marine: Fair value less costs of disposal basis

Management engaged an independent external expert specialising in valuation of similar assets to assist in determining the recoverable value of the CGU. The valuation model uses an income based approach, and is based on the present value of expected cash flows in the business over the life of the right to operate the port held by the Group. The fair value measure was categorised as level 3 fair value based on the inputs in the valuation techniques used.

The recoverable amount of the Port and Marine CGU is estimated to be AU$70.0 million on a FVLCD basis. The pre-impairment carrying amount of the CGU at 30 June 2016 was AU$189.9 million resulting in a AU$119.9 million impairment. This impairment has been recognised as a AU$136.1 million reduction in the carrying value of non-current assets on a pro-rata basis, combined with a AU$16.2 million reduction in the deferred tax liability associated with the exclusive right to operate the port at Port Melville.

(b) *Key assumptions (extract)*

Impairment testing is an area involving management judgement. The calculation of recoverable amounts, particularly in relation to VIU models and where the present value of future cash flows is used as the basis to determine FVLCD, has required management to select appropriate assumptions in order to determine the most appropriate impairment result.

(ii) *Key assumptions in FVLCD models*

In 2016 recoverable amount has been determined on a FVLCD basis for Port and Marine and Fabrication and Manufacturing - Singapore CGUs. Of these, only the valuation for Port and Marine has been based on the present value of future cash flows. The following sets out the key assumptions in the Port and Marine FVLCD model.

The operations included in the valuation model of the Port and Marine CGU are based on the activity of Port Melville, related assets and the activity of the supply base located in Darwin. The port commenced operations in November 2015, but there have been delays in the full commercialisation of the port as a result of the impact of an ongoing uncertainty in the environmental approvals in place for planned operations at the site (refer to note 34 for information regarding the current status of the required environmental approvals) which has led to the temporary suspension of commercial negotiations until this is successfully resolved and the current economic outlook for oil and gas exploration activity has improved. The valuation performed for the CGU as at 30 June 2016 is based on the future expectations for the site once this additional approval has been granted and further development to support expanded activity has been completed.

24 Impairment of non-current assets (extract, continued)

(b) *Key assumptions (extract, continued)*

In 2016 recoverable amount has been determined on a FVLCD basis for Port and Marine and Fabrication and Manufacturing - Singapore CGUs. Of these, only the valuation for Port and Marine has been based on the present value of future cash flows. The following sets out the key assumptions in the Port and Marine FVLCD model.

The operations included in the valuation model of the Port and Marine CGU are based on the activity of Port Melville, related assets and the activity of the supply base located in Darwin. The port commenced operations in November 2015, but there have been delays in the full commercialisation of the port as a result of the impact of an ongoing uncertainty in the environmental approvals in place for planned operations at the site (refer to note 34 for information regarding the current status of the required environmental approvals) which has led to the temporary suspension of commercial negotiations until this is successfully resolved and the current economic outlook for oil and gas exploration activity has improved. The valuation performed for the CGU as at 30 June 2016 is based on the future expectations for the site once this additional approval has been granted and further development to support expanded activity has been completed.

The Group engaged external specialists in the field of Port and Marine Services with specific expertise in the economic forecast for oil and gas developments, to perform a FVLCD valuation on a discounted cash flow basis as at 30 June 2016 of the oil and gas related operations for the Port and Marine segment assets. In arriving at the valuation of AU$70.0 million for the Port and Marine CGU at 30 June 2016, management used the external specialist's FVLCD valuation and included additional fair value derived from existing operations of the Port and Marine CGU and from other sources, which were not included in the external specialist's valuation model.

Forecast revenue assumption

Oil and gas revenue

The market share attributed to Port Melville in relation to servicing the oil and gas industry in exploration basins within the proximity of Port Melville has been based on the independent expert's assessment of the overall market, combined with a review of other competing facilities in the area, in order to capture the share expected to be attributable to the Port Melville operation through successful award of oil and gas contracts.

The independent valuation expert has used their own independent risk panel to determine the appropriate market shares in relation to each source of revenue. This was based on various criteria, namely the proximity to the site of competing ports, the service offering at each location and the serviceability of client requirements. The results of this assessment were then discussed with the independent valuation expert's global logistics and marine advisor and an appropriate capture rating was agreed prior to including revenue in the forecast model.

The independent valuation expert has considered revenue in three broad categories, namely revenues from expected/foreseeable contracts based on the current operations of Port Melville and ongoing discussions with potential customers as advised by management, potential revenues from the top end supply base in Darwin (the "East Arm facility") and from Port Melville, associated with the oil and gas exploration sector. The approach taken to modelling forecast revenue has been bottom up, beginning with a view on oil and gas activity expected to take place in the catchment area. From this assessment, typical tonnage and fuel assumptions through ports have been estimated, which forms the basis of a view on total capturable revenues. These revenues have then been risk adjusted according to the ability of Port Melville to secure them.

Over the life of the right to operate the port (valid until 2059), the total market has been assessed based on the current activity in the area, but has also taken into account possible development and capital spend in oil and gas as this may lead to additional revenue streams when these projects come online. These include development of various fields, primarily within the Bonaparte Basin, but excludes revenue for development of fields currently expected to occur after 2035 as the income is not considered to have sufficient certainty at this stage. Revenue has been included for the full valuation period up to 2059 for some other areas, where the Group has existing revenue streams, as there is considered to be a greater level of certainty attached to these items. The table below shows the areas that were assessed and included in the valuation model in this manner.

24 Impairment of non-current assets (extract, continued)

(b) *Key assumptions (extract, continued)*

Revenue item	Revenue stream: currently active/ potential revenue	Remarks
Current level of East Arm Logistics Revenues	Currently active	Revenues are made up of day-to-day supply provisions from East Arm to the people on Tiwi Island and is based on the contracts for this revenue already held in the Group. As there is no significant change in population expected over this time period, there have been no significant amendments to annual revenue in real terms over the assessment period.
East Arm Logistics Revenues – Vessel Charter	Currently active	Revenues are made up of vessel charters for day-to-day supply provisions from East Arm to the people on Tiwi Island and is based on the contracts for this revenue already held in the Group. As there is no significant change in population expected over this time period, there have been no significant amendments to annual revenue in real terms over the assessment period.
Woodchip export	Currently active	It has been assumed that the existing woodchip contract is renewed continuously through the forecast period due to the preferred quality and availability of Tiwi Island woodchip.
Bayu-Udan Development Drilling Support	Potential revenue	Revenue forecast includes potential storage and bunker supply revenues at Port Melville and have been appropriately risked with a chance of capturing the contract. Bunker revenues have also been risked further with the portion of total bunker supply requirement expected to be captured by Port Melville.
Port Revenues Associated with Reloading of Storage Tanks	Potential revenue	Revenue forecast includes revenue expected to be earned when fuel storage tanks are re-filled from berthing of a product tanker. It has been assumed that fuel storage tanks would be re-filled annually. Revenues in this area have been appropriately risked for inclusion in the model.

The value of the revenue streams identified above has been determined based on application of the Group's published port tariff.

Other revenue

Other revenue included in the model relates to similar revenue which may arise from future potential contracts which are currently being discussed, and from laydown and storage rental to oil and gas customers. Management has arrived at forecast revenue based on estimated contract requirements as determined by the Group's senior management having regard to their extensive experience and knowledge both within the Group and from prior experience in the wider oil and gas sector. The same port tariff has been applied to these sources of revenue as for direct oil and gas revenues described above.

Discount rate

The discount rate applied to the valuation model was 11.2% post tax nominal (pre-tax equivalent: 16.0%). It was prepared by a second independent advisor to determine the most appropriate rate to apply to the forecast cash flows, after considering risk adjusted forecast oil and gas revenue and the current operations of the Port and Marine business which are not linked to the oil and gas industry.

24 Impairment of non-current assets (extract, continued)

(b) *Key assumptions (extract, continued)*

Other assumptions

In addition to revenue assumptions outlined in detail above, the following are also considered to have a significant impact on the resulting CGU valuation:

Area	Basis of assumption
Port tariff	The rates used in the valuation are based on the Group's current published tariff table. Historic data concerning annual increases in port tariff applied by other ports has been used in order to determine the inflation rate used in the calculation of model revenue in future years. The forecast tariff rates were benchmarked by the independent expert based on their prior experience in valuing ports.
Costs	The costs used in the valuation model are consistent with the current operating costs required to operate the facilities at East Arm, Darwin, Port Melville and cargo vessels and are deemed appropriate to operate the facilities in future years.
Capex	The level of capex spend in the valuation model has been determined based on what is required to develop a full service offering to support the business operations foreseen in the model.
Period of cash flows	The model has been based on the remaining term of the right to operate the port already held in the Group (terminates in 2059). No activity has been assumed beyond the current term of this right and no terminal value has been assumed. Please also refer to discussion of forecast revenue above which highlights a distinction in assumptions adopted pre and post 2035 based on assessment of the level of certainty attached to particular revenue streams.
Cost inflation	Costs have been assumed to increase based on the consumer price index.

The valuation presented in the financial statements is therefore calculated based on a number of significant assumptions. The stated assumptions for the valuation have been determined in accordance with the following background and uncertainties concerning future activity:

- Estimates of revenue are partially dependent on securing contracts in relation to specific customer projects which have not yet commenced in oil and gas industries over the remaining 43 year asset life, and although management remain confident that there will be projects available to support the revenue assumptions, there is uncertainty that all these projects will be available or that Port Melville will capture the proportion of these projects foreseen in the model (refer to note 24 (c) in relation to sensitivities in revenue);
- projected revenue is also dependent on activity in the oil and gas industry which tends to be cyclical and therefore modelled activity may differ in timing and/or extent from that actually experienced in the coming years;
- although, the port is currently trading based on existing contracts with the Tiwi Islanders only, it is not fully commercialised. Full commercialisation is expected to commence following resolution of the environmental approval procedural process which has currently been referred back to the Minister (refer to note 34); and
- there are other ports, including Port Darwin, operating in the area which may take a different proportion of the market than projected, although projections of estimated revenue volume (which in turn is a key driver of other key model inputs such as estimated costs and capital expenditure) have taken into account the relative positions of these ports and therefore the risk in this area has been carefully considered.

Please refer to note 24 (c) for numerical information regarding the sensitivity of the impairment charge recognised to reasonably possible changes in key assumptions. This includes the key assumption of revenue, but also considers other reasonably possible changes in the most significant assumptions discussed in this section.

24 Impairment of non-current assets (extract, continued)

(c) *Sensitivity of impairment models to changes in assumptions (extract)*

The following table sets out the sensitivity of the Group's results in relation to reasonably possible changes in assumptions used in determining recoverable value in relation to CGUs where impairments have been recognised in the year:

	Potential increase/ (decrease) in impairment charge 2016 $'million
Port and Marine	
Revenue stream for oil and gas revenue increased by 30%	**(9.3)**
Revenue stream for oil and gas revenue decreased by 30%	**9.3**
Revenue streams for non oil and gas revenue increased by 10%	**(7.8)**
Revenue streams for non oil and gas revenue decreased by 10%	**7.8**
Revenue port tariffs increased by 10%	**(3.5)**
Revenue port tariffs decreased by 10%	**3.5**
Capital expenditure increased by 40%	**1.8**
Additional sustaining capital of $100,000 per year incurred	**0.9**
Discount rate increased by 1.5% (in absolute terms)	**9.6**

Appendix 3 – Material adjustments between the financial statements for the year ended 30 June 2016 and the unaudited financial statements announced on 29 August 2016

A. CONSOLIDATED STATEMENT OF (LOSS)/PROFIT AND OTHER COMPREHENSIVE INCOME

	Group			
	30/06/2016 (Final) AU$'000	30/06/2016 (Unaudited) AU$'000	Variance AU$'000	Note
Revenue	481,788	481,788	-	
Cost of sales	(459,849)	(458,504)	(1,345)	3
Gross profit	21,939	23,284	(1,345)	
Other operating income	3,548	3,548	-	
Other operating costs	(37,074)	(40,012)	2,938	4
Impairment of trade receivables	(48,388)	(48,388)	-	
Impairment of property, plant and equipment	(90,870)	(52,323)	(38,547)	1
Impairment of goodwill	(2,535)	(2,535)	-	
Impairment of intangible assets	(54,333)	(29,087)	(25,246)	1
Impairment of other assets	-	(5,054)	5,054	3 (ii)
Administrative expenses	(27,293)	(22,393)	(4,900)	2, 4
Marketing and distribution expenses	(2,756)	(2,756)	-	
(Loss)/profit from operations	(237,762)	(175,716)	(62,046)	
Finance costs	(15,783)	(15,783)	-	
(Loss)/profit before income tax	(253,545)	(191,499)	(62,046)	
Income tax expense	(5,377)	(1,668)	(3,709)	3 (i)
Net (loss)/profit for the period / year attributable to equity holders of the company	(258,922)	(193,167)	(65,755)	

Explanation for the variances

1. Management acknowledged the need to source a further independent valuation of the Port and Marine assets based on assessment of the available forecast market, for the purposes of completing and issuing the audited financial statements for the year ended 30 June 2016. This process has now been completed and based on the results, a further impairment of Port and Marine assets of AU$63.8 million has been recognised in the final financial statements.

2. As part of finalising the financial statements for the year ended 30 June 2016, additional liabilities totalling AU$2.0 million due to the Australian Tax Authority in relation to payroll tax liabilities were identified and recognised in administrative expenses and other payables. The remaining variance in Administrative expenses relates to a reclassificiation (refer to note 4 below).

Reclassifications

3. The difference was due to reclassifications as follows:

	AU$'000
(i) Derecognition of research and development income tax benefit previously recognised in cost of sales	3,709
(ii) Impairment of inventory	(5,054)
	(1,345)

4. The difference was due to a AU$2.9 million reclassification of expenses between administrative expenses and other operating costs.

B. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Group			Company			
	30/06/2016 (Final) AU$'000	30/06/2016 (Unaudited) AU$'000	Variance AU$'000	30/06/2016 (Final) AU$'000	30/06/2016 (Unaudited) AU$'000	Variance AU$'000	Note
CURRENT ASSETS							
Cash and cash equivalents	22,095	22,095	-	16	16	-	
Trade receivables	132,864	133,379	(515)	-	-	-	3
Other receivables and prepayments	9,995	14,998	(5,003)	6,613	6,613	-	4
Inventories	6,759	6,759	-	-	-	-	
Due from subsidiaries	-	-	-	-	-	-	
Other assets	-	-	-	-	-	-	
Total current assets	171,713	177,231	(5,518)	6,629	6,629	-	
NON-CURRENT ASSETS							
Property, plant and equipment	96,358	134,905	(38,547)	-	-	-	1
Goodwill	10,994	10,994	-	-	-	-	
Intangible assets	39,970	65,217	(25,247)	-	-	-	1
Other receivables and prepayments	3,627	2	3,625	-	-	-	2
Due from subsidiaries	-	-	-	49,514	86,830	(37,316)	1
Other assets	-	-	-	83,632	98,503	(14,871)	1
Deferred income tax assets	-	-	-	-	-	-	
Total non-current assets	150,949	211,118	(60,169)	133,146	185,333	(52,187)	
Total assets	322,662	388,349	(65,687)	139,775	191,962	(52,187)	
CURRENT LIABILITIES							
Trade payables	58,776	72,178	(13,402)	-	-	-	6
Other payables	65,225	49,753	15,472	3,357	2,384	973	7
Due to subsidiaries	-	-	-	8,951		8,951	8
Borrowings	139,957	125,529	14,428	136,736	123,281	13,455	5
Accruals for other liabilities and charges	21,365	24,947	(3,582)	-	-	-	9
Current income tax liabilities	-	-	-	93	93	-	
Provisions	1,580		1,580	-		-	9
Total current liabilities	286,903	272,407	14,496	149,137	125,758	23,379	
NON-CURRENT LIABILITIES							
Deferred income tax liabilities	1,977	1,978	(1)	-	-	-	10
Due to subsidiaries	-	-	-	-	8,951	(8,951)	8
Borrowings	39,193	53,621	(14,428)	-	14,428	(14,428)	5
Accruals for other liabilities and charges	2,149	9,455	(7,306)	-	-	-	9
Provisions	7,307		7,307	-		-	9
Total non-current liabilities	50,626	65,054	(14,428)	-	23,379	(23,379)	
EQUITY							
Capital and reserves attributable to equity holders of the Company							
Share capital	128,040	128,040	-	128,040	128,040	-	
Capital reserve	(163)	(163)	-	(163)	(163)	-	
Share option reserve	4,395	4,395	-	4,395	4,395	-	
Foreign currency translation reserve	15,409	15,409	-	24,615	24,615	-	
Retained (losses) / earnings	(161,449)	(95,849)	(65,600)	(166,249)	(114,062)	(52,187)	PL, 1
Total equity attributable to owners	(13,768)	51,832	(65,600)	(9,362)	42,825	(52,187)	
Non-controlling interest	(1,099)	(944)	(155)	-	-	-	1
Total equity	(14,867)	50,888	(65,755)	(9,362)	42,825	(52,187)	
Total liabilities and equity	322,662	388,349	(65,687)	139,775	191,962	(52,187)	

Explanation for the variances

1. The reduction in carrying value of Group property, plant and equipment and intangible assets relates to the impairment of Port and Marine assets (refer to section A, note 1). The impairment has also had a small impact on the non-controlling interest presented in the balance sheet.

   As a result of the impairment recognised by the Group, the Company has also assessed the recoverability of loans due from subsidiaries and the carrying value of investments in subsidiaries in relation to the Port and Marine business.This has occasioned a further write down of loans and receivables by AU$37.3 million and investments in subsidiaries by AU$14.9 million.

Reclassifications

The differences were due to reclassifications and adjustments as follow:

2. Reclassification of deposit for leased property from current to non-current.

3. The decrease in trade receivables is due to settlement of outstanding invoice between Ezion Offshore Logistics Hub (Tiwi) Pty Ltd and Tiwi Plantation Corporation Pty Ltd through an offset arrangement agreed by both parties and completed prior to the year end. (refer to note 6(ii)).

	AU$'000
4. (i) Intercompany elimination not completed at the time of the announcement	1,379
(ii) Reclassification of deposit for leased property from current to non-current	3,625
(iii) Rounding adjustment	(1)
	5,003

5. At 30 June 2016, the Group and Company were in breach of a financial covenant, concerning Consolidated Debt to Equity, in relation to the DBS term loan included in non-current borrowings as part of the Q4 announcement. Although a waiver for this breach was obtained after the year end, the waiver was not held at the year end date and therefore the loan has been reclassified in the balance sheet as a current liability.

6. (i) Reclassification of trade payable to other payable	14,889
(ii) Offset arrangement for certain trade receivable balances (refer to note 3)	515
(iii) Reclassification of provision for contract loss from accruals for liabilities and charges to trade payables in accordance with FRS 11	(2,002)
	13,402

7. (i) Additional payroll tax liabilities taken up **	1,962
(ii) Reclassification of trade payable to other payable	14,889
(iii) Intercompany elimination (refer to note 4(i))	(1,379)
	15,472
(iv) Reclassification (Company level only) of unexpired interest from other payables to borrowings within current liabilities	973

8. Reclassification (Company level only) of AU$9.0 million due to subsidiaries to current liabilities, as there is no unconditional right of deferral attached to the balances at the year end date.

9. (i) Reclassification of current liabilities for onerous lease and re-instatement provisions from accruals for liabilities and charges to provisions	1,580
(ii) Reclassification of provision for contract loss from accruals for liabilities and charges to trade payables (refer to note 6(iii))	2,002
	3,582
(iii) Reclassification of non-current liabilities for onerous lease and re-instatement provisions from accruals for liabilities and charges to provisions	7,307
(iv) Rounding adjustment	(1)
	7,306

10. Rounding adjustment

** This is not a reclassification, please refer to section A, note 2.