



Annual Report **2017**

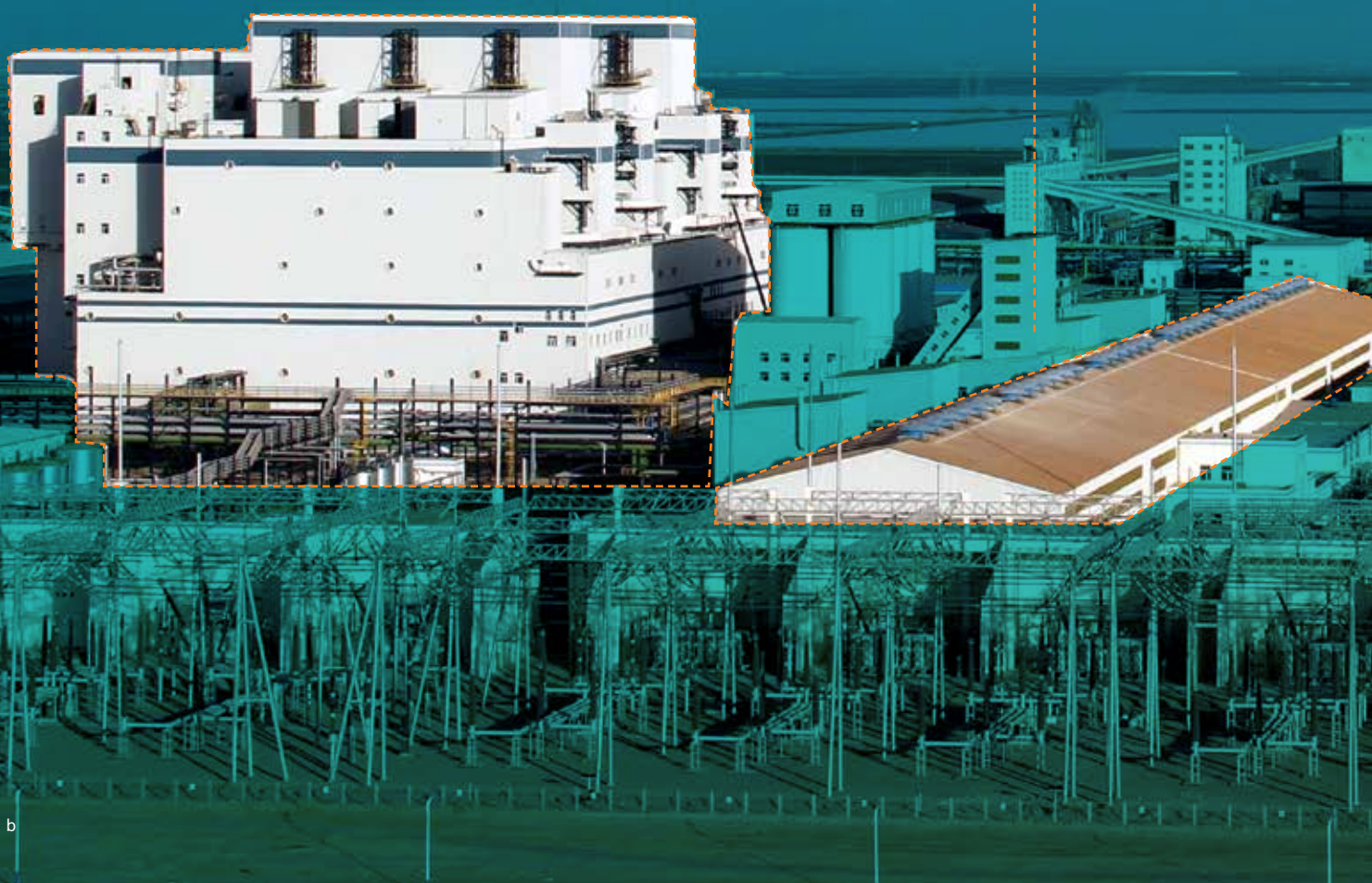
Magontec is a leading manufacturer of magnesium alloys and Cathodic Corrosion Protection (anode) products made from magnesium and titanium.

Magontec is a pioneer in the field of magnesium alloys and anode products with vast experience in production and development of new alloy and anode applications.

Dehydration



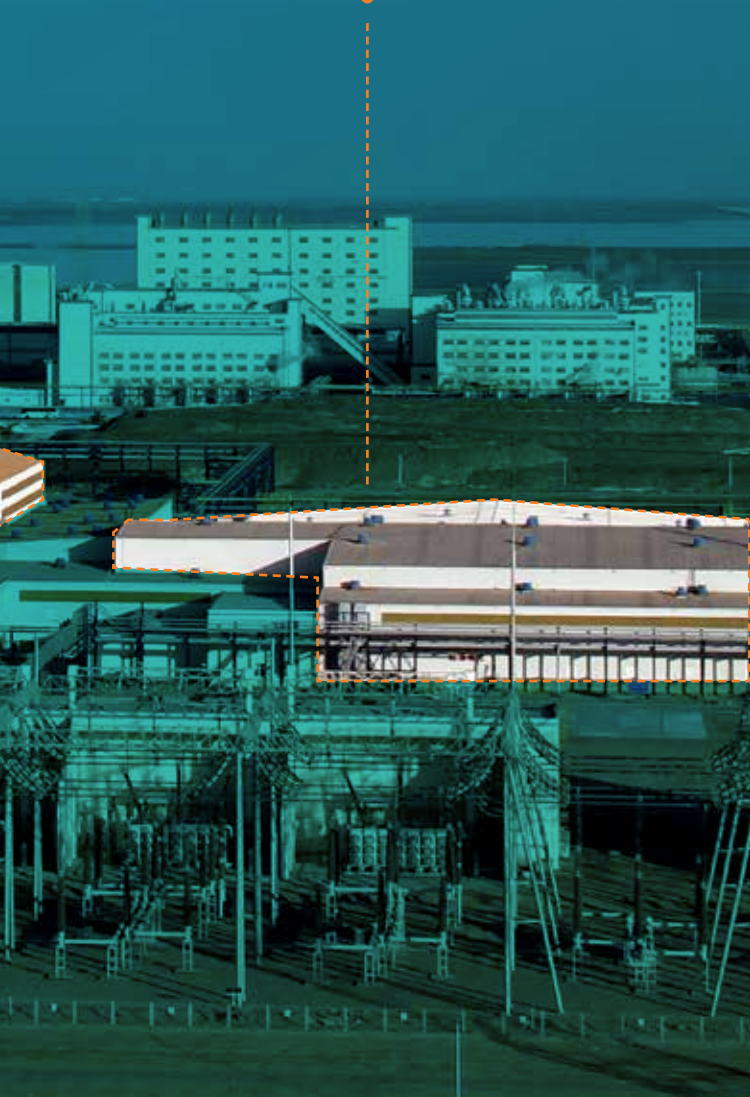
Reduction



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Cast house



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Image: Qinghai Electrolytic Magnesium Smelter complex including Magontec Cast House Project.

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A summary of the Company's corporate governance practices including the Corporate Governance Statement discussing adherence to the Australian Securities Exchange's Third Edition "Corporate Governance Principles and Recommendations" can be located at [www.magontec.com](http://www.magontec.com) under the Investor Centre section.



# 2017 Highlights



## A strong focus on employee safety

In 2017 Magontec maintained its strong safety record, recording 4 minor injuries during the year across 4 operating plants that employ 412 people.



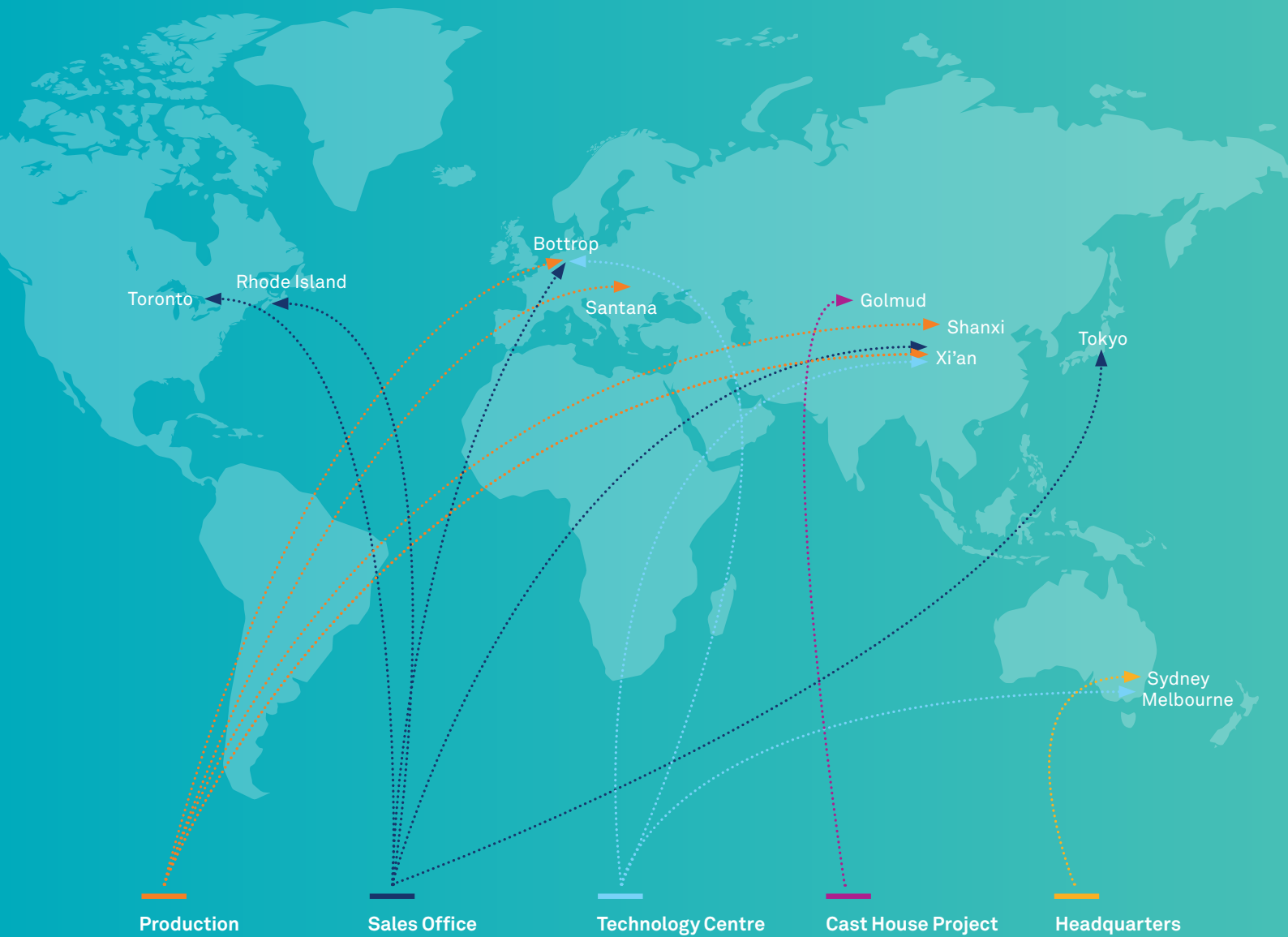
## Completion of Magontec Qinghai Project

The installation and hot commissioning of Magontec Qinghai's Magnesium Alloy Cast House was completed in 2017.

Over the coming 12 months the Cast House will move towards full production raising Magontec magnesium alloy production capacity to over 56,000 metric tonnes.

Despite a challenging year operationally, underlying operating cash flow remained positive and Magontec was able to renew its banking facility with Commerzbank Germany through to 2020.

# Global Locations and Activities



# Executive Chairman's Letter



**Nicholas Andrews**  
Executive Chairman

In 2018 the Company achieved its key objective of commencing production of primary magnesium alloys at the new Magontec Qinghai facility in Qinghai Province, PRC, a critical step towards a more profitable business.

The last 12 months were a challenging period for Magontec as we commenced production at the new plant in Qinghai and managed a difficult labour situation at our Romanian magnesium alloy recycling facility. The loss of significant volume in the Chinese magnesium anode business and a number of large 'one-off' events further impacted the final result.

While the Financial Year result to 31 December 2017 is well below the levels that the company targeted for the period, I do draw comfort from the fact that Magontec's management teams in Europe and Asia have been equal to the issues that arose.

As we enter a new financial year there are indications that 2018 will see a recovery in the underlying recycling and anode operations that underperformed in 2017, while the new primary magnesium alloy business at Qinghai offers considerable scope for earnings growth. Shareholders should note that the new facility at Magontec Qinghai is in a start-up phase. Until the facility is producing a volume of around 1,000 metric tonnes a month, operating and depreciation costs will negatively impact profitability.

There were many bright spots in the performance in the period under review. The German metal business recorded a strong uplift in volumes and a higher EBIT contribution, the result of a continued focus on costs. Similarly the Chinese primary magnesium alloy facility in Shanxi Province made a strong contribution at the EBIT line, also a result of reduced conversion costs. Across the group there were only 4 recorded injuries and no serious accidents.

In a company that deals with liquid metal and high temperature transfers, this is testament to the attention to detail and competence of our health and safety officers.

At the new Magontec Qinghai plant, in the period to 31 December 2017, we have produced over 200 metric tonnes of 'AZ91' magnesium alloys on one line and will commence production of 'AM' alloys in the coming weeks. We will also be producing some speciality alloys in the near future and, as the year progresses, we can expect volumes to rise steadily.

It is difficult to overestimate the complexities involved in building and commissioning an industrial facility such as the one constructed by our partner, Qinghai Salt Lake Magnesium Co Ltd (QSLM), at Golmud in Qinghai Province. Magontec's Magnesium Alloy Cast House (MACH) has been in a 'ready to go' state for some months and in October 2017 we were able to commence production as QSLM brought the dehydration units and reduction cell house on line. It is likely that through 2018 the facility will rise towards full production, although both QSLM and Magontec will require much patience and caution in this period.

Magontec Qinghai represents a revolution in the world of magnesium and magnesium alloy production. The product from this facility will be the greenest magnesium alloy ever manufactured, using 85% renewable energy, and represents the first major step towards moving the industry away from the environmentally challenging technology of 'Pidgeon' process production.

Qinghai is the first new electrolytic plant to be constructed in the 21st century. Indeed since the closure of the Noranda and Norsk Hydro facilities in 2003 and 2006, the only electrolytic magnesium has come from protected and privileged markets in Israel, Russia and the USA, and at prices above those available from Chinese manufacturers.

Elsewhere in the Magontec business we have met other challenges head on. In Romania we have now largely settled our labour issues after a period of high staff turnover and some workplace friction. The senior managers in Romania adopted innovative schemes to attract qualified staff in a labour market that is very well bid.

In the last few weeks of 2017 and in the first month of 2018 we are seeing a considerably more settled workplace and one that is beginning to recover efficiencies that were lost in the second quarter of last year.

In China, where the magnesium anode business lost a large contract, sales staff were successful in finding new customers through the year and the operations team have successfully reduced processing costs. Through the first quarter of 2018 we expect to regain much of the lost volume and have improved the economics of the Xi'an facility such that we will be able to bid more confidently for new contracts in Asia and the USA. The economics of both the Romanian and Chinese magnesium anode plants will improve again through 2018 as new machinery and management initiatives drive greater efficiencies.

The financial fraud that the company suffered in May last year was a particularly heavy blow. A Hong Kong based entity interposed itself between Magontec GmbH and a supplier. The Hong Kong bank responsible for the fraudulent entity bank accounts has been unable to recover the funds. Since this event we have put in place revised order and banking processes, but it is a sad reflection on financial transactions regulatory authorities in a major financial hub that a fraudulent party could operate with such impunity.

In 2017 the European businesses have invested in a new Enterprise Resource Planning (ERP) system, which is expected to become operational through the second half of 2018. This will start in Germany and roll out to Romania. In China we will begin to introduce a compatible local system later in 2018. Moving to a modern ERP system will assist the company to streamline administrative activities and better manage logistics and business risk.

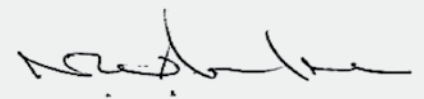
In the last quarter of 2017 we successfully re-negotiated our banking lines with Commerzbank in Germany for a further 3 year period taking us through the Magontec Qinghai start up period. This will provide the company with additional working capital capacity in Europe and North America. The German subsidiary also completed a tax audit. Some mention of this was made in the 2017 Interim Commentary.

The final outcome of this process was a payment to the German Tax Office that was not material.

2018 represents a new horizon for Magontec and the culmination of nearly 4 years work. The new facility at Qinghai was conceived after a visit to Golmud in late 2011 and took two and a half years to finalise prior to agreements being signed in May 2014. The new plant will deliver Magontec improved operating economies of scale, although we will need to be producing many more tonnes per month before the economics are properly accessed. It will certainly present our managers, technicians and sales people with considerable challenges through the next 12 months.

As I have noted in previous commentaries Magontec is fortunate to have a very competent team of senior managers and technical executives. As the magnesium industry enters a new era, now led by Magontec and QSLM, we are fortunate to count among our employees some of the world's leading magnesium industry experts

I would also like to thank the Board of Magontec for their advice and assistance through 2017. As a company we have benefitted from having a stable group of individuals on the Board who have developed a thorough knowledge of the magnesium industry over their years of service.



**Nicholas Andrews**  
26 February 2018

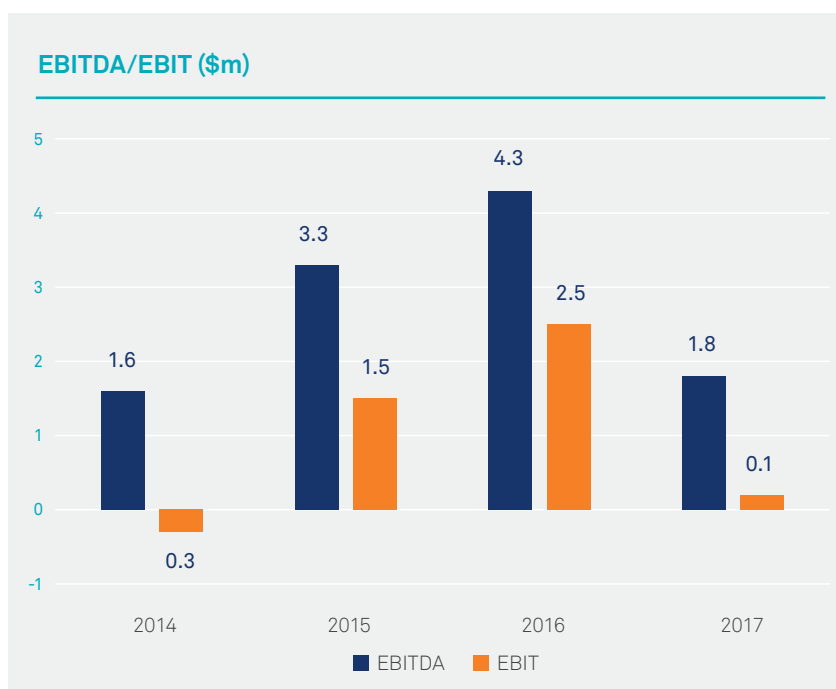
# Financial Summary

Despite a challenging year operationally, underlying operating cash flow remained positive and Magontec was able to renew its banking facility with Commerzbank Germany through to 2020.

For the 12 months to 31 December 2017 the reported accounting net loss was \$1.6 million, below the prior year result due to operational reasons and a number of significant items outlined in the table below.

These significant items are mostly non-cash accounting charges or items which are not expected to be recurring in nature and are highlighted in order to aid shareholder understanding of the composition of the result.

The main significant items in 2017 included a non-cash accounting expense for share issues, initial costs at the Magontec Qinghai plant as operations commenced building scale, a financial fraud suffered in our European business, costs associated with the establishment and investment in operating costs of Magontec US as well as a one off historical real estate transfer tax related to the initial acquisition of Magontec in 2011.



## Reconciliation of significant items in earnings

	12 months to 31 Dec 2017 \$'000	12 months to 31 Dec 2016 \$'000
<b>Net Profit Before Tax, unrealised FX and significant items</b>	<b>685</b>	<b>2,611</b>
<b>Significant items before tax</b>		
Less non-cash share issue expense (ESIP and LTI)	(191)	(325)
Less STI provision	–	(145)
Less start-up costs at Qinghai facility	(194)	–
Less Magontec US costs	(211)	–
Less one off historical real estate transfer tax	(102)	–
Less doubtful debts expense PRC	(63)	(202)
Less impact of fraudulent inventory loss	(292)	–
<b>Net Profit Before Tax excluding unrealised FX</b>	<b>(368)</b>	<b>1,939</b>
Less tax expense	(809)	(821)
<b>Net Profit After Tax before unrealised FX (underlying NPAT)</b>	<b>(1,177)</b>	<b>1,118</b>
Add/(subtract) unrealised FX gains/(losses)	(437)	(498)
<b>Reported Net Profit After Tax</b>	<b>(1,614)</b>	<b>620</b>



## Analysis

In 2017 the consolidated entity saw a reduction in the Gross Profit margin to 9.6% (2016: 11.3%), principally the result of production issues in metal recycling and lower volumes in anodes leading to a loss of scale. However, the Gross Profit margin remains above both 2014 and 2015.

## Cashflow, balance sheet and banking facilities

Underlying operating cash flow is one of the key metrics that management monitors internally and is defined as operating cash flow before interest, tax payments and working capital movements.

For Magontec, working capital movements in any particular period can have a large impact on overall operating cash flow. These movements are generally a reflection of timing differences in cash receipts and payments in the metals business, which is working capital intensive.

During 2017, Magontec generated underlying operating cash flow of \$2.3 million, which, while still positive, was significantly lower than the prior corresponding period (2016: \$4.9m).

## Balance sheet and banking facilities

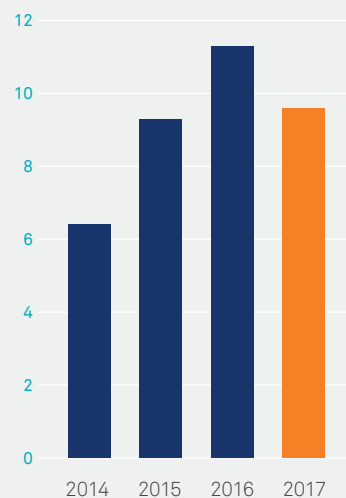
Net debt rose to \$18.0 million as at 31 December 2017, with balance sheet gearing of 35.5% on a net debt to net debt + equity basis (31 December 2016: 22.8%).

The increase in net debt was driven by \$5.0 million invested in working capital during 2017 (including \$2.5 million during December) that was funded by bank debt and arises due to timing differences. Indeed, a large portion of this cash was already collected in January 2018. A significant portion of this working capital was also tied up due to a long delay in the consumption of consignment stock by a large metals customer that will be resolved over the coming months, but was still in effect at balance date. The 2017 year also saw \$3.1 million of capital expenditure incurred as the Qinghai facility progresses towards completion.

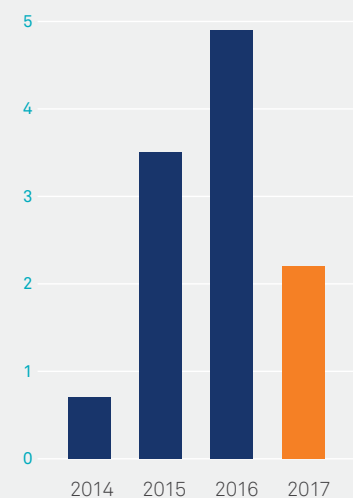
## Return on capital

The return on invested capital fell during the year, with ROIC for 2017 being 0.3% (2016: 5.4%). This was due in part to the operational result and in part to the impact of significant items discussed above.

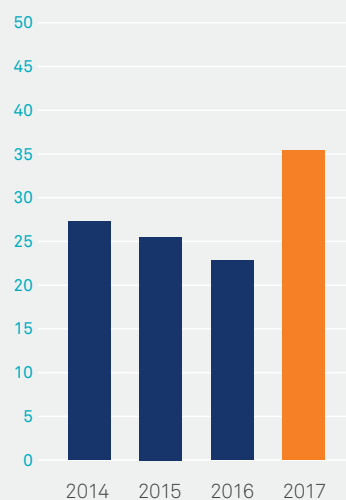
### Gross Margin (\$m)



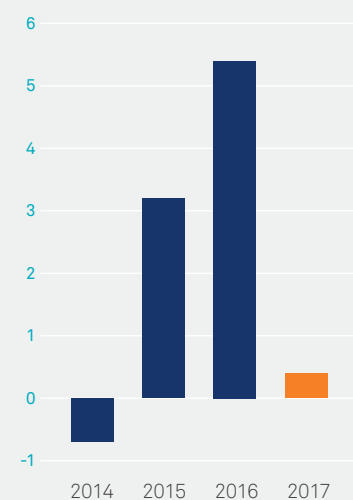
### Cash flow from underlying operations (\$m)



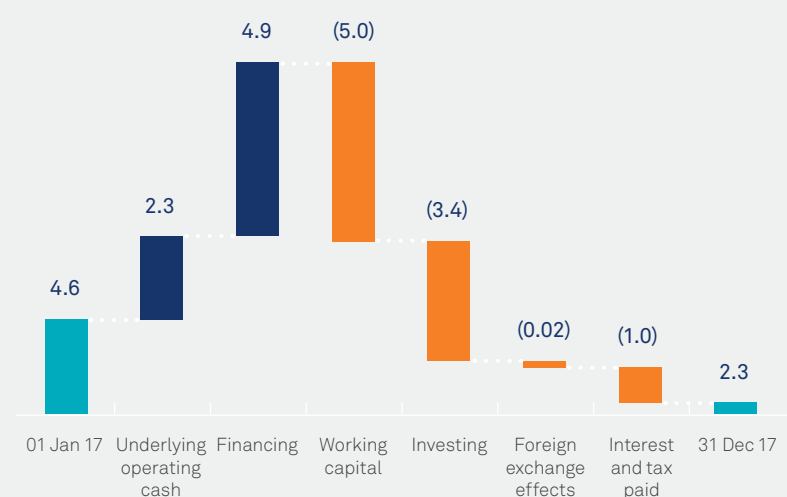
### Net debt to Net Debt + Equity (%)



### Return on invested capital (ROIC) (%)



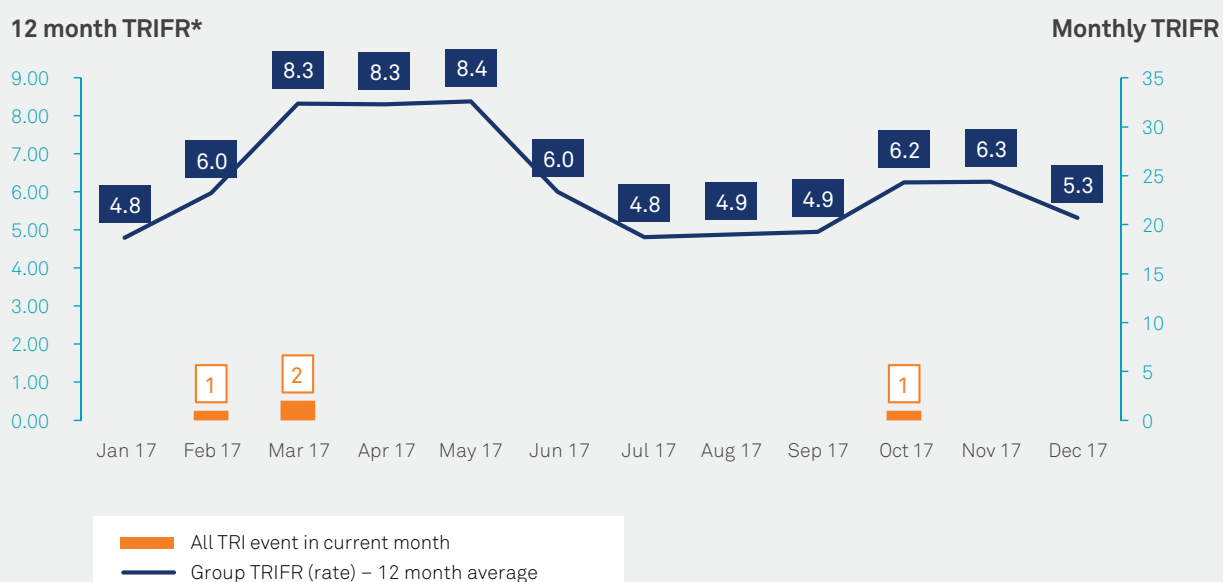
### 2017 Cash Flow Summary (\$m)



# Workplace Safety and Environment



## Total Recordable Injury Frequency Rate (TRIFR)



Plant	Fatalities	Lost time injuries	Medically treated injuries	Restricted work injuries
MAB (Bottrop)	0	0	1	0
MAR (Santana)	0	0	2	0
MAY (Shanxi)	0	1	0	0
MAX (Xi'an)	0	0	0	0
MAQ (Qinghai)	0	0	0	0

Primary magnesium alloy manufacturing and recycling involve handling molten metals, dealing with high temperatures and heavy products throughout the production process. In magnesium anode manufacturing, employees also deal with molten metal and operate machinery that then converts metal rods into finished anode products. The company has rigorous operating protocols that it applies on a consistent basis across the group.



Magontec Germany Management Team.

In addition to monitoring of workplace protocols and proper use of equipment Magontec also conducts bi-annual health checks for employees.

Magontec measures safety on the basis of Total Recordable Injuries (TRI), including fatalities, lost time injuries, medically treated injuries and restricted work injuries and calculates a Total Recordable Injury Frequency Rate (TRIFR) each month for management and Board review.

The Company has a target of zero reportable injuries at the start of each year. In the year to 31 December 2017 a total of 4 injuries were reported at the 5 Magontec plants in Europe and Asia, none of which were serious.

Magontec is also subjected to a variety of regulatory and other inspections that cover environmental emissions as well as the structural integrity and safety of its buildings. In Europe these included ISO audits covering energy efficiency, environment and waste. In 2017 there were no penalties or other sanctions issued and all factories in Europe and China achieved the requisite environmental and emission standards.

In August 2017 the new Magontec Qinghai factory passed the Qinghai Production Supervision and Administration safety review and the Haixi Environmental Protection Bureau of Qinghai Province also approved the environmental impact statement for this facility.

# Magontec Qinghai

In late October 2017 the **Magontec Qinghai Magnesium Alloy Cast House** began operation. Over the last two months of 2017 and in January 2018 the cast house produced just over 300 metric tonnes. Intermittent supply of liquid pure magnesium from our partners, Qinghai Salt Lake Magnesium Co Ltd (QSLM) commenced in late December 2017.

While the construction and commissioning phases were longer than anticipated when this project was first announced in 2013, it is very pleasing to see the efforts of so many people and organisations come to fruition. The QSLM plant is the first electrolytic plant to be constructed anywhere in the world for many years and represents an important milestone for the global magnesium industry.



**Modern  
complex**



**Proprietary  
technology**



**Automated  
production**



## High volume electrolytic magnesium raw material source

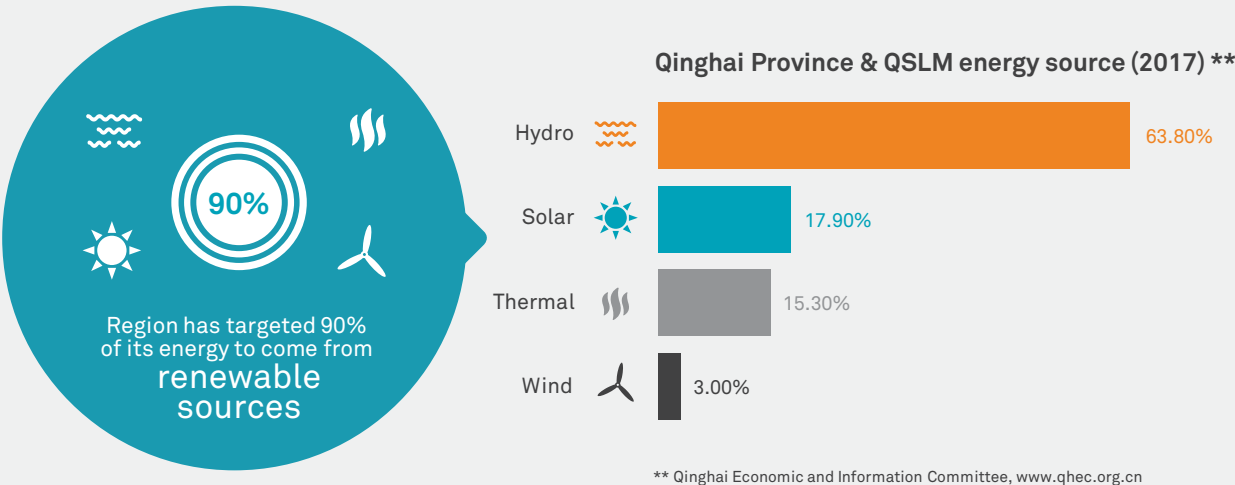
Over the last 20 years the Chinese magnesium industry has grown to dominate global magnesium production. Except for protected or privileged access companies in the USA, Russia, Brazil and Israel, Chinese magnesium is the world's most important source of supply, representing over 80% of global production and an even larger proportion of freely traded material.

Over the last 30 years the Chinese magnesium industry has been built on an older technology, the 'Pidgeon' process, that requires high labour and energy inputs and emits high levels of carbon pollution in its manufacturing process. The magnesium project at Qinghai, where Magontec has an exclusive right to manufacture magnesium alloys for the period of its 10 + 10-year lease, is a measure of the rapid changes that are taking place in this Chinese industry as it transitions from a 'start-up' phase to a leading role in both production volumes and production technologies.

Supply of raw material from the new electrolytic magnesium facility at Qinghai will allow Magontec to offer its customers the world's greenest magnesium alloys. The QSLM facility will draw 85% of its power requirements from renewable energy sources including hydro, wind and solar. Golmud, situated in the Haixi region of Qinghai Province, sits at 2,800 metres above sea level and enjoys many cloudless days and very high solar radiation. In the years ahead the Qinghai Provincial Government plans to significantly increase renewable energy investment, particularly solar.



Power source – 85% renewable energy



Magontec Qinghai will ramp up towards rated annualised production of 56,000 metric tonnes per annum as QSLM supply is brought on-stream. For the 2018 financial year output will be considerably less than this, perhaps 15-25% of full production capacity.

In the early stages of production the economics of the plant will be inferior to those expected at full production and, as with any new plant, it is difficult to properly predict the ultimate operating efficiency.

By comparison with Magontec’s current primary magnesium alloy plant in Shanxi Province there will be many advantages in terms of both automation and volume. The new Magontec Qinghai cast house will take its raw material as a liquid magnesium metal and not, as hitherto, in solid pure magnesium ingots requiring melting prior to alloying. The alloying, casting and post production tasks are largely automated producing full pallets with minimal human intervention.

Notwithstanding the great cost benefits that accrue from our investment in a ‘green’ and clean process, Magontec may continue to struggle against Chinese export competitors who do not pay VAT. The magnesium industry suffers from this illegal activity that the Chinese authorities appears unable to address.

In April 2018 there will be an official opening ceremony at the factory in Golmud and we are very pleased to announce that a representative of the Australian Embassy in Beijing will be in attendance on this most important occasion. Through 2018 regular updates on the progress at Magontec Qinghai will be posted to the company’s ASX page and website ([www.magontec.com](http://www.magontec.com)).

# Metals Division

## Magnesium alloy production and recycling



Automated processes



State of the art equipment



IATF 16949 Certification



Magnesium alloy recycling crew at Magontec GmbH in Bottrop.

In the 12 months to 31 December 2017 Magontec operated four magnesium alloy production facilities at Golmud and Shanxi in China, Santana in Romania and Bottrop in Germany.

At each of these facilities the Company produces both primary magnesium alloys and recycled material. Magontec's principal primary magnesium alloy plant is in Shanxi Province PRC while the two European facilities are recycling plants that have modest primary alloy production capacity.

In the last few months of 2017 production commenced at the new primary magnesium alloy manufacturing site at Golmud in Qinghai Province, PRC. Production volumes from the new Magontec Qinghai facility in 2017 were less than 200 metric tonnes manufactured in a 'ramp-up' phase.

Overall magnesium alloy production volumes from all Magontec plants were slightly below the previous corresponding period, entirely the result of lower output at the Romania plant due to labour issues. Volumes at the main Shanxi plant and at the German plant in Bottrop were both above 2016 levels.

At both the Bottrop and Shanxi plants conversion costs (the cost at which the company converts raw materials - pure magnesium, alloying elements and scrap - into magnesium alloy ingots) again improved over the previous corresponding period while the Romanian plant at Santana experienced a sharp reversal on the levels of 2016.

Problems experienced in Romania reflect a number of issues; some common to the region and others specific to our business. Over the last few years there has been strong growth in employment opportunities in Romania resulting in a more mobile labour force. As a result staff turnover in Santana was exceptional in 2017 and the effect on production volumes and output quality presented a range of challenges to local management.

Gross profit from the Romanian magnesium alloy facility fell significantly on the previous

corresponding period and was a significant contributor to the lower overall result for 2017. Gross profit from the German recycling business was up marginally, entirely driven by improved costs.

The fourth quarter results from the Romanian business show a marked improvement on the third quarter as the plant moved back to four shifts. We expect the Romania magnesium alloy recycling business to experience continued recovery in productivity through the first quarter of 2018.

In Shanxi PRC there were also good improvements in costs. While this plant will close in the second half of 2018 it should be noted that the workforce and management team have done a great job in difficult conditions at this rented facility over the last 5 years. Some of the key staff from the Shanxi plant will relocate to the new Magontec Qinghai cast house, bringing with them operating and industry skills vital for the smooth transfer of production.

2017 was a particularly busy year for process and safety training as the Company took on many new employees to operate furnace equipment in Qinghai and Romania. In 2018 we also expect to engage a large number of new employees at the new facility in Qinghai all requiring training in process and safety.

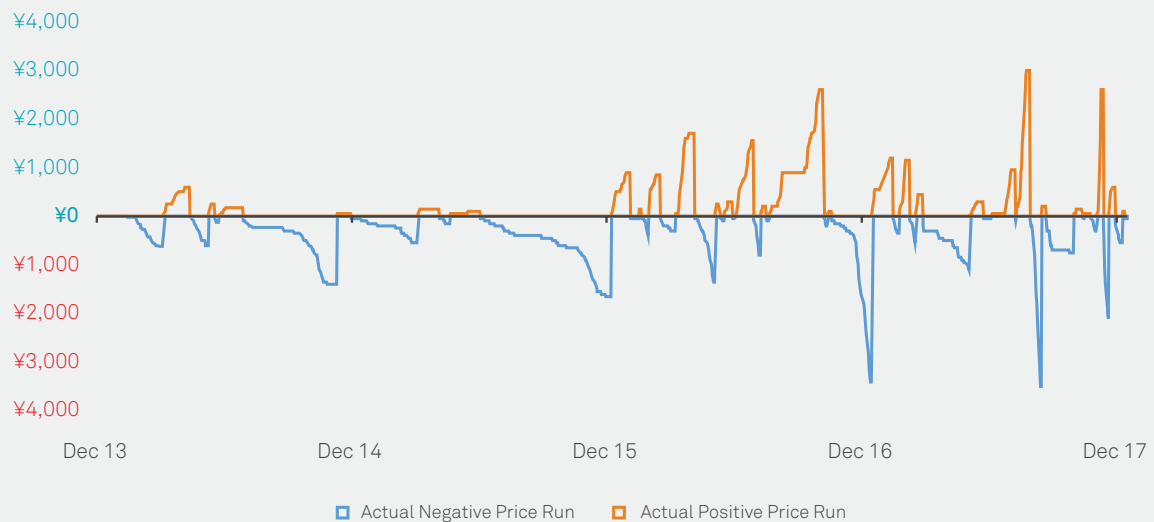
## Magnesium metals pricing and market conditions

Magontec's metals division acquires raw material in the form of pure magnesium, alloying elements and scrap returns from die cast manufacturers.

The pricing of these raw materials is generally passed through to the customer although at times of high raw material price volatility there is considerable scope for unexpected losses and profits.

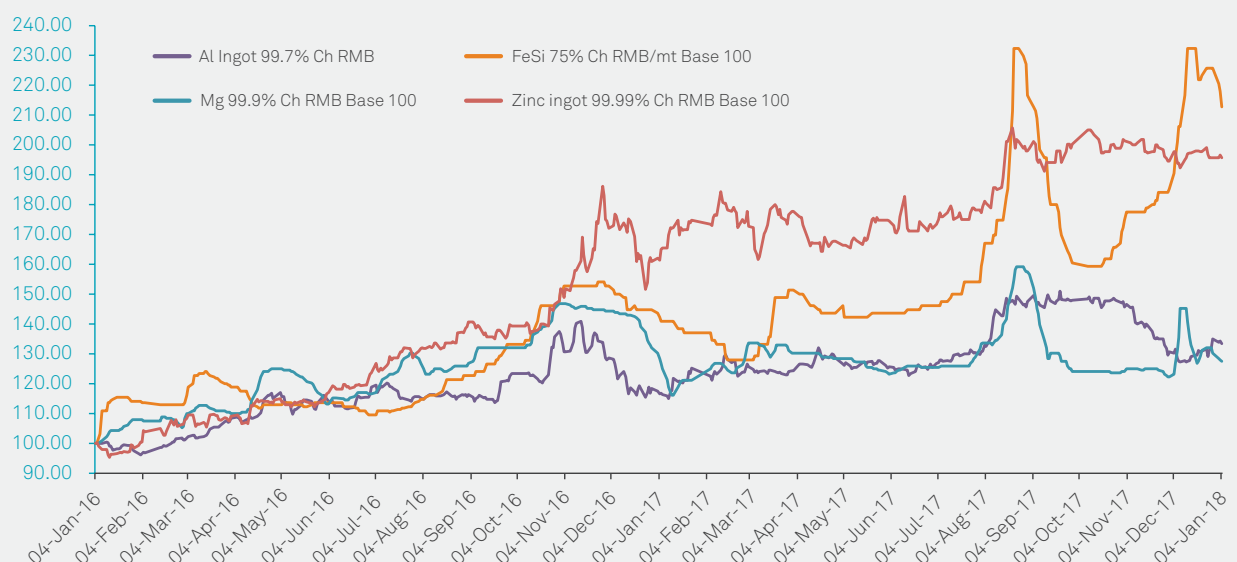
The price of pure magnesium in 2017 was very volatile, driven in large part by environmental factors that are beyond the control of our raw material suppliers. Indeed, higher price volatility has been a growing feature of magnesium markets for the last two years as shown in the chart below.

**Mg Positive & Negative Price Runs**



China, the world's largest manufacturer of pure magnesium, has used the Pidgeon process for all of its production. Negative environmental issues surrounding this production process are significant and continue to attract attention from Chinese authorities.

**Mg, Al, FeSi & Zinc – Based to 100 – 1 January 2016**



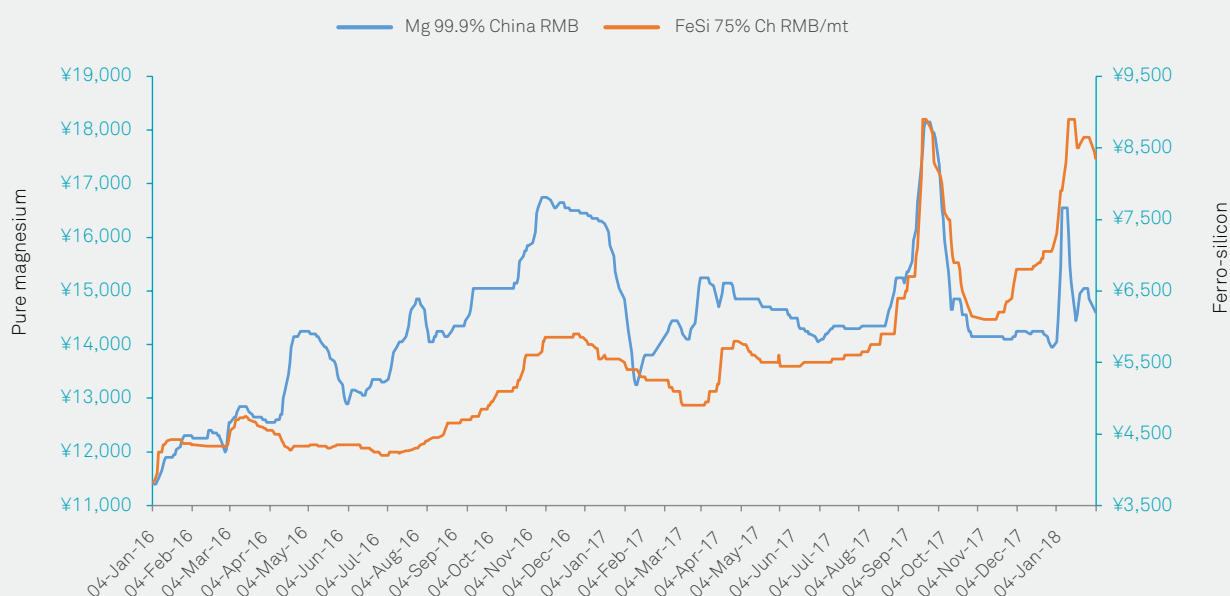
# Metals Division

## Magnesium metals pricing and market conditions

continued

Price volatility stems from the raw material supply chain that feeds the Pidgeon process; dolomite and ferro-silicon directly and coal supply for power generation. Ferro-silicon represents around 90% by value of the raw material cost input for Pidgeon magnesium and is also a key input for the steel industry. Mixed signals from the Chinese authorities towards domestic steel production volume targets, together with ferro-silicon plant closures and production interruption occasioned by environmental inspections, have created a very uncertain market. Chinese environmental authorities have also forced temporary and permanent closure of dolomite and coal production sites, particularly lower cost operations, through 2017.

Pure Mg and Ferro-silicon prices – Since 1 January 2016



Price volatility is further exacerbated by the highly dispersed nature of the Chinese magnesium industry. There are around 60 operational Pidgeon magnesium manufacturers across China who start or stop production depending on the marginal price of pure magnesium and local production economics.

Continuing environmental inspections, pure magnesium raw material site closures and uncertainty in the steel industry appear likely to feature again in 2018.

Magontec addresses a key supply chain risk by moving primary magnesium alloy production from the Shanxi plant, which relies on supply from Pidgeon producers of pure magnesium, to the new electrolytic magnesium facility at Qinghai.

The Qinghai facility does not use dolomite or ferro-silicon in its production process and consumes only small quantities of coal in its thermal power station (15% of total power supply). While this does not address the wider pricing issue, which will continue to be dominated by manufacturers using the Pidgeon process, it is a significant positive step for the consumers of magnesium alloys around the world.

As the QSLM facility moves to 100,000 mtpa (~12% of China's current annual production), and higher volumes in the years ahead, volatility should decrease. For Magontec the off-take price agreement with Qinghai Salt Lake Magnesium Co Ltd directly references Chinese domestic market prices, so short-term price volatility cannot be fully addressed, except through longer-term contracts.

In the magnesium alloy recycling business (more than 40% of annual primary magnesium alloy sold is returned as scrap) prices generally follow primary magnesium alloy price trends plus a margin for conversion. The critical metrics for magnesium alloy recycling are volume throughput and conversion costs.

In Europe today Magontec has a strong market share and, particularly over the last two years, has successfully focused on reducing costs to win new contracts and retain existing customers. The market for recycled product in Europe is highly competitive and recovering competitiveness at Magontec's Romanian plant together with further improvement in costs in Germany are key to European division profitability in the year ahead.



## Magnesium alloy volumes and market growth

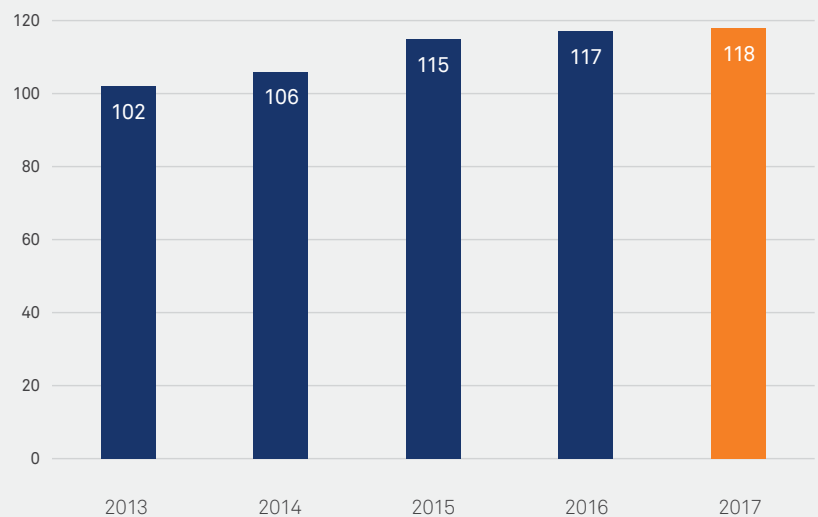


Reliable statistics on total Chinese magnesium and magnesium alloy production are not published, however Chinese export statistics are collected on a monthly basis and give an accurate account of total volumes sold from China by manufacturer.

In 2017 Magontec was again one of the top three magnesium alloy manufacturers supplying international customers from China. As China currently produces over 80% of all magnesium manufactured in the world today this serves as a relatively good proxy for the position of Magontec in the global market.

In 2017 Magontec had an 8% share of total Chinese magnesium alloy exports, up only marginally on the previous corresponding period. While total Chinese exports were also up only marginally in 2017, over the last four years the export market has grown by more than 15%. Given the rapid growth in Chinese automotive manufacturing output, up from 5.3 million in 2010 to a forecast of over 24 million in 2017, the sharpest rise in magnesium alloy demand continues to come from the Chinese domestic market. The establishment of new plants and the expansion of existing operations by

Chinese Mg alloy exports ('000s metric tonnes)



Chinese, Japanese, European and American automotive companies is matched by the growing investment by major automotive supply chain manufacturers.

Recycling volumes in the Chinese export markets, principally Europe, Canada and Japan, are directly impacted by the volumes of magnesium alloy materials that arrive in each country.

The vast majority of magnesium alloys that arrive in these importing countries are destined for the automotive industry and the automotive die casting scrap rate is 40%. Magontec competes strongly for these volumes at its two European plants in a market that is highly competitive and where conversion costs and volumes play a critical role.

# Metals Division

## Magnesium alloy demand drivers

Over 80% of magnesium alloys are purchased by die casting companies in the **automotive supply chain** and there has been a strong recovery in automotive manufacturing volumes since the GFC and the emergence of China as the world's leading automotive manufacturer by output.



Magontec Romania Team.

Automotive production is forecast to continue to grow, albeit at lower levels than in previous years, and the much anticipated switch from internal combustion engine (ICE) to petrol hybrid electric (PHEV) and battery electric vehicles (BEV) is expected to give additional impetus to fleet renewal rates and new car sales. Indeed industry analysts expect BEVs to rise from the very low levels of 2017 to around 10% in 2025. And all the time the pressure on automotive manufacturers to further reduce tailpipe emissions also grows – the EU has recently announced that they will mandate a further 30% reduction in CO<sub>2</sub> passenger car emissions by 2030, down from the 95grams per kilometre currently targeted for 2020/21. The options open to automotive manufacturers are smaller, electric or lighter vehicles.

While magnesium alloy offers known benefits for automotive engineers seeking lighter unit weight, there remains much speculation over which materials will be chosen for battery electric vehicles.

There are certainly many opportunities in the re-design phase to examine magnesium alloy options and for specific BEV parts, such as motor, inverter and battery cases, there is a strong case to be made for magnesium alloys.

Given the risks inherent in new vehicle design it is likely that, at least in the early years, BEV manufacturers will resist material changes while the power plant undergoes a revolution. Conventional magnesium alloy parts in modern automobiles include the steering wheel armature, instrument panel beams, gearbox cases, seat and door frame inners as well as some limited tailgate and front-end parts. Except for gear box cases, all of these parts are likely to feature in future PHEV and BEV vehicles.

Whichever materials are chosen, ICE vehicles are still expected to comprise up to 90% of the global fleet in 2025 and still as high as 84% by 2030 when unit tailpipe emissions are required to be, on average, around 66.5 grams per kilometre.

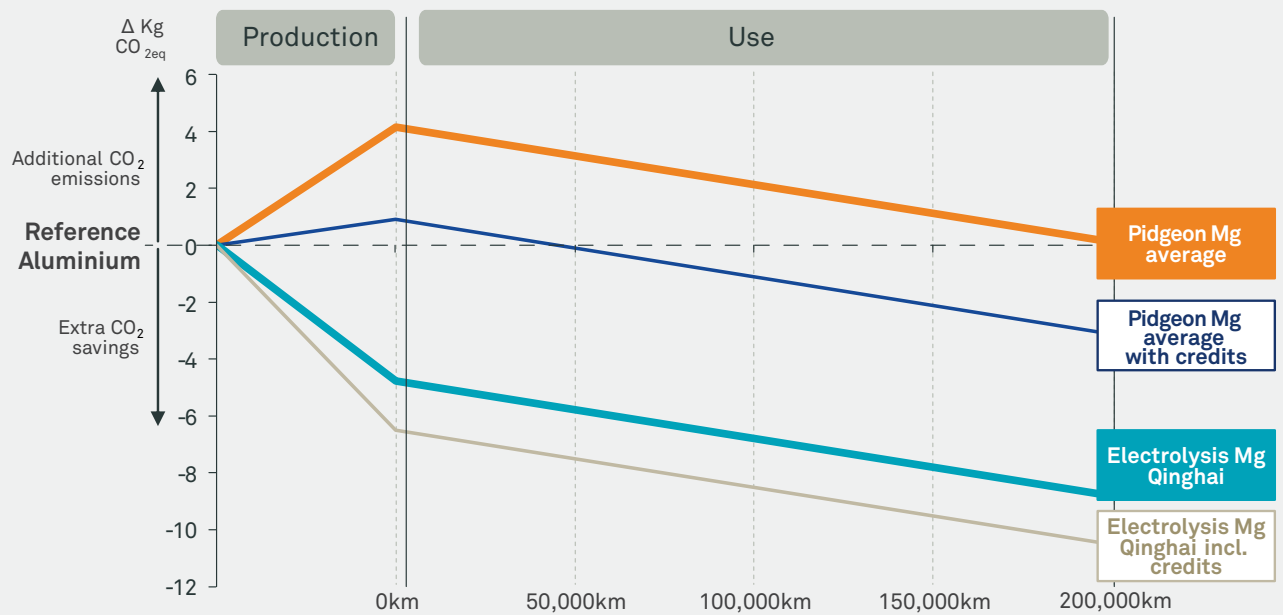
In this paradigm light-weighting ICEs will continue to be very 'front of mind' for automotive engineers for many years to come and light weight magnesium alloy applications offering significant CO<sub>2</sub> emission advantages over aluminium and other commonly used automotive metals, present opportunities for application innovation.

Discussed at greater length in the section dealing with Research and Development are many potential new magnesium alloy applications that are under development by Magontec in association with multiple partners in industry and academia around the world. Among these are thermally conductive magnesium alloys (Magontec proprietary alloys) that may have attractive characteristics for PHEV and BEV applications. A critical issue for BEVs is heat dissipation; lower running temperatures in batteries and inverters improves efficiency and longevity. In large part we expect magnesium alloys to be power plant agnostic; the lighter the vehicle the lower the tailpipe emissions (for ICEs) and the longer lasting the energy store for all vehicles, whether BEV, PHEV or ICE.

### Life Cycle Assessment (LCA) Analysis:

Lower CO<sub>2</sub> emissions than 'Pidgeon' magnesium

Lower CO<sub>2</sub> emissions than aluminium global average



This chart compares the Life Cycle CO<sub>2</sub> emissions of 'Pidgeon' magnesium and Qinghai electrolytic magnesium against the global aluminium average (Reference Aluminium). It demonstrates one of the reasons why aluminium has continued to be preferred by auto manufacturers and why magnesium from Qinghai, with its high renewable energy input, is so attractive by comparison.

Lower tailpipe emissions give Magnesium an accelerating advantage over aluminium.

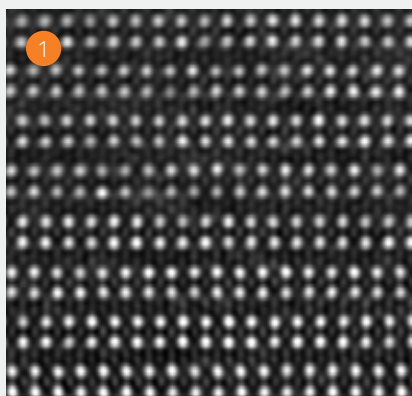
# Metals Division

## Magnesium alloy Research and Development

The development of new alloys and applications presents many opportunities and challenges. Design engineers have multiple material choices including magnesium and aluminium alloys, steels, plastics and carbon fibre composites. The challenge of new alloy development is to create materials with the best combinations of desired properties and to effectively communicate these developments to designers.

Opportunities and challenges arise from continually advancing technologies and transforming market environments. The transition to electric vehicles presents challenges for alloys used for internal combustion drive train components, yet a proactive approach can change this to an opportunity. For example, alloys suitable for automatic transmission housing could instead be applied to electric engine and inverter housings.

Magontec leverages relationships with leading academic research organisations and works in close cooperation with OEM manufacturers and diecasters to ensure market relevance of alloy developments.



1. Atomic resolution imaging of AE alloy - High angle angular dark field
2. Porsche V8 Engine Parts
3. Audi TFSI Quattro oil housing
4. Audi gearbox housing
5. Stihl chainsaw crankcase

### Case Study – AE Alloys

Magontec's proprietary AE44 and AE44-2 alloys have been used for many years by automakers including Audi and Porsche and, more recently, for non-automotive applications including Stihl chainsaws.

In recent years breakthrough discoveries in the AE alloy family have led to new application opportunities. The discovery of heat treatable AE alloys is perhaps the most significant advance. Unlike some aluminium alloys, the conventional magnesium alloys are not amenable to strengthening via heat treatment. Conventional alloys trade off strength and ductility. For example AZ91 alloy has a high strength but is relatively brittle while AM60 alloy has lower strength but is more ductile. Heat treatable AE alloys combine strength and ductility enabling higher strength structural components and leading to greater weight saving potential.

In another recent development, AE alloys have been identified with over twice the thermal and electrical conductivity of common alloys such as AZ91. This opens up new opportunities for light weight heat dissipating components for electronic and power applications.

The combination of access to state of the art research capabilities in leading research institutes and universities with an understanding of end user needs accelerates new alloy and application development.





# Cathodic Corrosion Protection

## Magnesium and Electronic Anodes

Magontec is one of the world's largest manufacturers of magnesium and electronic anodes, a part of the global supply chain for water heater manufacturers. The Company manufactures cast and extruded anodes in Xi'an, China for the Chinese domestic and export markets and cast anodes in Santana, Romania for supply to Europe, the Middle East and other regional markets.



Magontec global volumes in 2017 were down on 2016 due to the loss of a single large contract in China while European volumes were up 8%. In China a number of new contracts were won through the year, limiting the overall decline in global volumes to 6%.

Magnesium anode prices and margins are also sensitive to underlying raw material prices for magnesium alloys. As noted in the Metals report, prices were volatile in the 12 months to the end of December 2017 and there is no reason to assume this will change in the coming months.

Over the period under review magnesium anode unit prices fell almost 5.3% across the two business while pure magnesium prices rose on average nearly 4.5%, putting further pressure on producers to reduce processing costs.

The combined impact of rising raw material prices and lower volumes in China caused average gross profit margins to fall in 2017. At the Xi'an factory there were positive contributions from improved operating metrics driven by higher levels of automation and improved organisation resulting in a headcount reduction of 24% through the year.

In the first quarter of 2018, Magontec's Chinese business expects to have recovered much of the volume lost in early 2017 and looks forward to higher production levels in the current year. The magnesium anode business is very sensitive to volumes and, all things being equal, this should translate into an improvement in profitability in 2018.

The electronic anodes business experienced a steady increase in demand. Electronic anodes have an external power source while magnesium anodes rely on a galvanic current.

While domestic thermal solar installations have seen only modest growth in recent years, increasingly giving way to photo voltaic in domestic systems, heat pump systems with an attached water tank continue to experience strong growth as a highly efficient home and water heating system.

In addition to domestic heat pump systems the electronic anodes business has sought new customers by developing new industrial applications suitable for the catering, dairy and other businesses where water is stored in a steel tank, as well as applications for heat exchangers. To meet these opportunities Magontec is currently developing new electronic anode systems and equipment that will be available in the market in 2018.

# Board of Directors



Nicholas Andrews

## 1. Nicholas Andrews

### Executive Chairman

B Ec.(Syd)

Mr Andrews has been the Executive Chairman of Magontec Limited since November 2009.

From 2007 to 2009 Mr Andrews served as a Non-Executive Director of Advanced Magnesium Limited prior to the acquisition of Magontec GmbH and the company name change to Magontec Limited.

Mr Andrews has a financial services background in the funds management industry and in investment banking. From 1996 to 2005 he was a Managing Director at UBS Investment Bank and responsible for global distribution of Australian and New Zealand Equity products. From 1989 to 1996 Mr Andrews was the Chief Investment Officer at LGT Investment Management in charge of the group's investment portfolios for the Australasian region.

Mr Andrews is also a Vice President of the International Magnesium Association.



Xie Kangmin

## 2. Xie Kangmin

### Non-Executive Director (re-appointed 8 May 2015)

Member of the Finance, Audit and Compliance Committee (FAC)

Graduate of Chongqing University

Mr Xie is the President of Qinghai Salt Lake Industry Co., Ltd. Mr Xie has been an employee of the Qinghai Salt Lake Industry Co Ltd (QSLI) since 1984 and through this period has held a number of roles within the organisation and its subsidiary companies. Mr Xie is a Senior Engineer and holds a Bachelor of Engineering (Mining) degree from Chongqing University. QSLI is the parent company of Qinghai Salt Lake Magnesium Limited (QSLM).

QSLM is a 28.99% substantial shareholder in Magontec Limited and the company with whom Magontec Limited has entered into a number of agreements in relation to the Magontec Qinghai alloy production facility at Golmud in Qinghai Province PRC.



Andre Labuschagne

## 3. Andre Labuschagne

### Non-Executive Director (re-appointed 11 May 2016)

Member of the Finance, Audit and Compliance Committee (FAC)

B. Comm (Potchefstroom University)

Mr Labuschagne is the Executive Chairman of Aeris Resources Limited (formerly Straits Resources Limited) which is a substantial shareholder of Magontec Limited to the extent of 13.06% at the date of this report.

Mr Labuschagne is an experienced mining executive with a career spanning more than 25 years, primarily in the gold industry, and has held various executive roles in South Africa, PNG, Fiji and Australia for a number of leading gold companies, including Emperor Gold Mines, DRD Gold and AngloGold Ashanti. Mr Labuschagne was previously Managing Director of ASX-listed gold company, Norton Gold Fields Limited.

## 4. Li Zhongjun

### Non-Executive Director (re-appointed 8 May 2015)

Member of the Remuneration and Appointments Committee (REM)

Graduate of Wuhan University of Technology

Mr Li is the owner of Tianjin Keweier Metal Material Co Ltd (KWE (TJ)) in China. He is a graduate of Wuhan University of Technology and spent 10 years at Tianjin Auto Industry Company Ltd. For more than 10 years, Mr Li has built a trading and manufacturing business that specialises in magnesium products. KWE (TJ) has facilities located in Hong Kong and Tianjin and a broad experience of the global magnesium industry. Mr Li is a major beneficial shareholder in Magontec Limited.



Li Zhongjun



Robert Shaw



Robert Kaye SC



Li Shun



Li Yong

### 5. Robert Shaw

**Independent Director  
(re-appointed 17 May 2017)**

Chairman of the Finance, Audit and Compliance Committee (FAC)

Member of the Remuneration and Appointments Committee (REM)

BE, MBA, MPA, FAICD, JP

Mr Shaw has extensive experience in business management in both an Executive and Non-Executive capacity. He has specialist skills in finance and financial analysis, audit committees and corporate governance. He is currently a Non-Executive Director of Credit Corp (CCP) where he is Chairman of the Audit and Risk Committee. Mr Shaw holds Bachelor of Industrial Engineering, Master of Business Administration and Master of Professional Accounting degrees.

### 6. Robert Kaye SC

**Independent Director  
(re-appointed 17 May 2017)**

Chairman of the Remuneration and Appointments Committee (REM)

LLB (Syd), LLM (Cambridge) (Hons)

Mr Kaye was admitted to legal practice in 1978 and employed as a solicitor at Allen, Allen & Hemsley Solicitors. Thereafter he pursued his legal career at the NSW Bar and was appointed Senior Counsel in 2003, practising in commercial law. He has been involved in an array of commercial matters both advisory and litigious in nature and served on a number of NSW Bar Association committees including the Professional Conduct Committee. He has also served as a director for various private companies. In the conduct of his practice as a barrister, he has acted for many financial institutions and commercial enterprises, both public and private and given both legal and strategic advice. He has had significant mediation experience and been involved in the successful resolution of complex commercial disputes. Mr Kaye is currently Chairman of Collins Foods Limited and a Non-Executive Director of HT&E Limited.

### 7. Li Shun

**Alternate Non-Executive Director  
(appointed 25 October 2017)**

Mr Li Shun graduated from Qinghai University with a degree in Accounting and is a qualified intermediate accountant. Within Qinghai Salt Lake Industry Co Ltd (QSLI), he is currently the Section Head of Securities Affairs (Board Secretary Department of QSLI) and the Securities Affairs Representative. His previous experience within QSLI also includes serving in the capacity of the deputy section chief of equity management (Investment Department) as well as experience in the QSLI audit department.

He serves as the alternate director to Mr Xie Kangmin.

### 8. Li Yong

**Alternate Non-Executive Director  
(appointed 29 May 2014,  
resigned 12 July 2017)**

In 2014, Mr Li was appointed as the Secretary of the Board of Qinghai Salt Lake Industry Co Ltd (QSLI), the parent company of QSLM. After graduating from the Sichuan School of Statistics in 1992, Mr Li joined the Qinghai Salt Lake group of companies, maintaining responsibility and involvement in a number of functions including investor relations, external reporting, economics, finance and accounting.

He served as the alternate director to Mr Xie Kangmin, prior to his resignation on 12 July 2017.

# Executive Management



Tong Xunyou

## 1. Tong Xunyou

### President, Magontec Asia

Graduate of Dalian University

Mr Tong joined Magontec Limited (then Hydro Magnesium) in 2003 in the role of Production Manager, Finance Manager and Deputy General Manager. In 2006 Mr Tong was appointed General Manager and assumed responsibility for all of Magontec's Chinese recycling and anode manufacturing activities.

Prior to joining Magontec Limited Mr Tong spent eight years with the Henkel Adhesive Company Limited where he was Production and Branch Manager.

Mr Tong holds a Bachelors degree in Chemistry from Dalian University of Science and Engineering and an MBA from Hong Kong Polytechnic University.



Christoph Klein-Schmeink

## 2. Christoph Klein-Schmeink

### President Magontec Europe, North America and Middle East

MBA (Münster University)

Mr Klein-Schmeink joined Magontec Limited (then Hydro Magnesium) in 2000 as Sales and Marketing Manager responsible for global sales of the company's anode products. He was appointed Head of Sales and Marketing in 2007 and Vice-President of Global Sales and Marketing in 2011. In 2012 Mr Klein-Schmeink was appointed President of Magontec GmbH and has responsibility for the Group's activities in Europe, North America and the Middle East.

Prior to joining Magontec Mr Klein-Schmeink held the position of Sales Director Asia Pacific with the global mining services company Terex Mining Corp.

Mr Klein-Schmeink holds a Masters of Business Administration degree from Münster University.



Derryn Chin

## 3. Derryn Chin

### Chief Financial Officer

B Com (UNSW), CA, CFA

Mr Chin joined Magontec Limited in 2014 and was appointed as the Chief Financial Officer in 2016.

Prior to joining Magontec, Mr Chin was an equity research analyst at Macquarie Group in Australia and prior to that held roles in both the audit and financial advisory divisions of KPMG.

He is a member of Chartered Accountants Australia and New Zealand, a CFA charterholder and speaks conversational Mandarin. He graduated with a Bachelor of Commerce from the University of New South Wales with a double major in Accounting and Finance.





Patrick Look

#### 4. Patrick Look

##### Vice President, Finance & HR

Business Economist VWA

Mr Look is the Vice-President of Finance & HR, with primary finance and operating oversight responsibilities for the company's divisions in Europe, North America and the Middle East. Mr Look started his career at Magontec GmbH (then Hydro Magnesium) in 1998 as part of the industrial business management trainee program. Over the last 19 years, after assuming various finance roles in the company including accounting, purchasing and logistics and graduating as a Business Economist (VWA) he was appointed Finance Manager in 2009 and Vice-President Finance & HR in 2012.



John Talbot

#### 5. John Talbot

##### Company Secretary

B Bus, Accounting (UTS)

Mr Talbot has been the Company Secretary for Magontec since February 2008, a role he has previously combined with that of Chief Financial Officer. Mr Talbot relinquished his responsibilities as CFO in February 2016.

From 1988 to Sept 2000 Mr Talbot was a senior executive at the Commonwealth Bank of Australia where he headed the Bank's Project and Infrastructure Finance Division. Prior to 1988 his other responsibilities within the bank included capital markets activity and income tax compliance. From 2000 to his appointment in February 2008 with Magontec, he undertook various corporate advisory roles in Australia and overseas.



# Financial Report

for the year ended 31 December 2017

## 1. Corporate information

The consolidated financial statements of Magontec Limited and its controlled subsidiaries as listed in Note 22 herein (collectively, the Group) for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 26 February 2018. Magontec Limited is a company limited by shares incorporated in Australia. The shares are publicly traded on the Australian Securities Exchange (ASX) under the code "MGL".

## 2. Glossary of entities referred to in this report

Formal Name of Entity	Description of Entity	Referred to as
<b>Head office entities</b>		
Magontec Limited	The ultimate parent/holding company of the Group.	Parent Entity, the Company or MGL
Advanced Magnesium Technologies Pty Limited	Wholly owned subsidiary of Magontec Limited that acts as the administrative operating entity.	AMT
Varomet Holdings Limited	The holding company that owns the Group's operating businesses at Bottrop (Germany), Xi'an (PRC) and Suzhou (PRC). In turn, Magontec Limited owns all of the ordinary shares issued by Varomet Holdings Limited.	VHL
<b>Operating entities</b>		
Magontec GmbH	The wholly owned entity that owns the Group's operations in Bottrop, Germany.	MAB
Magontec SRL	The wholly owned entity that owns the Group's operations in Santana, Romania.	MAR
Magontec Xi'an Co Ltd.	The wholly owned entity that owns the Group's operations in Xi'an, PRC.	MAX
Magontec Shanxi Company Limited	The joint venture operations in Jishan, Shanxi province PRC.	MAY
Magontec Suzhou Co Ltd	The wholly owned entity that owns the Group's operations in Suzhou, PRC. Production ceased at this facility in 2016.	MAS
Magontec Qinghai Co. Ltd.	The wholly owned entity that owns the Group's operations in Qinghai, PRC.	MAQ
Magontec US LLC	The wholly owned entity that acts as the group's distributor located in the United States of America.	MAU
<b>Major related shareholders</b>		
Qinghai Salt Lake Magnesium Co. Limited	A subsidiary of Qinghai Salt Lake Industry Co. Limited (a company listed on the Shenzhen Securities Exchange) and a 28.99% shareholder in MGL at the date of this report.	QSLM
Straits Mine Management Pty Limited	The company from which MGL acquired the Magontec group of companies on 4 July 2011. SMM, a subsidiary of Aeris Resources Limited remains a 13.06% substantial shareholder of MGL at the date of this report. Mr Andre Labuschagne, a director of Magontec Limited is the Executive Chairman of Aeris Resources Limited.	SMM
KWE (HK) Investment Development Co Ltd	Shareholder in Magontec Limited. Mr Li Zhongjun, a director of Magontec Limited is also a director and shareholder of KWE (HK) Investment Development Co Ltd.	KWE (HK)

## 3. Rounding errors

The tables in this report may indicate apparent errors to the extent of one unit (being \$1,000) in:

- the addition of items comprising total and sub totals; and
- the comparative balances of items from the financial accounts for the period ended 31 December 2016.

Such differences arise from the process of:

- converting foreign currency amounts to two decimal places in AUD; and
- subsequent rounding of the AUD amounts to one thousand dollars.

# Directors' Report

The Directors of Magontec Limited submit herewith the Annual Financial Report of the Group for the twelve-month period ended 31 December 2017. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows. A summary of the experience of each director is provided on pages 20-21 of this document.

Directors who held office during and since the end of the financial year were:

- Mr Nicholas Andrews (Executive Chairman)
- Mr Xie Kangmin (Non-Executive Director)
- Mr Li Zhongjun (Non-Executive Director)
- Mr Robert Shaw (Independent Director)
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)
- Mr Li Yong (Alternate Non-Executive Director to Mr Xie Kangmin) – resigned 12 July 2017
- Mr Li Shun (Alternate Non-Executive Director to Mr Xie Kangmin) – appointed 25 October 2017

## Directorships of other Listed Companies

Directors who have held a Directorship position in another publicly listed company in the three years immediately before the end of the financial year are as follows:

- Mr Robert Shaw is a Non-Executive Director of Credit Corp Group Limited
- Mr Robert Kaye is Chairman of Collins Food Limited and a Non-Executive Director of HT&E Limited. He was also formerly a director at UGL Limited and Spicers Limited during the relevant 3-year period
- Mr Andre Labuschagne is Executive Chairman of Aeris Resources Limited (formerly Straits Resources Limited)
- Mr Xie Kangmin is a director of Qinghai Salt Lake Industry Co. Limited

## Company Secretary

**Mr John Talbot, B Bus (Acctg)**

Mr Talbot has been the Company Secretary for Magontec since February 2008, a role he has previously combined with that of Chief Financial Officer. Mr Talbot relinquished his responsibilities as Chief Financial Officer in February 2016. Prior to 2008 he was engaged as a financial consultant in the corporate finance field. Prior to 2000 he was a senior executive with the Commonwealth Bank of Australia.

## Principal Activities

The principal activities of the consolidated entity during the course of the financial year consisted of:

- Manufacture and sale of generic and specialist alloys (including both primary alloy manufacture and recycling);
- Manufacture and distribution of magnesium and titanium cathodic corrosion protection products (anodes);
- Research and development of new proprietary magnesium alloys and technologies;
- Research and development of cathodic corrosion protection products (CCP); and
- Creating markets for new magnesium alloys and technologies by supporting demonstration trials and programs for developing new applications.

## Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

Director	Board Meetings		FAC Meetings <sup>(2)</sup>		REM Meetings <sup>(3)</sup>	
	Attended	Held	Attended	Held	Attended	Held
Mr Nicholas Andrews	8	8				
Mr Xie Kangmin	–	8	–	2		
Mr Li Zhongjun	8	8			2	2
Mr Robert Shaw	8	8	2	2	2	2
Mr Robert Kaye	8	8			2	2
Mr Andre Labuschagne	7	8	2	2		
Mr Li Yong <sup>(1)</sup>	2	5	1	1		
Mr Li Shun <sup>(1)</sup>	2	2	1	1		

(1) Mr Li Yong was the alternate director to Mr Xie Kangmin during the period until his resignation on 12 July 2017. Mr Li Shun was appointed as the alternate director to Mr Xie Kangmin commencing 25 October 2017.

(2) Finance, Audit & Compliance Committee.

(3) Remuneration & Appointments Committee.

# Directors' Report

continued

## Directors' Shareholdings

The following table sets out the relevant interest (direct and indirect) of each serving director in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

Director	Ordinary Shares	Performance Rights
Mr Nicholas Andrews	20,870,953	11,086,660
Mr Xie Kangmin	–	–
Mr Li Zhongjun	56,197,298	–
Mr Robert Shaw	800,000	–
Mr Robert Kaye	–	–
Mr Andre Labuschagne	–	–
Mr Li Yong	–	–
Mr Li Shun	–	–

## REMUNERATION REPORT

The Remuneration Report for the year ended 31 December 2017 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations.

The Remuneration Report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Parent Entity. Directors and executives with a direct reporting responsibility to the Executive Chairman are deemed to be such individuals.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Remuneration at a glance
3. Board oversight of remuneration
4. Non-executive director remuneration arrangements
5. Executive remuneration arrangements
6. Group performance and the link to remuneration
7. Executive contractual arrangements

### 1. INDIVIDUAL KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES

Details of KMP are set out below and their remuneration is detailed in the table on page 29.

#### (i) Directors during the year ended 31 December 2017

- Mr Nicholas Andrews (Executive Chairman)
- Mr Xie Kangmin (Non-Executive Director)
- Mr Li Zhongjun (Non-Executive Director)
- Mr Robert Shaw (Independent Director)
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)
- Mr Li Yong (Alternate Non-Executive Director to Mr Xie Kangmin) – resigned 12 July 2017
- Mr Li Shun (Alternate Non-Executive Director to Mr Xie Kangmin) – appointed 25 October 2017

#### (ii) Key Management Personnel (KMP) (Being the Executive Chairman and his Direct Reports) during the year ended 31 December 2017

- Mr Nicholas Andrews - Executive Chairman
- Mr Christoph Klein-Schmeink - President Magontec Europe, North America and Middle East
- Mr Tong Xunyou - President Magontec Asia
- Mr Derryn Chin - Chief Financial Officer



# Directors' Report

continued

## 2. REMUNERATION AT A GLANCE

### Remuneration Strategy

The Group uses a combination of cash and non-cash mechanisms to remunerate key management personnel. At the Company's 2017 Annual General Meeting shareholders approved a new plan for the global management group comprising cash based short term incentives and equity based long term incentives in the form of performance rights.

## 3. BOARD OVERSIGHT OF REMUNERATION

### Remuneration & Appointments Committee

The Remuneration & Appointments Committee is responsible for making recommendations to the board on the remuneration arrangements for non-executive directors (NEDs) and executives.

The committee assesses the appropriateness of the nature and amount of remuneration of NEDs and executives on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum benefit from the retention of its directors and executive team.

### Remuneration Approval Process

The board approves the remuneration arrangements of the Executive Chairman and executives following recommendations from the remuneration committee.

### Remuneration Structure

The structure of Non-Executive Director and Executive Remuneration are separate and distinct processes as outlined in the following sections.

## 4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS – BOARD POLICY AND STRUCTURE

The remuneration of Non-Executive Directors consists of directors' fees. The aggregate amount of Non-Executive Directors' fees is approved by Shareholders and is currently limited to \$600,000 per annum. Any increase to the aggregate amount must be approved by Shareholders. The Board decides how the aggregate amount or a lesser amount is divided between the Directors.

Within the constraint of the aggregate \$600,000 fees approved by Shareholders for Non-Executive Directors, the Board has increased compensation to \$60,000 per annum commencing from 1 September 2017 (previously \$35,000 per annum) for each Non-Executive Director inclusive of any payments for superannuation. There are currently no additional fees being paid to those directors serving on either the Finance, Audit & Compliance Committee or the Remuneration & Appointments Committee.

Equity based compensation including the issue of options is generally avoided for non-executive directors. However, this can be provided to directors as long as any such issue complies with the requirements of the Corporations Act and the ASX Listing Rules.

## 5. EXECUTIVE REMUNERATION ARRANGEMENTS

### Board Policy

The Board of Directors' policy on Executive remuneration is as follows:

- When an executive or an employee is recruited, the Group's aim is to reward its staff at market rates within the manufacturing technology industry as determined and in consultation with a remuneration specialist where appropriate;
- The remuneration policy aims to retain key employees and align employee interests with Group performance and shareholders' interests;
- On 18 December 2013, the Board approved an incentive plan comprising short-term incentive (STI) and long-term incentive (LTI) components for the Magontec global management group. This plan was known as the *2013 Board Approved Plan*.
- Subsequent amendments to the *2013 Board Approved Plan* were approved by the Board on 23 February 2017 and presented at the Group's AGM on 17 May 2017, which was then ratified by shareholders. This plan is now known as the *2017 Shareholder Approved Plan*.
- The implementation of this plan is utilised to:
  - a. motivate key management personnel (KMP) to originate and innovate strategies for growth;
  - b. reward KMP for the satisfaction of positive strategic and financial outcomes; and
  - c. in the case of the LTI scheme, to provide an adjunct to cash remuneration to preserve cash resources.

Each KMP has a set of key performance indicators (KPIs) mutually agreed by the employee with the Executive Chairman/Board (as appropriate) on an annual basis. The KPIs reflect the employee's ability to add value to the entity and increase shareholder wealth by ensuring productive gains such as increasing efficiencies, reduction in costs and increased profitability by maximising sales volumes and margins on sale revenues. Performance against these KPIs forms a component of the assessment of STI amounts as outlined below. The Board retains discretion to adjust final remuneration outcomes for all Executives.

Board Policy is reviewed periodically by the Remuneration and Appointments Committee. Where appropriate, recommendations to the Board for variations will be made.

Eligible executives for the 2017 Shareholder Approved Plan are outlined in the table below.

Participant	Current Position
Nicholas Andrews	Executive Chairman
John Talbot	Company Secretary and Consultant
Derryn Chin <sup>(1)</sup>	Chief Financial Officer
Christoph Klein-Schmeink	President Europe, North America & Middle East
Xunyou Tong	President Asia
Patrick Look	Vice President Finance & Human Resources

(1) Mr Chin was not eligible to participate in the 2015-17 LTI Plan, as he was not part of the global management group at its commencement date of 1 January 2015.

# Directors' Report

continued

## 5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

### Previous Schemes

As at 31 December 2017, both the Employees' Share Option Plan (ESOP) and Executives' Securities Issue Plan (ESIP) are no longer active as there are no outstanding obligations to employees.

### Outcomes

During the year ended 31 December 2017:

- No STI provision has been made for performance during the current year.
- Regarding the LTI scheme, a total of 7,864,192 shares with respect to the 3-year period from 2014-2016 were issued to members of the global management group following approval at the company's AGM in May 2017.

Remuneration for directors and KMP in the current reporting period prepared according to accounting standards is shown below.

### Key Management Personnel Remuneration 12 months ended 31-Dec-17 and 31-Dec-16

Non-Performance Related							Performance Related			
		Salary & Allowances \$	Termination Payment \$	Super & Statutory Pension Benefits \$	Share Based Payments \$	Motor Vehicle & Other Allowances \$	STI \$	LTI shares \$	LTI rights \$	Total \$
Mr N Andrews (Exec Chairman)	2017	403,993	–	30,000	–	–	–	35,675	11,504	481,172
	2016	382,988	–	35,000	–	–	46,362	33,776	–	498,125
Mr C Klein-Schmeink (President Magontec Europe)	2017	281,325	–	23,274	–	29,850	–	36,612	8,299	379,360
	2016	249,591	–	20,350	115,148	28,405	33,091	34,663	–	481,248
Mr X Tong (President Magontec Asia)	2017	278,371	–	14,820	–	–	–	29,748	7,796	330,736
	2016	260,588	–	14,786	–	–	29,663	28,164	–	333,202
Mr D Chin (Chief Financial Officer) <sup>(1)</sup>	2017	230,002	–	21,850	–	–	–	–	2,690	254,543
	2016	191,668	–	18,208	–	–	5,000	–	–	214,877
Mr J Talbot (Former CFO & Coy Sec) <sup>(2)</sup>	2017	–	–	–	–	–	–	–	–	–
	2016	35,000	–	5,833	–	–	–	–	–	40,834
Mr K Xie (Non Exec Dr)	2017	–	–	–	–	–	–	–	–	–
	2016	–	–	–	–	–	–	–	–	–
Mr Z Li (Non Exec Dr)	2017	43,333	–	–	–	–	–	–	–	43,333
	2016	35,000	–	–	–	–	–	–	–	35,000
Mr R Shaw (Independent Dr)	2017	39,574	–	3,760	–	–	–	–	–	43,333
	2016	31,670	–	3,330	–	–	–	–	–	35,000
Mr R Kaye (Independent Dr)	2017	43,333	–	–	–	–	–	–	–	43,333
	2016	35,000	–	–	–	–	–	–	–	35,000
Mr A Labuschagne (Non Exec Dr)	2017	43,333	–	–	–	–	–	–	–	43,333
	2016	35,000	–	–	–	–	–	–	–	35,000
Total year ended 31 December 2017		1,363,265	–	93,704	–	29,850	–	102,036	30,289	1,619,144
Total year ended 31 December 2016		1,256,506	–	97,507	115,148	28,405	114,116	96,603	–	1,708,285

(1) During 2016, Mr Derryn Chin was only deemed as KMP during the period commencing from 1 March 2016 to 1 December 2016, and as such the 2016 figures only reflect his remuneration for that 10 month period. No increase to fixed contractual remuneration was made during 2017.

(2) Mr John Talbot ceased to be a KMP on 1 March 2016. His remuneration for the period from 1 January 2016 to February 2016 is shown.

# Directors' Report

continued

## 5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

### Structure

The Group's limited resources mean that its remuneration structures must be simple. The arrangements therefore must balance ease of administration with appropriate reward.

Non-cash mechanisms are confined to shares and options. The issue of shares will be in terms of resolutions put to shareholders pursuant to ASX Listing Rules and other relevant governing regulations.

Technical services tend to be required by the Group on an irregular basis. There is a reliable base of technical consultants on which the Group can call upon when the need arises. This avoids the cost of maintaining permanent resources.

Key Management Personnel are defined as Directors, the Executive Chairman and those with direct reporting responsibility to the Executive Chairman except the Company Secretary.

Under the 2017 Shareholder Approved plan, staff remuneration has three components:

- Base or fixed remuneration;
- A short-term incentive (STI) in the form of cash; and
- A long-term incentive (LTI) in the form of performance rights.

### Fixed Cash Remuneration

Executive contracts of employment include post-employment benefits (superannuation and certain social benefits for Chinese personnel) but do not include any guaranteed base pay increases. These are assessed on a periodic basis with the assistance of external consultants where deemed necessary.

### Use of Remuneration Consultants

During the current year ended 31 December 2017, the Group engaged the services of four separate independent remuneration consultants as detailed below:

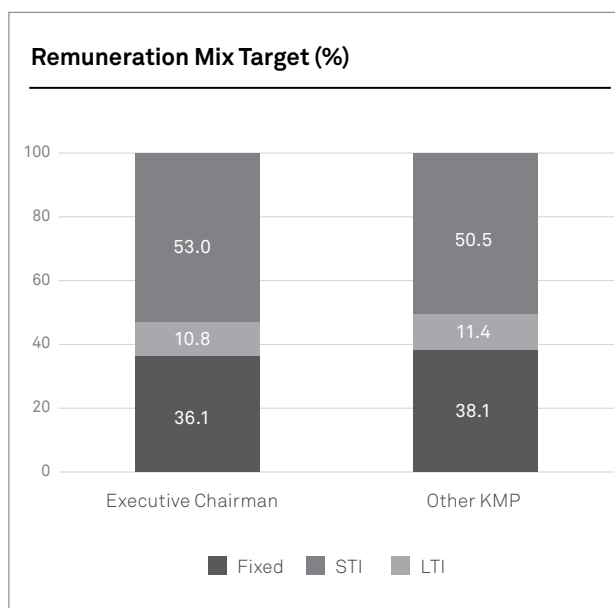
Remuneration Consultant	Position	Cash consideration for remuneration market services (A\$) excluding GST
Godfrey Remuneration Group (Australia);	Executive Chairman	8,500
Kienbaum (Germany)	President, Magontec Europe, North America & Middle East	7,273
Mercer (China)	President, Magontec Asia	2,885
KPMG (Australia)	Non-Executive Directors	5,125

Aside from Godfrey Remuneration Group (Australia), these consultants only provided remuneration benchmarking data that was considered by the Board in conjunction with other factors when forming its remuneration decisions.

Further detail on each component is provided below.

### Potential Remuneration Mix

The chart below outlines the target remuneration mix for the Executive Chairman and other key management personnel based on latest estimates of maximum possible remuneration at the date of this report.



# Directors' Report

continued

## 5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

With respect to recommendations provided by Godfrey Remuneration Group (Australia), the board is satisfied that the remuneration recommendations were made free from undue influence from the Executive Chairman, to whom the report relates. Godfrey Remuneration Group is regarded amongst the leading independent remuneration consultants in Australia.

With respect to other services provided by remuneration consultants, KPMG (Australia) also provided limited assistance to the Group in compiling a binomial options pricing model which was used to determine the fair value of performance rights issued to executives. Specifically, KPMG (Australia) did not express any opinions regarding assumptions or inputs to the model. Cash consideration for this additional service was \$7,767.

### Executive STI Plan

The STI plan rewards executives according to a set formula with reference to group profitability. The Board determines the size of the pool based on actual financial metrics achieved relative to budget, and has discretion to adjust these payments depending on the particular circumstances of the Group and other qualitative factors as it sees fit. STI awards are 100% cash-settled.

Details of the STI plan forming part of the *2017 Shareholder Approved Plan* are as follows:

- The commencement date of the STI plan is 1 January 2017 and annually thereafter.
- The STI performance period is the one-year period from the relevant commencement date.
- The STI pool available for distribution is calculated as being equal to 25% of the excess of the actual net operating profit after tax (Actual NOPAT) over budgeted net operating profit after tax (Budgeted NOPAT) – the resultant figure being referred to as “The Pool”;
- Net operating profit after tax (NOPAT) is defined as reported net profit after tax adjusted for specific items as deemed appropriate by the board.
- The amount of The Pool is modified as follows:
  - a. The Pool would not be created where Actual NOPAT is negative; and
  - b. In order to limit the amount of The Pool when profitability is low, the 25% ratio of excess Actual NOPAT over Budgeted NOPAT on which the Pool is calculated would be reduced according to the principles in the following table

1. If POOL as a % of ACTUAL NOPAT is equal to:	2. The Pool is MODIFIED to this % of excess ACTUAL NOPAT over BUDGET NOPAT
From 0.0% to 12%	25.0%
Over 12.0% to 20%	15.0%
Over 20.0%	8.0%

This constraint will be reviewed for appropriateness periodically by the Remuneration and Appointments Committee.

- Executives in the global management group participate in The Pool on a pro rata basis according to the percentage that their salary represents of the aggregate of salaries of eligible executives, the resultant figure being referred to as “The Provisional Payment”;
- Eligible executives will receive –
  - a. 45% of the Provisional Payment by way of a fixed component as determined by the formula described above; and
  - b. Up to 55% of the Provisional Payment by way of a residual discretionary component determined according to an assessment of the eligible executive's contribution to regional and Group performance, satisfaction of KPIs laid down by management; and other subjective factors identified by the Remuneration and Appointments Committee.
- The resultant payments are subject to approval by the Board upon the recommendation of the Remuneration and Appointments Committee and may only be taken in cash.

### Executive LTI Plan

Long term incentives are issued in the form of performance rights to the global management group and provide for vesting into Magontec ordinary shares subject to the achievement of pre-determined share price targets.

The plan uses absolute total shareholder return (TSR) as the basis for performance measurement targets based on the 30-day VWAP for each year ended 31 December.

TSR comprises the percentage change in the Company's share price, plus the value of any future dividends during the period and is measured over a 3-year period.

The performance condition of TSR is deemed as being the most appropriate by the Board due to the following reasons:

1. There are no comparable companies either on the ASX or globally that would provide a reliable relative performance benchmark
2. It is more simple to administer given limited human resources
3. It aligns the interests of employees in the management group with those of shareholders

As the company moves to profitability, the Board will consider introducing other measurements.

During the year ended 31 December 2017, a total of 64,347,817 performance rights were issued with respect to the three-year periods to 31 December 2017, 31 December 2018 and 31 December 2019 pursuant to the *2017 Shareholder Approved Plan* which was approved at the 2017 AGM.

No other options were issued to KMP during the current financial period.

# Directors' Report

continued

## 5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

Further details of the LTI plan forming part of the 2017 Shareholder Approved Plan are as follows:

- The commencement date of the LTI plan is 1 January 2017 and annually thereafter up to and including 1 January 2020.
- The LTI performance period is the 3-year period from the relevant commencement date.
- A Performance Right is a conditional right granted by the Company to an eligible executive whereby that conditional right may, subject to the relevant terms and conditions, vest as Magontec ordinary shares in respect of participation in the LTI.
- Performance Rights will automatically lapse in the event of the death, dismissal, retrenchment, retirement or resignation of the eligible executive prior to the end date of the 3-year LTI performance period.
- Performance Rights will vest immediately in the event of a takeover (being the acquisition of control over the voting shares) of the Company.
- Performance Rights may not be transferred, assigned or novated except with the approval of the Remuneration and Appointments Committee.
- Eligible executives will not grant any security interest in or over or otherwise dispose of or deal with any Performance Rights or any interest in them until the relevant Magontec ordinary shares are issued to that eligible executive, and any such security interest or disposal or dealing will not be recognised in any manner by the Company.
- Performance Rights do not confer on a participant the right to participate in new issues of shares by the Company, including by way of bonus issue, rights issue or otherwise.

### Grant of Performance Rights

At the commencement date of the relevant 3-year LTI performance period an eligible executive will receive Performance Rights –

- i. equal in value to 30% of the eligible executive's gross salary at that date;
- ii. equal in number to the value in i. divided by 75% of the greater of the market value of Magontec ordinary shares on the same date and the market value adopted under this provision at the commencement date of the immediately prior 3-year LTI performance period; and
- iii. at nil consideration.

The number of Performance Rights is rounded down to the next whole number if it is not a whole number. Performance rights issued to executives do not have escrow periods.

No entitlement to Performance Rights accrues to the eligible executive until an appropriate confirmation from the Company has been received by the eligible executive.

The calculation of these Performance Rights was included in the notice to the 2017 AGM, with the number of performance rights by employee provided in the table below.

Calculation of Performance Rights Issued to Global Management Group						
3 Year LTI Performance Period	1 Jan 15 to 31 Dec 17	1 Jan 16 to 31 Dec 18	1 Jan 17 to 31 Dec 19	1 Jan 18 to 31 Dec 20	1 Jan 19 to 31 Dec 21	1 Jan 20 to 31 Dec 22
1. Aggregate salaries of eligible participants at commencement of 3 year LTI period	\$1,405,381	\$1,580,264	\$1,527,227	\$1,527,227	\$1,527,227	\$1,527,227
2. Multiplied by 30%	\$421,614	\$474,079	\$458,168	\$458,168	\$458,168	\$458,168
3. Share price at commencement of 3 year LTI period assumed	\$0.025	\$0.025	\$0.040	\$0.045	\$0.050	\$0.055
4. Performance Rights issued at commencement = Amount in step 2 / 75% * share price in step 3	22,486,093	25,284,226	15,272,266	13,575,348	12,217,813	11,107,103
5. Gross up for possible dilution in the period to the end of the 3 year LTI period	22,976,789	25,749,882	15,621,146	13,884,941	12,494,505	11,337,287
Date of issue of Performance Rights	01-Jan-15	01-Jan-16	01-Jan-17	01-Jan-18	01-Jan-19	01-Jan-20
Date for conversion to ordinary shares	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22



# Directors' Report

continued

## 5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

Performance Rights Issued to Global Management Group						
3 Year LTI Performance Period	1 Jan 15 to 31 Dec 17	1 Jan 16 to 31 Dec 18	1 Jan 17 to 31 Dec 19	1 Jan 18 to 31 Dec 20	1 Jan 19 to 31 Dec 21	1 Jan 20 to 31 Dec 22
Nicholas Andrews	6,833,947	6,811,172	4,275,488	3,800,291	3,419,730	3,103,001
Derryn Chin <sup>(1)</sup>	–	2,607,152	2,576,033	2,289,721	2,060,428	1,869,595
Christoph Klein-Schmeink	4,806,295	5,085,769	2,973,577	2,643,081	2,378,403	2,158,120
Xunyou Tong	4,570,313	4,769,268	2,674,317	2,377,081	2,139,041	1,940,927
John Talbot <sup>(2)</sup>	4,496,018	3,992,195	1,227,413	1,090,993	981,741	890,814
Patrick Look	2,270,217	2,484,327	1,894,318	1,683,775	1,515,162	1,374,831
<b>Total Performance Rights</b>	<b>22,976,790</b>	<b>25,749,882</b>	<b>15,621,145</b>	<b>13,884,941</b>	<b>12,494,505</b>	<b>11,337,287</b>

(1) Role altered to Chief Financial Officer 1 March 2016.

(2) Role altered to Company Secretary 1 March 2016.

### Vesting of Performance Rights as Magontec Ordinary Shares

- If, at the end date of the 3-year LTI performance period, the Performance Rights have not lapsed or vested then, at that date, an individual eligible executive's entitlement to –
  - the number of Performance Rights will be adjusted for any dilution caused by capital restructures during the relevant 3-year LTI performance period; and
  - the adjusted number of Performance Rights will vest as Magontec ordinary shares according to the relevant paragraphs above.
- Performance Right share prices targets are assessed according to the 30-day VWAP to 31 December in the year of vesting.
- The percentage of Performance Rights that will vest as Magontec ordinary shares is determined according to the following vesting % tables for the 2015-2017 Plan, the 2016-2018 Plan and the 2017-2019 Plan.

2015-17 LTI Plan Vesting Schedule			
Performance Level	Share Price	% of Performance Rights vesting	
Below threshold	Share price <	4.6	0%
Threshold range	Share price =	4.6	25%
Target range	Share price =	6.6	50%
Stretch	Share price >=	8.8	100%

2016-18 LTI Plan Vesting Schedule			
Performance Level	Share Price	% of Performance Rights vesting	
Below threshold	Share price <	5.1	0%
Threshold range	Share price =	5.1	25%
Target range	Share price =	7.3	50%
Stretch	Share price >=	9.7	100%

2017-2019 LTI Plan Vesting Schedule			
Performance Level	Share Price	% of Performance Rights vesting	
Below threshold	Share price <	6.2	0%
Threshold range	Share price =	6.2	25%
Target range	Share price =	8.8	50%
Stretch	Share price >=	11.7	100%

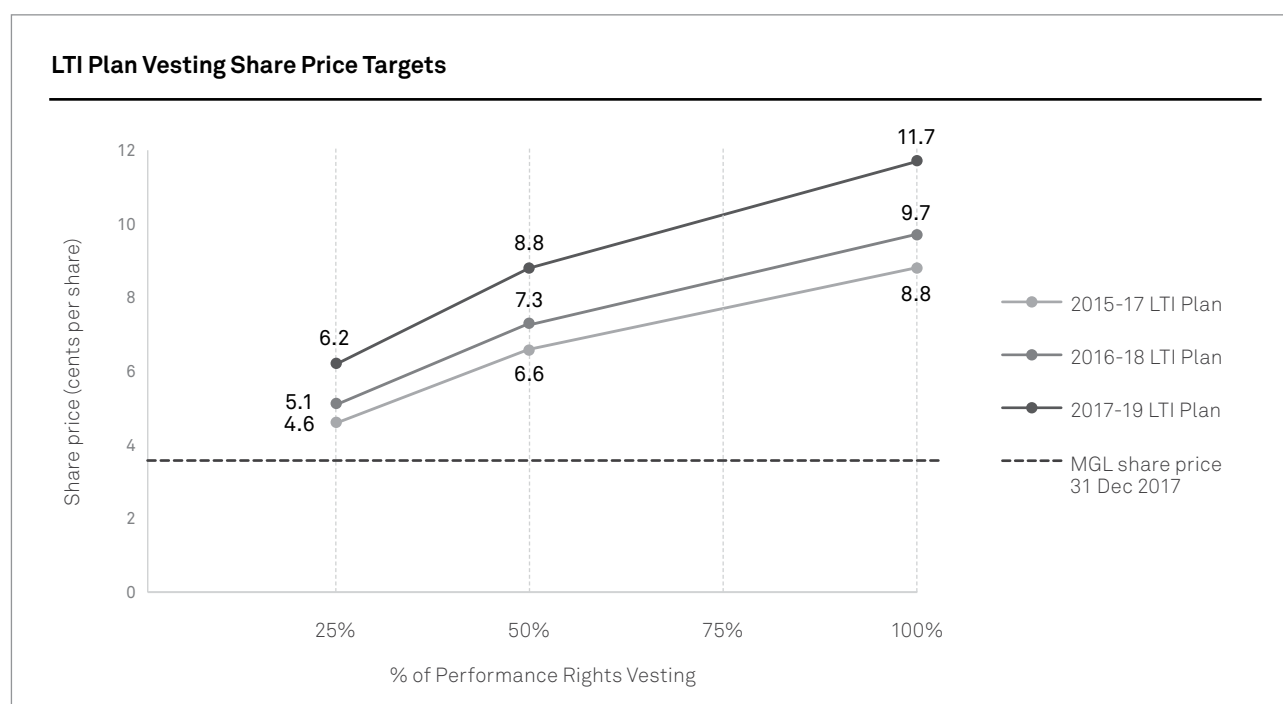
- For example, in the 2015-2017 plan, if the share price had reached 4.6 cents per share (the Threshold Range), this would have given rise to 25% of the Performance Rights vesting into Magontec ordinary shares.

# Directors' Report

continued

## 5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

- Under the 2015-17 Plan, if the share price had increased above 4.6 cents per share, the percentage of Performance Rights vesting would increase on a pro-rata basis through to 100% vesting on achievement of the maximum Stretch target (being 8.8 cents per share). All other LTI plans for later years work in the same manner.
- No entitlement to Magontec ordinary shares accrues to the eligible executive until an appropriate confirmation from the Company has been received by the eligible executive.
- The Magontec ordinary shares to be issued with respect to the Plan are issued at the 10- day VWAP on the date of issue of the ordinary shares.
- The LTI Amount is equal to the number of Magontec ordinary shares multiplied by the 10-day VWAP on the date of issue of the ordinary shares.



### Valuation of Performance Rights

The fair value of goods and services received as consideration by the Group has been estimated by reference to the fair value of the equity instruments granted.

An external consultant (KPMG Australia) provided limited assistance to the Group with respect to compiling a binomial options pricing model which was used to determine the fair value of performance rights issued to executives. In particular, KPMG Australia did not specifically express any opinions regarding assumptions or inputs to the model.

Assumptions regarding dividend yield and volatility have been estimated based on historical dividend payouts (nil) and volatility on an appropriate period deemed to have excluded instances of non-normal trading.

The fair value of the equity instruments granted is calculated assuming a 0% probability of forfeiture before grant date (i.e. it is assumed all participants remain employed by Magontec during the period), and is expensed on a straight-line basis over the vesting period.

The table below outlines the assumptions used to determine the value of performance rights granted during the year ended 31 December 2017.

Table of assumptions								
Plan	Share price (cents)	Grant date	Contractual Life (years)	Dividend yield	Volatility	Risk free rate	TSR share price 100% vest (cents)	Performance Right Fair Value (cents)
2015-17 Plan	3.6	19-May-17	0.62	0.0%	18.4%	1.63%	8.8	0.076
2016-18 Plan	3.6	19-May-17	1.62	0.0%	21.3%	1.63%	9.7	0.186
2017-19 Plan	3.6	19-May-17	2.62	0.0%	21.3%	1.74%	11.7	0.119

# Directors' Report

continued

## 5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

### Loans to Members of Key Management Personnel

As at 31 December 2017, there were 2 employee loans outstanding to Mr Christoph Klein-Schmeink for a total of A\$59,312 (2016: A\$63,642).

The first loan of A\$7,105 is due for repayment by 30 November 2018, with the remaining \$52,207 loan having a maturity date of 16 July 2021, which can be extended by a further 10 years at the option of the Company. There is no interest attached to the loan. There were no other employee loans to key management personnel outstanding as at 31 December 2017.

### Key Management Personnel Equity Holdings

Fully paid ordinary shares of Magontec Limited - 31 Dec 2017

	Balance @ 1/01/17 No.	Granted as remuneration No.	Received on exercise of options No.	Acquired On Market or Under Share Purchase Plan No.	Total balance (held directly and indirectly) @ 31/12/17 No.	Balance held nominally (indirectly) No.
Mr Z Li <sup>(1)</sup>	56,197,298	–	–	–	56,197,298	55,797,298
Mr N Andrews <sup>(2)</sup>	18,993,502	1,877,451	–	–	20,870,953	15,409,401
Mr R Shaw	800,000	–	–	–	800,000	800,000
Mr C Klein-Schmeink	4,215,436	1,926,776	–	–	6,142,212	–
Mr X Tong	8,317,435	1,565,538	–	–	9,882,973	–
Mr D Chin	1,000,000	–	–	–	1,000,000	–
Mr J Talbot	4,113,268	1,566,077	–	25,747	5,705,092	–
	<b>93,636,939</b>	<b>6,935,842</b>	<b>–</b>	<b>25,747</b>	<b>100,598,528</b>	<b>72,006,699</b>

(1) 55,797,298 shares held via KWE (HK) Investment Development Co Limited and 400,000 shares were held directly.

(2) 15,409,401 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 5,461,552 were held directly.

Fully paid ordinary shares of Magontec Limited - 31 Dec 2016

	Balance @ 1/01/16 No.	Granted as remuneration No.	Received on exercise of options No.	Acquired On Market or Under Share Purchase Plan No.	Total balance (held directly and indirectly) @ 31/12/16 No.	Balance held nominally (indirectly) No.
Mr Z Li <sup>(1)</sup>	56,197,298	–	–	–	56,197,298	55,797,298
Mr N Andrews <sup>(2)</sup>	18,993,502	–	–	–	18,993,502	15,409,401
Mr R Shaw	800,000	–	–	–	800,000	800,000
Mr C Klein-Schmeink	1,141,542	3,073,894	–	–	4,215,436	–
Mr X Tong	8,317,435	–	–	–	8,317,435	–
Mr D Chin	266,883	–	–	733,117	1,000,000	–
Mr J Talbot	4,078,280	–	–	34,988	4,113,268	–
<b>Total</b>	<b>89,794,940</b>	<b>3,073,894</b>	<b>–</b>	<b>768,105</b>	<b>93,636,939</b>	<b>72,006,699</b>

(1) 55,797,298 shares held via KWE (HK) Investment Development Co Limited and 400,000 shares were held directly.

(2) 15,409,401 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 3,584,101 were held directly.

# Directors' Report

continued

## 6. GROUP PERFORMANCE AND THE LINK TO REMUNERATION

In summary, resources have been directed to the following high-level tasks;

- restructure and redirect manufacturing resources to improve production efficiencies;
- rationalise inventories;
- planning for the installation of manufacturing plant and equipment at Golmud;
- initial marketing of potential production output from the new Golmud plant;
- monitoring manufacturing operations at all centres with a view to efficiency improvements; and
- negotiating the group debt position and working capital requirements among other financial imperatives.

Rewards are directed to those personnel who can directly or indirectly further the Group's objectives of:

- developing and executing strategic initiatives;
- cost efficiency; and
- market development.

During the reporting period ended 31 December 2017, the focus of the Group's management resources is described in the Executive Chairman's address. Outcomes with respect to financial performance over the last 5 years and details with respect to STI remuneration is summarised below.

Summary of financial performance					
	12 months to 31 Dec 13 \$	12 months to 31 Dec 14 \$	12 months to 31 Dec 15 \$	12 months to 31 Dec 16 \$	12 months to 31 Dec 17 \$
<b>Profit attributable to shareholders</b>	<b>292,121</b>	<b>(1,663,983)</b>	<b>44,807</b>	<b>619,800</b>	<b>(1,614,255)</b>
Less unrealised FX gains/ add unrealised FX losses	(2,527,737)	(333,030)	(292,610)	498,282	436,901
Add back non cash equity expense	79,612	15,822	174,371	183,456	190,585
Add back provision for STI	–	–	–	145,078	–
Add back provision for LTI	–	–	–	141,478	–
<b>Profit excluding unrealised FX, STI and non cash share based payments (1)</b>	<b>(2,156,004)</b>	<b>(1,981,191)</b>	<b>(73,432)</b>	<b>1,588,094</b>	<b>(986,768)</b>
<b>STI pool (\$)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>145,078</b>	<b>–</b>
STI pool as a % of (1)	0.0%	0.0%	0.0%	9.1%	0.0%

With respect to the LTI scheme, the share price targets approved by shareholders at the 2017 AGM for the 3-year assessment period ended 31 December 2017 were not achieved.

During the 3-year period ended 31 December 2017, the share price of the Company increased from 2.0 cents per share as at 1 January 2015 to 3.6 cents per share (30-day VWAP as at 31 December 2017) giving rise to an increase in the market capitalisation of Magontec Limited from \$22.3 million to \$41.0 million. After adjusting for new capital raised, dividends paid, return of capital (nil) during the 3-year assessment period, total shareholder wealth increased to an adjusted total of \$40.2 million, representing an increase of \$17.9 million during the LTI assessment period. However, as this fell short of the targets as outlined in the 2015-17 plan, no performance rights with respect to this period were eligible for vesting and thus have lapsed.

The table below summarises the STI and LTI awards for key management personnel at their face value, which differs from the remuneration report table above that is prepared according to accounting standards.

# Directors' Report

continued

## 6. GROUP PERFORMANCE AND THE LINK TO REMUNERATION (continued)

Summary of STI and LTI awarded to key management personnel						
	2017 STI awarded \$	2017 LTI face value awarded <sup>(1)</sup> \$	2017 STI & LTI awarded \$	2016 STI awarded \$	2016 LTI face value awarded <sup>(2)</sup> \$	2016 STI & LTI awarded \$
<b>Current KMP executives</b>						
Nicholas Andrews	–	22,863	22,863	46,362	69,451	115,813
Christoph Klein-Schmeink	–	16,584	16,584	33,091	71,275	104,366
Xunyou Tong	–	15,464	15,464	29,663	57,912	87,575
Derryn Chin	–	7,880	7,880	5,000	–	5,000
<b>Former KMP executives</b>						
John Talbot <sup>(3)</sup>	–	–	–	12,339	57,932	70,271
<b>Total</b>	<b>–</b>	<b>62,790</b>	<b>62,790</b>	<b>126,455</b>	<b>256,571</b>	<b>383,026</b>

(1) The 2017 LTI face value awarded amount relates to the face value of the 2015-17, 2016-18 and 2017-19 plans granted to each executive listed above.

(2) The LTI amount proposed in the 2016 Annual Report had not been approved by shareholders at the time of writing. Therefore, this number has now been updated to reflect the actual value that shares were issued at following approval at the 2017 AGM as at 19 May 2017.

(3) Mr Talbot ceased to be a member of KMP as at 1 March 2016, thus no further disclosures are made for him in respect of the 2017 year.

The following table details the number of LTI performance rights granted, lapsed or exercised during the year ended 31 December 2017, by plan participant and in aggregate.

Performance Rights Issued to Global Management Group								
Name	Grant date	Performance Condition	Fair value/ right (cents per share)	Holding at 01 Jan 17	Granted in 2017	Lapsed in 2017	Holding at 31 Dec 17	Vested at 31 Dec 17
<b>Nicholas Andrews</b>								
2015-17 Plan	19-May-17	TSR	0.08	–	6,833,947	(6,833,947)	–	–
2016-18 Plan	19-May-17	TSR	0.19	–	6,811,172	–	6,811,172	–
2017-19 Plan	19-May-17	TSR	0.12	–	4,275,488	–	4,275,488	–
<b>Subtotal</b>				<b>–</b>	<b>17,920,607</b>	<b>(6,833,947)</b>	<b>11,086,660</b>	<b>–</b>
<b>Derryn Chin</b>								
2015-17 Plan (not eligible)	19-May-17	TSR	0.08	–	–	–	–	–
2016-18 Plan	19-May-17	TSR	0.19	–	2,607,152	–	2,607,152	–
2017-19 Plan	19-May-17	TSR	0.12	–	2,576,033	–	2,576,033	–
<b>Subtotal</b>				<b>–</b>	<b>5,183,185</b>	<b>–</b>	<b>5,183,185</b>	<b>–</b>
<b>Christoph Klein-Schmeink</b>								
2015-17 Plan	19-May-17	TSR	0.08	–	4,806,295	(4,806,295)	–	–
2016-18 Plan	19-May-17	TSR	0.19	–	5,085,769	–	5,085,769	–
2017-19 Plan	19-May-17	TSR	0.12	–	2,973,577	–	2,973,577	–
<b>Subtotal</b>				<b>–</b>	<b>12,865,641</b>	<b>(4,806,295)</b>	<b>8,059,346</b>	<b>–</b>
<b>Xunyou Tong</b>								
2015-17 Plan	19-May-17	TSR	0.08	–	4,570,313	(4,570,313)	–	–
2016-18 Plan	19-May-17	TSR	0.19	–	4,769,268	–	4,769,268	–
2017-19 Plan	19-May-17	TSR	0.12	–	2,674,317	–	2,674,317	–
<b>Subtotal</b>				<b>–</b>	<b>12,013,898</b>	<b>(4,570,313)</b>	<b>7,443,585</b>	<b>–</b>



# Directors' Report

continued

## 6. GROUP PERFORMANCE AND THE LINK TO REMUNERATION (continued)

Performance Rights Issued to Global Management Group								
Name	Grant date	Performance Condition	Fair value/ right (cents per share)	Holding at 01 Jan 17	Granted in 2017	Lapsed in 2017	Holding at 31 Dec 17	Vested at 31 Dec 17
<b>John Talbot</b>								
2015-17 Plan	19-May-17	TSR	0.08	–	4,496,018	(4,496,018)	–	–
2016-18 Plan	19-May-17	TSR	0.19	–	3,992,195	–	3,992,195	–
2017-19 Plan	19-May-17	TSR	0.12	–	1,227,413	–	1,227,413	–
<b>Subtotal</b>				–	<b>9,715,625</b>	<b>(4,496,018)</b>	<b>5,219,607</b>	–
<b>Patrick Look</b>								
2015-17 Plan	19-May-17	TSR	0.08	–	2,270,217	(2,270,217)	–	–
2016-18 Plan	19-May-17	TSR	0.19	–	2,484,327	–	2,484,327	–
2017-19 Plan	19-May-17	TSR	0.12	–	1,894,318	–	1,894,318	–
<b>Subtotal</b>				–	<b>6,648,861</b>	<b>(2,270,217)</b>	<b>4,378,644</b>	–
<b>Aggregate</b>								
2015-17 Plan	19-May-17	TSR	0.08	–	22,976,790	(22,976,790)	–	–
2016-18 Plan	19-May-17	TSR	0.19	–	25,749,882	–	25,749,882	–
2017-19 Plan	19-May-17	TSR	0.12	–	15,621,145	–	15,621,145	–
<b>Total</b>				–	<b>64,347,817</b>	<b>(22,976,790)</b>	<b>41,371,027</b>	–

## 7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Executive Contractual Arrangements						
Name	Position	2017 Remuneration <sup>(1)</sup>	Contract Term	Contract Expiry	Notice Period for Termination	Payment in Lieu of Notice
Mr N Andrews	Executive Chairman	\$481,172	3 years	30-Jun-20	Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay
Mr C Klein-Schmeink	President Magontec Europe & North America	\$379,360	5 years	14-Aug-22	Employer initiated - 12 mths Employee initiated - 12 mths	12 months' pay
Mr X Tong	President Magontec Asia	\$330,736	No fixed term or expiry		Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay
Mr D Chin	Chief Financial Officer	\$254,543	3 years	01-Mar-18	Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay

Total 2017 Remuneration for the reporting period ended 31 December 2017 differs from current contractual arrangements due to pay rises granted during the year to certain executives as well as impacts associated with the equity expense arising from the grant of shares and the LTI schemes outlined in the 2017 Notice of AGM.

Current contractual arrangements are as follows for each member of key management personnel:

Mr Andrews' fixed contractual cash remuneration at 31 December 2017 is \$450,000.

Mr Klein-Schmeink's fixed contractual cash remuneration at 31 December 2017 is \$345,209.

Mr Tong's fixed contractual cash remuneration at 31 December 2017 is \$314,843.

Mr Chin's fixed contractual cash remuneration at 31 December 2017 is \$251,850.

## OPERATIONS REPORT AND SIGNIFICANT CHANGES TO THE ENTITY'S STATE OF AFFAIRS

Refer to the Operations Reports contained on pages 4-19.

# Directors' Report

continued

## Dividends

The Directors have not recommended payment of a dividend and no dividends have been paid or declared since the end of the previous financial year.

## Subsequent Events

Subsequent events are detailed in Note 27.

## Future Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations are likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## Non-Audit Services

Camphin Boston (the Group's auditors) provided tax and other services during the financial year. Aggregate fees for non audit services paid in the financial year were \$14,230.

## Auditor's Independence Declaration

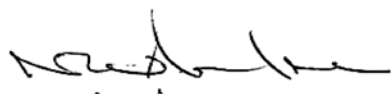
The Auditor's independence declaration is included on page 40 of this Annual Report.

## Indemnification of Officers and Auditors

The Group paid premia to insure certain officers of the Company and related bodies corporate in relation to performance of their duties as officers of the Company. The officers of the Group covered by this insurance include directors or secretaries of controlled entities.

The Company has not otherwise, during or since 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.

## On behalf of the Board of Directors



**Mr N Andrews**  
Executive Chairman



**Mr R Shaw**  
Non-Executive Director

Signed on the 26 February 2018 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

The Board of Directors  
Magontec Limited  
Suite 1.03, 46A Macleay St  
Potts Point NSW 2011

Dear Board Members,

**Lead Auditor's Independence Declaration  
Under Section 307C of the Corporations Act 2001**

We hereby declare, that to the best of our knowledge and belief, during the financial year ended 31 December 2017 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

**Camphin Boston**  
Chartered Accountants



**Justin Woods**  
Lead Audit Partner

Sydney

Dated this 26 February 2018.

# Consolidated Statement of Profit & Loss and Other Comprehensive Income

for the year ended 31 December 2017

	Note	12 months to 31 Dec 2017 \$'000	12 months to 31 Dec 2016 \$'000
Sale of goods	2(a)	130,323	128,096
Cost of sales	2(b)	(117,775)	(113,670)
<b>Gross profit</b>		<b>12,548</b>	<b>14,426</b>
Other income	2(c)	811	844
Interest expense		(918)	(1,100)
Impairment of inventory, receivables & other financial assets	2(d)	(92)	(303)
Travel, accommodation and meals		(721)	(682)
Research, development, licensing and patent costs		(422)	(418)
Promotional activity		(116)	(67)
Information technology		(319)	(332)
Personnel		(6,607)	(6,750)
Depreciation & amortisation		(369)	(475)
Office expenses		(350)	(333)
Corporate		(3,370)	(3,162)
Foreign exchange gain/(loss)		(825)	(143)
Other operating expenses		(56)	(64)
<b>Profit/(Loss) before income tax expense/benefit from continuing operations</b>		<b>(805)</b>	<b>1,440</b>
Income tax (expense)/benefit	3(a)	(809)	(821)
<b>Profit/(Loss) after income tax expense/benefit from continuing operations</b>		<b>(1,614)</b>	<b>620</b>
Profit/(Loss) after income tax expense from discontinued operations		–	–
<b>Profit/(Loss) after income tax expense/benefit including discontinued operations</b>		<b>(1,614)</b>	<b>620</b>
<b>Other Comprehensive Income - that may later emerge in the Profit and Loss Statement</b>			
Exchange differences taken to reserves in equity – translation of overseas entities	17	(228)	(1,112)
<b>Other Comprehensive Income - that will not emerge in the Profit and Loss Statement</b>			
Movement in various actuarial assessments	17	60	(620)
<b>Total Comprehensive Income</b>		<b>(1,782)</b>	<b>(1,112)</b>
<b>Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to</b>			
Minority interests		–	–
Members of the parent entity		(1,614)	620
<b>Total</b>		<b>(1,614)</b>	<b>620</b>
<b>Comprehensive Income for the year attributable to</b>			
Minority interests		–	–
Members of the parent entity		(1,782)	(1,112)
<b>Total Comprehensive Income for the year</b>		<b>(1,782)</b>	<b>(1,112)</b>

# Consolidated Statement of Profit & Loss and Other Comprehensive Income

continued

	Note	12 months to 31 Dec 2017 cents per share	12 months to 31 Dec 2016 cents per share
<b>Profit/(Loss) after income tax expense for the year (including discontinued operations)</b>			
Members of the parent entity - Basic (cents per share)	19	(0.142)	0.055
Members of the parent entity - Diluted (cents per share)	19	(0.136)	0.055
<b>Profit/(Loss) after income tax expense for the year (excluding discontinued operations)</b>			
Members of the parent entity - Basic (cents per share)	19	(0.142)	0.055
Members of the parent entity - Diluted (cents per share)	19	(0.136)	0.055



# Consolidated Balance Sheet

as 31 December 2017

	Note	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>Current assets</b>			
Cash and cash equivalents	25(d)	2,309	4,593
Trade & other receivables	6	26,704	21,956
Inventory	7	24,372	22,302
Other	8	191	227
<b>Total current assets</b>		<b>53,576</b>	<b>49,077</b>
<b>Non-current assets</b>			
Other receivables	9	1,037	1,045
Property, plant & equipment	10	22,831	20,543
Deferred tax asset	3(c)	1,521	1,542
Intangibles	11	3,109	2,869
<b>Total non-current assets</b>		<b>28,499</b>	<b>25,999</b>
<b>TOTAL ASSETS</b>		<b>82,074</b>	<b>75,077</b>
<b>Current liabilities</b>			
Trade & other payables	12	15,873	13,672
Bank borrowings	13	9,200	14,734
Provisions	14	1,677	1,337
<b>Total current liabilities</b>		<b>26,750</b>	<b>29,742</b>
<b>Non-current liabilities</b>			
Other payables		–	146
Bank borrowings	13	11,135	–
Provisions	15	11,408	10,815
<b>Total non-current liabilities</b>		<b>22,543</b>	<b>10,961</b>
<b>TOTAL LIABILITIES</b>		<b>49,293</b>	<b>40,703</b>
<b>NET ASSETS</b>		<b>32,782</b>	<b>34,373</b>
<b>Equity attributable to members of MGL</b>			
Share capital	16	58,907	58,616
Reserves	17	4,897	5,165
Accumulated (losses)/profits	18	(31,485)	(29,871)
<b>Equity attributable to minority interests</b>			
Share capital	16	463	463
Reserves	17	–	–
Accumulated (losses)/profits	18	–	–
<b>Total equity</b>		<b>32,782</b>	<b>34,373</b>

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Share Capital		Retained Earnings <sup>(1)</sup>	Foreign Currency Translation Reserve <sup>(1)</sup>	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Employee Share Issue Reserve	Minority Interests	Total Equity
	Ordinary	Options Valuation								
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance 1 Jan 2016</b>	<b>58,433</b>	<b>–</b>	<b>(30,491)</b>	<b>4,154</b>	<b>2,750</b>	<b>(1,785)</b>	<b>1,637</b>	<b>–</b>	<b>463</b>	<b>35,161</b>
Profit/(Loss) attributable to members of parent entity	–	–	620	–	–	–	–	–	–	620
Other	–	–	–	–	–	–	–	141	–	141
Comprehensive income	–	–	–	(1,112)	–	(620)	–	–	–	(1,732)
Issue of shares	183	–	–	–	–	–	–	–	–	183
<b>Balance 31 Dec 2016</b>	<b>58,616</b>	<b>–</b>	<b>(29,871)</b>	<b>3,042</b>	<b>2,750</b>	<b>(2,405)</b>	<b>1,637</b>	<b>141</b>	<b>463</b>	<b>34,373</b>
<b>Balance 1 Jan 2017</b>	<b>58,616</b>	<b>–</b>	<b>(29,871)</b>	<b>3,042</b>	<b>2,750</b>	<b>(2,405)</b>	<b>1,637</b>	<b>141</b>	<b>463</b>	<b>34,373</b>
Profit/(Loss) attributable to members of parent entity	–	–	(1,614)	–	–	–	–	–	–	(1,614)
Other	–	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	(228)	–	60	–	–	–	(168)
Issue of shares	291	–	–	–	–	–	–	(100)	–	191
<b>Balance 31 Dec 2017</b>	<b>58,907</b>	<b>–</b>	<b>(31,485)</b>	<b>2,814</b>	<b>2,750</b>	<b>(2,346)</b>	<b>1,637</b>	<b>41</b>	<b>463</b>	<b>32,782</b>

(1) During the prior period, A\$1.3m of the Foreign Currency Translation Reserve (FCTR) was reclassified into retained losses. No impact on overall equity balance as at 31 December 2016 or 31 December 2017.

# Consolidated Cash Flow Statement

for the year ended 31 December 2017

	Note	12 months to 31 Dec 2017 \$'000	12 months to 31 Dec 2016 \$'000
<b>Cash flows from operating activities</b>			
<b>Profit before taxation</b>		<b>(805)</b>	<b>1,440</b>
Adjustments for:			
– Non-cash equity expense		191	325
– Depreciation & amortisation		1,653	1,713
– Foreign currency effects		437	498
– Other non-cash items		874	888
<b>Cash generated from/(utilised in) underlying operating activities</b>		<b>2,349</b>	<b>4,865</b>
<b>Movement in working capital balance sheet accounts</b>			
– Trade and other receivables		(4,358)	(1,158)
– Inventory		(1,260)	3,163
– Trade and other payables		618	(937)
<b>Cash generated from/(utilised in) underlying operational cash flow and net working capital assets</b>		<b>(2,650)</b>	<b>5,933</b>
– Net interest paid		(841)	(1,045)
– Income tax paid		(129)	(85)
<b>Cash generated from/(utilised in) other operating activities</b>		<b>(3,620)</b>	<b>4,804</b>
<b>Cash flows from investing activities</b>			
Net cash out on purchase/disposal of property, plant & equipment		(3,112)	(3,326)
Group information technology software		(269)	(12)
Security deposit		1	(1)
Other		–	–
<b>Net cash provided by/(used in) investing activities</b>		<b>(3,381)</b>	<b>(3,339)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		28,867	11,757
Repayment of borrowings		(23,850)	(16,966)
Net capital raised from issue of securities		–	–
Other		(152)	–
<b>Net cash provided by financing activities</b>	<b>2(e)</b>	<b>4,864</b>	<b>(5,209)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,137)</b>	<b>(3,744)</b>
<b>Foreign exchange effects on total cash flow movement</b>		<b>(147)</b>	<b>(153)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>25(d)</b>	<b>4,593</b>	<b>8,490</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>25(d)</b>	<b>2,309</b>	<b>4,593</b>

# Notes to the Financial Statements

for the year ended 31 December 2017

## 1. SUMMARY OF ACCOUNTING POLICIES

### Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The audited accounts were authorised for issue by the Directors on 26 February 2018.

The Group has adopted all new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017.

There were no significant changes from the prior year deemed relevant to the Company.

### Basis of Preparation

The financial report has been prepared on an accruals basis and is based on historical cost, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

### Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### a. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in banks, at call and on deposit.

#### b. Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Contributions by the Group to superannuation plans on behalf of Australian employees and other defined contribution payments on behalf of employees are expensed when incurred. Provision is made for any long term defined benefit pension obligations the Group has to employees in foreign jurisdictions. The required amount of the provision is actuarially assessed having regard to such matters as future interest rates, the date at which pension payments might commence and the likely period over which pensions may be paid.

#### c. Financial Assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost less any allowance for impairment. Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Receivables

Trade receivables and other receivables are recognised initially at their fair value and subsequently at amortised cost less impairment.

#### d. Financial Instruments Issued by the Company

##### Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

##### Transaction Costs on the Issue of Equity Instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

#### e. Foreign Currency

##### Foreign Currency Transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items are translated at the exchange rate prevailing at the end of the reporting period. Non-monetary items measured at fair value are reported at the exchange rate prevailing at the date when the fair value was determined.

# Notes to the Financial Statements

continued

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

### Foreign Operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly.

Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

### f. Goods and Services Tax and Value Added Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST) or value added tax (VAT) for certain foreign jurisdictions, except where the GST or VAT is not recoverable from the relevant tax authority. In these circumstances the GST or VAT 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 balance sheet are shown inclusive of GST.

Cash flows are included in the cash flow statement on a gross basis. The GST or VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

### g. Impairment of Assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If any such 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 the income statement.

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

## h. Income Tax

### Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability to the extent that it is unpaid.

### Deferred Tax

Deferred tax assets and liabilities are ascertained based on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period(s) 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 its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

# Notes to the Financial Statements

continued

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

### Current and Deferred Tax for the Period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### Tax Consolidation

The Parent Entity and all its wholly-owned Australian subsidiaries are part of a tax-consolidated group under Australian tax consolidation legislation. Magontec Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand-alone taxpayer' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 3 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

### i. Intangible Assets

#### Patents, Trademarks and Licences

Patents, trademarks and licences are recorded at cost of acquisition. Patents and trademarks have an indefinite useful life and are carried at cost. Carrying values are subject to the impairment tests as outlined above.

#### Research and Development Costs

Expenditure on the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

### j. Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned to inventory using a weighted average cost method most appropriate to each particular class of inventory, being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### k. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

### Lease Incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the life of the lease term.

### l. Non-current Assets Held for Sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

### m. Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

### n. Presentation Currency

The presentation currency of the Group is Australian dollars.



# Notes to the Financial Statements

continued

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

### o. Principles of Consolidation and Investments in Subsidiaries

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements.'

A list of subsidiaries appears in Note 22 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Similarly, any excess of the fair market value over the cost of acquisition is recognised as a discount upon acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

### p. Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

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 the income statement during the financial period in which they are incurred.

Depreciation is provided on plant and equipment and is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value.

Useful life is determined having regard to the nature of the plant and equipment, the environment in which it operates (including geographical and climatic conditions) and an expectation that maintenance is conducted on a scheduled basis.

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The assets' estimated useful lives and residual values were reviewed, and adjusted if appropriate, at the end of each annual reporting period. The estimated useful lives of significant items of property, plant and equipment are as follows:

Land & Buildings	4 - 60 years
Plant & Equipment	3 - 20 years

### q. Provisions

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

### r. Revenue Recognition

#### Sale of Goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods. The Group's activities involve the sale and delivery of a variety of products including primary and recycled magnesium ingots, as well as both magnesium and titanium anodes.

As it relates to Magontec specifically, the timing of revenue recognition is determined with reference to the INCO shipping terms (e.g. FOB, CIF, DDP, DAP) that apply to each delivery. Invoices are issued and revenue is recognised at the point where the transfer of the significant risks and rewards of ownership of the goods are determined to have passed to the customer in line with this framework. For example, under FOB shipping terms, the Group recognises revenue at the point when goods have arrived at the port of departure and has received the bill of lading.

#### Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

#### Interest Revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

### s. Share-based Payments

Senior executives of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

# Notes to the Financial Statements

continued

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

### Equity-settled Transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using a binomial options pricing valuation model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's estimate of the number of equity instruments that will ultimately vest.

Market performance conditions are reflected within the grant date fair value.

Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. Any additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

### Cash-settled Transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability.

## t. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in this note, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

Material examples of management applying critical accounting judgements and key sources of estimation uncertainty include:

- actuarial assessment of future pension liabilities;
- value of trade debtors; and
- valuation of intellectual property acquired with the Magontec group of companies in July 2011.

## u. New Accounting Standards for Application in Future Periods

The AASB has issued new and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has not early adopted any of these standards. New standards and disclosures that will be significant to the Group in future years include:

- AASB 9 Financial Instruments. Effective from 1 January 2018. Caused by a re-write of the financial instruments standard by the International Accounting Standards Board this new standard will affect classification and measurement of financial assets (AASB 2009), classification, measurement and derecognition of financial liabilities (AASB 9 2010) and Hedge Accounting (AASB 9 2013).
- IFRS 9 (2014) Financial Instruments – Impairment. Not yet approved by the AASB this standard will introduce a new model for testing impairment of financial instruments on an 'expected loss' basis.
- IFRS 16 Leases. Effective from 1 January 2019, this standard will require all operating leases to be recognised as finance leases including the recognition of a right of use asset and a lease liability captured on the balance sheet.

# Notes to the Financial Statements

continued

## 2. RESULTS FROM OPERATIONS

	12 months to 31 Dec 2017 \$'000	12 months to 31 Dec 2016 \$'000
<b>(a) Sales Revenue – continuing operations:</b>		
Alloys	107,647	104,743
Anodes	22,676	23,353
	<b>130,323</b>	<b>128,096</b>
<b>(b) Cost of Sales – continuing operations:</b>		
Alloys	(102,291)	(97,397)
Anodes	(15,484)	(16,272)
	<b>(117,775)</b>	<b>(113,670)</b>
<b>(c) Other Income in Comprehensive Income Statement</b>		
Interest revenue	81	54
Government Grants	404	145
Receipt for insurance claims	51	25
Derivative market re-valuation	38	27
Gain/(Loss) on disposal of fixed assets	19	9
Write back of provisions and other adjustments	129	411
Subsidies for R&D and other reimbursements	–	95
Other	89	76
	<b>811</b>	<b>844</b>

(1) The government grants received have no unfulfilled conditions attached to them.

# Notes to the Financial Statements

continued

## 2. RESULTS FROM OPERATIONS (continued)

	12 months to 31 Dec 2017 \$'000	12 months to 31 Dec 2016 \$'000
<b>(d) Significant expenses in Comprehensive Income Statement (not detailed elsewhere)</b>		
<b>Personnel Costs</b>		
Consultancies	(435)	(339)
Share based payments (ESIP and LTI)	(191)	(325)
Other staff termination payments	–	(9)
Defined contribution payments recognised as an expense	(581)	(823)
Other staff payments	(5,401)	(5,255)
<b>Total personnel costs</b>	<b>(6,607)</b>	<b>(6,750)</b>
Director fees	(173)	(140)
<b>Asset impairment expense</b>		
Write down of trade debtors	(92)	(303)
<b>Total asset impairment expense</b>	<b>(92)</b>	<b>(303)</b>

	31 Dec 2016 \$'000	Cash flows \$'000	Non-cash FX \$'000	31 Dec 2017 \$'000
<b>(e) Financing cash flows reconciliation</b>				
Bank Borrowings	14,734	5,017	585	20,335
Long term other payables	146	(152)	6	–
<b>Total liabilities from financing activities</b>	<b>14,880</b>	<b>4,864</b>	<b>591</b>	<b>20,335</b>

## (f) Share-Based Payments

### Executive STI Plan

The STI plan is designed to award executives for achieving group financial performance targets. The Board determines the size of the pool based on actual financial metrics achieved relative to budget, and has discretion to adjust these payments depending on the particular circumstances of the consolidated entity and other qualitative factors as it sees fit. STI awards are 100% cash-settled.

### Executive LTI Plan

Under the executive LTI plan, awards are made to executives and other key talent who have an impact on the consolidated entity's performance. LTI awards are delivered in the form of share grants which vest upon achievement of share price targets. The Board uses absolute total shareholder return (TSR) as the key performance measure. TSR comprises the percentage change in the company's share price, plus the value of any future dividends received during the period and is measured over a 3 year period. The fair value of the equity instruments granted is calculated assuming a 0% probability of forfeiture before the expiry of the escrow period, and is expensed on a straight-line basis over the vesting period.

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Expense recognised from equity-settled share-based payments	(191)	(325)
<b>Total expense - share-based payments</b>	<b>(191)</b>	<b>(325)</b>

# Notes to the Financial Statements

continued

## 3. INCOME TAXES

	12 months to 31 Dec 2017 \$'000	12 months to 31 Dec 2016 \$'000
<b>(a) Income tax recognised in profit and loss</b>		
<b>Tax expense comprises:</b>		
Current tax expense	(708)	(446)
Deferred tax expense		
Utilisation of tax losses	–	(280)
Change in recognised deductible temporary differences	(101)	(94)
Subtotal deferred tax expense	(101)	(374)
<b>Total tax expense</b>	<b>(809)</b>	<b>(821)</b>
<b>Attributable to:</b>		
Continuing operations	(809)	(821)
Discontinued operations	–	–
	<b>(809)</b>	<b>(821)</b>
The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:		
Profit/(Loss) before tax from continuing operations	(805)	1,440
Profit/(Loss) from discontinued operations	–	–
<b>Profit/(Loss) from total operations</b>	<b>(805)</b>	<b>1,440</b>
Nominal Income tax benefit/(expense) calculated at 30%	241	(432)
<b>Nominal tax benefit (expense) affected by:</b>		
Adjusted for effect of tax rates in foreign jurisdictions	122	286
Tax effect - P & L items not assessable or deductible for tax purposes.	(1,061)	(630)
Adjustments - changes in deductible temporary differences, tax losses	(111)	(44)
<b>Actual tax benefit/(expense)</b>	<b>(809)</b>	<b>(821)</b>

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable income under Australian tax law. There has been no change in the corporate tax rate when compared with the previous report.

# Notes to the Financial Statements

continued

## 3. INCOME TAXES (continued)

	12 months to 31 Dec 2017 \$	12 months to 31 Dec 2016 \$
(b) Income tax amounts recognised in OCI		
Revaluation of defined benefit pension plan	80	(928)
<b>Tax effect (expense)/benefit through OCI</b>	<b>(20)</b>	<b>306</b>

1 DTA = Deferred Tax Asset, ITP = Income Tax Payable

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
(c) Future Income tax benefit		
Current	–	–
Non-Current		
Timing differences	1,346	1,523
Carryforward tax losses	175	19
<b>Total</b>	<b>1,521</b>	<b>1,542</b>

### Tax Consolidation

#### Relevance of Tax Consolidation to the Consolidated Entity

The parent Company and its wholly-owned Australian subsidiary have formed a tax-consolidated group with effect from 1 February 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Magontec Limited. The members of the tax-consolidated group are identified at Note 22.



# Notes to the Financial Statements

continued

## 3. INCOME TAXES (continued)

### Nature of Tax Funding Arrangements and Tax Sharing Agreements

Entities within the tax-consolidated group ensure that inter-company transactions are conducted at fair market value and at arm's length.

	Consolidated Parent Entity	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>(d) Unrecognised deferred tax balances</b>		
The following deferred tax assets have not been brought to account as assets:		
<b>Australian Tax Consolidated Group</b>		
Deferred Tax Asset (DTA) on pre-tax consolidation revenue losses	81,581	81,581
DTA on post-tax consolidation revenue losses	37,428	36,643
DTA on capital losses	29,019	29,019
<b>Sub Total Australian Tax Consolidated Group</b>	<b>148,028</b>	<b>147,242</b>
<b>Foreign Subsidiaries</b>		
DTA on revenue losses	18	93
<b>Sub Total Foreign Subsidiaries</b>	<b>18</b>	<b>93</b>
<b>Consolidated Group Total</b>	<b>148,046</b>	<b>147,335</b>
These are based on the following tax losses:		
Aust consolidated group Tax losses – revenue pre-tax consolidation	271,936	271,935
Aust consolidated group Tax losses – revenue post-tax consolidation	124,759	122,142
Foreign subsidiaries Tax losses – revenue	74	371
Aust consolidated group Tax losses – capital	96,732	96,731
<b>Consolidated Group Total</b>	<b>493,501</b>	<b>491,180</b>

The benefit from the Australian deferred tax asset in respect of unused tax losses will only be obtained if:

- the tax consolidated group derives future Australian assessable income of a nature and amount sufficient to enable the benefits to be realised;
- the consolidated group continues to comply with the conditions for deductibility imposed by the tax law; and
- no changes in tax legislation adversely affect the consolidated group in realising the benefit of the losses.

No deferred tax asset has been brought to account as an asset because it is not probable that taxable profit will be available against which such an asset could be utilised.

Unused tax losses incurred after the formation of the former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group are \$124.8 million. These losses will be fully available to offset future taxable income to the extent MGL continues to satisfy the loss integrity rules (i.e. Continuity of Ownership Test and Same Business Test)."

Based on testing performed by MGL and its advisors, these losses should satisfy the loss integrity rules as at 31 December 2017.

Unused tax losses incurred prior to the formation of the former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group were \$271.9 million. These losses will be subject to restricted use (Available Fraction rules).

These restrictions on use are in addition to the loss integrity rules. Broadly, the Available Fraction rules limit the amount of losses that can be used each year by applying the following formula:

Available Fraction x Taxable income for year = Pre consolidation losses available for use for year.

# Notes to the Financial Statements

continued

## 3. INCOME TAXES (continued)

Based on testing performed by MGL and its advisors, MGL's pre consolidation losses should satisfy the loss integrity rules at 31 December 2017 subject to further testing and continued compliance with loss integrity rules. No detailed Available Fraction calculations have been performed as at 31 December 2017, however it is unlikely that the Available Fraction applying to pre-consolidation tax losses will be greater than 0.2.

The Australian tax consolidated entity has not paid income tax up to 31 December 2017 and neither is any assessment expected to be received which will result in a tax liability for the period to 31 December 2017. Accordingly, there are no franking credits available for distribution in the year ended 31 December 2017.

### Tax outside of Australian tax consolidation regime

The Group has overseas entities which are not subject to Australian tax consolidation and are therefore not sheltered by Australian tax losses. Those entities may incur income tax based on local corporate tax law and are subject to the local jurisdiction.

## 4. KEY MANAGEMENT PERSONNEL REMUNERATION

The aggregate compensation of the key management personnel of the Group is set out below:

	12 months to 31 Dec 2017 \$'000	12 months to 31 Dec 2016 \$'000
Short term employee benefits	1,363	1,371
Termination benefits	–	–
Post-employment benefits	94	98
Motor vehicle	30	28
Equity based payment	132	212
<b>Total Remuneration KMP</b>	<b>1,619</b>	<b>1,708</b>

### Individual Directors and Executives Compensation Disclosures

Information regarding individual directors' and executives' compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the directors' report.

## 5. REMUNERATION OF AUDITORS

	12 months to 31 Dec 2017 \$'000	12 months to 31 Dec 2016 \$'000
<b>Group auditor</b>		
- Audit or review of the financial report	112	92
- Accounting/taxation services	14	21
<b>Auditors of subsidiaries</b>		
- Audit or review of the financial reports	125	111
- Accounting/taxation services	68	41
	<b>319</b>	<b>265</b>

The auditor of Magontec Limited is Camphin Boston Chartered Accountants. Magontec GmbH, Magontec Xi'an Co Limited, Magontec Qinghai Co Limited and Magontec Romania are all audited by local auditors who supply information as requested by the Group Auditor Camphin Boston.

# Notes to the Financial Statements

continued

## 6. CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Trade receivables <sup>(1)</sup>	19,999	14,898
Allowance for doubtful debts	(335)	(975)
	<b>19,664</b>	<b>13,923</b>
Net GST/VAT recoverable	2,127	1,513
Security deposits	73	37
Derivatives fair value adjustment 25(f)	–	66
Other receivables due to operating entities	4,840	6,367
Other	–	50
	<b>7,040</b>	<b>8,034</b>
<b>Total receivables</b>	<b>26,704</b>	<b>21,956</b>

(1) Trade receivables represent 56.01 days sales at 31 Dec 17 (42.57 days sales at 31 Dec 16).

## 7. CURRENT INVENTORIES

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Inventory of finished alloy at cost	9,612	9,525
Provision for Inventory loss	(30)	(63)
<b>Net value of finished goods inventory</b>	<b>9,583</b>	<b>9,461</b>
Raw materials	14,482	11,802
Work in progress	307	1,038
<b>Current inventories at net realisable value</b>	<b>24,372</b>	<b>22,302</b>

## 8. OTHER CURRENT ASSETS

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Other Prepayments	191	227
	<b>191</b>	<b>227</b>

## 9. NON CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Pension asset	444	443
Security deposits and prepayments	592	602
	<b>1,037</b>	<b>1,045</b>

# Notes to the Financial Statements

continued

## 10. PROPERTY PLANT & EQUIPMENT

	Capital WIP \$'000	Land & Buildings \$'000	Plant & Equipment \$'000	Total \$'000
<b>Gross carrying amount</b>				
<b>Balance at 1 January 2016</b>	<b>3,854</b>	<b>18,246</b>	<b>24,845</b>	<b>46,945</b>
Additions	2,539	110	662	3,311
Adjustments and reclassifications	–	(15)	(301)	(316)
Impairment/adjustment MAS <sup>(1)</sup>	–	–	85	85
Disposals and write offs	–	–	(89)	(89)
Net foreign currency exchange differences	(204)	(459)	(823)	(1,485)
<b>Balance at 31 December 2016</b>	<b>6,190</b>	<b>17,882</b>	<b>24,379</b>	<b>48,450</b>
Additions	2,629	91	968	3,688
Write Offs	–	–	–	–
Adjustments and reclassifications	(28)	28	–	(1)
Impairment	–	–	–	–
Disposals	–	(87)	(772)	(858)
Net foreign currency exchange differences	(98)	469	575	946
<b>Balance at 31 December 2017</b>	<b>8,694</b>	<b>18,383</b>	<b>25,150</b>	<b>52,226</b>
<b>Accumulated depreciation/amortisation and impairment</b>				
<b>Balance at 1 January 2016</b>	<b>–</b>	<b>8,148</b>	<b>19,230</b>	<b>27,377</b>
Disposals and write offs	–	–	(58)	(58)
Adjustments and reclassifications	–	–	(176)	(176)
Impairment at MAS <sup>(1)</sup>	–	–	121	121
Depreciation expense	–	548	998	1,545
Net foreign currency exchange differences	–	(216)	(687)	(903)
<b>Balance at 31 December 2016</b>	<b>–</b>	<b>8,480</b>	<b>19,427</b>	<b>27,907</b>
Disposals	–	(87)	(750)	(836)
Write Offs	–	–	–	–
Adjustments and reclassifications	–	–	–	–
Impairment	–	–	–	–
Depreciation expense	–	573	1,048	1,621
Net foreign currency exchange differences	–	288	415	702
<b>Balance at 31 December 2017</b>	<b>–</b>	<b>9,254</b>	<b>20,141</b>	<b>29,394</b>
<b>Net Book Value As at 31 Dec 16</b>	<b>6,190</b>	<b>9,403</b>	<b>4,952</b>	<b>20,543</b>
<b>Net Book Value As at 31 Dec 17</b>	<b>8,694</b>	<b>9,129</b>	<b>5,009</b>	<b>22,831</b>

(1) Relates to write down of residual assets at the Suzhou recycling facility (MAS) following the closure of this plant.

# Notes to the Financial Statements

continued

## 11. INTANGIBLES

	Indefinite Life <sup>(1)</sup> \$'000	Finite Life \$'000	Total \$'000
<b>Gross carrying amount</b>			
Balance at 31-Dec-16	2,800	1,373	4,173
Disposals	–	(88)	(88)
Adjustments and reclassifications	–	–	–
Net foreign currency exchange differences	–	59	59
Additions	–	269	269
<b>Balance at 31-Dec-17</b>	<b>2,800</b>	<b>1,613</b>	<b>4,413</b>
<b>Accumulated depreciation/amortisation and impairment</b>			
Balance at 31-Dec-16	–	1,305	1,305
Disposals	–	(88)	(88)
Adjustments and reclassifications	–	–	–
Depreciation/amortisation expense	–	32	32
Net foreign currency exchange differences	–	56	56
<b>Balance at 31-Dec-17</b>	<b>–</b>	<b>1,304</b>	<b>1,304</b>
<b>Net Book Value As at 31 Dec 16</b>	<b>2,800</b>	<b>69</b>	<b>2,869</b>
<b>Net Book Value As at 31 Dec 17</b>	<b>2,800</b>	<b>309</b>	<b>3,109</b>

(1) Indefinite Life Intangible Assets - Patents in relation to “AE44” and “Correx”.

The indefinite life intangible assets comprise the patents held over the range of “AE” alloys and the “Correx” anode system. The Board believes both products enjoy a margin of technical superiority over possible alternatives and as such both continue to provide high gross margins.

In testing the value of this asset for impairment, the Group has applied a discount rate of 7.0% to management cash flow forecasts. A zero growth rate has been assumed over the initial 5 year period, with a declining terminal rate of decline of 12.4% per annum assumed thereafter. The final result found the value in use to be in excess of its carrying amount and thus no impairment loss was recorded.

## 12. CURRENT TRADE AND OTHER PAYABLES

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Trade creditors <sup>(1)</sup>	12,278	11,219
Other creditors and accruals	3,595	2,453
	<b>15,873</b>	<b>13,672</b>

(1) Trade creditors represent 38.05 days cost of goods sold at 31 Dec 17 (36.12 days cost of goods sold at 31 Dec 16).

# Notes to the Financial Statements

continued

## 13. BORROWINGS

		31 Dec 2017	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016	31 Dec 2016
	Notes	\$'000	Maturity Date	Interest pa <sup>(1)</sup>	\$'000	Maturity Date	Interest pa <sup>(1)</sup>
<b>Bank &amp; Institutional Borrowings</b>							
Magontec GmbH (Bank Loan) <sup>(2) (5)</sup>	25(g)	11,135	30-Sep-20	1.55%	2,922	30-Jun-17	2.15%
Magontec GmbH (Bank Loan) <sup>(2) (5)</sup>	25(g)	–	30-Sep-20	1.55%	3,521	30-Jun-17	2.15%
Magontec GmbH (Hire Purchase Facility)	25(g)	270	31-Dec-18	2.50%	472	31-Dec-18	2.50%
Magontec GmbH (Factoring Facility) <sup>(4)</sup>		781	30-Nov-18	1.34%	796	30-Nov-16	1.34%
Magontec SRL (Working Capital Facility) <sup>(3)</sup>		3,015	Open	3.15%	3,583	Open	3.15%
Magontec SRL (Bank Loan)		–	–	–	231	30-Nov-16	2.70%
Magontec Xi'an Limited (Bank Loan)	25(g)	1,981	14-Feb-18	5.78%	–	–	–
Magontec Xi'an Limited (Bank Loan)		3,934	12-May-18	4.70%	4,005	25-Apr-17	4.52%
<b>Total Bank Borrowings</b>		<b>21,116</b>			<b>15,530</b>		
<b>Current Borrowings</b>							
Bank borrowings as above (excluding factoring facility)		9,200	Various	–	14,734	Various	
<b>Total Current Borrowings</b>		<b>9,200</b>			<b>14,734</b>		
<b>Non-Current Borrowings</b>							
Bank borrowings as above		11,135		–	–		
<b>Total Non-Current borrowings</b>		<b>11,135</b>			<b>–</b>		

(1) Interest rate is the rate that applied at the end of the relevant reporting period and is expressed as compounding annually in arrears.

(2) These borrowings are secured by a charge over MAB's trade debtors to the extent of €1,858,000 (\$2,852,962) and inventory of €4,475,000 (\$6,871,369).

(3) These borrowings are secured by a charge over MAR's trade debtors and inventory to the extent of RON 9,526,861 (\$3,122,541).

(4) This facility is set off against trade debtors, and thus is not shown in 'Borrowings' on the balance sheet.

(5) Refer to the 'Financial Instruments' note for details of interest rate swaps which the group uses to hedge against adverse movements in variable rates.



# Notes to the Financial Statements

continued

## 14. CURRENT PROVISIONS

	Note	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Provision for annual & long service leave and employee costs		463	638
Provision for income tax payable		1,088	458
Provision for loss on FX hedges and interest rate swaps	25(f)	6	38
Other current provisions		120	203
<b>Totals</b>		<b>1,677</b>	<b>1,337</b>

## 15. NON-CURRENT PROVISIONS

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Provision for defined benefit pension obligation	11,189	10,624
Other provisions	219	192
<b>Totals</b>	<b>11,408</b>	<b>10,815</b>

### Reconciliation of the Defined Benefit Pension Obligation

	Year Ended 31 Dec 2017 \$'000	Year Ended 31 Dec 2016 \$'000
<b>Defined benefit obligation beginning of year</b>	<b>10,624</b>	<b>9,761</b>
Current service cost	235	195
Interest cost	198	217
Total benefits paid - actual	(318)	(290)
Foreign currency exchange rate changes	540	(188)
Experience adjustments (gains)/losses	–	–
Actuarial (gains)/losses due to change of assumptions	(90)	928
<b>Defined benefit obligation end of year</b>	<b>11,189</b>	<b>10,624</b>

The extent of the Provision for the Defined Benefit Obligation is assessed annually based on actuarial calculations which take into account such matters as:

- number of participants in the plan;
- likely retirement salaries of participants in the pension plan;
- their life expectancy beyond retirement; and
- implied interest earnings on the extent of the fund.

# Notes to the Financial Statements

continued

## 15. NON-CURRENT PROVISIONS (continued)

The defined benefit plan is an unfunded plan which has been provided to employees in the European business. Increasing interest rates will act to decrease the Provision. The converse is also true. In the context of falling interest rates in Europe (where the beneficiaries of this pension plan are domiciled) there has been upward pressure on the Provision over the last few years. A summary of the key assumptions underpinning the actuarial calculation and a sensitivity analysis is provided below.

### Key Actuarial Assumptions used in Calculation of the Defined Benefit Obligation

	Year Ended 31 Dec 2017 \$'000	Year Ended 31 Dec 2016 \$'000
Discount rate	1.85%	1.80%
Expected salary increase per annum	2.75%	2.75%
Expected pension increase per annum	1.75%	1.75%

### Key Sensitivities of Actuarial Assumptions used in Calculation of Defined Benefit Obligation

	% chg	Year Ended 31 Dec 2017 \$'000	Year Ended 31 Dec 2016 \$'000
Discount rate (%)	+0.5%	(933)	(941)
	(0.5)%	1,079	1,089
Salary increase (%)	+0.5%	63	64
	(0.5)%	(60)	(60)
Pension increase (%)	+0.5%	763	772
	(0.5)%	(692)	(699)
Life expectancy (years)	+ 1 year	491	486

# Notes to the Financial Statements

continued

## 16. SHARE CAPITAL

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Opening balance of share capital attributable to members of MGL	58,616	58,433
Issue of shares to Executives of Magontec Limited <sup>(1)(2)</sup>	291	183
Various costs associated with above issues	–	–
<b>Share capital on issued ordinary shares 1,140,073,483 (2016: 1,132,209,291)</b>	<b>58,907</b>	<b>58,616</b>
<b>Summary of share capital</b>		
Share capital attributable to members of MGL	58,907	58,616
Share capital attributable to minority interest	463	463
<b>Total share capital</b>	<b>59,370</b>	<b>59,079</b>

(1) Shares in 2016 issued in terms of entitlement under Resolution 5 of the Company's 2015 AGM held 8 May 2015.

(2) Shares in 2017 issued pursuant to Resolutions 5, 6 and 7 of the Company's 2017 AGM held 17 May 2017.

A reconciliation of the movement in fully paid ordinary shares at the line in Note 16 'Share capital on issued ordinary shares 1,140,073,483 (31 Dec 2016: 1,132,209,291)' is set out below:

Consolidated Parent Entity				
	31 Dec 2017		31 Dec 2016	
	No.	\$'000	No.	\$'000
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	1,132,209,291	58,616	1,127,311,901	58,433
Expenses of various issues	–	–	–	–
Issue of shares to Executives of Magontec Limited	7,864,192	291	4,897,390	183
	<b>1,140,073,483</b>	<b>58,907</b>	<b>1,132,209,291</b>	<b>58,616</b>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

### Share Options

All share options carry no rights to dividends and no voting rights until paid for at the time when converted into ordinary shares. Further details of the share-based payment schemes are contained in the Remuneration Report.

# Notes to the Financial Statements

continued

## 17. RESERVES

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>Capital reserve</b>		
Balance at beginning of financial year <sup>(1)</sup>	2,750	2,750
<b>Balance at end of financial year</b>	<b>2,750</b>	<b>2,750</b>
<b>Foreign currency translation reserve</b>		
Balance at beginning of financial year	3,042	4,154
Movement in VHL Consolidated accounts	(228)	(1,112)
<b>Balance at end of financial year</b>	<b>2,814</b>	<b>3,042</b>
<b>Actuarial Reserves</b>		
Balance at beginning of financial year	(2,405)	(1,785)
Derivatives	–	–
Deferred tax assets	(20)	306
Employee pensions	80	(928)
Other	–	1
<b>Balance at end of financial year</b>	<b>(2,346)</b>	<b>(2,405)</b>
<b>Expired Options Reserve</b>		
Balance at beginning of financial year	1,637	1,637
ESOP options expiry	–	–
<b>Balance at end of financial year</b>	<b>1,637</b>	<b>1,637</b>
<b>Share Issue Reserve</b>		
Balance at beginning of financial year	141	–
Fair value of performance rights 2014-16 Plan	149	141
Issue of ordinary shares on conversion of rights	(291)	–
Fair value of performance rights issued for future periods	41	–
<b>Balance at end of financial year</b>	<b>41</b>	<b>141</b>
<b>Total reserves</b>	<b>4,897</b>	<b>5,165</b>
Reserves attributable to minority interests	–	–
Reserves attributable to members of MGL	4,897	5,165
<b>Total reserves</b>	<b>4,897</b>	<b>5,165</b>
<b>Other Comprehensive Income - that may later emerge in the Profit and Loss Statement</b>		
Exchange differences taken to reserves in equity – translation of overseas entities	(228)	(1,112)
Movement in various actuarial assessments	60	(620)
<b>Total Other Comprehensive Income</b>	<b>(168)</b>	<b>(1,732)</b>

(1) The **capital reserve** is a historical reserve from 2002 that arose after calculation of the outside equity interest in the (as it was then) Australian Magnesium Investments Pty Ltd consolidated entity.

The **foreign currency translation reserve** arises as a result of translating overseas subsidiaries from their functional currency to the presentation currency of Australian dollars.

The **expired options reserve** captures the balance of unexercised options on their expiry date from the appropriate share capital account.

The actuarial reserve represents the cumulative amount of actuarial gains/(losses) on the Group's unfunded defined benefit pension obligation that needs to be recognised in "Other comprehensive income" (OCI) as well as movements attributable to the market value of derivatives and deferred tax assets where relevant.

# Notes to the Financial Statements

continued

## 18. ACCUMULATED LOSSES

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Balance at beginning of financial year	(29,871)	(30,491)
Profit/(Loss) attributable to members of Magontec Limited	(1,614)	620
Profit/(Loss) attributable to minority interests	–	–
	(31,485)	(29,871)
Accumulated losses attributable to members of Magontec Limited	(31,485)	(29,871)
Accumulated losses attributable to minority interests	–	–
<b>Total accumulated losses</b>	<b>(31,485)</b>	<b>(29,871)</b>

## 19. EARNINGS/(LOSS) PER SHARE

	12 months to 31 Dec 2017 cents per share	12 months to 31 Dec 2016 cents per share
Basic earnings/(loss) per share (including Discontinued Operations):	(0.142)	0.055
Diluted earnings/(loss) per share (including Discontinued Operations):	(0.136)	0.055
Basic earnings/(loss) per share (excluding Discontinued Operations):	(0.142)	0.055
Diluted earnings/(loss) per share (excluding Discontinued Operations):	(0.136)	0.055

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:

	12 months to 31 Dec 2017 \$'000	12 months to 31 Dec 2016 \$'000
<b>Profit/(Loss) after income tax expense/benefit including discontinued operations</b>		
Members of the parent entity	(1,614)	620
<b>Profit/(Loss) after income tax expense/benefit from continuing operations</b>		
Members of the parent entity	(1,614)	620
<b>Weighted average number of ordinary securities on issue (for basic earnings calculation)</b>	<b>1,137,078,626</b>	<b>1,129,787,358</b>
Performance rights	47,706,950	7,864,192
<b>Weighted average number of ordinary securities on issue (for diluted earnings calculation)</b>	<b>1,184,785,576</b>	<b>1,129,808,845</b>

# Notes to the Financial Statements

continued

## 20. CONTINGENT LIABILITIES AND ASSETS

At 31 December 2017 a contingent asset exists in relation to the item below.

### 1. Romanian Tax Office Audit of MAR

Note 5 in the half year report at 30 June 2015 referred to an audit by the Romanian tax office of VAT matters at MAR. The audit was expanded to a full tax audit.

The audit was completed in October 2015 and resulted in two primary adjustments in the 2015 financial statements.

- (i) a reduction of \$181,169 in the Deferred Tax Asset at 31 December 2014; and
- (ii) imposition of penalties and interest amounting to \$117,107 associated with the denial of a VAT input credit.

Item (ii) may be recovered in 3 ways -

- under a formal objection;
- under a professional indemnity claim; and
- under Romanian amnesty legislation recently enacted.

Legal action continued during the 2017 year and the matter remains unresolved.

At 31 December 2017 a contingent liability also exists in relation to the item below.

### 2. Claim against MAS

A claim was made against the Magontec Suzhou (MAS) company with respect to restoration costs on the property formerly occupied by this plant. The company does not believe there is a reasonable basis for this claim, and continues to vigorously contest the matter.



# Notes to the Financial Statements

continued

## 21. CAPITAL AND LEASING COMMITMENTS

### a. Operating Lease Arrangements (contractual lease payments to lease expiry the Group is obligated to make)

Nature of Lease	Date of First Lease Payment	Date of Last Lease Payment	Frequency of Lease Payments	Lease Payment Per Frequency (AUD)	Current Year (2017) Lease Payments	Lease Payments Due Within 12 Months (ie year ended 31 Dec 2018)	Lease Payments Due Beyond 12 Months (ie beyond 31 Dec 2018)	Unexpired Lease Obligation
MAB company car	5-Jun-15	4-Jun-18	Monthly	\$1,061	\$12,732	\$6,366	–	\$6,366
MAB company car	1-Jul-16	30-Jun-20	Monthly	\$680	\$8,163	\$8,163	\$12,244	\$20,407
MAB company car	18-May-17	18-May-21	Monthly	\$517	\$4,140	\$6,210	\$15,006	\$21,216
MAB company car	28-Jan-15	27-Jan-19	Monthly	\$481	\$5,767	\$5,767	\$481	\$6,248
MAB wheel loader	1-Apr-17	1-Mar-21	Monthly	\$2,624	\$23,616	\$31,488	\$70,849	\$102,337
MAB wheel loader	1-May-16	30-Nov-19	Monthly	\$1,622	\$19,468	\$19,468	\$17,846	\$37,314
MAB forklift trucks	1-Jun-15	31-May-20	Monthly	\$2,150	\$25,796	\$25,796	\$36,545	\$62,341
MAB forklift trucks	2-Jul-09	30-Jun-19	Monthly	\$437	\$5,246	\$5,246	\$2,623	\$7,870
MAB forklift trucks	1-Nov-14	31-Oct-19	Monthly	\$1,174	\$14,093	\$14,093	\$11,744	\$25,837
MAB forklift trucks	1-Nov-14	31-Oct-19	Monthly	\$1,174	\$14,093	\$14,093	\$11,744	\$25,837
MAB forklift trucks	1-Jul-14	30-Jun-19	Monthly	\$1,416	\$16,988	\$16,988	\$8,494	\$25,483
MAB external storage facility <sup>(1)</sup>	1-Jun-06	Open	Monthly	\$5,374	\$64,491	\$16,123	–	\$16,123
MAB Canon copy/scan systems	29-Jan-16	31-Jan-20	Monthly	\$4,275	\$51,298	\$51,298	\$55,573	\$106,871
MAR car operating lease	1-Dec-16	1-May-20	Monthly	\$1,612	\$19,347	\$19,347	\$27,408	\$47,756
MGL head office lease	15-Jul-14	15-Jul-18	Monthly	\$3,513	\$42,156	\$24,591	–	\$24,591
<b>Total</b>					<b>\$327,396</b>	<b>\$265,039</b>	<b>\$270,558</b>	<b>\$535,597</b>

(1) Able to be cancelled at any time by giving 3 months notice.

MAB = Magontec GmbH (Bottrop Germany)  
MAY = Magontec Shanxi Company Limited

MAS = Magontec SuZhou Co Ltd  
MAR = Magontec SRL (Romania)

MGL = Magontec Limited (Sydney head office)

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>Non-cancellable operating lease payments</b>		
Not longer than 1 year	265	354
Longer than 1 year and not longer than 5 years	271	286
Longer than 5 years	–	–
<b>Total</b>	<b>536</b>	<b>639</b>

# Notes to the Financial Statements

continued

## 21. CAPITAL AND LEASING COMMITMENTS (continued)

### b. Capital Expenditure Commitments

On 10 June 2012, the Company entered into an agreement with Qinghai Salt Lake Magnesium Company Limited (QSLM) to construct plant and equipment for an alloy manufacturing operation at Golmud in Qinghai province in China. Magontec will own and operate the magnesium alloy production plant and equipment to be installed in a building owned by QSLM adjacent to the Qinghai electrolytic magnesium smelter.

At the inception of the project, the plant and equipment was expected to cost approximately \$12.5 million.

Depending on requirements, up to \$3 million of the project cost is expected to be incurred during 2018 and will be funded from a combination of:

- cash resources of \$2.3 million as at 31 Dec 2017;
- cash generated from operations;
- the undrawn component of existing debt facilities; and
- potential new debt facilities to be negotiated.

## 22. CONTROLLED ENTITIES

### a. Consolidated Controlled Entities

Name of Entity	Ownership Entity	Country of Incorporation	Ownership Interest 31 Dec 2017	Ownership Interest 31 Dec 2016
<b>Parent entity</b>				
Magontec Limited <sup>(a)</sup>		Australia	100%	100%
<b>Directly Controlled Subsidiaries Of Parent</b>				
Advanced Magnesium Technologies Pty Ltd <sup>(a)</sup>	Magontec Limited	Australia	100%	100%
AML China Ltd <sup>(b)</sup>	Magontec Limited	China	100%	100%
Varomet Holdings Limited	Magontec Limited	Cyprus	100%	100%
Magontec Qinghai Co. Ltd.	Magontec Limited	China	100%	100%
Magontec US LLC	Magontec Limited	United States	100%	100%
<b>Indirectly Controlled Subsidiaries of Parent – Level 1</b>				
Magontec Xi'an Co Ltd.	Varomet Holdings Ltd	China	100%	100%
Magontec GmbH	Varomet Holdings Ltd	Germany	100%	100%
Magontec Suzhou Co Ltd.	Varomet Holdings Ltd	China	100%	100%
<b>Indirectly Controlled Subsidiaries of Parent – Level 2</b>				
Magontec Shanxi Company Limited <sup>(c)</sup>	Magontec Xi'an Co. Ltd	China	70%	70%
Magontec SRL	Magontec GmbH	Romania	100%	100%

(a) Entities included in the Australian tax consolidated Group.

(b) Dormant from 30 June 2012

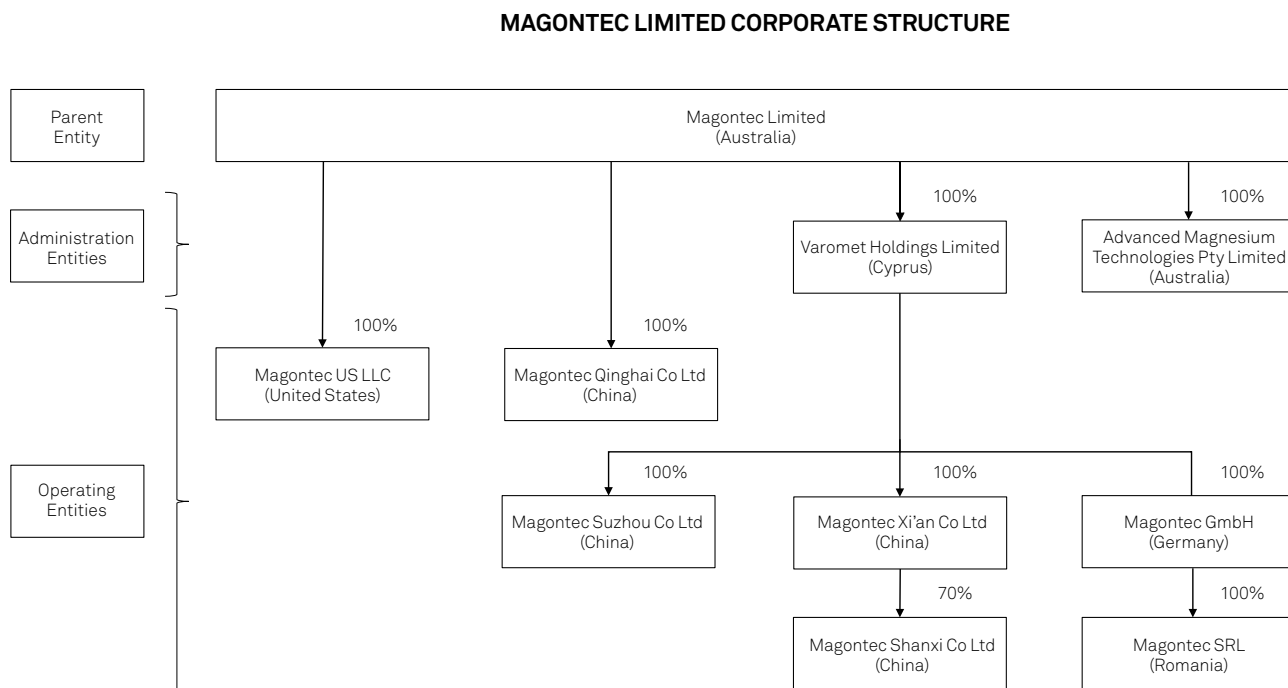
(c) Joint venture entity through which alloying operations are conducted at Shanxi. The joint venture arrangements provide that from 1 January 2013, 100% of the benefits and responsibilities of transactions on revenue account accrue to Magontec Xi'an Co Ltd. The Group's joint venture partner maintains an entitlement to a return of its original capital contribution.

# Notes to the Financial Statements

continued

## 22. CONTROLLED ENTITIES (continued)

### b. Corporate Structure as at 31 December 2017



### c. Acquisition of Controlled Entities

There were no acquisitions of controlled entities made during the relevant period. Magontec US LLC was established on 16 June 2016.

### d. Disposal of Controlled Entities

There were no disposals of controlled entities made during the relevant period.

# Notes to the Financial Statements

continued

## 23. SEGMENT INFORMATION

### Identification of Reportable Segments

The consolidated entity comprises the entities as described in Note 22.

In respect of the period to 31 December 2017, segment information is presented in respect of the three main departments within the company.

- 'Admin Units' = Magontec administrative entities performing a Head Office function comprising -
  - Magontec Limited (Australia)
- - Advanced Magnesium Technologies Pty Limited (Australia)
  - Varomet Holdings Limited (Cyprus)
- 'EUR' = Magontec operating entities in Europe comprising -
  - Magontec GmbH (Germany)
  - Magontec SRL (Romania)
  - Magontec LLC (United States)
- 'PRC' = Magontec operating entities in the People's Republic of China comprising -
  - Magontec Xi'an Co. Ltd. (China)
  - Magontec Shanxi Co. Ltd. (China)
  - Magontec Suzhou Co. Ltd. (China)
  - Magontec Qinghai Co. Ltd. (China)

### Types of Products and Services

The principal operating activities comprise:

- Magnesium alloy production
- Magnesium alloy recycling
- Manufacture of cathodic corrosion protection products

### Accounting Policies and Inter-segment Transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 1 to the accounts. Magontec GmbH (Bottrop, Germany) is the entity through which alloy production at Magontec Xi'an Co Limited (Xi'an, PRC) and Magontec Shanxi Company Limited (Shanxi, PRC) destined for Europe is sold.

The segment data below on page 71 is presented net of intergroup transactions (other than sales).

# Notes to the Financial Statements

continued

## 23. SEGMENT INFORMATION (continued)

### Statement of Comprehensive Income

	12 months to 31 December 2017				12 months to 31 December 2016			
	\$'000 Admin	\$'000 EUR	\$'000 PRC	\$'000 TOTAL	\$'000 Admin	\$'000 EUR	\$'000 PRC	\$'000 TOTAL
Sale of goods	–	80,628	53,416	134,044	–	83,252	52,148	135,401
Less Inter-company sales				(3,721)				(7,305)
<b>Net Sales</b>	<b>–</b>	<b>80,628</b>	<b>53,416</b>	<b>130,323</b>	<b>–</b>	<b>83,252</b>	<b>52,148</b>	<b>128,096</b>
Cost of sales	–	(71,130)	(50,366)	(121,496)	–	(73,111)	(47,864)	(120,974)
Less Inter-company sales				3,721				7,305
<b>Net Cost of Sales</b>	<b>–</b>	<b>(71,130)</b>	<b>(50,366)</b>	<b>(117,775)</b>	<b>–</b>	<b>(73,111)</b>	<b>(47,864)</b>	<b>(113,670)</b>
<b>Gross Profit</b>	<b>–</b>	<b>9,499</b>	<b>3,049</b>	<b>12,548</b>	<b>–</b>	<b>10,141</b>	<b>4,285</b>	<b>14,426</b>
Other income	10	311	490	811	89	474	281	844
Interest expense	–	(566)	(351)	(918)	–	(725)	(376)	(1,100)
Impairment of inventory, receivables & other financial assets	–	(29)	(63)	(92)	–	(209)	(94)	(303)
Travel, accommodation and meals	(155)	(445)	(120)	(721)	(172)	(367)	(143)	(682)
Research, development, licensing and patent costs	(88)	(165)	(170)	(422)	(94)	(137)	(187)	(418)
Promotional activity	(2)	(115)	–	(116)	(1)	(66)	–	(67)
Information technology	(44)	(226)	(49)	(319)	(36)	(244)	(52)	(332)
Personnel	(1,209)	(4,345)	(1,053)	(6,607)	(1,368)	(4,154)	(1,228)	(6,750)
Depreciation & amortisation	(1)	(327)	(41)	(369)	(1)	(453)	(22)	(475)
Office expenses	(52)	(211)	(87)	(350)	(57)	(152)	(125)	(333)
Corporate and other	(732)	(1,857)	(837)	(3,426)	(533)	(1,594)	(1,100)	(3,226)
Foreign exchange gain/(loss)	(643)	(412)	229	(825)	(84)	106	(165)	(143)
<b>Profit/(Loss) before income tax expense</b>	<b>(2,915)</b>	<b>1,113</b>	<b>996</b>	<b>(805)</b>	<b>(2,257)</b>	<b>2,621</b>	<b>1,076</b>	<b>1,440</b>
Income tax expense	–	(582)	(227)	(809)	–	(620)	(201)	(821)
<b>Profit/(Loss) after income tax expense/benefit including discontinued operations</b>	<b>(2,915)</b>	<b>531</b>	<b>769</b>	<b>(1,614)</b>	<b>(2,257)</b>	<b>2,001</b>	<b>876</b>	<b>620</b>
<b>Other Comprehensive Income</b>								
Movement in various actuarial assessments	–	60	–	60	–	(620)	–	(620)
Exchange differences taken to reserves in equity – translation of overseas entities	(18)	1	(211)	(228)	(89)	(240)	(783)	(1,112)
<b>Total Comprehensive Income</b>	<b>(2,932)</b>	<b>592</b>	<b>558</b>	<b>(1,782)</b>	<b>(2,345)</b>	<b>1,141</b>	<b>92</b>	<b>(1,112)</b>

# Notes to the Financial Statements

continued

## 23. SEGMENT INFORMATION (continued)

	31 Dec 2017 \$'000 Admin	31 Dec 2017 \$'000 EUR	31 Dec 2017 \$'000 PRC	31 Dec 2017 \$'000 TOTAL	31 Dec 2016 \$'000 Admin	31 Dec 2016 \$'000 EUR	31 Dec 2016 \$'000 PRC	31 Dec 2016 \$'000 TOTAL
<b>Segment Assets</b>								
Gross Segment assets	54,907	43,263	38,252	136,422	56,998	41,929	35,006	133,933
<b>Eliminations</b>								
– Inter-Coy Loans	(40,078)	(1,588)	(418)	(42,084)	(40,135)	(1,743)	(4,082)	(45,959)
– Investment in subsidiaries	(15,392)	–	–	(15,392)	(15,392)	–	–	(15,392)
– Other	3,511	(45)	(339)	3,128	2,715	6	(227)	2,494
<b>As per Consolidated Balance Sheet</b>	<b>2,949</b>	<b>41,631</b>	<b>37,495</b>	<b>82,074</b>	<b>4,187</b>	<b>40,192</b>	<b>30,698</b>	<b>75,077</b>
<b>Segment Liabilities</b>								
Gross Segment liabilities	30,586	37,762	22,971	91,318	29,065	37,057	20,855	86,976
<b>Eliminations</b>								
– Inter-Coy Loans	(30,422)	(1,950)	(9,654)	(42,026)	(28,894)	(7,268)	(9,756)	(45,918)
– Other	–	–	–	–	102	–	(458)	(355)
<b>As per Consolidated Balance Sheet</b>	<b>164</b>	<b>35,811</b>	<b>13,317</b>	<b>49,293</b>	<b>274</b>	<b>29,788</b>	<b>10,641</b>	<b>40,703</b>
<b>Net assets</b>	<b>2,785</b>	<b>5,820</b>	<b>24,178</b>	<b>32,782</b>	<b>3,913</b>	<b>10,404</b>	<b>20,057</b>	<b>34,373</b>
<b>Segment Disclosures</b>								
– Acquisition of segment fixed assets	–	850	2,838	3,688	–	508	2,802	3,311
– Non-cash share based payments expense	191	–	–	191	325	–	–	325
<b>Provisioning</b>								
– Inventory Increase/(Decrease)	–	(33)	–	(33)	–	(19)	–	(19)
– Doubtful debts Increase/(Decrease)	–	(42)	(598)	(640)	–	(252)	522	270

## 24. RELATED PARTY DISCLOSURES

### a. Equity Interests in Related Parties

#### Equity interest in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 22 to the financial statements.

### b. Transactions with Key Management Personnel

Details of Key Management Personnel compensation are disclosed in Note 4 to the financial statements and in the Remuneration Report.

### c. Group Entity

The parent entity is Magontec Limited. Members of the group are set out in Note 22. Transactions during the financial year between group entities included:

- Investment in controlled entities;
- Repayment of interest free funds from controlled entities to the parent entity; and
- Incurring expenditure on behalf of other entities for office rental and related costs, travel costs, seconded employees and other sundry costs.

The entity is fully reimbursed for these costs on an actual cost basis.

# Notes to the Financial Statements

continued

## 25. FINANCIAL INSTRUMENTS

### a. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the potential future return to stakeholders through the development and marketing of the Group's technologies and its production facilities.

The capital structure of the Group consists of cash and cash equivalents, equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in Note 16, Note 17 and Note 18 respectively and debt funding provided by Chinese and European banks (Note 13).

The group's main financial risk management issues are:

- ensuring the integrity of debtors;
- planning for production capacity expansion in China; and
- continued availability of debt funding.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group operates or trades. None of the Group's entities are subject to externally imposed capital requirements.

### b. Financial Risk Management Objectives

The magnesium alloy industry operates with a disparity of trade terms on the purchase of production inputs (generally not better than 15 days) and the sale of output (up to 120 days). The Group's senior management effort is aimed at firstly, arranging funding for working capital and secondly, negotiating with purchasers and buyers the best available terms.

The Group's senior management team co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group in line with the Group's policies. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### c. Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

### d. Categories and Maturity Profile of Financial Instruments and Interest Rate Risk

The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2017.

31 December 2017	Notes	Weighted average effective interest rate %	Variable interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>Financial assets:</b>						
Cash and cash equivalents		0.32%	2,309	–	–	2,309
Trade & other receivables (net of provision for loss)		–	–	–	26,704	26,704
Other		–	–	–	191	191
			<b>2,309</b>	<b>–</b>	<b>26,895</b>	<b>29,204</b>
<b>Financial liabilities:</b>						
Trade & other payables		–	–	–	15,873	15,873
Current Bank Borrowings	13	4.36%	9,981	–	–	9,981
Non Current Bank Borrowings	13	1.55%	11,135	–	–	11,135
			<b>21,116</b>	<b>–</b>	<b>15,873</b>	<b>36,989</b>



# Notes to the Financial Statements

continued

## 25. FINANCIAL INSTRUMENTS (continued)

The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2016.

31 December 2016	Notes	Weighted average effective interest rate %	Variable interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>Financial assets:</b>						
Cash and cash equivalents		0.26%	4,593	–	–	4,593
Trade & other receivables (net of provision for loss)		–	–	–	21,956	21,956
Other		–	–	–	227	227
			<b>4,593</b>	<b>–</b>	<b>22,183</b>	<b>26,776</b>
<b>Financial liabilities:</b>						
Trade & other payables		–	–	–	13,672	13,672
Current Borrowings	13	3.05%	15,530	–	–	15,530
Non-Current Borrowings	13	–	–	–	–	–
			<b>15,530</b>	<b>–</b>	<b>13,672</b>	<b>29,202</b>

### e. Market Risk

Refer comments under headings a and b of Note 25.

### f. Foreign Currency Risk Management

The Group has exposure to four main currencies – the United States Dollar (USD), the Euro (EUR), the Chinese Yuan (RMB) and the Romanian Leu (RON). The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

	Foreign Currency Monetary Assets & Liabilities Table			
	Assets		Liabilities	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>Foreign currency monetary assets and liabilities</b>				
Cash and cash equivalents	2,196	4,525		
Trade and other receivables	26,885	21,970		
Other non-current receivables	1,034	1,043		
Trade and other payables			16,072	13,909
Provisions			12,956	11,702
Borrowings			20,335	14,734
<b>Other</b>				
Other net assets and liabilities	51,959	47,539	(70)	359
<b>Total</b>	<b>82,074</b>	<b>75,077</b>	<b>49,293</b>	<b>40,703</b>

The Group undertakes sales transactions denominated in RMB, USD and EUR and incurs manufacturing input costs denominated in EUR, RMB and RON. Additionally certain Head Office overheads are incurred in AUD and the Group reports in AUD. The objective is to centralise treasury risk and cash management so that foreign exchange risk washes through to a single point.

# Notes to the Financial Statements

continued

## 25. FINANCIAL INSTRUMENTS (continued)

### Foreign Currency Sensitivity Analysis

The following table details the Group's sensitivity to a 10% increase and 10% decrease in relevant foreign currency monetary items against the Australian Dollar. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates over the medium term. The sensitivity analysis includes foreign currency monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

A positive number in the table below indicates an increase in profit or a decrease in loss and other equity where the foreign currency strengthens against the Australian dollar. A negative number in the table below indicates a decrease in profit or an increase in loss and other equity where the foreign currency weakens against the Australian dollar.

USD impact			
	Notes	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Effect on Profit/Loss of a 10% increase in USD rate	(i)	318	271
Effect on Profit/Loss of a 10% decrease in USD rate		(318)	(271)

EUR impact			
	Notes	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Effect on Profit/Loss of a 10% increase in EUR rate	(ii)	(2,141)	(1,792)
Effect on Profit/Loss of a 10% decrease in EUR rate		2,141	1,792

RMB impact			
	Notes	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Effect on Profit/Loss of a 10% increase in RMB rate	(iii)	224	430
Effect on Profit/Loss of a 10% decrease in RMB rate		(224)	(430)

RON impact			
	Notes	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Effect on Profit/Loss of a 10% increase in RON rate	(iv)	(326)	(190)
Effect on Profit/Loss of a 10% decrease in RON rate		326	190

A positive number in the above table represents a reduction in the operating profit/loss.

- (i) Exposure to USD is represented by net monetary assets of USD 2.5 million in respect of period ended 31-Dec-17 (exposure on net monetary assets of USD 2.0 million in period ended 31-Dec-16)
- (ii) Exposure to EUR is represented by net monetary liabilities of EUR 13.9 million in respect of period ended 31-Dec-17 (exposure on net monetary liabilities of EUR 12.3 million in period ended 31-Dec-16)
- (iii) Exposure to RMB is represented by net monetary assets of RMB 11.4 million in respect of period ended 31-Dec-17 (exposure on net monetary assets of RMB 21.5 million in period ended 31-Dec-16)
- (iv) Exposure to RON is represented by net monetary liabilities of RON 10.0 million in respect of period ended 31-Dec-17 (exposure on net monetary liabilities of RON 5.9 million in period ended 31-Dec-16)

# Notes to the Financial Statements

continued

## 25. FINANCIAL INSTRUMENTS (continued)

### Derivatives and Hedge Accounting

During the period, the Company engaged in both foreign exchange hedges and interest rate swaps in order to manage risks associated with:

1. securing the EUR:USD rate on real metal purchases of pure magnesium in USD; and
2. to protect against adverse movements in interest rates associated with the group's borrowing facilities.

The group designates these derivative financial instruments as cash flow hedges and records transactions in accordance with hedge accounting requirements. Specifically, gains and losses on positions are recognised through Other Comprehensive Income in equity, until such time that the position is liquidated for cash settlement (usually at maturity) at which point the gain or loss is recognised in the profit and loss statement.

The gains and losses associated with the ineffective portion of hedges (where applicable) are recognised directly in the profit and loss statement.

	Notes	Carrying value \$'000	Market value \$'000	Cash flow due within 1 year \$'000	Cash flow due after 1 year \$'000
<b>31 December 2017</b>					
FX hedges	6,14	(6)	(6)	(6)	–
Interest rate swaps	6,14	–	–	–	–
<b>31 December 2016</b>					
FX hedges	6,14	66	66	66	–
Interest rate swaps	6,14	(38)	(585)	(585)	–

The sensitivity of FX hedges and interest rate swaps to a 10% movement in the relevant exchange rate and a 0.5% movement in interest rates respectively is outlined below:

	AUD impact of change	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
<b>FX hedges</b>		
Sensitivity to +10% change in USD EUR rate	–	167
Sensitivity to -10% change in USD EUR rate	–	(167)
<b>Interest rate swaps</b>		
Sensitivity to +0.5% change in interest rates	–	31
Sensitivity to -0.5% change in interest rates	–	(31)

# Notes to the Financial Statements

continued

## 25. FINANCIAL INSTRUMENTS (continued)

### g. Capital Management and Interest Rate Risk Management

The Group has bank loans outstanding of \$13,385,959 (refer Note 13) owing to Commerzbank globally. An interest rate swap arrangement expired in June 2017. In the context of ongoing low interest rates, the Group decided not to enter a new arrangement but will continue to monitor market conditions for appropriateness in this respect.

### h. Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of as far as possible dealing with creditworthy counterparties – an ideal not always possible in a product development environment. The use of collateral or other contributions can act as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by limits that are continually reviewed.

The Group's alloy sales to European customers are, for the most part, centralised through Magontec GmbH in Bottrop Germany. Magontec GmbH has insurance cover in place to cover its exposure to debtors secured under the Commerzbank facility. The insured percentage cover for 'named' debtors is 90% and for 'unnamed' debtors is 80% but with individual claims in respect of 'unnamed' debtors limited to EUR 10,000.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

### i. Liquidity Risk Management

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

### j. Fair Value of Financial Instruments

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

# Notes to the Financial Statements

continued

## 26. PARENT ENTITY INFORMATION MAGONTEC LIMITED

### Statement of Comprehensive Income

	Magontec Limited	
	12 months to 31 Dec 17 \$'000	12 months to 31 Dec 16 \$'000
<b>Sale of goods</b>	–	–
Cost of sales	–	–
<b>Gross profit</b>	–	–
Other income	13	323
Interest expense	–	–
Impairment of inventory, receivables & other financial assets	(852)	(1,255)
Travel, accommodation and meals	(4)	(12)
Research, development, licensing and patent costs	(30)	(76)
Promotional activity	–	–
Information technology	(14)	(10)
Personnel	(14)	(187)
Depreciation & amortisation	–	–
Office expenses	(4)	(8)
Corporate	(607)	(472)
Foreign exchange gain/(loss)	(48)	(179)
Other operating expenses	–	–
<b>Profit/(Loss) before income tax expense/benefit from continuing operations</b>	<b>(1,560)</b>	<b>(1,875)</b>
Income tax (expense)/benefit	–	–
<b>Profit/(Loss) after income tax expense/benefit from continuing operations</b>	<b>(1,560)</b>	<b>(1,875)</b>
Profit/(Loss) after income tax expense from discontinued operations	–	–
<b>Profit/(Loss) after income tax expense/benefit including discontinued operations</b>	<b>(1,560)</b>	<b>(1,875)</b>
<b>Other Comprehensive Income - that may later emerge in the Profit and Loss Statement</b>		
Exchange differences taken to reserves in equity - translation of overseas entities	–	–
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement	–	–
Movement in various actuarial assessments	–	–
<b>Total Comprehensive Income</b>	<b>(1,560)</b>	<b>(1,875)</b>
<b>Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to</b>		
Minority interests	–	–
Members of the parent entity	(1,560)	(1,875)
<b>Total</b>	<b>(1,560)</b>	<b>(1,875)</b>
<b>Comprehensive Income for the year attributable to</b>		
Minority interests	–	–
Members of the parent entity	(1,560)	(1,875)
<b>Total Comprehensive Income for the year</b>	<b>(1,560)</b>	<b>(1,875)</b>

# Notes to the Financial Statements

continued

## 26. PARENT ENTITY INFORMATION MAGONTEC LIMITED (continued)

### Balance Sheet

	Magontec Limited	
	31 Dec 17 \$'000	31 Dec 16 \$'000
Cash and cash equivalents	26	1,241
Trade & other receivables	3	56
Other	38	77
<b>Total current assets</b>	<b>67</b>	<b>1,374</b>
<b>Non-current assets</b>		
Inter company loan receivables (net of provisioning)	17,124	17,190
Investment in shares of subsidiaries (net of provisioning)	11,718	11,718
<b>Total non-current assets</b>	<b>28,842</b>	<b>28,907</b>
<b>Total assets</b>	<b>28,909</b>	<b>30,282</b>
<b>Current liabilities</b>		
Trade & other payables	7	47
Provisions	–	–
<b>Total current liabilities</b>	<b>7</b>	<b>47</b>
<b>Non-current liabilities</b>		
Other	4,995	4,768
<b>Total non-current liabilities</b>	<b>4,995</b>	<b>4,768</b>
<b>Total liabilities</b>	<b>5,002</b>	<b>4,815</b>
<b>Net assets</b>	<b>23,907</b>	<b>25,467</b>
<b>Equity attributable to members of MGL</b>		
Share capital	58,616	58,616
Reserves	1,637	1,637
Accumulated losses	(36,346)	(34,786)
<b>Equity attributable to minority interests</b>		
Share capital	–	–
Reserves	–	–
Accumulated losses	–	–
<b>Total equity</b>	<b>23,907</b>	<b>25,467</b>

# Notes to the Financial Statements

continued

## 26. PARENT ENTITY INFORMATION MAGONTEC LIMITED (continued)

### Contingent Liabilities

The parent entity had no contingent liabilities as at 31 December 2017.

### Capital Commitments - Property, Plant and Equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2017.

### Significant Accounting Policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1.

## 27. SUBSEQUENT EVENTS

To the best of the company's knowledge there have been no other material subsequent events that require disclosure.

## 28. ADDITIONAL COMPANY INFORMATION

Magontec Limited (ASX:MGL) is a listed public company and is incorporated in Australia. The MGL Group operates globally including subsidiaries in Australia, Europe, China and the United States.

### Registered Office and Principal Place of Business

Suite 1.03  
46A Macleay St  
Potts Point, NSW 2011  
Tel: 61 2 8005 4109  
Fax: 61 2 9252 8960

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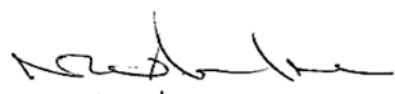
## Directors' Declaration

The Directors declare as follows -

- in the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;
- in the Directors' opinion, the financial statements and notes thereto set out on pages 41 to 80 of this Annual Report, are in accordance with the Corporations Act 2001, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Group; and
- the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s.295A of the Corporations Act 2001.

On behalf of the Board of Directors



Mr N Andrews  
Executive Chairman

26 February 2018



Mr R Shaw  
Non-Executive Director



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGONTEC LIMITED

### Report on the Financial Report

#### Auditor's Opinion

We have audited the accompanying financial report of Magontec Limited and Controlled Entities, which comprises the consolidated balance sheet as at 31 December 2017, and the consolidated statement of profit & loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a statement of accounting policies, other explanatory notes and the directors' declaration.

In our opinion:

- (a) the financial report of Magontec Limited is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<b>Existence &amp; Valuation of Inventories</b> We focused on this area as a key audit matter due to the: <ul style="list-style-type: none"> <li>Quantum of amounts involved;</li> <li>Sensitivity of the Company's margins to changes in the underlying price of Magnesium; and</li> <li>Multiple geographical areas.</li> </ul>	Our procedures included, amongst others, <ul style="list-style-type: none"> <li>Attendance at stock takes for all significant locations to conduct test counts and assess internal controls;</li> <li>Testing of carrying value to subsequent sales and cost;</li> <li>Review of costing methodology applied by entities within the group for compliance with the Group accounting policy;</li> <li>Challenging management's view of the recoverable value of aged inventory.</li> </ul>
<b>Existence &amp; Valuation of Property, Plant &amp; Equipment</b> The Company continues to invest in significant plant & equipment in both China and Europe. We focused on this area due to the: <ul style="list-style-type: none"> <li>Significant level of additions occurring during the year</li> <li>Extent of management judgment involved in assessing impairment indicators and determining the assumptions used in evaluating these indicators</li> </ul>	Our procedures included, amongst others, <ul style="list-style-type: none"> <li>Assessing management's determination of any impairment charge, and analysis of internal reporting to assess how operating performance is monitored and reported;</li> <li>Assessment of key forward looking assumptions used to estimate any possible impairment, including projected future growth rates, costs, and the discount rate applied;</li> <li>Substantive testing of asset additions.</li> <li>Assessment of the classification of capitalised costs as Construction in Progress</li> </ul>

*Directors' Responsibility for the Financial Report*

The directors of Magontec Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the Group financial statements and notes 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. These Auditing 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 controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. 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.

**Report on the Remuneration Report**

*Auditor's Opinion*

We have audited the Remuneration Report included in pages 27 to 38 of the directors' report for the year ended 31 December 2017.

In our opinion the Remuneration Report of Magontec Limited for the year ended 31 December 2017 complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

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.

**Camphin Boston**  
Chartered Accountants



**Justin Woods**  
Partner

Level 5, 179 Elizabeth Street, Sydney NSW 2000  
Dated: 26 February 2018

# Shareholder Information

**Class:** Ordinary shares fully paid

**Code:** MGL

**Voting Rights:** Voting rights of members are governed by the Company's constitution. In summary, every member present in person or by proxy, attorney or representative has one vote on a show of hands and one vote for each share on a poll.

## Twenty Largest Holders of Ordinary Shares as at End Date of Current Reporting Period

Name of Holder	No. Of Shares	%
<b>SUBSTANTIAL SHAREHOLDERS</b>		
1 QINGHAI SALT LAKE MAGNESIUM CO LTD	330,535,784	28.99
2 STRAITS MINE MANAGEMENT PTY LTD	148,874,507	13.06
3 J P MORGAN NOMINEES AUSTRALIA	101,439,754	8.90
4 CITICORP NOMINEES PTY LIMITED	77,535,177	6.80
<b>OTHER SHAREHOLDERS</b>		
5 KEWEIER METAL CO LTD & LI ZHONG JUN	56,197,298	4.93
6 NATIONAL NOMINEES LIMITED	23,488,937	2.06
7 MR NICHOLAS WILLIAM ANDREWS	20,870,953	1.83
8 MR SCOTT PARHAM	18,355,666	1.61
9 HSBC CUSTODY NOMINEES	17,200,087	1.51
10 MRS DAWN PATRICIA DAVIS	13,600,000	1.19
11 MR XUNYOU TONG	9,882,973	0.87
12 DALSIZ PTY LTD	8,000,000	0.70
13 ESCOR EQUITIES CONSOLIDATED	8,000,000	0.70
14 YELLOWZONE PTY LTD	7,139,831	0.63
15 BRIAN GORMAN SELF MANAGED	7,000,000	0.61
16 MR CHRISTOPH KLEIN-SCHMEINK	6,142,212	0.54
17 DR ANDREW DUNCAN	6,075,000	0.53
18 DADIASO HOLDINGS PTY LTD	6,000,000	0.53
19 MR JOHN DAVID TALBOT	5,705,091	0.50
20 MR PETER FABIAN HELTINGS & MRS JACQUELINE KIM	5,700,000	0.50
<b>TOTAL</b>	<b>877,743,270</b>	<b>76.99</b>

## Distribution of Shareholders as at End Date of Current Reporting Period

Number Held	Holders	No. of Securities	Percentage
1–1,000	9,749	3,262,820	0.29
1,001–5,000	1,836	4,014,393	0.35
5,001–10,000	397	3,193,029	0.28
10,001–100,000	1,272	41,405,691	3.63
100,001 and over	430	1,088,197,550	95.45
<b>TOTAL</b>	<b>13,684</b>	<b>1,140,073,483</b>	<b>100.00</b>

# Shareholder Information

continued

## Substantial Shareholders

Magontec Limited has been notified of the following substantial shareholdings:

Holder	Number of ordinary shares	% of issued ordinary share capital
Qinghai Salt Lake Magnesium Co. Ltd (QSLM)	330,535,784	28.99%
Allan Gray Australia Pty Limited	176,858,972	15.51%
Straits Mine Management Pty Ltd	148,874,507	13.06%

As at 31-Dec-2017 a marketable parcel of securities (\$500) is a holding of at least 13,889 securities <sup>(1)</sup>.

1. Based on a closing share price of \$0.036

Issued Capital and Securities	On Issue at 31 Dec 2017
Ordinary Shares fully paid	1,140,073,483

Share Registry: Boardroom Pty Limited	Postal:	Local:	International
Address: Level 12, Grosvenor Place 225 George Street SYDNEY, NSW 2000	GPO Box 3993, SYDNEY 2001	Tel: 1300 737 760 Fax: 1300 653 459	Tel: +61 2 9290 9600 Fax: +61 2 9279 0664 Website: <a href="http://www.boardroomlimited.com.au">www.boardroomlimited.com.au</a>





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