

## **Chairman's Address to Shareholders at Annual General Meeting**

**Brisbane, 26 November 2004:** The Chairman of Austin Engineering Limited (ASX Trading code: **ANG**) presented the following address to shareholders at the Company's Annual General Meeting held today:

"I would like to expand on my comments in the Annual Report.

Austin Engineering has been listed for slightly less than 9 months during which time there has been substantial development of the company, not the least being the increase in market capitalisation from \$7.1m to \$19m at the current share price.

As envisaged in the prospectus the strategy of an acquisition in WA to enable the company to participate in the resources boom on both the East and West coasts of Australia has been successfully concluded with the purchase of John's Engineering.

We are confident, 3 months into this acquisition, that it was a very successful purchase, both from the acquisition cost versus the value obtained and the fact that our current forecasts suggest that the company will in 2004/2005 more than double the 2003/2004 results for revenue and EBIT.

While we are not canvassing any further acquisitions until we are completely satisfied that the new management and technology transfers have been bedded down in John's Engineering, should further acquisitions with similar potential be available to Austin in the future these will be examined diligently to ensure purchase would lead to similar success.

A further foundation strategy of the company was the winning of a major contract where we can utilise the technology we have been developing to substantially reduce welding costs. The Board defines a "major contract" as one with projected revenue in excess of \$20m. Michael Buckland will comment in more detail on the current status of projects falling within this definition which the company is examining with a view to submitting tenders.

Obviously contracts of this size require very careful evaluation and the Board is mindful of its responsibility in terms of Risk Management in tendering for these contracts.

It is envisaged that should we be successful in winning such a contract it will be prudent to strengthen the Board by at least one further director with particular expertise in the management of large contracts.

In view of this the shareholders have been asked as per Resolution 4 to approve an increase in non-executive directors' fees from \$120k per annum to \$200k per annum.

In commenting on Board activities I am pleased to advise that an Audit Committee has been established under the chairmanship of Mr Peter Pursey and it will be reviewing financial matters on a regular basis.

While no separate committee has been formed to cover risk management, as it has been decided that at this time the entire Board will involve itself in risk reviews, Mr Eugene Fung, and the Company Secretary and Chief Financial Officer, Mr Colin Anderson, have undertaken to complete a risk management policy document by December 31st for review and adoption by the Board at the January board meeting.

I would like to comment on one further matter, namely the dividend policy of the company. It has been decided that in view of the rapid growth of the company following the acquisition of John's Engineering it would not be prudent to declare a dividend for the 2003/2004 financial year. It has however been agreed by the Board that a policy of paying a dividend of between 25% and 50% of the company's after tax profits will apply in future, commencing with the release of the company's 2004/2005 results.

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I would also like to extend my thanks to my fellow directors and our valued staff and management for their efforts and energy in establishing the company's success in its first year of operations as a publicly listed company.

Importantly, to you as shareholders, thank you for support. It remains the highest priority for me as your Chairman, along with my fellow directors and company executive management, to ensure we continue to deliver the value in Austin for the benefit of all shareholders.

Thank you for your attention. I would now like to hand over to Michael Buckland, who will present his Managing Director's Report"

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**About Austin Engineering:** Austin Engineering Limited is an engineering company with manufacturing facilities in Brisbane and Perth. The Brisbane facility provides fabrication facilities servicing the mining, oil, gas and industrial sectors. Key product lines include structural steel, piping, mineral processing equipment, potshells and superstructures. The Perth facility designs and manufactures products used in the resources industry including dump truck bodies, excavator buckets, materials handling equipment and large service vehicles. Austin own rights to innovative welding processes which are being introduced to improve welding productivity, coupled with robotic applications to suit product lines, general fabrications and any repetitive production processes.

## **Managing Director's Address to Shareholders at Annual General Meeting**

**Brisbane, 26 November 2004:** The Managing Director of Austin Engineering Limited (ASX Trading code: **ANG**) presented the following address to shareholders at the Company's Annual General Meeting held today:

"Good Morning Ladies and Gentlemen.

As Peter Fitch has mentioned, this is our first AGM and as a young company I thought it prudent to briefly touch on our beginnings and the strategy put in place with the purchase of Austin Engineering.

Austin Engineering was purchased in April 2003 and listed on the ASX in March 2004. Your management team had a core strategy of establishing a facility on the East and West coasts of Australia to service a resurgent resources industry. Coupled with this was the intent to increase the level of skills within those facilities which would allow us to tender and manage major project work in both the domestic and international markets. Manufacturing of a repetitious nature in which new welding technology could deliver demonstrable results was also targeted.

I am pleased to say that we have progressed down that path in the 18 months since purchasing the business.

The 2003/2004 financial year was one of consolidation of the existing business while introducing our core strategies.

Revenue for the year of \$15.53m and EBIT of \$0.92m was in line with the company's internal forecasts. Revenue comprised Austin's traditional business lines such as structural steel and product line fabrication. To further expand our traditional revenues, we have endeavoured to increase our existing client base to include major international engineering companies such as Bechtel. We are very pleased with the progress we have made in this area and will continue to pursue this strategy until the larger more repetitious type projects come along.

As mentioned, EBIT was in line with the company's internal forecasts however, the year was not without a number of operational issues which led to margins on a number of projects being below what we would consider satisfactory levels. Action has been taken to address these issues and we are now confident these will allow us to achieve better returns on future projects.

Another factor, which affected EBIT in the past year, was the prudent decision to write-off expenses in relation to the development of our welding technology. In the 2003/2004 financial year, \$340,000 was expensed. We will continue this practise until we are successful in winning a major tender.

Whilst the level of research and development expenditure may seem large in relation to the level of EBIT, we firmly believe that the research and development projects we are undertaking have the potential to generate significant returns for shareholders in the foreseeable future.

During the year we have made considerable progress with this welding technology to the point where we are now actively tendering for projects in which it will be utilised. The technology is specifically geared to fabrication of a repetitious nature and has major benefits by way of:

- Reducing exposure to shortages and the cost of skilled labour (which is a major industry problem)
- A significant reduction in welding times
- Greater throughput in the facility, which in turn increases revenues and profits
- Consistent quality

An industry sector that we are specifically targeting is the Aluminium Smelter business and during the year we were invited to present our technology to Rusal Aluminium in Russia, Bechtel/Alcoa and Fluor in the USA. These companies are expecting the development and commissioning of at least eight smelters over the next five years. We will also pursue other industries that have products suitable to our technology.

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Further strengthening our potential in this area, the company was pleased to announce the appointment of Dr Nasir Ahmed. Dr Ahmed was until recently the Senior Officer and Chief Research Scientist of CSIRO's Adelaide facility of Division of Manufacturing and Infrastructure Technology and is well known in international circles for his expertise in welding, robotics, materials and new technology. Dr Ahmed adds significant knowledge, respectability and international contacts to the company.

### **Review of 2004/2005**

On 1 September 2004, the company completed its strategy of having facilities on the East and West coasts of Australia with the purchase of John's Engineering in Perth.

John's Engineering produces a range of proprietary products for the mining and construction industries in Australia and internationally (refer to the boards within the room).

John's Engineering's current work loading is at 100% levels with the operation sub-contracting to a further five companies to meet delivery schedules. In order to improve productive capability, a number of capital investment programmes have been put in place including the purchase of a robotic welding system for tray bodies, which is planned for completion by mid-March 2005. This automated system will have a marked effect on delivery times and is forecast to generate significant reductions in the cost of manufactured products at this facility.

The inclusion of John's proprietary product lines into our Queensland facility will be a significant bonus for us. A number of clients have requested that we start to produce the Johns Engineering's range of excavator buckets, tray bodies, service vehicles and water trucks in Queensland. These products offer the potential for higher margins and will increase the Queensland facility base product load. A major equipment supplier to the mining industry has already confirmed they will place orders with the company and production on five trays and four excavator buckets is already under way.

Management changes have taken place with the appointment of Mr Paul Clarke as General Manager. Mr Clarke has international experience in the fabrication and construction fields and brings to Johns Engineering the knowledge to take the company to the next level of business activity.

As part of our strategy relating to major projects within the smelting industry, we are pleased to announce that we have pre-qualified as a tenderer on the Iceland smelter for Bechtel/Alcoa.

The company is presently tendering for the contract to supply potshells for this project. The tender closes in December with award of the contract to the successful bidder expected to be announced in January 2005.

Due to the unacceptably high shipping costs from Australia, manufacturing for this project will occur in the United Kingdom and will utilise the company's new welding technology.

As a separate element of this project, the company is also discussing with Bechtel the utilisation of its specialised process for the aluminium welding of busbars.

During this coming year, we are also expecting a number of new tenders for smelters in Australia, Trinidad, South America and Russia.

Combined with the growth of the company organically through major projects and product lines, the company will look at further acquisitions which have applications in the industries and products that the company operates within on an international basis.

In summary, for the current financial year, the Western Australia operation of John's Engineering will make a significantly positive contribution to our results as it is performing at levels above our expectations as at the time of the acquisition. The Queensland operation has commenced the year at a more subdued level of activity with delays on orders received, resulting in delaying project profit contribution until the second half of the financial year. Based on existing orders and tendering activity, we see the months of December 2004 to July 2005 as being extremely active.

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As Peter has stated, we expect our 2004/2005 profits to represent a substantial increase over the previous year. However due to the timing of contract completions, this increase in profitability will be mostly achieved in the second half of the year. I would also like to advise that we have not factored into any of our 2004/2005 forecasts income from any major projects.

In conclusion I would like to thank the Board of Directors for their support as well as all of our staff during what has been a very exciting year. I believe we are fast progressing to the company that management and shareholders had envisaged when we first floated Austin Engineering.

Thank You"

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