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Austin Engineering Ltd – Full Year Results to June 2014

Financial Overview

	FY13	FY14	%
	\$m	\$m	Change
Revenue	288.8	209.9	- 27%
EBITDA	51.1	15.2	- 70%
NPBT	39.6	0.0	- 100%
NPAT	28.4	0.9	- 97%
Net assets	153.4	165.6	+ 8%
Basic earnings per share	39.2cps	1.1cps	- 97%
Final dividend per share	10.5cps	0.0cps	- 100%
Total annual dividend per share	15.0cps	4.5cps	- 70%

Brisbane, 28 August 2014: Austin Engineering Limited (ASX trading code: ANG) has today announced full-year EBITDA of \$15.2m and NPAT of \$0.9m consistent with guidance provided in May 2014. The result was impacted by subdued capital spending in the Mining industry.

Review of Operations

The inconsistent business conditions flagged in February 2014 continued through to June 2014 and as a result the amount of revenue was much lower than expected for Austin. The continued reduced capital spending in the mining sector has delayed expenditure on new and replacement equipment as well as on maintenance programs. The flow on effect for Austin was much lower utilisation of productive capacity.

Revenue for the Australian business units decreased by 37% over the previous year. The main workshop facilities in Perth, Western Australia experienced lower demand in the period due to a continuation of the deferral of truck body replacement cycles by major clients. This business was still a very good performer but not to the exceptional levels reached in FY13. The business units on the eastern seaboard of Australia, which mainly service coal mining operations, suffered reduced and inconsistent levels of activity due to cost reduction programs by miners and contractors. The COR Cooling business produced a result in line with expectations for the period which was pleasing and was a significant improvement on FY13.

The Americas produced a comparable revenue result to the previous year with the addition of Servigrut filling the gap left by reductions in other businesses in the region. The Westech business in North America produced a relatively comparable result to last year albeit in a market with weak growth prospects. The La Negra manufacturing operation in Chile produced a reduced result compared to the previous year due to suspensions in capital spending by customers as well as a delay in the commencement of the Vale contract. The Calama operations in Chile, comprising of on and off site repair and equipment lifting services, finished the year with a good result on the back of multi-year contract wins during the period. The Servigrut business, which was acquired in October 2013, performed well and in-line with expectations. Peru produced a reduced result compared to last year due to anticipated site service contracts not eventuating as well as the impact of delayed decision making brought about by the market downturn. The Colombian workshop facility in Barranquilla produced a result below budget with clients holding off purchases due to lower than expected coal pricing.

The group's Indonesian business unit on Batam Island experienced very low revenue from mining. This was due to a depressed coal market and recently introduced mining regulations in Indonesia. Despite this success was achieved in securing oil and gas-related manufacturing work.

In accordance with the lower revenues, EBITDA was much lower than June 2013 with reduced sales opportunities, inconsistent activity and a corresponding reduction in overhead recoveries affecting the result.

NPBT of Nil and NPAT of \$0.9m were both down on the prior corresponding period, reflecting the movements in the underlying EBITDA result. A tax credit was recorded for the year predominantly due to non-assessable foreign dividends received during the period. The depreciation expense of \$10.5m for the period was up on the prior period level of \$8.1m due to additional depreciation charges from investment in new facilities in Indonesia and South America. Additional interest costs were incurred on the draw-down of bank loans to finance the acquisition of the new Servigrut operation in October 2013 as well as to fund capital expenditure requirements and operational cash flow.

CEO Michael Buckland commented on the full-year result saying "The group's performance for FY14 was lower than originally anticipated but was still within the earnings guidance range communicated to the market in May 2014. The result was predominantly influenced by capital spending reductions by large miners, despite production continuing at elevated levels."

"Austin is very well positioned to capitalise on what we expect is an emerging recovery cycle. We anticipate that in the near future customers are likely to be seeking productivity gains from their capital allocations and equipment that has exceeded its life cycle. Austin's range of customised products are designed specifically to customer specification to achieve productivity advantages."

Austin Engineering – Full-Year Results to June 2014 (cont'd)

Review of Operations (Cont'd)

"This year has seen global spending habits for many of our customers at vastly reduced levels than in previous years. Pleasingly there are now indications that we are past the bottom of the cycle as we are seeing an increased volume of enquiries as well as higher dollar value enquiries coming through. Austin's products are all production related and the delays in spending we have experienced in the past year cannot continue if production levels are to continue at these levels" he said.

Net Assets

Net assets of \$165.6m at June 2014 were up by 8% from \$153.4m at June 2013. The increase reflects the proceeds from equity raisings undertaken, offset by dividends paid in October 2013 and March 2014, as well as foreign currency translation differences relating to balance day adjustments on foreign equity balances. At June 2014 the net tangible asset backing per share of 87.9c was in-line with 88.8c for the June 2013 full-year period.

Cash Flow, Liquidity and Debt

Operating cash flows for the full-year to June 2014 were negative \$6.5m. This was due to the utilisation of advance payments from customers obtained in prior periods for work done in this period, reduced operating results and higher than optimal inventory levels at present.

Non-operational cash flows for the full-year included \$18.6m spent on capital expenditure projects, the most notable of which were the purchase of a new workshop facility in Calama Chile and a 43,000m² block of land in Peru for future expansion. Other non-operating cash flows included \$23.0m on the acquisition of the Servigrut business in Chile, \$11.5m expended on dividend payments for FY14, \$30.5m of new net borrowings primarily consisted of the funding of the acquisition of Servigrut and the new leases taken on as part of the Servigrut acquisition.

The net gearing ratio (net debt/net debt plus equity, including the value of issued bank guarantees) of 35.7% was up from 30.9% at June 2013 but was comfortably within bank covenant requirements.

Dividends

A fully-franked interim dividend of 4.5c per share was paid in March 2014. No final dividend for FY14 has been declared due to the reduced NPAT level.

Outlook

CEO Michael Buckland said that cost cutting measures on mine sites have been implemented and our view is the next stage will be a re-focus by customers on productivity improvements. Mine sites continue to produce at record levels, but customers have cut back on costs to maintain and replace the equipment used to produce these elevated quantities. The ongoing deferment of replacing and repairing equipment and the strain on existing equipment cannot be sustained and we expect that the signs of increased inquiry and tendering in the market is likely to continue and improve.

"Austin is very well placed to meet the anticipated increase in replacement equipment through our strategic locations globally. Austin has varying product ranges tailored specifically to clients needs which are designed specifically to assist them to achieve the required productivity improvements they will demand from capital expenditure projects. Additionally Austin can now provide innovative ideas to assist customers such as pay per tonne arrangements, complete supply and maintenance contracts, as well as alternative finance packages. South America is starting to show improved workloads and the multi-year contracts announced during FY14 will provide a good base to build from and improve workshop efficiencies."

"FY15 will see a focus on debt reduction, by reducing steel stocks and improving cash-flow. There will also be a heavy emphasis on innovative design and productivity improvements for customers. From a financial result perspective, FY15 will include a full-year result from the Servigrut and the South American contract wins announced during FY14. We expect the first half of FY15 to continue the inconsistent conditions we have experienced in FY14 but then expect business conditions to stabilise for the second half of FY15."

"Market conditions over the next 6 months will provide key indicators for future growth and spending in the mining sector, however Austin has budgeted for an increased full-year result in FY15 based on the increased level of activity beginning to show in the market."

End

For further information, contact Managing Director Michael Buckland or Chief Financial Officer Scott Richardson on +61 7 3271 2622.

About Austin Engineering: Austin Engineering Limited is an engineering company with manufacturing facilities in Australia, the USA, South America, and Indonesia. The Australian facilities manufacture, assemble, repair and maintain (on and off-site) products used in the mining and resources sector. Key product lines include dump truck bodies, large service vehicles, excavator buckets, materials handling equipment, mineral processing equipment, industrial radiator and cooling products as well as large structural steel projects. The USA facility (Westech) based in Casper, Wyoming, services the North American and Canadian mining markets and is an industry-leading designer and manufacturer of high-efficiency dump truck bodies. The operations located in Chile, Peru and Colombia manufacture, repair and maintain dump truck bodies and other mining products for their respective markets and, in Chile, also provide specialised heavy equipment lifting and transportation services for mining and industrial markets. The Indonesian production facility on Batam Island serves the equipment and service needs of mining and oil and gas-related customers in Indonesia and Asia. Austin also own rights to innovative and automated welding processes and these have been introduced into operations in order to improve production efficiencies. For more information visit www.austineng.com.au.