



Ausenco Limited

2014 Annual General Meeting

Brisbane

Thursday, 1 May 2014

Chairman's address

**George Lloyd
Chairman
Ausenco Limited**



Introduction

Good morning ladies and gentleman and welcome to Ausenco's 2014 Annual General Meeting. On behalf of the Board of Directors, I thank you for your attendance and your continued support of the company.

Ausenco is a diverse business providing engineering services globally across the oil and gas, infrastructure and mining sectors. While we are listed on the ASX and our origins are here in Brisbane, we have evolved significantly over the past 23 years to a company with an extensive footprint across North and South America, Europe, Africa, the Middle East and Asia-Pacific. Currently over 80% of our revenues are generated from people, activities or projects located outside Australia and more than two-thirds of our workforce is located outside of Australia. Our service offering covers all phases of the project development lifecycle across multiple industries and sectors. Our diversification across markets and geographies, as well as the solutions we offer our clients, set us apart from our peer group.

While Ausenco is often referred to as an "Australian mining services" company and compared to ASX listed organisations that provide a majority of their work across a broad spectrum of mining related activities in Australia, it is important to understand that we have a fundamentally different service offering, revenue base and risk profile compared to those companies. Less than 20% of our revenues are generated in Australia and approximately 50% of forecast 2014 group revenues will be from non-mining projects.

Ausenco's main competitors are the global engineering and project management companies. While these organisations are generally large in whole, we are usually competing with one or two divisions or business units and our relatively modest organisational size is no barrier. From the client's perspective, it is the engineering and project management skills and services we offer that differentiate us from our competitors and support our ability to compete globally regardless of client, project or organisational size.

In 2013 our continued diversification beyond the mining sector was reflected by the strengthening of our Oil & Gas, Power business in Canada with the acquisition of Projex Technologies, as well as growth in the municipal infrastructure services we provide in North America. The Projex acquisition has expanded our presence in Canada's high growth oil sands sector, adding 220 people across offices in Calgary and Halifax. The growth in municipal infrastructure services is being driven by the increasing need for local governments to maintain and improve ageing infrastructure.

Year in review

2013 was challenging for global engineering businesses. Ausenco, like many others, was affected by the weakening market conditions in some sectors during the year. This deterioration was led by concerns around demand and prices for some mineral commodities, as well as the growth prospects for major economies. The greatest impact of the weaker market was evidenced



by expenditure deferral and cost-cutting by major mining and resources companies, particularly on Australian based projects.

Ausenco's Board and management responded to market conditions by right-sizing the business for the environment, flattening and re-shaping the organisational structure, and strengthening the balance sheet. These actions have enhanced Ausenco's competitiveness providing a solid platform from which to improve earnings and margins. They will also ensure we continue to win work and deliver profitably in a more moderate business environment.

We also increased our focus on organic growth which is particularly targeted at increasing our market share in the areas of asset optimisation, delivery of low capital intensity solutions to new and brownfield projects, and managing projects in challenging environments.

In the Create phase, the majority of opportunities for Ausenco in the near-term are balanced towards brownfield assignments, rather than major new developments. Ausenco's expertise in delivering solutions for brownfield projects – whether for large-scale plant expansions, ongoing operations and maintenance, or asset optimisation – is a key differentiator and is supporting our ability to win work in the current environment. We are able to consistently demonstrate to clients our ability to reduce costs, increase efficiencies and add value.

We are already seeing early benefits from the actions we took in 2013 in our reduced cost base, improved operational leverage, strengthened market positioning and our growing work on hand and business opportunities.

Financial summary

The market conditions I have already referred to created widespread challenges for all industry participants and materially impacted Ausenco's financial performance, leading to a full year net loss after tax of \$35.2 million, which equates to an underlying net profit after tax of \$6.8 million.

I would like to outline the key factors that contributed to the 2013 loss in order to put this result into context.

A substantial portion of the loss was attributable to one-off extraordinary costs that were necessary to respond to market conditions. This included \$10.7 million in redundancy costs. While these costs impacted our bottom line in 2013, they have contributed to a significantly reduced cost base that will deliver \$35 million in savings annually from 2014.

Ausenco's financial performance was also adversely impacted by a goodwill write-off from the Environment & Sustainability business, underperforming contracts, abnormally high levels of work in progress provisioning and write-offs, and additional high receivables write-offs.

Additionally, a number of strategic, one-off investments were completed during the year, representing a significant portion of our capital expenditure of



\$26.2 million. These included the acquisition of the Projex oil sands business in Canada, and finalising the roll-out of the Oracle Enterprise Resource Planning system across the company's global offices. These investments will underpin Ausenco's long term growth and both have already delivered significant value.

To provide increased balance sheet strength to manage the current operating environment following the one-off costs in 2013, the Board announced a capital raising by way of rights issue to raise \$31.4 million. The rights issue was fully underwritten and received strong support from existing institutional shareholders, as well as new investors through the institutional shortfall bookbuild which closed oversubscribed. Ausenco's balance sheet remains in a healthy position with low net gearing of 9%.

Remuneration Report

The Board conducted a detailed review of its remuneration policies and practices during the course of 2013. I would like to briefly discuss Ausenco's 2013 Remuneration Report and highlight a couple of the actions we took to ensure that our existing remuneration policies were better communicated to our shareholders, that they also reflected the economic conditions and the company's performance in 2013.

During the year the Board approved a proposal by Ausenco's key management personnel and Non-Executive Directors to reduce their total fixed remuneration by 10%. This will remain in place until general conditions and company performance improve.

In addition, the Board also approved some amendments to the Ausenco Performance Rights Plan to bring it into line with current market practice.

A table detailing these as well as the other actions implemented in 2013 following the remuneration review can be found on pages 43 and 44 of the 2013 Annual Report.

The remuneration of key management personnel is outlined on page 52 of Ausenco's 2013 Annual Report and, in response to a number of questions we have received from shareholders, there are some specific points I would like to address in this table.

The first point relates to the short-term incentive cash bonuses allocated in 2013. It is important to recognise that STI bonuses paid in any year relate to the audited accounts of the previous financial year. This means that any STI cash bonus paid in 2013 was in respect of Ausenco's financial performance in 2012. Furthermore, as noted in the report, the company's financial performance for 2013 means that employees will not receive any STI cash bonus payments for 2013.

The second point relates to the performance rights plan. While accounting standards require that the remuneration table include a value for the performance rights issued to each of the key management personnel in 2013,



it should be noted that, as a result of the company's performance in 2013, all of the 2013 rights were also forfeited in the same year. This is further explained in the table at the bottom of page 53.

Outlook

Looking ahead, our near-term focus is on organic growth which we will achieve by increasing market share through the cross-selling of our services. This is supported by our renewed focus, the strengthened balance sheet, the enhanced organisational structure, and the improved cost base.

The new year is showing signs of improved business conditions industry-wide and particularly for Ausenco as a result of our restructuring and strong business development initiatives.

Tender activity in the Americas remains high and we are confident that our global expertise and diversified service offering will enable us to continue to win work and grow our business in this region.

The restructuring of the APAC/Africa business in early 2013 is leading to new opportunities and assignments. We have been encouraged by a number of early stage project wins in the first quarter of this year, as well as an increasing number of enquiries as a result of our expanded service offering in the region.

Conclusion

In conclusion I would like to thank Ausenco's management team, led by CEO Zimi Meka, and all of our hard working people across the globe for their continued dedication during the year.

I also thank my fellow Board members for their ongoing advice and counsel.

Ausenco's Board and management are unreservedly committed to restoring shareholder value and are confident of Ausenco's underlying strength and long-term growth prospects.

I will now invite Ausenco's CEO Zimi Meka to address you.