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Henry Walker Eltin Group Ltd
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Record of interview:

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Henry Walker Eltin Group Limited announced a near doubling of work on hand in February 2004 to over \$2 billion from December 2002. What has been the performance of your operating divisions recently and can you detail when the stronger order book will convert to improved shareholders returns?

CEO Bruce James

Our engineering, and operations and maintenance business, Simon Engineering, continues to experience revenue growth. The acquisition of the aiM maintenance business will enable us to provide integrated services to our clients across various sectors, particularly our mining, oil and gas, petrochemical and power generation clients in Western Australia.

In terms of HWE Civil, we are pursuing growth with an increased focus on alliances and joint ventures and are currently tendering for a diversity of large construction projects. Current work on hand is \$109 million, which is an increase of over 150% since June 2003. All our existing contracts are performing satisfactorily and we are actively pursuing ways to increase work on hand to achieve a return to profitability in FY2005.

Our mining services business, HWE Mining, has experienced margin improvement over the last twelve months, primarily from increased operational efficiencies and a close-out of unprofitable and underperforming contracts. Our mining order book grew to \$1.5 billion in April 2004 and we're pleased with the better margins from international and alliance contracts.

However, some of this improvement has been offset by record rains in March this year, which have affected our activities in Western Australia. The rains will reduce our EBIT

from mining by about \$2 million in the current financial year. Although this will hit our short term results we're comfortable with our progress, especially in the area of plant management and our potential to profitably grow the order book.

In regards to guidance for the FY2004, we now expect a profit before tax in a range of \$12 million to \$14 million, including the \$2 million negative from the March rains in the West. We are also on track to reintroduce a final dividend, subject to achieving our profit expectation.

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What is the outlook for earnings beyond the next few months? Can you comment on outlook for FY2005?

CEO Bruce James

The macro environment is positive and we're experiencing strong demand in the resources sector, both here and internationally. Our aim has always been to assemble a growth platform that will sustain growth for some time to come.

In terms of the profit outcome for 2005, we're comfortable with the range of existing broker EBIT forecasts. They are factoring relatively high growth and we believe we'll be in a position to meet consensus expectations. Some of the growth we expected in 2004 has been delayed and will be evident in 2005. Our growth has been slower to emerge because our focus has been to minimise risk while simultaneously improving returns. We believe we're getting the right balance in terms of risk and reward and that will be evident in 2005.

In mining, the margins are improving on our existing and renewed contracts and the trend is likely to sustain itself as we build the international component of our order book.

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Can you give some detail on the large contracts currently under negotiation?

CEO Bruce James

At this point in time, we are unable to provide details in relation to any specific contracts, but we are in final negotiations in relation to a couple of large international opportunities. In addition to these new projects under negotiation, we are concurrently negotiating extensions of some key contracts with long-term mining clients. There are also a number of civil opportunities in the final stages of negotiation.

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What factors come into play in the risk-reward assessment when considering offshore contracts? Do you require higher financial returns?

CEO Bruce James

Yes, we do require higher financial returns. The key issues that we look at in assessing offshore opportunities, not necessarily in this order, are: the client's strengths and capabilities, whether we have an existing relationship, the commodity and sector, the country's environment and risks, availability of resources, our own versus the local expertise, and the condition of the contract, for example; duration, commercial conditions, provisions and termination/break clauses. The duration is important as we expect it to equal equipment life in order to minimize residual plant risk.

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What is a realistic medium-term target for the HWE order book?

CEO Bruce James

Including a positive outcome from current negotiations, a realistic target for our work on hand is \$3 billion.

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What are your plans to fund the potential uplift in new work?

CEO Bruce James

As I've said previously, we are carrying out a review of future capex and capital requirements which will be complete by year end. We'll be seeking the best outcome for shareholders via a mix of debt, cash and operating leases. In some cases, future plant and equipment funding will be project-specific.

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What is the outlook for gearing, assuming you're successful in winning the work currently under negotiation?

CEO Bruce James

Gearing has come down from over 70 percent at FY2003 to 58.1 percent in the first half of FY2004. However, as we mobilise new contracts and contract extensions, we anticipate gearing levels to increase in FY2005 and then move back to within our target range of 50 to 60 percent as the revenues from new contracts flow through. The gearing outcome will depend on how we choose to fund future growth.

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What is the status of the Simon Engineering growth strategy?

CEO Bruce James

We split Simon Engineering into two units last year, the first comprising engineering and construction and the second comprising operations and maintenance services. Each of these units now operates under a separate business and management structure.

We are growing both organically and via small bolt-on acquisitions. The operations and maintenance services business recently acquired the business of aiM maintenance, which will beef up our provision of maintenance, plant modification, shutdown and offsite fabrication/refurbishment support services. Our engineering services business has a regional focus designed to service local markets and has workshops located in Kwinana, Kalgoorlie, Newman, Port Hedland, La Trobe Valley, Melbourne and Mt. Isa. We now have a strong client base which includes large key clients such as BHP Billiton, WMC Resources, Hamersley Iron, Wesfarmers, Iluka, Tiwest, Western Power Corporation and the Fremantle Port Authority, International Power and Australian Paper.

The total turnover of our services operations within Simon Engineering is now around \$100 million and, with the uplift we anticipate from the acquisition of the aiM maintenance business, turnover should be nearer \$150 million in FY2005.

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What will lift HWE Civil to profitability in FY2005?

CEO Bruce James

We have restructured the civil engineering business and have gained strong project management, and, most importantly, risk management capabilities through the acquisition of LSM Projects. All the contracts that they have executed during FY2004 year have been profitable, but the challenge has been maintaining a quantity of contracts sufficient to cover the overheads. The Roe Highway contract with Clough in Western Australia, the contract with Vopak for the relocation of a fuel terminal facilities in Darwin and the Patrick Corporation contract in relation to the container terminal in Brisbane will all add value. Our target of \$200 million in revenue within HWE Civil in FY2005 remains realistic and we will be profitable at that revenue level.

We are increasing the number of alliances and joint venture relationships with organisations of complementary skills on a project-by-project basis. Our focus is on contracts ranging from \$20 million to \$120 million.

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Thank you Bruce.

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