



Wellington Drive Technologies Ltd 2004 Annual General Meeting Address

Shawn Beck, Chairman

Good afternoon. I intend giving shareholders a brief summary of the Company's last twelve months trading, I'll cover our financial results first.

Last year to June 2004 the Company recorded a loss of \$2.9 million. As reported in the past, the financial results have been (and continue to be) impacted by the delays associated with a conservative target market and the level of investment, in development, production and marketing, that has been required to achieve adoption of the Company's products.

Clearly I'd prefer to be reporting profits. However, I want to remind shareholders that the Company's primary objective is to achieve a good share of international markets, while constraining expenditures to reasonable levels. I'm pleased to be able to report we continue to make good progress in our targeted markets and, as licensees and potential licensees invariably remind us, that the Company has achieved its current position with a fraction of the level of resource and investment that the industry would consider standard.

Our production is operating at capacity. We have been delivering increasing quantities of finished products, mainly to Europe, since June and we expect that our volumes will continue to grow. Our customers are satisfied with the products that are being delivered and repeat orders currently make up a large part of our business. This is a milestone for our Company.

Getting to this point has not been easy. We encountered some unwelcome delays earlier in the year that have been reported previously. We had some teething problems as we began to lift production volumes and some of those issues continue. We still have considerable work to do as we seek to grow volumes aggressively over the coming months. However, I'm confident in the management team's ability to continue their successful track record in dealing with issues as they arise.

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Page 1 of 9



We are in a period where our supply chain is receiving considerable focus. The growing level of product deliveries means that optimising working capital investment and cost of production is very important at this stage. We are monitoring these aspects of the business carefully, and there has been some restructuring of the team recently in recognition of the changes to our operations. More importantly perhaps is that we are well-advanced in our plans to migrate the labour intensive aspects of production from New Zealand to Asia. Over the next few months, we anticipate having established reliable supply capability in high volumes from Asia. This will mean not only an ability to eventually supply volumes in the millions, but also a more competitive cost of production and shorter manufacturing and shipping lead-times.

So we have achieved one of our major objectives. We are delivering standard products steadily and in moderate volumes. The objectives from here are to continue to iron out production and delivery issues, continue to reduce the cost of goods sold and grow the order book.

A second aspect of our business is licensing. Our major licensing programmes are also moving forward. Several new products are near to market, including a premium dishwasher circulation pump produced by Aweco GmbH of Germany, and a refrigeration compressor produced by Arçelik in Turkey. Let's remember that partners such as Aweco and Arçelik, while unfamiliar to New Zealanders, are neither small nor insignificant. Aweco is the European market leader for dishwasher components, supplying all leading brands. Arçelik is a multi-billion dollar appliance manufacturing company. It builds all types of domestic appliance, and its brands are usually found in the top 5 of every category in Europe. For example, in the United Kingdom an Arçelik brand is the market leader for domestic refrigerators.

We have samples of some products here today that Dr Green will show you. It is another major milestone that these projects are completed, and we expect to see these products in the market during 2005. Given the scale and diverse nature of these partners we believe that there will eventually be substantial opportunities for us within their other product categories.

Most of you will also understand that now that these examples are completed (albeit, just), and we can talk more openly about them, it becomes easier to obtain similar contracts of the same type as other companies can tangibly see the benefits Wellington offers. We are currently in active licensing negotiations with several leading international companies, including some that are household names. Ultimately, we expect licensing programmes to contribute strongly to our profits.



Our revenues year to date are well above the figures at the same time last year and our internal planning currently shows the Company moving into profit in the second half of the year and a substantially reduced loss, on improved revenues, for the full financial year to 30 June 2005.

As you can appreciate, in a company now moving into a rapid growth phase, with revenues accelerating from a low base and production costs still reflecting low volumes with start-up related costs, the second half of the year will likely provide a far greater contribution to profitability than the first half.

Also, most of our business is in the Northern Hemisphere and our revenues are strongly linked to their buying cycles. Deliveries to new orders there tend to be skewed towards the spring – in other words April onwards. That's one reason why the delays last year affected us to the extent they did. Some additional costs associated with our expansion of production in Asia are also possible before the supply chain stabilizes and the benefits of improved costs and reduced delivery times begin to show through. Financial outcomes from our present initiatives in the United States are also unlikely to show through until late in this financial year.

So I must continue to emphasise: the range of actual outcomes this year remains wide and meeting our internal plans relies on a number of assumptions, including that: our capacity expansion proceeds according to plan, our delivery record continues to improve, our order book grows and we successfully complete several of the partnership/licensing negotiations we have in progress now.

Thus, work remains to be done before the Company is in a financially predictable position, delivering the returns we seek. What is clear, though, is that the Company continues to make good progress toward its medium term objective of achieving a meaningful share of international target markets, and the correspondingly large returns that this entails. I am confident that our team will continue to deliver results and continue to make good progress in meeting the Company's objectives.

I'll now hand over to Dr Green to speak to you regarding some of the Company's specific plans and targets.



Ross Green, Managing Director

Thank you, Mr Chairman.

I'm going to talk to you about some of our plans for the current year, and give you a little more detail about the things we achieved in the year just past.

Demand is growing rapidly. At our exhibition in Nuremburg, Germany last month, we hardly had a spare moment, such was the number of customer visits. In fact, we almost ran out of 2005 year catalogues, despite having four times as many on hand compared to previous exhibitions we've attended. I believe this is a good sign of future demand.

Right now, we don't have sufficient capacity to satisfy the orders that existing customers want to place with us. We have been turning orders away. In addition, many new companies are considering using our standard products, and we need to be in a position to satisfy their demands – or they will find alternatives.

So we have taken the decision to lift our production capacity. From March 2005 onwards, we are planning to be able to build and deliver substantially more products than we can right now, and our margins will improve significantly. The first step of our expansion will increase available capacity to approximately three times present levels. More importantly, the expansion is happening in a modular way that lends itself to scaling to much higher levels as demand grows further.

Most of our capacity expansion is happening in Asia. Our operations there are controlled out of Singapore. We have an excellent partner, with whom we have been working on an increasing scale for the past five years. As you can imagine, with manufacturing happening at several sites and customers on the other side of the world, logistics is becoming an important part of our business. There has been some rearrangement of responsibilities within our team, and a senior Operations professional (Mr Bruce Farquharson) has joined us to take overall control of our delivery functions.

Many of you will know that we have a small sales office and distribution centre near Cambridge in the United Kingdom. We recently added an Applications Engineer to the team there to give first line technical support to customers, and we are planning to increase the physical size of our warehousing to provide for the expected increase in product throughput. Nowadays we have representatives in



three European regions. We also recently added representatives in Thailand and India in response to the level of enquiry from those regions. Since we opened our own office in the US some months ago we have seen an increasing level of enquiry from within the United States, and we expect to add representatives there over the coming year.

Why is demand growing? The reasons have been clear for several years and I've talked about them at previous AGMs. Energy costs is the most significant one. Energy costs are high right now, so there is much more demand for energy-saving products like ours. Also, our reputation in the market is growing, and more customers are learning that we can be relied on to deliver quality products at a good price.

Whenever I say that energy savings are important, a question always comes "but your motors are only small, so they don't use much energy anyway; how can the savings be important?" That is true for our motors on an individual basis, although it ignores just how many motors are used in our size range. Individually, they only consume the power equivalent to say a light bulb. However, there are around 2 billion of them in service in the USA and Europe.

Together they actually comprise the largest consumer of electricity; 10 years ago more than 11% of all the electricity used in the USA went into motors of the size range that we target now. Today the figures are thought to be even higher; nearer 25%.

It seems to be obvious now to almost everyone that there is going to be a major overhaul of energy supply and usage patterns before we see cheap and reliable energy supplies again. Certainly, it seems unlikely that sustained low prices for oil will reappear any time soon. So everywhere more attention is being given to cutting energy bills.

One of the best, and easiest, ways of cutting energy bills is to use less of it. Wellington motors are very helpful in saving energy, because we use electricity more efficiently than most other types.

So energy efficiency is a factor in all of the products we offer, and recently we expanded the range of products that we offer. Copies of our 2005 catalogue are here today, and you can see that we offer many more configurations than we did last year; around 5x as many in fact. This makes it easier for new customers to buy and use our motors. We target market segments where energy demand is high,



where regulations for energy efficiency are in place or coming, and where good data about potential energy savings is available.

For example, heating and air conditioning for buildings in Europe is an important market for us right now. That's where most of our products are sold and used today, particularly for heat recovery ventilation systems. Heat recovery systems use warm exhaust air to pre-heat fresh cold air during European winters. They also work the other way round, so that cool exhaust air can chill fresh hot air during hot European summers. Heat recovery is one of the fastest growing ventilation product categories in Europe, and also in the USA. In some European countries heat recovery ventilation is already required by regulations, and it is expected to be regulated right across the European Community eventually. When it is fully regulated, heat recovery alone will consume several million high efficiency electric motors annually. We are becoming well positioned to have a significant share of this potentially valuable market.

It is easy to understand why heat recovery is so important when you discover that 40% of all the energy consumed by the European Community ends up air-conditioning and heating buildings. That is more than for transport, including cars, trucks and trains; it's hard to believe, but it's true. Our standard range of DE and DD motors and controllers aims at heat recovery ventilation, and at the air conditioning and heating market segment in general.

I'd like also to talk briefly about refrigeration. A lot of our new activity last year was concerned with refrigeration, and most particularly, commercial refrigeration. This is another area where a large amount of energy is used. Initially we are targeting the chill cabinets used in supermarkets. We are also offering products for refrigerated vending machines.

I'd guess that all of you are familiar with chill cabinets. They are found in almost every supermarket displaying chilled and frozen produce. What's important to us is that one fan motor is needed for, roughly speaking, every metre of chilled space, and we offer our ECR range for that market.

Supermarkets are extremely cost-conscious. They work with high turnover and low margins. Large supermarket chains in the US and Europe see electricity as one of their largest business costs. Improving the efficiency of refrigeration is amongst the most significant opportunities for them to reduce costs. Because of that, several of the largest supermarket chains in the US specify efficient EC



fan motors for their new cabinet purchases. Some chains are also planning refurbishment programmes to reduce the electricity consumption of cabinets that are already in service.

This is potentially a good market for us. Most major cabinet manufacturers have our products under test and some of them have already approved them. Now we need to show that we can deliver on the scale that these customers need, and we need to successfully complete the commercial negotiations that are in progress. Then we should have a good level of business in this market segment as well.

A related market is refrigerated vending machines. There are over 3 million vending machines in service in the USA. The US Environmental Protection Agency has introduced standards for the energy efficiency of new machines, and is considering regulations that will require older machines to be upgraded. Each machine uses at least two fans, and our ECR type is suitable. This is another market segment that is interesting for us, and our products are moving through test and evaluation with some of the market leaders.

Moving even deeper into refrigeration, many of you will know that, together with Arçelik, we launched a state-of-the-art variable capacity refrigeration compressor at an exhibition in Germany last month. Variable capacity compressors are usually referred to as VCCs.

A VCC reduces electricity consumption of a domestic refrigerator by around 40%. It does this by adjusting the cooling continuously to match the exact level required to keep the refrigerator at the set temperature. It doesn't turn "on" and "off" in the way familiar fridges operate. Aside from saving energy, refrigerators with VCC are quieter and keep food in better condition as the temperature fluctuations are less. Only a small number of component suppliers worldwide have VCC parts, but new regulations mean that VCC will be used in most premium domestic refrigerators in Europe from 2006. We expect a good level of business here; our arrangement with Arçelik means that we will be selling a Wellington-branded range of state-of-the-art compressors. We will be part of an elite supplier group and customer interest is strong.

VCCs can also be used in vending machines and in some supermarket cabinets.

The point that I'm making is that all the markets we are targeting are large and have substantial upside for us if we meet customers' needs effectively. Currently we are only scratching the surface of the volumes that we could access, at existing customers alone. At the moment we are only serving a



few percent of any of our major customers' requirements for motors. Most of our current customers use hundreds of thousands of motors each year, and several use millions of motors. As an example, at the moment we are in the process of quoting our ECR motor to 8 customers whom, in aggregate, use nearly a million similar motors every year.

Although we won't win every order we quote for, I'm confident that our sales force is going to enjoy an increasing level of success with our standard product lines over the coming months.

Unlike almost all competing companies, though, standard motor and fan products aren't the only string to Wellington's bow.

Integrated products (like the VCC) are where Wellington methods have the greatest impact. By integrating our motors and controls with the overall finished product, we save cost and improve performance. This has been obvious to us for a long time, and many of you will have heard me mention this point at previous meetings. It is certainly easier for others to understand the potential benefits now that there are three good examples either in the market or near to it: these are the products from Seeley, Aweco, and Arçelik. Several others are coming.

Because of the interest levels, and the way that our methods are uniquely suited to integration in this way, we have applied a "Total Integration" branding to this service.

Our ability to integrate, thereby improving performance and saving costs, is one way that Wellington's methods give substantial benefits compared to other methods of building EC motors.

Yes – there are other ways of building EC motors, brushless motors, electronic motors or however you want to name them.

I have occasionally been told that there is no way Wellington can ever be successful, because other companies have other ways of making electronic motors. There are indeed other ways of making motors, and we do have competition.

Frankly speaking, I'm glad there is valid competition. It's even harder to be the lone company offering a product. If you're alone you have to ask (and others ask you) whether there is really any demand. But none of the competitors use methods like ours, and the significant thing about



Wellington is that we believe our methods give significant cost advantages and performance improvements compared to others.

I've also been asked on occasion: "How much longer before your patents expire?" Actually some patents dating from the early days of the Company will expire in 2007. It is a much wider subject whether patents are useful or not, and I don't want to get into that debate today. What I can tell you, though, is that Wellington's patent portfolio has been refreshed and extended so that we have strong protection on our important new methods extending past 2020. We also have several new techniques in development that we think will be patentable over the coming years, including one method that we believe has the potential to reduce production costs to levels that are commensurate with mass-market applications.

In conclusion, as far as the Company's deliveries, technical progress and marketing goes we achieved almost all the objectives we set ourselves last year. We are delivering increasing numbers of finished products to leading customers in Europe, and our major Total Integration programmes are nearing completion. Yes – achieving these results has taken longer than we expected, and the effect of that is still visible in our financial results.

However, most importantly, we have established Wellington's credibility as a supplier to the industry, particularly in Europe. Going forward this year we are working to build on that and meet customer's needs by delivering larger volumes of products and introducing Total Integration to other appliance customers. I believe we are following a path that will ultimately give our shareholders substantial returns.

Thank you.