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6 August 2009

Coote Industrial Limited (CXG) Announcement

Market Update

FINANCIAL UPDATE

Coote Industrial Limited provides the following update to anticipated full year performance for the financial year ended 30 June 2009 in accordance with ASX Listing Rule 3.1 and Guideline Note 8.

REVENUES

Revenues of almost $300m are expected in FY09; down 15% when compared to FY08.

Excluding the efforts invested in Greentrains Limited rollingstock in both financial years the balance of revenues in FY09 is on par with FY08. This outcome reflects the underlying strength of the key businesses, in the context of external negative economic factors and impact of the delayed realization of Greentrains Limited receivable.

Key businesses have generally performed well where strengths in niche service capabilities supported dominant or competitive market positions. Increased competition in other market segments has impacted upon both margins and tendering success.

EBITDA

FY09 performance at EBITDA level is anticipated to be considerably less than FY08, influenced by:

- Foreign exchange losses in the first half due to the sharp reduction in the Australian dollar against the US; offset only marginally in the second half after implementing an effective strategy to reduce exposure;
- Additional costs incurred as a result of a 22% reduction in staff numbers; primarily as a consequence of business restructuring and model simplification. Non-core operations including commercial equipment manufacture and hire were also wound up.
- Relocation costs associated with business restructuring, with subsequent cost benefits to be realised in FY10 and beyond.
- Locomotive assets previously sold to Greentrains, returned to Gemco Rail to assist with settlement of the balance of Greentrains Limited receivable

NPAT

FY09 NPAT was heavily influenced by funding costs which were driven by delays in realising the Greentrains receivable. During FY09 the business operated on a debt/equity ratio of 110% which has since been reduced to 85%.

Gearing is expected to be reduced to less than 50% upon settlement of the second, smaller sale of rollingstock to Greentrains Limited and the anticipated sale of South Spur Logistics. These two key short term strategic elements are also expected to add additional working capital to key businesses.

The South Spur Logistics sale process has attracted strong interest, supported by sound market positioning strategy. Sale of the logistics business avoids concerns of competing with major customers of Coote Industrial Limited's remaining key businesses, who provide them with engineering technical based sales and services.

Sale of the second tranche of rollingstock to Greentrains Limited has attracted much stronger investor interest after settlement of the first transaction and subsequent strengthening and clarification of Greentrains Limited's business model.

Management accounts currently reflect a small FY09 NPAT, however the Board is taking a conservative approach to FY09 reporting and this is expected to have some impact upon the final FY09 results.

Further consideration is being given to:

- Provisioning for further planned redundancies at commencement of FY10, and
- Additional impairment of intangibles should the current review show indications of impairment.

Managing Director Michael Coote indicated "While FY09 performance was disappointing, progress with Greentrains Limited now provides management opportunity to focus on business. This coupled with continuing integration and simplification of the Coote Industrial Limited business model is expected to deliver a considerably more positive result in FY10.

The Coote Industrial business model is comprised of five (5) key businesses:

GEMCORAIL	**Rollingstock maintenance and manufacturing**
Drivetrain Power and Propulsion	**Power and propulsion**
Momentum	**People – technical and contract services**
CONVAIR	**Pneumatic tanker design and manufacture**
Industrial powertrain	**Heavy equipment maintenance**

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