Engenco

ASX ANNOUNCEMENT

29 November 2010

Managing Director's Address to Shareholders

Annual General Meeting – 25 November 2010

I wish to reiterate the warm welcome extended to all of you by our Chairman at what is now a gathering of the shareholders of Engenco Limited!

With the resolution to change the company's name now formally approved, we would like to take this opportunity to unveil the "look" of the new name to you all.

You may notice there are no new fancy logos and that the name is represented in quite a simple way. This was intentional.

Engenco may be the new investment market facing name of your company however the customer facing brand equity very much resides in the operational businesses and names such as Drivetrain, Gemco, Convair, Momentum and CERT.

Of course a new name of itself is no guarantee of success and at one level it might simply be regarded as a purely cosmetic exercise. We believe the new name is more than that and as Dale has already mentioned, it is an important symbol of the positive changes underway within the group.

These changes may take some time to work their way through the group and into the company's financial performance but we will get there.

The "severe" working capital constraints under which the company operated for most of FY2010 has been well publicised although we are not sure whether the true extent of this has necessarily been well appreciated or understood as the company sought to put up a brave front.

However since joining your Board in July of this year, it has been quite apparent that the $42.6 million capital raising undertaken around that time was absolutely essential for the very survival of the company.

The ability of the company to properly function and go about its business in a normal and customary manner was impacted to the point where it had become a vicious cycle with underperformance leading to further constraints on working capital and those constraints in turn leading to further underperformance. It was a closed loop that had to be broken with the capital raising providing much needed relief.

Having said that, recovery for any business which has suffered in this way is not instant and the ticking over from 30 June to 1 July did not magically herald a new dawn as much as we would have liked for this to have been the case.

After a slow first quarter in FY11, we are now encouragingly starting to see the signs of recovery within our core businesses.

The budget set for this financial year will, if achieved, see a major turnaround in the business compared with the underlying performance in FY10. We do not currently intend to provide a forecast of the likely result for FY11 however business activity and revenues are continuing to grow as the year moves along.

A key focus for us at the moment is revenue growth. While management of costs is certainly important and never to be ignored, costs can be managed down to virtually nothing by doing nothing which then does nothing for the future performance and value of your company.

Today Engenco employs around 1000 people operating from over 40 locations in 6 countries. This is a fair "fly wheel" that is spinning and which needs to be fed.

However in saying that, we have also been reviewing our "footprint" and looking for opportunities to reduce costs by more efficient and coordinated resource sharing between the various businesses within the group.

For example, a number of smaller operations previously occupying separate facilities have or are planning to relocate to Gemco's flagship site at Forestfield. Other surplus facilities are in the process of being vacated and operations relocated elsewhere or closed depending upon what makes the best commercial sense.

Much has been said about the migration and integration of the group's management information systems onto SAP in past years however the process of doing so was suspended during FY10 when discretionary expenditure was being curtailed.

The requirement for accurate and timely financial and other management information is essential in any business but this takes on an additional dimension in a business such as Engenco which is reasonably complex for its size given the geographical, jurisdictional and operational diversity of its business.

Your Board considers the completion of the SAP roll-out to be an essential task and accordingly the process has been restarted. This will be undertaken in a staged approach with the remaining key parts of the business not currently using SAP progressively going live over the next few months.

The group's previous foray into the United States on the back of acquiring the Hyradix, CTS and Eden Cryogenics businesses has been a costly exercise with these operations gradually being wound down. The group's renewed US focus is now centred on the HS Turbocharger business which does offer considerable potential particularly the opportunity for retrofitting this technology onto existing large diesel engines.

As Dale has mentioned your Board and senior managers recently commenced a group strategic review. One of the most important and exciting outcomes of that process to date has been the unanimous adoption of a group business platform development process.

As part of this process, teams are currently being assembled which will comprise of members from across the various business units. These teams will focus on developing and implementing action plans which ultimately support the achievement of the strategic goals which will enable the group's new vision to become a reality.

Importantly, the outcomes will in each instance be applied consistently across the group which over time will help to facilitate a number of positive outcomes including cost savings and efficiencies, along with better risk and compliance management through the application of consistent processes and practices.

The resilience of our employees in very trying circumstances over the last year or so has already been acknowledged. The support and loyalty of our customers is deserving of similar recognition and thanks.

Having said that, there have been various relationships which have suffered and that must be rebuilt. One of our key strategic goals is to rebuild organisational brand equity and one of the keys towards achieving this is simple. It begins with a commitment to "doing what we say we will do". Engenco including the Board, will ultimately be judged by what we do and not what we say.

Another key stakeholder in our business is our primary financier, the Commonwealth Bank. We have very much appreciated their patience under sometimes trying circumstances. Like our shareholders, they are also looking forward to improved performance in the business and we now share a good and open dialogue with the CBA.

Without wishing to pre-empt the half year result, after a slower than expected start to FY11, we are pleased to state that the company has returned to profitability which we will continue to build upon.

Drivetrain is experiencing strong demand in its key segments and is tracking positively towards achieving its budget for FY11 excluding the costs of winding down the Hyradix, CTS and Eden Cryogenics businesses. While a high portion of Drivetrain's sales are short cycle trading, their order book and quotations are also at their highest level since the integration of a number of businesses under the Drivetrain banner which is a positive forward indicator.

Industrial Powertrain's YTD performance is well below expectations although this is anticipated to gradually improve over time as this business is integrated into Drivetrain.

Gemco probably suffered more than most from the working capital constraints during FY10 and the first quarter of FY11 was also impeded by the requirement to complete locomotives sold to POTA in connection with the South Spur Rail Services transaction for which the revenue had already been taken up on completion of the sale in June of this year.

While Gemco's YTD revenue is behind budget, the overall recovery continues to build with October revenue exceeding $7 million, slightly ahead of budget.

CERT and Momentum, relatively small but strategically important parts of the group, are both performing well on a YTD basis with both revenue and earnings ahead of their respective budgets.

The balance of the Coote Logistics business not sold to POTA has performed poorly with this exacerbated by the loss of some key customer contracts. The business now forms a relatively small component of the overall group, and we are currently considering a number of strategies to address this underperformance.

Convair's order book continues to grow strongly with the business expected to show significant improvement on the FY10 result.

Finally, the "elephant in the room", namely Greentrains, which we appreciate is of particular interest to shareholders. In our opinion, the demand for reliable leased rollingstock in Australia will continue to grow along with the forecast growth in the overall domestic rail freight task.

The rollingstock leasing market is not as developed here as in some overseas locations such as the United States but this will change as demand increases and the market deepens.

We will continue to work on improving the mix and quality of the Greentrains fleet however Greentrains today is already a materially different business to that of only a few months ago. Two key aspects in particular are worth highlighting which demonstrate this.

First of all, only a few months ago, most of Greentrains' revenue was derived from South Spur Rail Services. From a shareholder and financier's perspective, it was a closed revenue loop which meant that essentially Coote (now Engenco) was both lessor and lessee.

Secondly, the Greentrains balance sheet was recalibrated at 30 June 2010 with a $10.6 million write down against the carrying values of its rollingstock assets.

The positive effect of these factors should not in our opinion be underestimated. We have already attracted unsolicited interest from capital providers from both a debt and equity perspective and we will continue to investigate these opportunities in seeking to develop a solution which will ultimately benefit both Engenco and Greentrains. At an appropriate time, we will be able to articulate our strategy in further detail.

Your company is now in far better condition than even a few months ago with business performance continuing to gradually improve. However we recognise there is still much work yet to be done to sort through some of the legacy issues of the past and realise many of the opportunities before us.

We wish to thank our shareholders for their continued support and the faith they have placed in the Board and management as the custodians of their investment and again reassure them of our commitment to the task at hand.

Thank you.

Vince De Santis
Managing Director

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