

9 November 2009

Coote Industrial Limited (CXG) Announcement

Market Update

Coote Industrial has enjoyed a solid start to the financial year, experiencing strong demand for core maintenance and contract works. Activity improved month on month in the first quarter, with August revenues higher by 19.7% over July, and September revenues 9.9% higher over August.

First quarter revenues are within 3% of budget at \$66m; comparable to the same period last year, despite the very different economic environment in which the two results were generated. Profit was lower than forecast, however the result includes a number of one-off restructuring costs which are expected to produce significant long-term benefits.

Current activity levels are expected to continue to improve in the second quarter, with key businesses reporting healthy forward orders and contracted works of \$162m in hand (up 21% since the end of August), and current tender submissions exceeding \$215m (up 38% since the end of August).

The result is particularly satisfying given some liquidity constraints continue to impact upon work in progress and inventory levels. Liquidity is expected to remain tight until completion of two key transactions which were identified in our 2009 Annual Report. A progress report on these transactions is provided as follows:

Settlement of 2nd Tranche Rollingstock sale to Greentrains Limited

Greentrains Limited recently released an Information Memorandum to selected interested parties, a number of which continue to work through the information from both debt and equity perspectives. Current shareholders in Greentrains are Coote Investments (61.07%), Elphinstone Holdings (19.80%), Orange Grove Brickworks (16.53%) and others (2.60%). Coote Investments and Elphinstone Holdings have entered into a Put Option deed under which, if exercised by Elphinstone between January and July 2010, Coote Investments will be required to purchase the shares.

A second tranche ('T2') of locomotives supplied to Greentrains and subsequently leased to South Spur Logistics will fulfil that company's immediate rollingstock fleet requirements, and will result in full utilisation of the Greentrains fleet over the medium to long-term period.

Proceeds from settlement of T2 will be utilised to reduce debt in Coote Industrial by a further \$25m, with the balance to working capital. Settlement of the T2 transaction is anticipated in early 2010.

Divestment of South Spur Logistics

As announced previously, BurnVair Corporate Finance Ltd has been appointed to undertake the sale of South Spur Logistics. This business no longer fits within Coote Industrial's strategy of developing a substantial technical based sales and service enterprise and also risks competing with Coote Industrial's major customers.

Two parties are currently undertaking detailed due diligence after providing indicative offers in acquiring the entities of South Spur Logistics.

Anticipated timing of the South Spur Logistics asset sale is for late 2009 / early 2010. Proceeds from the sale will be used for further debt reduction.



About Coote Industrial

Coote Industrial is a unique Australian company providing broad-based technical services to customers who rely upon heavy / complex plant and machinery or specialised rolling-stock to meet their power, propulsion and infrastructure needs.

The company is comprised of five key businesses:

- **Convair** – bulk storage and transportation tankers for specialised road and rail rollingstock
- **Drivetrain Power and Propulsion** – power and propulsion systems and ancillary equipment for marine, rail, road, off-highway and stationary power applications
- **Gemco Rail** – railroad rollingstock (locomotives, wagons, hi-rail) design, manufacture and servicing for freight-rail and mine-rail operators
- **Industrial Powertrain** – powertrain and drive-line servicing for heavy engines and mobile plant utilised in marine, rail and mining applications
- **Total Momentum** – below-rail infrastructure construction and maintenance, recruitment, training and workforce solutions

Each of these discrete technical services companies possesses distinctive core competencies which address specific industry demand. Collectively they form a compelling technical capability with application across industry sectors including aerospace, agriculture, construction, defence, maritime, rail, resources and power generation.

Coote Industrial operates from 54 locations in 6 countries and employs over 900 personnel.

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