Engenco

ASX ANNOUNCEMENT

10 June 2011

Market Update

- **Operational turnaround well underway**
- **Engenco returns to profitability**
- **Legacy challenges being addressed**
- **Outlook for company and industry segments positive**

Engenco Limited (ASX: EGN) is pleased to provide this market update on key initiatives undertaken and progress made by the Company in the second half of FY2011.

Engenco Corporate

Corporate office relocation and restructure

The recently announced relocation of the corporate office to Melbourne is on track to be completed this month. While there have been some unbudgeted costs associated with the relocation and restructure including staff redundancies, the move represents a positive development with the Company already benefitting from the depth of the employee talent in the Melbourne market. The establishment of the Melbourne corporate office has realised a reduction in headcount and helped to restructure the skillset profile to a more appropriate level.

SAP

The staged rollout of SAP throughout the Group is progressing to plan. Drivetrain's Australian, New Zealand and Asian operations are scheduled to go live in a few weeks for the start of FY2012. The first stage of the SAP implementation at Gemco Rail has already occurred with SAP payroll being successfully implemented in April, thus completing the SAP human resources rollout to the entire Group in Australia.

Business Planning, Consolidation and Group reporting has been migrated onto SAP and the FY2012 budget is currently being finalised using this tool. This will allow for more accurate and timely Group budgeting, forecasting and management reporting.

In further levering the advantages of the already established SAP platform, a project to integrate and manage the Group's global engineering intellectual property using Document Management is underway.

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$85.2m capital raising

This was successfully completed earlier this calendar year with shareholder approval of the conditional placement received in March. The conditional placement was very well supported with applications significantly exceeding available shares. The capital raising has led to a major restructure of the company's share register with many institutional shareholders joining the register. Further, Receivers were appointed to the holding of a former major Company shareholder (Ganesha Nominees) which has seen that significant holding sold through the market.

CBA facility extension

Further to the Company's ASX release on 2 May 2011, Engenco is working with the Commonwealth Bank to meet the conditions precedent to finalise the renewal of its main banking facilities for two years. As previously announced, Engenco has already accepted the terms of the Commonwealth Bank's refinancing offer and has been finalising the conditions precedent for the facility which is expected within the next few weeks.

Disposal of loss making operations

As a result of the sale of loss making business Eden Cryogenics LLC in February which followed the sale of Coote Logistics in the prior month, all remaining key business units are, on an EBIT basis, expected to be profitable in FY2011.[1]

Financial Performance and Outlook

Following a review of the year to date and expected performance for FY2011, the Company now expects net profit after tax for the year to be in the range of $3.0m to $5.0m with a mid-point of $4.0m.

The key reasons for the guidance revision include a combination of lower than expected revenues in certain business segments and delays in the delivery of goods for which firm orders have been received due to supply chain disruptions. In regard to the latter, the deferred revenues are simply a matter of timing and will largely be reflected in the first quarter of FY2012. Significantly, Engenco has continued its return to profitability in the second half of FY2011 which is an important trend factor in the ongoing turnaround of the Company.

Engenco remains very confident of its future opportunities and prospects and looks forward to significantly improved performance in FY2012 following on from the current year which has seen a number of positive actions undertaken as part of the Company's continuing strategy to recalibrate, refocus and repower its business.

[1] This excludes the remainder of the Company's road transportation business which is in the final stages of being rationalised. Ongoing losses from this operation are not material.

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Strategic Business Unit Update

Drivetrain Power & Propulsion

The full year result for Drivetrain is heavily influenced by firm customer orders for powertrain components and diesel engine parts scheduled for delivery in late FY2011. Not all deliveries will occur in FY2011 as a result of aforementioned supply chain challenges. This is a timing issue and deliveries not made in FY2011 will fall into FY2012.

There is minor downside risk to the FY2011 guidance due to short cycle sales falling short of expectations during the first months of calendar year 2011.There also remains some technical production risk in the delivery of high value product for mining and defence. However these events are not expected to endure into FY2012. Notwithstanding these factors Drivetrain's gross profit margins are generally in line with expectations and the business is expected to generate FY2011 profit performance close to guidance.

The FY2012 outlook is buoyant and Drivetrain is experiencing strong demand in its major segments. Good progress has been made in the development of key strategic partnerships which are expected to drive enduring value in the mobile powertrain, power and compression and submarine propulsion business streams.

The *HS Turbocharger* opportunity remains a key growth prospect especially in retro-fitting for the locomotive, power generation and inland marine-freight segments, where fuel and emissions efficiency have a particularly strong focus.

The *Gastrain Power and Compression* brand and team has been launched and formed to pursue opportunities in the gas fuelled power and gas compression market segments. Gas power and compression maintenance and repair business has grown rapidly and is expected to contribute strongly in coming years.

Gemco Rail

FY2011 is expected to be a major turnaround compared to FY2010 however while gross margins are tracking in line with the previous guidance, full year EBIT will be well below principally due to wagon fabrication revenue falling short of expectations.

All 194 rail wagons for the IMX Resources iron ore operation are on track for delivery in FY2011 or early July at the latest with in excess of 120 wagons already delivered and in operation.

Rollingstock maintenance activity has been steadily improving in FY2011 and will contribute in line with expectations.

The wagon fabrication order pipeline is a challenge in the short term but new opportunities are maturing with Gemco shortlisted for a number of tenders for fabrication and refurbishment projects.

Gemco continues to work to optimise operational efficiency and reduce costs. A large number of Gemco staff are undertaking lean manufacturing training. This and other initiatives to improve operational efficiency will continue to be a focus of the business. Safety performance has been outstanding with no LTI's reported in Western Australia for more than 12 months.

Some unfavourable legacy contracts remain which continue to have an impact on performance but this is being mitigated by implementation of pro-active contract management.

Notwithstanding the significantly improved performance in FY2011 compared with FY2010, further improvement in financial outcomes is critical to the overall Group financial performance given Gemco's share of revenue and assets relative to the rest of the Engenco Group. Senior management continue to take steps to overcome the challenges and remain confident of the business realising its potential in the rail industry.

Momentum

Revenue and EBIT for FY2011 is set to significantly exceed the previous year's result. Ongoing strong adherence to management of costs has meant that while revenue for FY2011 is likely to fall short of the previous guidance, full year EBIT in line with guidance is still achievable.

Earlier this year, for the first time in its history, Momentum recorded a positive EBIT result for the traditionally slow January period – an example of much improved planning and cost management practices.

Looking to the future, Momentum is working on technology driven customer solutions in the rail infrastructure and asset management segments. Engenco expects to report the progress of these initiatives in the first half of FY2012.

Centre for Excellence in Rail Training (CERT)

CERT, Engenco's Registered Training Organisation, is performing well on the east coast although the loss of some training staff in the competitive Western Australian market has had a material impact given the relatively small size of the business. This along with the cessation and reduction in scope of some training projects and the diversion of training staff resources into the development of new course curriculum mean that FY2011 EBIT is likely to fall short of the previous guidance.

New exclusive contracts to provide regulatory training nationally to three leading rail infrastructure businesses have been recently finalised. These together with growing opportunities in the mining industry in the North West of Australia are expected to boost the FY2012 performance.

CERT remains a relatively small but strategically important part of the Company's overall operations and its integrated rail industry capability. Management is confident that initiatives including new curriculum development and expansion of the business into Victoria will enhance CERT's growth and development as a specialised training provider.

Greentrains

Greentrains is currently working on debt and equity solutions as part of the previously stated strategy to grow the leasing fleet to a meaningful scale. Encouraging interest has been received in rollingstock as an alternative asset investment class by both equity and debt capital providers.

FY2011 EBIT performance will be affected by unanticipated locomotive overhauls required during the second half of FY2011 and delayed commencement in the receipt of IMX wagon leasing revenues.

The strategy is still to dilute and deconsolidate Engenco's interest in Greentrains, increase fleet size and improve overall asset quality, and capture the resultant growing rollingstock maintenance business.

Industry demand for leased locomotive power remains strong with Greentrains enjoying high utilisation rates.

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Convair

The current order book and ongoing prospects remain strong with local production capacity increased from three to four tankers per month.

Revenue and EBIT for FY2011 will be impacted by the delayed arrival of some imported tanks. This will be a timing issue only and not a permanent loss of sales.

The FY2011 result is not expected to materially differ from previous guidance.

Conclusion

The Company retains a positive outlook for FY2012 and while still working to resolve some remaining legacy issues at Gemco, it remains confident in the underlying businesses and the industry and market sectors in which they operate.

The task of rebuilding the business and converting great potential into outcomes in the medium term continues with the Company making good progress.

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