Engenco

ASX ANNOUNCEMENT

9 November 2011

2011 AGM Managing Director Address

Engenco Limited (ASX:EGN) (**Company**) attaches a copy of the Managing Director's address at the 2011 Annual General Meeting for the Company held on 9 November 2011.

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Engenco Limited

Annual General Meeting – 9 November 2011

Address to Shareholders by Vince De Santis, Managing Director

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Thanks Dale. I'd like to reiterate the warm welcome extended to all of you by our Chairman.

The 2010 AGM began as a meeting of the shareholders of Coote Industrial and following a name change resolution passed at that meeting, ended as a meeting of Engenco Limited.

It has not quite been a full year since that meeting but a lot has certainly happened during the interim some of which Dale touched upon in his address.

We have lots more to do but we have indeed made very good progress over the past year and the Company is certainly far better positioned to take the next steps in its 3 – 5 year turnaround plan.

We have had our challenges and continue to deal with some of the "legacies" of the past but importantly, no new ones are being created and for quite some time, we have definitely been spending much more of our efforts focusing on future opportunities rather than fixing the past.

We have recently undertaken a series of investor presentations and some of the slides you are seeing here today are taken from the last presentation which was posted on the ASX announcements platform a few weeks ago.

So what did we achieve in the 2011 financial year, where are we now and what do we believe things will look like for Engenco going forward?

Let's start with the past year.

As Dale mentioned in his address, the Company returned to profitability. The level of profit for the equity now employed in the business is certainly not something we are satisfied with and we expect to make further material gains in the current year. These gains will be weighted towards the second half of the year as a result of a number of factors including the slower than expected start to the year in some parts of the business due to project delays, bringing new additional capacity on line in the first quarter of the 2012 calendar year and certain orders and other opportunities which are not forecast to crystallize until 2012.

Dale also mentioned the streamlining of the organizational structure and the work done to increase efficiencies across the group. During the year we disposed of non-core business operations Claw Environmental, FCD Logistics Pty Ltd and Eden Cryogenics LLC. All of these operations had been unprofitable and there was no future for any of them in the Company's business strategy. We also completed the delivery of locomotives which were part of the completion obligations which arose from the disposal of South Spur Rail Services Pty Ltd in 2010.

In addition, the remnants of the unprofitable road logistics business have been gradually wound back to where these operations have now almost been closed save for the resolution of certain property lease obligations and the disposal of miscellaneous plant.

The operations of Industrial Powertrain were melded into the Drivetrain Power & Propulsion business and the rail businesses now have a single share services function.

In summary, our focus is now very much back on our core capabilities and strengths.

At a corporate level, the $85.2 million capital raising announced and completed in the first quarter of this calendar year was a major milestone. This combined with the extension of the group's primary banking facilities with the CBA for a further 2 years until July 2013, have given the Company a solid foundation from which to grow and prosper.

The relocation of the corporate office from Perth to Melbourne was another important event. We are very confident this move will prove to be the right one as we build a corporate function and capability of the same high standards as those to which our operating businesses also aspire.

In 2010, we announced the decision to recommence the rollout of SAP throughout the group with the objective that in time and for the first time, all of the group will operate from the same ERP platform. As Dale has already mentioned, we plan to have the entire group on the SAP platform by the end of this financial year.

This is expected to have a number of benefits including more efficient business processes, better accountability and more timely and accurate information from which to manage the business.

During the year we launched our new group safety brand "Make Safe". This concept was the product of our first Group Platform Development Team formed to deal with occupational health and safety on a group wide basis. These platform teams are made up of employees selected from across the group's businesses whose charter is to collaboratively develop group policies, processes and approaches on a range of subjects designed to be enduring, efficient, compliant, consistent and importantly, effective.

We have not made progress at the rate originally planned when this first team was formed earlier this year however the OH&S team was the pilot project for the platform team concept and the experiences gained will enable us to accelerate the rate of progress as we progressively "launch' new teams in other areas.

The Rail and Road segment produced a much improved result during 2011.

Gemco Rail's segment revenues grew more than 40% from $36.2 million to $51.4 million. It is worth noting that the 2011 revenues did not include any revenue from the manufacture of 194 rail wagons for IMX Resources. The profit on these wagons is also as yet unrealised. These wagons currently remain on Gemco's balance sheet earning rental and maintenance revenues under separate lease and maintenance agreements for initial terms of 5 years each. Had the revenues and corresponding profit been realised, the Gemco result would have been significantly better.

Gemco's flagship Forrestfield facility is currently operating near capacity although the delayed commencement of some new projects has had an impact on Gemco's first quarter performance compared to a revenue and earnings budget set at a materially higher level than the 2011 result.

The capacity of the Forrestfield wheel shop will be increased in the first quarter of the 2012 calendar year with a new wheel lathe currently being installed. This new lathe combined with associated improvements to the wheel shop workflow will increase capacity from approximately 12,000 to 18,000 wheel sets per annum. A second production line in the bearing shop is also being planned.

The level of enquiries and tenders in which Gemco is bidding for additional work has progressively grown especially in recent times although the current market volatility appears to have resulted in a degree of nervousness in awarding new work.

Parts of Gemco's east coast operations have had a slower than expected start to the year but this is expected to improve. One of Gemco's main challenges continues to be the management of certain legacy rollingstock maintenance contracts which were struck on less than optimal rates and terms. These contracts are being actively managed and in time their effects will become less pronounced as better terms are negotiated on new work. However they have been one of the biggest negative factors impacting on Gemco's performance during the year to date.

Momentum has also experienced a disappointing start to the current financial year with first quarter revenues considerably under budget with a flow on effect on EBIT performance. The main causes have been the earlier than expected completion of certain projects and the delayed commencement of others. The infrastructure business has also suffered from staff losses similar to that experienced by CERT in late 2011. While the business remains hopeful of recovering some of the lost ground, this is expected to be a slow process over the remainder of the year.

On a positive note, Momentum is actively developing other opportunities in rail infrastructure maintenance employing new technologies which should over time provide it with a more sustainable revenue stream which is less reliant on the vagaries of very competitive project work and their often uncertain timing. We expect to provide a further announcement on these initiatives in the near future.

Since suffering a setback in the second half of 2011 with the loss of training staff in Western Australia, CERT has recovered strongly and is seeing the benefit of the investment made in new training materials during the latter stages of 2011. Revenues in the first quarter were well in excess of budget with September's revenue being the highest the business has ever recorded. Despite these higher revenues, EBIT was roughly in line with budget due to the ongoing cost pressures associated with sourcing suitability qualified trainers.

Greentrains has commenced the year steadily with first quarter revenues and EBIT slightly ahead of budget. There is a solid level of enquiry and demand for leased rollingstock although in the case of locomotives, this varies depending on the horsepower and rail gage requirements of customers. Utilisation rates are healthy at around 90%.

Engenco remains committed to its strategy of deconsolidating Greentrains via the investment of new equity by third parties. As part of this process, it is intended that Engenco will make a final equity investment of its own into Greentrains via the in kind contribution of the IMX wagon fleet currently owned by Gemco. The recapitalisation of Greentrains is another important milestone in which we are currently directing additional effort and resources with the objective of achieving a positive result during the current financial year.

During 2011, Convair produced an excellent result with much higher revenues leading to EBIT increasing from under $800K to just over $2 million. Revenue growth in 2012 is expected to be more modest however with continued efficiencies from lean manufacturing gains and margin improvements from increased sales of spares and ancillary items, the current year's result is expected to be materially better than the great result achieved in 2011.

Revenues and EBIT during the first quarter of the current year are slightly behind budget primarily due to delays in the manufacture and shipping of some imported tankers from China. These are expected to be recovered in the second quarter and while the order book remains solid until early into the next calendar year, the level of enquiries for tankers has softened in recent times. In the absence of any change in sentiment, this may have an impact on capital sales towards the end of the financial year.

In 2011 Drivetrain Power & Propulsion produced an outstanding result with earnings more than doubling from 2010. This was despite the negative impact caused by the loss making Eden Cryogenics operation which was sold in February of this year.

Positive progress was also made in the establishment of a sales and service presence and capability in North and South America to develop some great opportunities in those regions for turbocharger sales and support particularly in the retrofitting of HS turbochargers on locomotive engines. A small team was also established to pursue gas power and compression opportunities in Australasia with the launch of the *Gastrain Power & Compression* business stream.

The mobile powertrain stream benefitted from strong demand in the mining sector in both parts sales and maintenance, repair and overhaul work. Sales of Hedemora diesel engine parts to defence customers also had a strong positive impact on Drivetrain's result.

During the first quarter of this year, sales and EBIT are slightly behind budget with the lower than expected performance of the mobile powertrain business offset by stronger than anticipated revenues from diesel engine maintenance and turbocharger sales. It should be noted that a significant proportion of Drivetrain's revenues and earnings have been budgeted for the second half of the year due to the anticipated timing of some projects and expected new business.

In 2012, some of the key areas of opportunity for Drivetrain are levering off the Asian footprint already established to service OEM distribution agreements in the region and ongoing HS turbocharger and Gastrain business development.

Engenco ended the 2011 financial year in far better shape than from where it began. We largely achieved what we said we would do and although the first quarter of the current year has produced mixed results among our business units, we remain confident of achieving in 2012 another material improvement on the performance of 2011.

However while the Company is in a turnaround and growth phase where further substantial improvement should be expected, it is also worth remembering that we are not immune from the current volatile markets and the effects that any such volatility and its consequent impact on business confidence has on the purchasing decisions of our customers.

Our overseas suppliers are also facing their own challenges which may have consequential effects on some of our supply chains.

As already mentioned, a considerable portion of our revenues and earnings performance is weighted towards the second half of the financial year.

In addition, given Engenco's relative size, any delays in the timing of lumpy project revenues can and do have an amplified effect on earnings.

Having said this, our relatively low revenue base also creates a great opportunity from which to achieve higher growth rates in both revenues and earnings as and when new work is secured.

During this year, capital expenditure is budgeted to exceed depreciation and amortisation expense with a combination of sustainment and growth projects.

We will continue to pursue a number of very promising opportunities which are all built around our core capabilities and expertise. These include:

- expanding capacity in existing locations as well as establishing new strategic presences especially to meet expected growth in the demand for rail maintenance services and to support our turbocharger sales and support development strategies;
- continuing to develop the proprietary intellectual property we have in the HS Turbo product. We own a world class product for which there are enormous opportunities; and
- targeting opportunities in the growing gas power and compression sector levering off the skills we already have in large diesel and gas engine maintenance, repair and overhaul.

While doing this, we will continue with the initiatives already commenced where our businesses can obtain the efficiencies and synergies from being part of a larger group of companies.

Of course none of these things are possible without the right people and I would like to take the opportunity to thank all of our employees and our management teams for their hard work, passion and commitment. Some of our key personnel are with us here today and during refreshments after the meeting, I would encourage you to introduce yourself and get to know some of the team who each day are doing what we say and are “turning great potential into great outcomes”.

Finally, I would also like to reiterate the thanks extended by Dale to our customers, suppliers and financiers and most importantly our shareholders, for their valued ongoing support of our organisation.

I will now hand back to Dale. Thank you.

Vince De Santis

Managing Director