

ASX ANNOUNCEMENT

28 August 2015

Engenco reports FY2015 results

- Improved underlying trading result, in the face of a challenging economic environment
- Reduction in net debt to \$15.9 million (FY2014: \$18.7 million)

Engenco Limited (ASX:EGN) (**Engenco** or **Company**), the specialist industrial engineering services group, today announced a reduced underlying after-tax loss of \$5.2 million (FY2014: \$6.4 million) for the year ended 30 June 2015. Following significant, one-off costs totalling \$27.5 million (including a \$24.4 million impairment of property, plant and equipment), the Company's statutory loss was \$32.7 million (FY2014: \$11.5 million). Revenue was \$133.8 million (FY2014: \$140.3 million).

| Results summary for the year ended | June 2015 \$000 | June 2014 \$000 |
|--|--------------------|--------------------|
| Revenue | 133,834 | 140,273 |
| EBITDA ² | (20,668) | 1,692 |
| EBITDA excluding significant items | 6,804 | 7,334 |
| EBIT ¹ | (30,128) | (8,836) |
| EBIT excluding significant items | (2,656) | (3,194) |
| Profit / (loss) after tax for the period | (32,670) | (11,503) |
| Underlying trading result ³ | (5,198) | (6,428) |
| Net operating cash flow | 4,567 | 5,733 |
| Net assets | 44,869 | 77,427 |
| Net debt | 15,852 | 18,651 |

¹ EBIT is earnings before finance costs and income tax expense.

² EBITDA is EBIT before depreciation and amortisation.

³ Underlying trading result is net loss after tax excluding significant items. Refer below for an analysis of significant items.

Note - EBIT, EBITDA and underlying trading result are non-IFRS financial measures, which have not been subject to review or audit by the Group's external auditors. These measures are presented to assist understanding of the underlying performance of the Group.

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Kevin Pallas, Engenco's Managing Director and CEO, said:

"We are pleased to report another improvement in our underlying performance for the year despite a challenging economic environment – particularly in the rail and resource markets.

"Through the repositioning of the group over the past 18 months, our continued focus on strengthening relationships with customers, and ensuring that we consistently provide high quality products and services, Engenco is now well positioned to meet the challenges of the current uncertain economic climate. However, one disappointing factor during the FY2015 year was the continued weakness in the rollingstock rental market. Consequently, the Board has re-assessed the carrying-values of our locomotive assets and associated spares inventory. In line with the rest of the industry experiencing similar market downturn, we have taken the step to make necessary impairments. This non-cash accounting adjustment had a significant impact on the group's reported EBITDA.

"The key areas of our business are now experiencing relatively stable levels of activity. We continue to tender for a number of significant prospects with reasonable expectations of success. Therefore, we are confident of further results improvements in the new financial year."

Review of operations

The group's consolidated revenue declined marginally, driven mainly by the loss of revenue in rollingstock leasing. The market for repair and maintenance-related products and services was very competitive but volumes remained stable, albeit at lower levels compared with previous periods. Sales of capital items improved, predominantly in Convair and Drivetrain, but remained depressed in the Rail segment.

Demand for rail workforce personnel was again under pressure as infrastructure spending remained very soft. Improved development of the locomotive driver offering did see some growth in that particular area. Rail training services grew strongly following good market development initiatives and realisation of funded training opportunities.

The improved EBITDA margin achieved in FY2014 was maintained in the current year, although on lower revenue. Net operating cash flow performance and the reduction of net debt reflected a continuing focus on overall cash generation objectives. The underlying trading result was another improvement year-on-year, but was still not satisfactory mainly as a consequence of the lower revenue.

Drivetrain Power and Propulsion supplies and services heavy mobile powertrain systems, large-frame turbochargers, and heavy diesel and gas power generation and compression equipment. Drivetrain's consolidated revenue for the year was \$50.5 million and EBITDA (excluding significant items) was \$1.7 million. Trading volumes softened marginally in line with lower demand from the resource industry, particularly in coal mining, and the virtual absence of OEM machinery builds in Australia. There was an improvement in the gas compression business, and the first large capital items were successfully delivered into a South Australian gas field. The Swedish business experienced some decline in revenue from the Hedemora diesel engine products and services as the population of these engines declines. This was balanced with some increasing business in the HS Turbocharger product area.

Gemco Rail has provided manufacturing, maintenance, refurbishment and overhaul services to the rail industry for many years. For FY2015, the business reported revenue of \$39.0 million and EBITDA (excluding significant items) of \$2.7 million. With its strategic rail network maintenance capability footprint, Gemco continues to build its position and is now recognised in Australia as a leading high-quality, independent rail maintenance business.

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While revenue has remained stable, the on-going extensive lean production disciplines practiced in the business have ensured that Gemco remains competitive in a demanding industry.

Total Momentum provides workforce solutions for the construction, maintenance and upgrading of rail track and for rail operations. For FY2015, the business reported revenue of \$17.4 million and EBITDA (excluding significant items) of \$1.3 million. At the start of FY2015, Momentum was restructured to focus on contracts aligned to more acceptable risk profiles. Since this change Momentum has been successful in the delivery of personnel services to a variety of rail projects, particularly in Western Australia. However, as anticipated at the time of the repositioning, railway operators have been conservative in their maintenance and construction expenditure which has severely impacted demand for the specialist labour hire market. Nevertheless, Momentum is now well positioned to grow when demand resumes.

Centre for Excellence in Rail Training (CERT) provides training, assessment and recertification services to the Australian rail industry. During FY2015, CERT performed well with revenue of \$8.9 million and EBITDA (excluding significant items) of \$2.8 million. During the year, CERT benefitted from the planned provision of government-funded programmes following investment in fully-compliant updated and new courses, and in relevant training and compliance technology tools meeting the increasing requirements inherent in the national regulatory framework. CERT is now positioned as the pre-eminent provider of rail training in Australia and in associated rail operational areas.

Greentrains provides a range of locomotives and wagons for lease to the Australian rail industry. In FY2015, revenue was \$6.9 million and EBITDA (excluding significant items) was \$4.3 million. The rollingstock rental market remains oversupplied due, in part, to the entry of low-cost, imported rollingstock, leading to the industry experiencing challenging trading conditions. New or extended medium- to long-term locomotive and wagon rental opportunities are very scarce as the market adjusts to lower than expected freight volumes. Consequently, Greentrains has not been successful in the anticipated forward placement of a substantial portion of its rental fleet and a number of current lease agreements expire in the near future.

As a result of these subdued market conditions, the Board has re-assessed the carrying value of Greentrains' assets and decided to make a non-cash impairment of the assets amounting to approximately \$24.4 million.

Convair designs and manufactures tankers for the transport of dry bulk products by road. Revenue for the year was \$14.7 million and EBITDA (excluding significant items) was \$1.7 million. Convair experienced an improvement in demand for road-freight dry-bulk tankers and, although price competition was very strong, the business was able to capitalise as a result of the continued programme of lean manufacturing techniques.

Balance sheet and cash flow

Net operating cash flow was \$4.6 million (FY2014: \$5.7 million). At 30 June 2015, consolidated net debt was \$15.9 million (FY2014: \$18.7 million). On 24 August 2015 the group reduced its Commonwealth Bank of Australia (CBA) debt facility from \$13 million to \$8 million. This facility expires on 31 October 2015. In addition, on 27 August 2015, the group negotiated a new funding facility with Elph Pty Ltd of \$9 million which will be available from 31 October 2015, and an extension of the Greentrains debt facility, both of which are subject to the satisfaction of certain conditions precedent including the execution of facility documentation.

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Breakdown of non-recurring significant items

| | 2015 \$000 | 2014 \$000 |
|---|---------------|---------------|
| Impairment of property, plant and equipment | 24,434 | - |
| Impairment of inventory | 2,390 | 1,792 |
| Impairment of accounts receivable | - | 465 |
| Onerous contract provision | - | 276 |
| Restructuring costs | 648 | 3,109 |
| Other significant items | - | (567) |
| Total significant items | 27,472 | 5,075 |

Outlook

The Group is now better placed to meet the challenges presented by the current uncertain economic conditions. There exists ongoing base levels of business activity for goods and services in all business units, and some significant prospects have a reasonable likelihood of proceeding. While the group will be able to provide a further update at its annual general meeting, the group's results for FY2016 are expected to continue to improve.

About Engenco Limited

Engenco (EGN) specialises in:

- Maintenance, repair and overhaul of heavy duty engines, powertrain and propulsion systems
- Maintenance, repair and overhaul of locomotives
- Manufacture and maintenance of wagons, carriages and associated rail equipment
- Project management, training and workforce provisioning services
- Manufacture and supply of road transport and storage tankers for dry bulk products
- Leasing of locomotives, wagons and other rail equipment

Engenco services a diverse client-base across the defence, resources, marine, power generation, rail, heavy industrial and infrastructure sectors.

For further information, please contact:

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