

## ASX ANNOUNCEMENT

24 November 2015

### 2015 Annual General Meeting Chairman's Address and Managing Director's Address

Engenco Limited (ASX:EGN) (**Company**) attaches a copy of the Chairman's address and the Managing Director's address for the 2015 Annual General Meeting held on 24 November 2015.

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## **Annual General Meeting – 24 November 2015**

### **Address to Shareholders by Dale Elphinstone, Chairman**

Ladies and Gentlemen

Welcome to the Engenco Limited 2015 Annual General Meeting.

While Engenco's reported result for the 2015 financial year was still not satisfactory, we were pleased that consolidated underlying financial performance continued to improve.

The reported result was influenced by a non-cash item which had a significant impact. During the year the Board determined that the Greentrains and Gemco rolling stock asset carrying values should be impaired given the rapidly deteriorating capital rental market, particularly in the rail sector.

However, the trading result for the Company showed modest improvement compared to previous periods. This trend is heartening, particularly in the face of a very challenging market and slightly lower revenue.

Workplace safety throughout the Group is of paramount importance to us and a strong focus area for improvement and vigilance. We are pleased this focus has resulted in positive trends in our safety performance indicators.

Another important objective of the Board has been placing the Company in a position where it can contest larger, high-quality contracts to deliver more durable revenue streams. Over recent years measured investments have been made to increase efficiency, capability and the capacity of our operations and this strategy is now beginning to bear fruit. We are attracting valuable additional business from blue-chip clientele, while staying focused on retaining our loyal long-standing customers.

The company has performed reasonably well from a cash perspective, generating a positive cash flow of just over \$4.5M during the year. Coupled with careful management of our working capital, the company is less reliant on external funding and is continuing to generate cash. The facility with the Commonwealth Bank of Australia is being replaced with a more flexible funding arrangement from Elph Pty Ltd. This is a further demonstration of support from one of our major shareholders.

Bringing the inherent value of the group operations to fruition has been difficult in the current economic environment. However the overall strategy of streamlining our management and operating structures, focusing on core business and delivering quality and value to our customers by running efficient and flexible businesses, remains in place. The ongoing training and development of our management and employees further underpins an improving business performance.

We would like to acknowledge the efforts of our Managing Director, Kevin Pallas and the Chief Financial Officer, Graeme Campbell and thank them for their strong and dedicated leadership over the past year.

We want to thank the management and employees for their continued determination and commitment to improve the overall performance of our business.

We would also like to acknowledge and thank our fellow Board Members for their contribution. Having a solid and stable board has had a very positive impact on the continued improvement of our business

Most importantly we thank our shareholders for their continued support and look forward to a more positive future.

Kevin Pallas, our Managing Director will provide a more detailed update at the conclusion of the Items of Business which we will now deal with.

Dale Elphinstone

Chairman

## **Annual General Meeting - 24 November 2015**

### **Address to Shareholders by Kevin Pallas, Managing Director & CEO**

Good morning Ladies and Gentlemen,

As most of you are now aware, the Engenco structure includes two segments namely Rail & Road, and Power & Propulsion. As the Chairman has mentioned, we have simplified and streamlined the operations over the last few years and this has ensured, in addition to pure cost saving, greater oversight of the Company's businesses. This has also allowed for a far more cohesive and integrated management structure. We are actively developing our management teams throughout the Company and strongly believe that our future success will be founded on the high quality of our leaders and the teams that they manage.

I would now like to detail, for the consolidated group and for each of the Company businesses, some key aspects of the 2015 annual financial report and provide an update on the current year environment.

Regarding the consolidated results for FY 2015, key points are as follows:

- Revenue declined 4.6 percent year-on-year, reflecting the very subdued market conditions being experienced generally and especially in the mining sector.
- The impairment of rollingstock assets had a significant impact on reported NPAT and reflected a stubbornly weak rental market currently being experienced in Australia.
- Operating expenses were contained as restructuring benefits began to manifest themselves.
- Cash generation and cash balance outcomes at the end of the period were good and together with reductions of the Greentrains loan this resulted in a decrease of around \$3M in net debt.
- Notwithstanding the lower revenue, the company was able to record an improved underlying trading result compared with the previous period and although still a loss, was an improvement of some 19 percent, a trend that we are working hard to accelerate.

Turning to Business Unit performance:

Our RTO business, Centre for Excellence in Rail Training (CERT) performed extremely well as plans to capture government funded training opportunities in the rail sector were realised. We have continued to expand the CERT training facility footprint, and this has generated further growth particularly in Queensland and Victoria. As demand for training services which are linked to rail regulation requirements are expected to remain robust, and given that government funded training is likely to continue, we are confident of further success for CERT in this area. Growth plans include expansion of the training scope into areas such as forklift operation and materials handling, in which CERT Training plans to offer formal courses.

Convair Engineering achieved a better revenue result year-on-year, and a stable profit result. The manufacturing facility in Epping, Victoria has a continuing programme of lean manufacturing resulting in on-going efficiency improvements which in turn have helped ensure that the business remains successful in the dry bulk tanker market. Price competition remains a challenge but demand for Convair's high quality and innovative product suite is expected to remain reasonably strong in the medium term, especially in the construction sector.

Gemco Rail's revenue declined in the year mainly due to lower equipment rental income and a lack of fabrication work. Investments made to improve the overall operation and efficiency of the Dynon locomotive maintenance facility in Melbourne resulted in much improved contributions to the sales stream from this part of the business. The flagship facility in Forrestfield, in Perth, began to benefit from the site consolidation and productivity improvement programmes implemented in recent years. Throughput in the wheel-shop was reasonable and volumes in the bogie repair section were steady. Bearing refurbishment volumes were lower than anticipated but an improving trend became evident as the year progressed. Prospects for the repairs and fabrication business in Western Australia began to improve, and volumes are expected to be more robust in FY16 following a number of tender bid successes. Demand for locomotive overhaul and repair work in Parkes remains subdued, but work volume and prospects for the upgraded Dynon, Victoria facility are encouraging. The development of key agency agreements for a variety of above and below rail parts, tools and equipment are expected to result in a greater share of rail product sales into the industry nationally. The wagon rental market remains tight but a number of prospects in hand are expected to materialise early in 2016. As was the case for most equipment hire markets in Australia, the rollingstock rental market remained severely oversupplied in FY15. Consequently there was little revenue improvement for Greentrains, and very few new opportunities were available for locomotives that were returned at the end of their lease period. We are adapting to this situation and one area of success has been our strategy to offer flexible rental arrangements for specific rollingstock types and applications, including customised work-train locomotives. Overall, prospects in the locomotive rental segment remain soft, but there are signs of slow improvement.

The rail workforce provisioning business Total Momentum's revenue performance was detrimentally affected by a soft and constrained rail infrastructure maintenance and construction market. The majority of FY15 revenues stemmed from locomotive driver and protection officer services including those relating to large mine construction projects. The restructuring programme carried out in Momentum in previous periods prepared the business for a changing market and this helped maintain a profitable outcome for the year. Difficult general market conditions are continuing but the business is expected to remain profitable, and is positioned to quickly capitalise on any improvement in the industry.

Drivetrain Power and Propulsion (Drivetrain) experienced marginally lower revenue compared to the previous financial year, mainly as a consequence of lower demand in the spares and repairs business from the mining industry, particularly coal mining. Low demand for off-highway components was experienced due to very few OEM machinery builds now being undertaken by customers in Australia. The Drivetrain gas compression equipment and servicing business improved with our first well-head gas compression packages being successfully delivered into a South Australian gas field. The Swedish business experienced a decline in revenue from Hedemora Diesel engine products and services as the population of this engine declines, whilst activity in the HS Turbocharger product area improved as the operation in Hedemora, Sweden focusses on the market development of its new generation turbochargers. The management and site consolidation restructuring activities initiated in Drivetrain in recent years have helped the business adapt to what is a much changed industrial environment, and the rationalised structure has brought cost containment and an emphasis on customer service. The re-focussed business is expected to generate improved earnings, particularly in the natural gas compression business where further successes are being realised.

We believe that the Group is now better placed to meet the challenges presented by the current uncertain economic backdrop. There currently exists ongoing base levels of demand for goods and services in all of our Business Units, and some significant prospects have a reasonable likelihood of proceeding. We continue to focus on containing our costs and to improve efficiencies, placing ourselves firmly and competitively in the marketplace, and open to new opportunities. Overall business performance in the new financial year is therefore expected to continue on an improving trajectory.

I would like to thank Ross Dunning AC for his great contribution to the company acting as Managing Director before he handed the reigns over to me at the start of the 2015 calendar year. I also thank the Chairman and my fellow directors for their ongoing support and counsel.

For all their hard work, dedication, belief and confidence in the company, I would also like to thank the Group leadership teams and staff - all of whom are so important to a successful future.

To the shareholders of the company, thank you all very much for your ongoing support.

Kevin Pallas

Managing Director & CEO