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ASX ANNOUNCEMENT

26 August 2016

Engenco Announces FY2016 Full Year Results

- $4.1 million after tax profit for the year
- Net cash generation of $11.0 million
- Net debt reduced by $10.5 million

Engenco Limited (ASX:EGN) (**Engenco** or **Company**), the specialist industrial engineering services group, today announced a consolidated Group after tax profit of $4.1 million for the year to 30 June 2016 (FY2015: loss of $32.7 million), on revenues of $133 million (FY2015: $127 million).

	2016	2015
	$000	$000
Revenue from continuing operations	**132,764**	126,968
EBITDA from continuing operations	**6,722**	129
EBIT from continuing operations	**2,636**	(4,851)
Profit / (loss) after tax from continuing operations	**2,497**	(5,947)
Profit / (loss) from discontinued operations, net of tax	**1,643**	(26,723)
Profit / (loss) after tax for the period	**4,140**	(32,670)

[1] EBIT is earnings before finance costs and income tax expense.
[2] EBITDA is EBIT before depreciation and amortisation.

Note – EBIT and EBITDA 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.

Kevin Pallas, Engenco's Managing Director and CEO, said, "*We are delighted to report a Group consolidated after tax profit of $4.1 million for the year ending 30 June 2016. Total consolidated revenue for the year improved for the overall Group as well as for its continuing operations. We were able to achieve better revenue outcomes than in recent years notwithstanding the subdued market conditions. Profit after tax from continuing operations was $2.5 million compared to a loss of $6.0 million last year. Additionally, following the sale of the majority of the Greentrains locomotive fleet, a profit of $1.6 million was recorded for what is now a discontinued operation.*"

	2016	2015
	$000	$000
Net operating cash flow	11,054	4,567
Net assets	49,094	44,869
Net debt	5,368	15,852

Mr Pallas continued, *"As a consequence of improved EBITDA margins, and a judicious capital expenditure programme coupled with close management of working capital, cash-generation exceeding $11 million was one of the highlights for the year. This enabled the Group to reduce its net debt significantly which in turn resulted in lower finance costs compared to last year."*

Review of Operations

The improvement in total revenue for Drivetrain Power and Propulsion was driven mainly by completion of gas compression projects as the Power and Compression business focussed on sales to major energy sector customers. Drivetrain's Mobile Powertrain segment performed reasonably well in an inconsistent market affected by a slump in mining equipment maintenance expenditure and the very low levels of manufacturing activity by mining equipment suppliers. Sweden-based Hedemora Turbo & Diesel benefitted from improved sales of diesel engine spares and services to defence customers but the HS Turbocharger product range is yet to reach its potential.

"Drivetrain is well positioned to provide excellent customer service and flexible and responsive offerings delivered through its comprehensive branch network, deep technical know-how and large range of genuine spare parts and consumables inventory holdings," said Mr Pallas.

Gemco Rail's performance in the year was much improved. Sales activities in all areas of the business were well focussed and the results of restructure and productivity improvements in prior periods began to manifest themselves. The quality and value of revenues and earnings was consequently enhanced. There was further site consolidation in New South Wales as the Greentrains fleet no longer required support by Gemco Rail. This also resulted in some impairment of specific locomotive inventory. During the year, the rail wagon rental market remained depressed, but some revenue from this stream started to flow as new lease contracts commenced. The Forrestfield facility, near Perth, operated close to its current capacity for a large portion of the year with a mix of work ranging from general wagon and locomotive maintenance to rollingstock upgrades and locomotive technology platform installations.

Mr Pallas said of Gemco, *"The volume of general work including wheelset, bogie and bearing refurbishment services for national rail operators and northwest miners increased at our Forrestfield facility. The Product Sales business began to win some significant supply contracts and the future looks very exciting in this regard as distribution agencies mature. In the Dynon facility, in Melbourne's West, locomotive maintenance activity increased to levels not previously enjoyed as upgrades to the facility and the development of a flexible and skilled workforce increasingly appeals to customers."*

The performance of Total Momentum in the year reflects a focus on the higher value-added end of rail skills provisioning with the hiring out of well trained and carefully screened personnel, particularly in the locomotive driver and protection officer skills areas. The provision of a flexible, high quality labour pool has proven to be an attractive model for customers, who are mainly major rail operators. Total Momentum's more streamlined operational structure led to good operating leverage resulting in improved profitability, albeit on lower revenue in the year.

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Mr Pallas commented on CERT, the Group's training business, "*CERT Training encountered some revenue generation obstacles in the year as government-funded training opportunities began to deplete. However, the business still performed well, expanding the scope of training services and establishing additional training facilities to generate new revenue streams into the future. CERT is well regarded as a high quality, responsive and cost effective training organisation.*"

Convair experienced a depressed and highly price-competitive market during the year with most customers operating on very low capital expenditure budgets. This had the effect of sales being made at very tight margins even though efficiency gains resulted in a lower manufacturing cost per tanker produced. A focus on the provision of maintenance services and spare parts supply helped to boost revenue and margin but the slump in overall demand led to an unsatisfactory profit result for Convair. Demand for tankers, components, spares and maintenance services is expected to remain mixed, although a reasonable order book is currently in hand.

Commenting on the Group's finance facilities Mr Pallas said, "*The Group extended its $2 million multi-option operating facility with the Commonwealth Bank of Australia on 18 August 2016. This facility now matures on 30 June 2018.*

"*Additionally, the Group extended the maturity of its $9 million revolving line of credit facility from Elph Pty Ltd (Elph) on 25 August 2016 with this facility now maturing on 30 April 2018*."

In conjunction with the extension of the maturity date, the Group has also negotiated with Elph to increase the limit of this facility from $9 million to $15 million and has entered into binding agreements with Elph to effect this change, subject to the satisfaction of certain conditions precedent. The Group will utilise part of the enlarged facility to settle the loan currently owed to Elph by Greentrains (Greentrains Loan Facility). This loan, which matures on 30 September 2016, is currently supported by a guarantee from the Company and its wholly owned Australian subsidiaries in favour of Elph.

Mr Pallas said, "*Once the conditions precedent are satisfied and these plans are in place, the Group's external funding arrangements are expected to be more streamlined and will enable any surplus funds to be applied more effectively to manage the Group's finance costs. Further, the Company's guarantee given in respect to the Greentrains Loan Facility will be extinguished.*"

Mr Pallas concluded, "*There is still much to do, but through the hard work and dedication of our people and the strong support of the Board, the Group has established a stable platform for growth and is recognised as a quality participant in each of its market segments. We are seeing many of the operational improvements we have made over the last several years begin to come to fruition, and we continue to focus on providing a superior customer experience. We expect performance in the new financial year to continue on a positive trajectory*."

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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 wagons and other rail equipment

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