

ASX ANNOUNCEMENT

3 June 2022

Trading update

Engenco Limited (ASX: EGN) (**Engenco** or **Company**) provides the following update on trading conditions and forecast earnings for the full financial year ending 30 June 2022 (**FY22**).

Engenco's H1 FY22 results announcement included a forecast of an improved second half and a full-year FY22 pre-tax result materially in line with the FY21 full-year result, subject to no material change to trading conditions. While Engenco continues to expect its H2 FY22 pre-tax trading result will improve on H1 FY22, trading conditions have changed materially, and the Company now expects an FY22 pre-tax trading result in the range of \$5.6 - \$6.5 million.

Engenco's first-half trading results were affected by skilled labour shortages, the final stages of COVID restrictions, COVID related absenteeism, and shipping delays. Although customer demand has been strong across the Gemco Rail and Drivetrain businesses, the first half conditions have continued in the second half and have been further impacted by the following:

- Flooding of Gemco's Gladstone rail maintenance facility during the March 2022 Gladstone floods which caused major damage to equipment and loss of production. Back-up facilities continued to support customers, and the management team and onsite workforce successfully enacted continuity plans to repair equipment and maintain operations despite minor production delays. However, the newly commissioned underfloor wheel lathe which supplements Gemco's wheelset machining capacity was beyond economic repair and is now subject to an insurance claim for the lost asset (approx. \$3 million) and associated business interruption. While the damage and lost business are covered under Engenco's insurance, the timing of the claim settlement may result in non-trading asset impairment, losses and business interruption costs being recorded in FY22 with insurance proceeds received in FY23.
- The Momentum Rail business was affected by floods during February 2022 in South Australia and March/April across Queensland and New South Wales which disrupted rail freight transport, directly affecting the number of services provided by Momentum train drivers.
- International freight costs increased materially, in some cases by well over 100% compared to historic averages, due to COVID disruptions in China and supply chain issues associated with the invasion of Ukraine. While most customer agreements include rise and fall arrangements for freight costs, the Gemco business has a major contract where increased freight is assumed as part of annual inflation adjustment, and incremental freight costs have had a significant effect on contract profitability.
- Higher inflation and labour rates impacted costs for parts and diesel fuel across all businesses but particularly Eureka 4WD Training. Labour costs, especially in Western Australia, have risen as the Company aims to attract and retain skilled trades, corporate finance and IT staff.
- The invasion of Ukraine has impacted sales from Hedemora Turbo and Diesel to customers in Russia and Mongolia where the business has been providing more efficient turbochargers for GE 7FDL and Kolomna D49 engines.

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During FY22 Engenco's businesses have grown with the continued implementation of its multi-year strategy. This growth has included above-trend demand for rail bearings, wheel maintenance, and wagon project work at Gemco's largest facility at Forrestfield (Perth) and strong workshop demand at Drivetrain's service centres, especially at the new facility in Kalgoorlie. Drivetrain was also successful with initial sales of four Siemens power generators to ASX listed, NeuRizer Ltd as part of their development of a zero-carbon urea plant in South Australia, which is expected to generate further opportunities.

The Hedemora business recently received a *certificate of conformity* from the US Environmental Protection Agency (EPA) for its HS7800 turbocharger which is expected to create new opportunities with Class 1 rail operators in the United States. The Workforce Solutions business has successfully implemented its "street to seat" program, training new market entrants to be job-ready for a tier-one rail freight provider. We have also completed the integration of Eureka 4WD Training and the Group's locally manufactured Convair bulk road-tankers forward order list continues to stretch over 12 months.

Engenco recently completed a strategic review which highlighted the Company's sustainable growth opportunities. Gemco Rail has become a market leader in innovative rolling stock products and services through its full-service maintenance offering and service network capabilities, with opportunities to increase market share across the rail sector. Drivetrain has developed an extensive range of high-technology products, expanding its unique capability to service customers' production assets. Workforce Solutions facilitates customers' ability to address industry skills and labour shortages, increasing their control over the talent supply chain.

Kevin Pallas, Engenco's Managing Director and CEO said "Looking forward to FY23, demand for our products and services remains generally strong. We are expecting increased customer demand across all sectors as our innovative products and services expansion strategy gains further traction. However, we are not immune from the challenges presented by the rapidly rising rate of inflation, global disruption of supply chains, and difficulty in attracting skilled labour. We are making sound progress in addressing these challenges, and inbuilding business platforms to substantially scale our operations either organically or through merger and acquisition opportunities.

"Strong demand in the industries we serve supports our long-term view, and we believe in the growth opportunities within the transportation sectors and customers we support. It is with this long-term view that we are continuing to invest in developing our people and products to achieve sustainable shareholder returns."

This announcement has been authorised for release by the Engenco Board of Directors.

About Engenco Limited

Engenco specialises in:

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

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

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