Engenco

MEDIA RELEASE

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First half earnings provide foundation for an improved FY12 result

- **Net profit after tax of $0.88M in 1H 2012; up from $0.14M in the previous corresponding period**
- **Projects delayed in first half expected to commence in second half**
- **Working capital position and profitability expected to improve**

Engenco Limited (ASX EGN), provider of technical products and solutions to the rail, transport, resources, and defence markets, has taken further steps forward in its 3 - 5 year turnaround strategy, reporting an interim net profit after tax of $0.88 million.

First half results were slightly below expectations, however profitability is expected to improve in the second half with revenue weighted towards the latter part of the financial year.

Key financial highlights

- Net profit after tax (NPAT) attributable to members of $0.88 million represents a significant improvement on the NPAT in the previous corresponding period of $0.14 million.
- First half revenue of $96.5 million was stunted by some project delays expected to flow through in the second half, leading to a substantive improvement in full year revenues and earnings.
- Group borrowings were reduced by $6.9 million and the maturity date of the Group’s primary Commonwealth Bank facility was extended for a further 2 years until July 2013.

Engenco’s streamlined operational structure delivered improved revenues and profitability in some business segments. This demonstrates the leverage in our new business structures to support greater levels of business activity. However, there is still room for improvement within some business units which are expected to deliver improved outcomes in the second half as some of the headwinds experienced in the first half begin to dissipate.

“Our 3 – 5 year turnaround plans remain on track”, said interim Managing Director Vince De Santis. “We are only 18 months into our journey and we are already starting to see the benefits of our restructure program. We are now ready to embark on the next stage in which we expect to keep improving operational efficiencies and focus on new growth initiatives.”

“Our new Chief Executive Officer, Dennis Quinn is very much looking forward to the challenge of building on the solid foundations established through the business restructure carried out to date and the Engenco

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Board looks forward with confidence to Dennis and his team ensuring that Engenco will continue to deliver on its great potential."

Cash outflows during the period were $10.1 million which approximately equated to the net reduction of borrowings ($6.7 million) and net capital expenditure ($3.0 million). After allowing for $2.4 million of net interest payments and $0.8 million of tax payments, the Company generated $2.8 million of cash from its underlying operations during the first half. The difference between $2.8 million of cash earnings and EBITDA of $9.6 million is reflected in a higher working capital balance, which is expected to reduce in the second half.

Operational snapshot

- Drivetrain Power & Propulsion's revenue was comparable to the first half of FY11 although profitability was lower largely as a result of a lower margin product and service sales mix.
- Gemco Rail's revenue was impacted by delays in the commencement or awarding of new projects. However EBITDA was maintained due to an increase in higher margin niche rollingstock manufacturing.
- The sharp fall in revenue and earnings by Momentum was principally caused by delays in planned rail infrastructure projects.
- Convair was a standout performer in terms of revenue, margin and profitability improvement.
- Ongoing demand for rollingstock rental resulted in higher Greentrains revenues although its earnings were impacted by unscheduled fleet repairs.
- CERT's revenue grew strongly, but margins were impacted from cost pressures dominated by a competitive market for skilled trainers.

Outlook

"Engenco is well positioned to benefit from exposure to industry sectors which have very positive prospects for the foreseeable future. Our first half results were slightly below expectations, however, the Board remains confident in the underlying business structures and prospects for future growth."

"We expect revenues in the second half to exceed the first half result and we anticipate the operational leverage of the business segments to have a materially positive impact on overall profitability for the full year. We will continue to enhance our capabilities both in terms of our physical and human capital which will also be reflected in the Group's financial performance going forward," Mr De Santis concluded.

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.

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

EGN employs around 600 people (excluding contractors) operating from more than twenty locations in seven countries.

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