



ASX ANNOUNCEMENT

14 November 2023

2023 Annual General Meeting: Chairman's Address and Managing Director & CEO's Address

Engenco Limited (ASX:EGN) (**Company**) attaches a copy of the Chairman's address and the Managing Director & CEO's address for the 2023 Annual General Meeting held on 14 November 2023.

About Engenco Limited

Engenco specialises in:

- Maintenance, repair and overhaul of heavy duty engines, powertrain, propulsion and gas compression 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

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

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2023 Annual General Meeting – 14 November 2023

Address to shareholders by Vince De Santis, Chairman

Thanks Meredith and good morning ladies and gentlemen.

As Meredith has just mentioned, my name is Vince De Santis, Chairman of Engenco Limited, and on behalf of the Board and management, it's my pleasure to welcome you to Engenco's 2023 Annual General Meeting.

We carefully deliberated over the decision to once again go to a "virtual" only meeting format however the physical attendance at our 2022 AGM was much lower than we had hoped especially given that it was our first post pandemic physical gathering. An increasing number of smaller companies appear to be going down the virtual only path and with the added cost and logistical complexity of a combined physical/virtual meeting format, we elected to take the virtual only option on this occasion.

I'm informed that we have a quorum present and so I will formally declare the meeting open and propose that we take the Notice of Meeting as read.

Meredith has outlined the key procedural matters for today's meeting. As I have just mentioned, we have reverted to a virtual only meeting so there are some slight changes to the process from last year's hybrid AGM.

I'd like to now introduce my fellow directors.

- Engenco's Managing Director and Chief Executive Officer, Mr Dean Draper; and
- Our non-executive directors:
 - Mr Dale Elphinstone;
 - Mr Scott Cameron; and
 - Ms Kelly Elphinstone

Also joining us today is Mr Andrew Hounsell from our external auditor, KPMG who is available to answer any questions shareholders may have concerning the conduct of the FY23 audit, preparation and content of the auditor's report, the Company's accounting policies and auditor independence. This is KPMG's last AGM as the Company's auditor with one of the items of business to be considered shortly being a resolution to appoint Grant Thornton as the Company's new auditor.

KPMG were appointed as Engenco's auditor in 2012 when the Company was a vastly different looking organisation to what it is today. We wish to extend our sincere thanks to all those at KPMG who have supported the Company over the past 11 years as there is no question that Engenco is in a far better state today than it was when they first joined us on the journey.

I'd also like to acknowledge the Engenco senior executive team which support Dean, many of whom will be watching online today.

Joining us in the meeting and available to answer questions is Mr Garth Campbell-Cowan. We recently announced Garth's appointment to the Chief Financial Officer role in a permanent capacity, having served as interim CFO since May of this year.

Other members of the senior management team include:

- Ms Renee Cerveri-Tekani, Executive General Manager – People & Culture

- Mr Ron Edwards, Executive General Manager – Corporate
- Ms Meredith Rhimes, Joint Company Secretary and Senior Legal Counsel, who you met a few moments ago
- Mr Tony Stone, Executive General Manager – Drivetrain Power and Propulsion
- Mr Geoff Thorn, Executive General Manager – Gemco Rail
- And last but not least, Mr Brett O'Connor who has just joined the Company at the beginning of November as Executive General Manager of our Workforce Solutions business unit

As you will have seen in the Notice of Meeting, there are a number of items of business for consideration including the re-election of two non-executive directors and our Managing Director, the issue of shares under the Company's Employee Share Plan and finally, as I mentioned a little earlier, the appointment of Grant Thornton as the Company's auditor.

However, before we consider the items in the Notice of Meeting, I would like to say a few words regarding Engenco's performance, financial position and outlook, and I will then invite Dean to address the meeting.

We will then deal with any remaining shareholders questions which have not already been addressed during the formal items of business.

At last year's AGM, we had a slide with pictures that reflected a number of themes which we described as follows: "war in Europe, chaotic energy markets, more widespread flooding events, significantly higher inflation, and a tightening interest rate cycle that are playing havoc with investor and consumer confidence".

Well, a year on, even if the emphasis may have changed a little, these themes haven't. We could replace the flood scene with a burnt-out landscape, the bombed buildings of an Eastern European city for a location in the Middle East, and maybe the interest rate and price inflation shots could be moderated slightly. But so much of the global geopolitical and economic landscapes and what they might mean for us here in Australia remains delicately poised.

Last year, we also acknowledged one of our employees who tragically lost his life while working for Engenco. Notwithstanding our commitment to delivering value to our shareholders and other stakeholders in a responsible and sustainable manner, the health and wellbeing of our people remains paramount above everything else.

I'll spend a few moments on some of the financial highlights of the past year and will then discuss a few of the main areas of our focus.

Firstly, our finances.

Although our balance sheet remains solid, we are working to reduce our high working capital, especially our stock and receivables, to more acceptable levels. Capex was particularly modest during the last year compared to our spending in previous years although that will change during this year with a number of capital projects already approved including our previously announced, new rail facility in Karratha, Western Australia, as well as other opportunities that we expect to come to fruition over the course of the year.

While we drew down on our banking facility, our net debt and gearing remains relatively modest and as Dean will articulate in more detail shortly, there is a greater emphasis on achieving an acceptable return on our capital and shareholders' equity.

No interim dividend was declared in FY23 and while disappointing, it was the right call given the Company's first half performance. And while the final dividend fell well short of the amounts declared in previous years, we were pleased that the solid performance in the second half enabled us to resume dividend payments. As we have flagged previously, dividends will now be unfranked until the Company exhausts its remaining tax losses and starts paying Australian income tax.

Pleasingly, we again grew our revenue over the prior year with Group revenues exceeding \$100 million for each of the past three consecutive half year periods. Profitability is not where we want it to be with top line revenue growth not able to be fully reflected on the bottom line. Notwithstanding ongoing cost pressures, there was good improvement in our profit before tax as we focused on improving our margins and seeking out ways to become more efficient internally and in how we go about delivering goods and services to our customers.

Similarly, our return on capital employed rose slightly albeit from the relatively low level that was delivered in the prior year.

Dean will provide some further colour on the operational performance of each business unit and on some of our initiatives directed at building the Group's capacity and capability and increasing our financial returns.

As far as the key themes and focus areas are concerned, similar to the first slide that I mentioned earlier, nothing has really changed over the past year with our attention remaining on People; Leveraging capacity; the liquidity or more accurately, the *illiquidity* of Engenco shares; and the increasing prominence of ESG.

People

It has been a busy 12 months at the senior end of the Group with the commencements of a new CEO and CFO. At the Board level, we recently announced the retirement of Alison Von Bibra as a non-executive director of the Company. On behalf of the Board, I'd like to acknowledge Alison's much valued contribution over the more than 7 years during which she served on the Engenco Board. We have commenced a search process for a new director who will best complement the skills and experience of the current Board, and look forward to making an announcement in due course.

More broadly, I believe that the Company's focus on the wellbeing and positive engagement of our people has never been greater.

Programs to improve the skills and capability of our workforce such as the *Engenco Leaders Program* are making an impact. We not only want our people to be and feel safe but also challenged, respected and valued. *Elevate a Workmate* is one example of another new initiative which enables anyone in the organisation to recognise the positive contribution of a work colleague.

We face the challenge of an aging workforce like many other businesses and so we are focused on succession planning, especially in those pockets of the organisation where people may be close to retirement, or who's departure for any reason would represent a loss of valuable experience and know-how.

Our employee turnover rate has stabilised over the past year however it remains too high. While it's not offered as an excuse, this is certainly not unique to Engenco but is nevertheless another priority matter and we continue to work on strategies to address this challenge.

And closely connected to our succession planning is the goal of building our “bench strength” to both mitigate the risk of losing key people and to also be able to take advantage of opportunities as they arise. “Bench strength” doesn’t mean having idle capacity – motivated and capable people want to be engaged and challenged and so in a relatively small organisation such as Engenco, it’s again about striking the right balance between present requirements and future proofing.

Traditional safety metrics including our Total Recordable Injury Frequency Rate or “TRIFR” continue to improve which is pleasing. As we progress through FY24, our safety performance is now in-line with industry benchmarks. However, we do believe that a safe workplace is a journey not a destination and so in driving ongoing improvement, an even greater emphasis is being placed on leading preventive safety activities and indicators including our MakeSafe observations, Take 5 safety checks and workplace health and safety audit program.

Leveraging our capacity

The Group enjoys good relationships and conducts business with many “tier one” customers across a range of sectors including rail, mining & resources, defence, power generation & infrastructure. This is a demonstration of both the quality of our products and services and the capability of our people. However, in some areas of the Group’s operations, we simply need greater scale to be both competitive and to achieve the level of return on our invested capital and shareholders’ equity that will be attractive to our current shareholder base and to new investors.

Last year we talked about the challenge Engenco faces in being *too small to be big, and too big to be small*. We’re making progress and while we’d like to do so more quickly, our focus is on striking the right balance between the pace of progress and on the sound execution and delivery of the projects we have on at the moment. While Gemco and Drivetrain both very much remain in growth mode, Workforce Solutions is going through a period of stabilisation and rebuilding given some of the challenges it has faced including the need to modify its business model.

Share liquidity

The extremely low share trading volume is something that is frequently brought to our attention by the investment community although I can tell you it’s something of which we are already acutely aware. We recognise and share the frustration of some of our shareholders, and the fact that the market for Engenco shares is severely constrained.

It’s great to have a loyal shareholder base but investors buy and sell their holdings for a whole host of reasons. In the case of Engenco the lack of liquidity makes it more difficult for existing investors and to attract new shareholders.

From an overarching corporate, as distinct from an operational perspective, this is our number one priority as it goes to the essence of what it means to be a listed company.

However, anything we may do to address this challenge must also make business sense as they are interlinked. As I said earlier, we are focussed on the sound execution and delivery of our current project pipeline and on improving the returns on capital employed and shareholder equity. If we can do that well, it will enable us to attract more capital and to increase our scale.

ESG

It's a pity that for many people and organisations, the concept of (i) respecting our environment, (ii) treating people and communities fairly and decently, and (iii) behaving with honesty and integrity, is seen as a rule or requirement that must be followed, rather than a given mode of behaviour.

As we have stated previously, for Engenco, ESG is largely about living our Group values particularly the number one value of integrity being practised by an engaged group of employees, working in a safe and supported environment.

The other key is around sustainability. The decarbonisation transition is not easy nor is it simple and while there may be differences of opinion on how and how quickly the transition should proceed, I don't think there would be any sensible and fair minded person who would disagree with the concept of using our limited resources in the most efficient and sustainable way possible. Doing so is not only good for the environment and the communities in which we live, it's also good for business.

Dean will provide some further detail on some of our ESG related activities but from an overall Company perspective, our commitment to operating in an ethical, fair, respectful and sustainable manner remains unchanged.

Engenco's achievements and future successes rely upon the commitment and capability of our people. And so with that, our number one focus must be on retaining and attracting the best people we can, sound succession planning, building our bench strength and providing an environment where our people feel safe, supported and valued.

I was very pleased to introduce you to the members of our senior management team a little earlier and I'd like to thank each of them, along with their respective management teams and indeed the whole Engenco organisation for their ongoing dedication and commitment.

And finally, on behalf of the Engenco Group, we once again extend our sincere thanks and gratitude to our shareholders. As custodians of your capital, we remain committed to rewarding your support through improved performance.

I will now hand over to Dean.

ADDRESS TO SHAREHOLDERS BY DEAN DRAPER, MANAGING DIRECTOR AND CEO

Thanks Vince. Good morning, ladies and gentlemen. I'm pleased to present to the 2023 Annual General Meeting after my first year of leading Engenco.

Chief Executive Officer's Address

Engenco provides a broad range of innovative products and services for the transportation industry, through its power and propulsion, rail, and workforce solutions businesses.

We continue to strengthen our position and our reach extends over 20 locations, employing more than 500 people in two countries, based mostly in Australia with a facility in Sweden.

Notwithstanding the challenges that we've had, we are making good progress and have strong platforms that serve our customers and are well placed to capture future growth opportunities.

The Engenco Group Vision and Values

Engenco's vision is to have inspired people creating sustainable transport solutions.

Our success depends upon building a talented team, and we are committed to supporting our people to perform at their best, in a safe and inclusive environment.

Our values define the way we work, and guide our decision making and actions.

We are committed to our customers and each other, and we operate with integrity to deliver honestly on what we promise.

Through commitment we accept our responsibilities to work safely and sustainably while delivering quality solutions.

As a team we leverage the power of working together. Collaboration ensures we achieve our individual and company goals.

We are striving to achieve excellence and high quality in order to realise our vision.

Some initiatives which we have introduced include a Diversity and Inclusion Plan which is focused on building an inclusive culture, a new Engenco Leaders Program to identify current and future leaders, and employee recognition which recognises the exceptional efforts and contributions of our team.

Safety

The safety and well-being of our employees is of paramount importance for Engenco. To ensure safety remains front of mind, we continue to invest in developing resources, systems and training programs to drive a positive health and safety culture.

Our MakeSafe safety plan is built on six key initiatives. These include investment in safety technology, enhancing internal systems and knowledge, empowering personal work, health and safety responsibilities, celebrating positive safety outcomes and integrating safety into everything we do.

As was reported at the 2022 AGM, we regrettably lost an employee last year and this has reinforced our resolve.

It is pleasing that our Total Recordable Injury Frequency Rate, which measures our safety performance, was down 53% year-on-year from 22.45 to 10.45 injuries per million hours worked. Group Lost Time

Injuries were down 35%. The Medical Treatment Injury Frequency Rate, a commonly used metric to evaluate the effectiveness of injury prevention programs, decreased by 61%.

A key milestone was the implementation of Skytrust, a cloud-based Workplace Health, Safety and Environment Management System.

Also, six Gemco Rail and Drivetrain sites received ISO 45001 certification and we introduced an organisational justice framework for post-incident investigations and corrective action.

Our safety performance is improving, but the environment is constantly changing and there is always more to do.

Environmental, social and governance strategies

Turning to ESG matters, operating sustainably is important to Engenco and a growing area of interest for our stakeholders. During the year we completed our first materiality assessment.

This identified and evaluated the most significant ESG areas that impact our businesses, namely energy management, greenhouse gas emissions, employee engagement, diversity and inclusion, health and safety, business ethics and modern slavery. The assessment informs our judgements on the goals we should set for our ongoing ESG strategy.

Once finalised our ESG strategy will focus on safety, standards, social responsibility and sustainability. We are committed to:

- providing a safe working environment where everyone returns home safely each day;
- operating ethically and responsibly, in alignment with our values;
- providing a safe and inclusive work environment that benefits our people; and
- reducing our greenhouse gas emissions, with a view to carbon neutrality.

We monitor electricity usage and emissions across 16 Engenco sites and are evaluating future energy options such as using solar at sites that we own.

We continue to work with our clients in response to climate change and in ensuring our businesses contribute positively to the communities in which we work and serve.

Case Study - Clontarf Foundation

An example of our Diversity and Inclusion Plan in action is our partnership with the Clontarf Foundation. This organisation exists to improve the education, discipline, life skills, self-esteem and employment prospects of young Indigenous people.

The Clontarf Foundation assists young Indigenous men to find work, and in their personal lives, enabling them to reach their full potential. Their successful track record spans decades.

We expect that this partnership will provide a pathway for Indigenous people to join our workforce. They will have an important role to play as we develop new facilities to service rail ore car manufacturing and maintenance at Karratha.

Business overview

Turning now to the performance of our businesses. Our strategy is to focus on the transportation sector for growth.

The key achievement of FY23 was the improvement of financial outcomes in the second half.

This showed the progress we are making toward generating more consistent and higher earnings, and exploiting the full potential of our platforms.

The improvement is clearly shown by the transition from a first half net loss of \$0.2 million to a second half net profit of \$5.7 million.

The net profit before tax result excludes the effect of adjustment to the carrying values of inventory and recognition of insurance proceeds for Gemco Rail's Gladstone workshop which was destroyed by floods.

Our Power and Propulsion division has three businesses which employ about 140 people. Drivetrain provides technical products and services for the mining, energy, transport and defence sectors. Convair is a manufacturer of pneumatic dry bulk tankers for dry bulk, and Hedemora Turbo and Diesel is the original manufacturer of Hedemora turbochargers and Hedemora diesel engines. This division generated approximately 41% of total sales in FY23, similar to the previous year.

Our Rail division employs about 210 people in Gemco Rail, which is a leading independent provider of rollingstock maintenance, products, and services. This division's sales provide just under half of Engenco's total revenue.

The Workforce Solutions division provides training and employment services for rail and transportation industries through the Momentum, CERT Training, and Eureka 4WD training businesses. These people-oriented businesses employ more than 100 people.

I will now take you through our businesses and their prospects in the year ahead.

Drivetrain

Drivetrain experienced solid revenue growth, particularly from mining sector customers. Our partner agreements with global Tier-1 international manufacturers enable us to offer an innovative and extensive range of technologies for transportation.

Inventory availability has been one of Engenco's competitive advantages and we are improving both our inventory profile and management systems, targeting improved supply chain capability.

The low carbon economy provides a growth focus for our Kovatera light mining vehicles which include an electric model.

We are supporting our customers in the process of decarbonisation and decentralisation of energy and power, installing a combined heat and power generation plant in South Australia.

The business has a positive outlook with ongoing delivery of spare parts sales and maintenance, repair and overhaul. There is continued strong demand from the mining industry for capital equipment sales.

We are focused on building our core business of workshop activities and sales of capital products and parts across our national branch network, which is reflected in growing revenue.

While we were unable to pass on increased costs in the first half, these were included in pricing in the second half and margins have recovered.

Convair

Convair Engineering benefited from strong volume growth, which included some carry-over orders from the previous year.

Although revenue increased, the benefits of scale were reduced by margin compression and higher sea freight costs which could not be recovered. New measures that will restore margins take effect this year in the second half.

We are focusing on maintaining increased production with a focus on innovative engineering, and Convair continues to have a strong order book.

Hedemora

Hedemora is monetising its innovative HS Turbocharger range, which allows the replacement of older diesel and gas engine turbochargers with modern equipment.

The new range offers environmental benefits including lower emissions and fuel savings for railroad operators' locomotive fleets.

Having identified opportunities we are targeting the North American market, supported by US Environmental Protection Agency certification of conformity.

Business development is expected to drive new opportunities in North America, particularly retrofitting for the GE 'Evolution Series' diesel locomotives commonly used by American railroads.

Gemco Rail

Gemco Rail's record of growth continued with strong west coast demand driving higher volume and large orders for new components.

The business has successfully returned to the wagon supply market with two new wagon supply contracts and development of a prototype specialised rail wagon underway.

New facilities to service our customers continue to broaden our services. These include expansion of our Newcastle facility and establishment of a new wagon maintenance facility in Altona.

As part of the new contract with Rio Tinto, we will establish wagon manufacture and bearing maintenance services in Karratha, Western Australia.

We are also developing 20 specialised rail wagons for Arc Infrastructure with production expected to start later this financial year.

Rail division revenue grew 15% from \$92.9 million in FY22 to \$106.2 million in FY23, and we improved margins in the second half.

On a separate note, we were pleased that Gemco Rail received the Mai-Wel Group awards Employer of the Year award for 2023.

This recognised Gemco Rail's achievement for leading inclusion and diversity, identifying barriers to employment and providing support to help employees achieve their workplace goals.

Mai-Wel provides opportunities for people with disability and job seekers across the Hunter Valley. The award demonstrates the effectiveness of Gemco Rail's ongoing work at Telarah to create meaningful work opportunities for people in the local community.

Workforce Solutions

Our people-focused Workforce Solutions businesses have been impacted by difficult trading conditions in recent years, including floods and derailments which affected customers.

We have reduced exposures to significant financial risks through changing our business model, and this has stabilised our Momentum and CERT Training businesses. An increased product and service offering and a refreshed digital marketing strategy is improving sales.

The Eureka 4WD Training business has also benefited from increased business-to-business market demand.

We envisage continued stabilisation of these businesses, with potential benefits from increased placements and class time for trainers.

Engenco – Source and use of cash

Investment in inventory over the past twelve months came at the tail of global supply chain disruption and support for revenue growth realised in the second half of FY23. This has been exacerbated by shipment delays for key products and parts from Europe, and we have experienced challenging conditions with the pandemic.

These factors and growth initiatives required a sharp rise in net working capital, and net cash from operations in FY23 fell to \$3.0 million, down from \$10.6 million in FY22. Also, the time lag between purchasing materials overseas and receiving products has increased.

During this time we have drawn down on our debt facility to fund capital expenditure and working capital needs.

At the end of FY23, Engenco's \$20 million banking facility was drawn to \$13 million, with the group also holding \$8.4 million cash at this date. The maturity of this facility has recently been extended to 31 October 2024.

Operational focuses to improve financial outcomes

Some initiatives that we are progressing to improve financial outcomes are working capital management, gross margin review and improvement, and productivity and efficiency gains.

Working capital management enhancements include streamlining inventory, examining what we need to hold to lower carrying costs and optimising cashflow. Resources have been deployed to improve debtor collection. We will also align payment terms with suppliers to meet our customers' needs.

A comprehensive review of our cost structure is underway, which is tasked to identify margin enhancement opportunities. These may include, for example, implementing procurement strategies to reduce costs and ensuring we capture the strength of our value proposition with increased pricing.

Initiatives that we are exploring to realise productivity and efficiency gains include technology investment to reduce costs, implementing lean manufacturing principles and dedicated resources for improvement in finance processes.

Group Outlook

We are confident that we are on the right path, and that our forward momentum is continuing. This is based on three factors: organic growth, a focus on improving profitability, and a commitment to work towards a net zero carbon future.

The trend of our business weighting toward the second half is ongoing, and we continue to expect the first half of FY24 will materially improve on the first half of FY23 and that performance in the second half of FY24 will be materially stronger than the first half.

Demand for the group's services remains strong, and we are excited by the opportunities being generated by our growing portfolio of power and propulsion, rail and workforce solutions businesses.

We are conscious that our return on equity ratio is below what the market expects and target to progressively improve to levels which outperform the average of our peers.

We expect FY24 to be a positive step towards this goal. The executive team's short-term incentive (STI) targets have been aligned to this objective.

In closing, I would like to thank our employees for their dedication and ongoing commitment. We will continue to invest in our people and their training and development as we work to unleash the full potential of our platforms.

Thank you and I will now return you to Vince.