



# ANNUAL REPORT 2014

Proud to Belong



**Bradken Limited**

ACN 108 693 009

**Notice of Annual General Meeting**

The Annual General Meeting of Bradken Limited will be held at:

Bradken

Global Corporate Centre - Bradford Room

20 McIntosh Drive, Mayfield West NSW 2304, Australia

On Tuesday, 21st October 2014 at 2:30pm (AEDT).

A formal Notice of Meeting is enclosed.

*For more Information on Bradken visit [bradken.com](http://bradken.com)*

**Cover**

May, 2014 - The first Bradken Velocity dragline bucket en route to a customer in Queensland, Australia

**Registered Trademarks.**

*All company names, Logos, product names and identifying marks used throughout this publication are the property of their respective trademark owners.*

*They are used for descriptive purposes only and are protected by the relevant laws of the countries in which the trademarks are registered.*

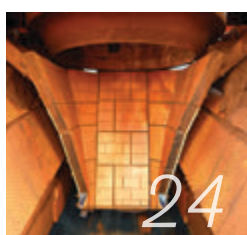
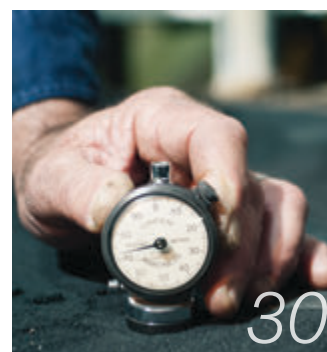
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## KEY OUTCOMES

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1

Achieved an underlying EBITDA of \$173.3 million, down 19% on the previous year

2

Order intake levels remained stable throughout FY14

3

Achieved 33.3% gross margin, up from 32.7% on the previous year

4

Implemented plans to restructure manufacturing operations to utilise existing lower cost capacity

5

Completed closure of Henderson, Mittagong, Naval Base and Muswellbrook facilities with Welshpool foundry currently in wind down

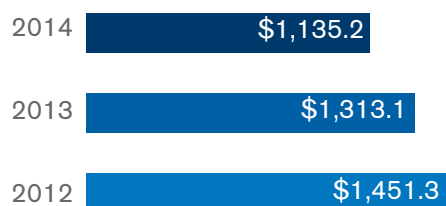
6

Generated strong free cash flow through continued working capital reduction and lower capex

7

Final dividend of 11.0 cents unfranked, payable on 9 September 2014, with no DRP operating

## Revenue



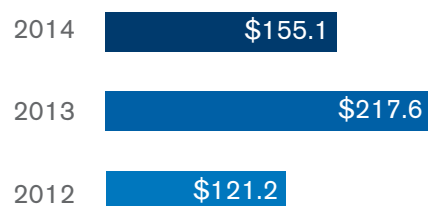
## EBITDA



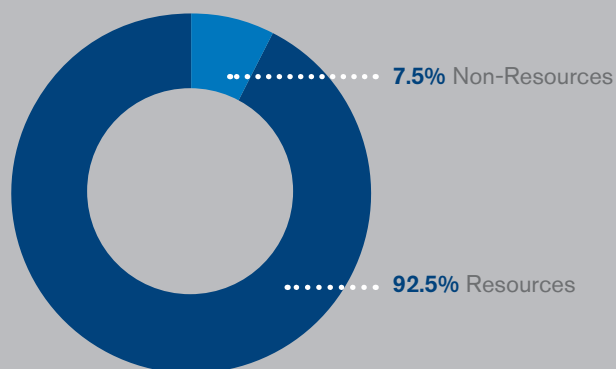
## NPAT



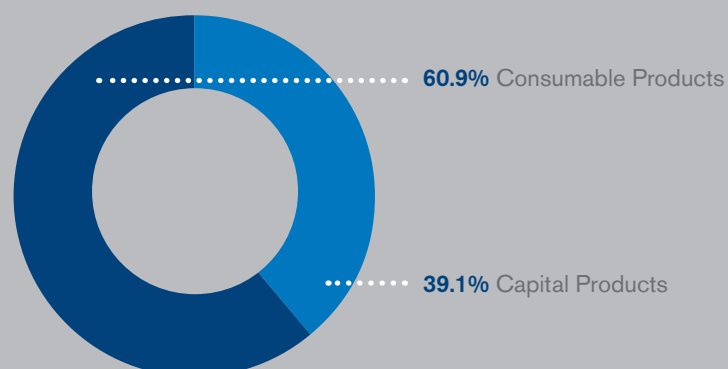
## Operating Cash Flow



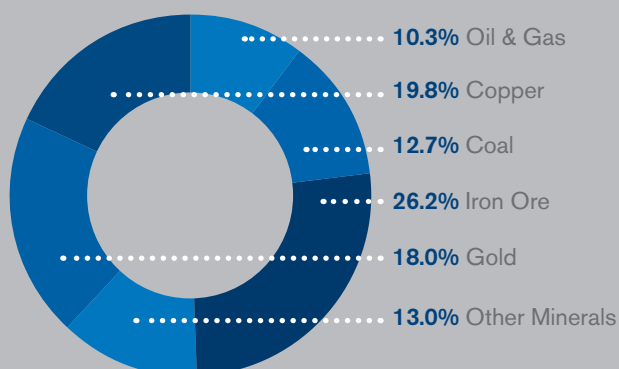
## Revenue by Industry Sector



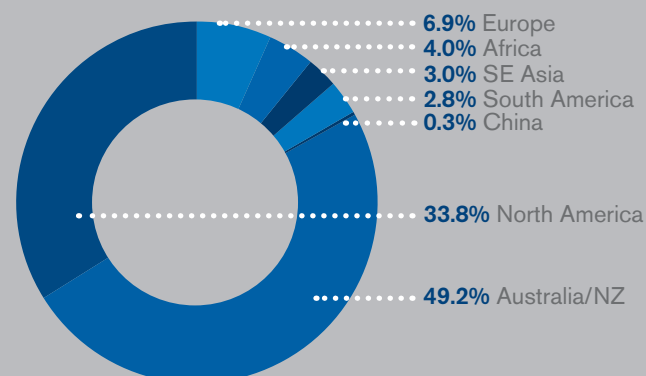
## Revenue by Commodity Category



## Revenue by Commodity



## Revenue by Region



Bradken is a global manufacturer and supplier of differentiated capital and consumable products to the mining, transport, general industrial and contract manufacturing markets.

As a leading heavy engineering company we can manufacture fully machined cast iron and steel products from a mass of 0.5 kg (1.1lbs) to 25 tonne (55,000 lbs).

The driving force behind our Business is our firm commitment to innovation and continuous improvement. Our aim is to provide our customers with value through the creation of specialised product and service solutions.

With over 90 years' experience in the foundry business, the accumulated wealth of knowledge and depth of expertise in our workforce enables us to offer our customers a full service offering with combined design, manufacturing, maintenance and support services ultimately providing improved operational outcomes and safer work practices.

Our skilled product development teams ensure that our design and testing capabilities, using the latest technologies, set new benchmarks for excellence and offer significant advantages to our customers.

With a worldwide network of manufacturing facilities and an established sales and distribution network, our geographical diversity allows us to supply customers in the world's major mining and industrial regions. We are committed to the globalisation of our core range of products while at the same time remaining focused on opportunities in new and emerging markets.

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# GLOBAL OPERATIONS

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*{ Over 90 years' experience in the  
foundry business. }*

## CONTINENTAL OFFICES



## WORKFORCE

4800



## MANUFACTURING, SALES AND SERVICE FACILITIES

 +  = 54

## REVENUE

\$1.1 Billion 

OUR BUSINESS IS STRUCTURED INTO FOUR MARKET FOCUSED DIVISIONS  
AND AN INDEPENDENTLY BRANDED FOUNDRY SUPPLY BUSINESS:

### 1 *Mineral Processing*



### 2 *Mining Products*

- GET & Buckets
- Crawler Systems
- Fixed Plant (including Fixed Plant Oil & Gas)



### 3 *Rail*



### 4 *Engineered Products*

- Industrial Products
- Energy
- Europe



### 5 *Cast Metal Services*



# CHAIRMAN'S REPORT

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While this financial year has been a significant challenge for both the Board and Management of Bradken, requiring some difficult decisions to be made to ensure that the Company is able to navigate the end of the mining boom, we have at the same time continued to deliver on our commitment to customers and shareholders.

We have been required to make some tough decisions in terms of employee retention, with the current challenging market conditions necessitating the reduction of our employment levels to match the market downturn. The Human Resources Committee has been particularly sensitive to the changing employment conditions including the need to ensure that we do not adversely impact upon the Company's excellent safety record.

We strive to maintain our culture as well as our very successful business model, all the while remaining cognisant of the sensitivities required to make our business strategies appropriate to the cultural characteristics and business conditions of the diverse locations in which we now find ourselves operating.

The Company continues to focus on delivering early half and full year statutory accounts, and while the timetable to deliver the results has become more complex with the growing number of overseas entities required to be incorporated into the accounts, the Audit & Risk Committee are very pleased with the way in which the Management Accounting Team and Auditors cooperate effectively to ensure that they are presented in a timely and professional manner. A specific focus of the Audit & Risk Committee this year has been Risk Management and the work undertaken by the Management Team to implement a new global online Risk Management database capable of providing reports across the entire Group.

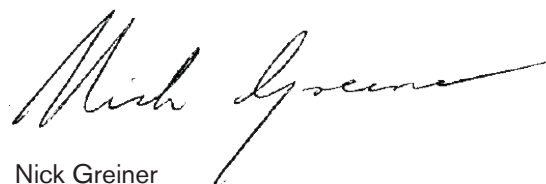
In February 2014, the Company announced its decision to pursue the acquisition of Austin Engineering. It was determined that the acquisition was not accretive to shareholders and Management terminated discussions in relation to this proposed transaction. It is important to note that we continue to adopt a disciplined approach in relation to evaluation of growth opportunities and will only proceed if opportunities are capable of adding value for our shareholders.

We have avoided the need to raise equity at what the Board considers to be an unreasonably low share price thus preserving the interests of our current shareholders.

The measures we have taken due to the current low in the mining cycle have enabled us to fine tune our business platform so that the Company is well-positioned to exploit the upturn in the market as it recovers and to take advantage of opportunities to expand our product offering into new ranges of industrial consumable products.

The Board remains committed to the provision of quality and timely communications with the market and shareholders. We are committed to best practice in corporate governance and its ability to add value to the Company on behalf of our shareholders.

On behalf of the Board, I thank Brian Hodges and his team for their continued excellent performance throughout a difficult year.



Nick Greiner  
Chairman



**“WE STRIVE TO MAINTAIN  
OUR CULTURE AS WELL AS OUR  
VERY SUCCESSFUL BUSINESS MODEL”**

# MANAGING DIRECTOR'S REPORT

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This year has been challenging, not for just Bradken, but for all those Australian businesses either directly or indirectly impacted by the decline in iron ore and coal prices. With the market now at a lower level and a positive upturn not yet evident, it became necessary for us to make a number of operational changes to improve our profitability as a manufacturer of differentiated consumable and capital products.

We have announced the closure of a number of our Australian operations to date including the Henderson, Mittagong, Naval Base, Muswellbrook and Welshpool facilities.

The decisions we have made to restructure the business and reduce overheads have not been taken lightly and Management remains fully aware and attuned to the need to provide clear leadership and direction.

It is at times like these that our commitment to the Vision, Mission and Values of the Company becomes more important than ever. By focussing on the basics of safety, innovation and continuous improvement, and by remaining focused on the changing needs of our customers for our products we will see our way clear of the current situation and into a more prosperous future.

## BUSINESS OVERVIEW

Sales revenue for the Mining Products Division of \$339 million was down 18% on the prior year due to difficult market conditions, but gross margin was increased from 34.1% to 34.6% in the highly competitive market. Lower commodity prices had a significant impact on the mining market, with substantial reductions in capital expenditure and deferment of maintenance projects

by miners. A drop in demand from the Australian coal market was the main contributor to the reduction in sales revenue for the Ground Engaging Tools & Buckets Business, which was down 14%. Sales by the Crawler Systems Business were down 47% due to significantly reduced sales to mining OEMs as demand for new equipment stalled, offset by an increase in sales of replacement products in the period. The lower capital expenditure on new mining equipment adversely impacted order intake and sales of crawler systems products, particularly in the second half. The Fixed Plant Business' sales were up 11% with strong demand from the Western Australian iron ore market in the second half. The Canadian Oil & Gas Business' sales increased 10% due to higher project activity.

The Mineral Processing Division's sales were down 6% on last year due to lower activity by mining OEMs as new mine developments were put on hold and some mines closed, predominantly in the gold sector, and these factors were not totally offset by new business won. Margins increased by 0.2% while price pressure from mining companies remained. Significant product cost reduction initiatives have and are being implemented. These include closure of the Henderson foundry in Western Australia and the implementation of targeted automation in the remaining mill liner plants. Business focus remains on the introduction of new differentiated products into target markets, with success in winning new customers in Zambia, Ghana, Mali, Kazakhstan, China, the US and Peru set to provide strong growth.

The Rail Division's products are used by customers in Australia to move more than 320 million tonnes of product annually. This represents more than one third of Australia's total mineral production. The Division

is renowned for the supply of high quality rollingstock equipment and component parts for mining, agricultural and general freight markets. Overall, sales of \$206 million were down approximately 7% on FY13, however more favourable contract terms, better cost structures and tighter business controls deployed over the last two years, have delivered much improved margins. While growth remains slow for capital items, strong growth prospects continue to emerge in markets for parts and service.

The USA based Engineered Products Division's total sales revenue of \$257 million was down 17% from the previous year. This net change resulted from a continued slow-down in mining and locomotive rail product lines, which began in the latter half of calendar year 2012. Year-on-year sales were down 43% in the first half and 3% in the second half. The Energy Business' annual sales declined 3%, with the majority of it occurring in the second half of FY14. UK revenues were down 6%. Reductions in total general and administrative expenses for the division of 32% were achieved, compared with the prior year. The Division has responded to the reduction in demand in F14 by reducing the workforce approximately 15% from that at the end of F13.

## OUR PEOPLE

The Global Lost Time Injury Frequency Rate (LTIFR) for FY14 was 4.1, which is a significant reduction on the previous year's performance of 5.3, with 24 sites being Lost Time Injury (LTI) free for the whole of F14.

Significant employment downsizing from 5,425 to 4,800 occurred throughout the year, which included the closure of the Henderson foundry in Western Australia and several other smaller facilities.

In the latter part of 2013, Bradken issued a new Safety Policy which committed the Company and its employees to achieving Zero Harm in the workplace. With this commitment came an increased focus on ensuring our Seven Step Safety Process is fully implemented, requiring the commitment of Management and the involvement of all our employees.

Safety system audits were conducted on all sites and the new Human Resources Employee Information Portal was rolled out in Australia to allow staff to access and update base information online.

## STRATEGY AND OUTLOOK

Our continued work on new product development, increased low cost capacity, and high cost foundry and overhead rationalisation places Bradken in an excellent position to take the greatest advantage of improved market conditions as and when they occur.

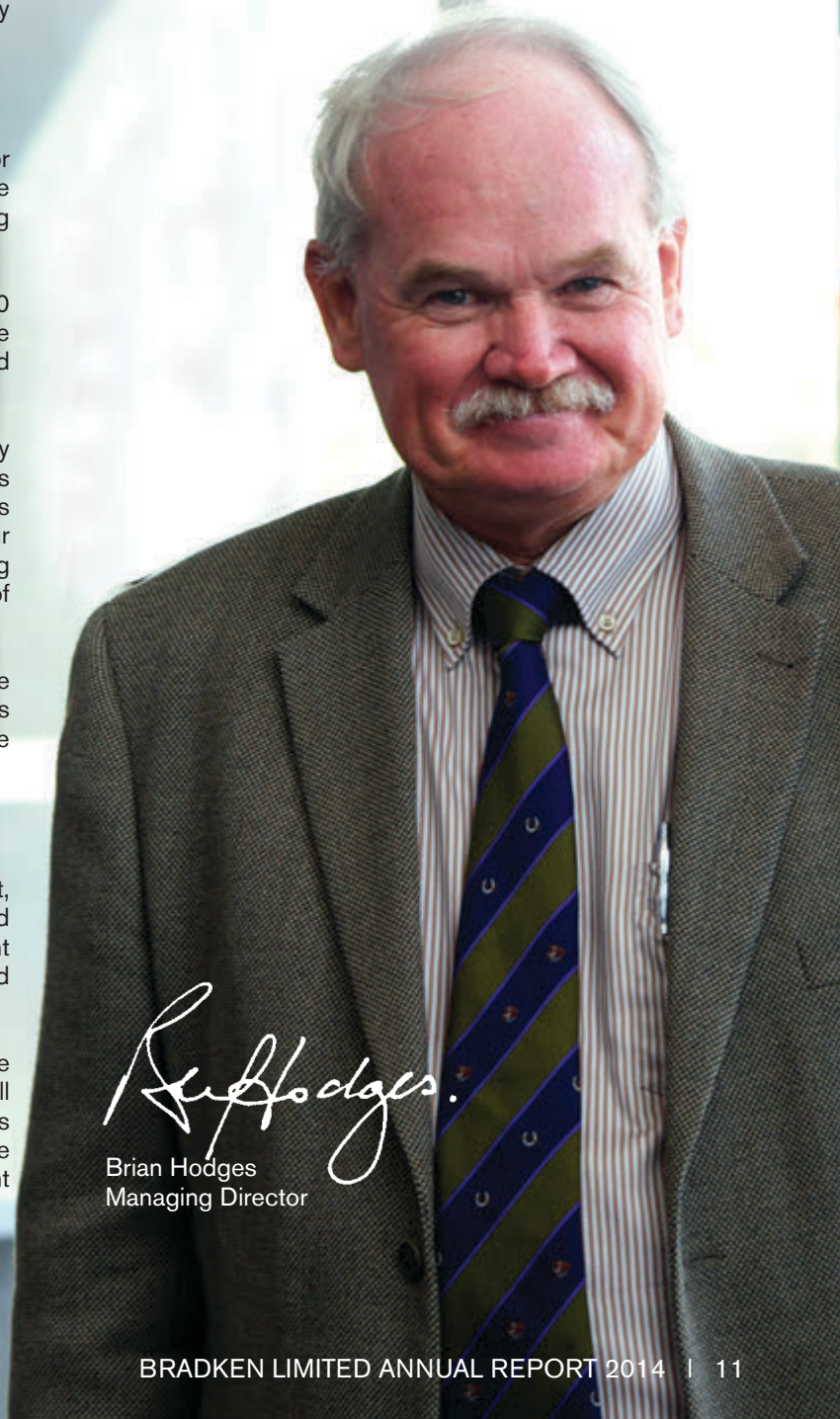
The first half of 2014/15 will be challenging for the Company, however, Management initiatives are well underway to significantly reduce overheads as well as capitalise on the Ground Engaging Tool market share and low cost manufacturing capacity in Xuzhou. Tight

control of capex and working capital will continue, with the previous year's capex directed to capacity expansion in China now completed.

We expect an improvement in order intake as delayed expenditure at mine sites is released and mine production volumes continue to increase, supporting sales in the second half. It remains unclear when the mining capital cycle will improve, but we are not solely relying on it to do so.

Management will continue to pursue strategies to grow the Company through synergistic acquisitions, as opportunities present themselves.

Our Management Team and I would like to thank our shareholders for their confidence in the Company as we look forward to the challenges facing us all in the year ahead.



*Brian Hodges*

Brian Hodges  
Managing Director

# GOVERNANCE SUSTAINABILITY

*Our commitment to Sustainability reflects our priority of putting health and safety first, being environmentally responsible and supporting our local communities.*

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*Sustainable development is core to our strategies for sustainability by which we integrate health, safety, environmental, social and economic factors into our key decision-making.*

*The sustainability dimensions that we report on include the health and safety of our people; governance and risk management processes; our impact on the environment and approach to resource conservation and biodiversity; and how we ensure the broader economic contributions of our operations benefit the regions in which we operate.*

The Board's Human Resources Committee assists the full Board of Directors in oversight of health, safety, environment and community (HSEC) matters. This includes overseeing areas relating to HSEC risk, compliance with applicable legal and regulatory requirements, and overall HSEC performance of the Bradken Group.

More specifically, Management is accountable for the design and implementation of sustainability-related processes and performance necessary to comply with the Group Level Documents (GLDs), which describe the mandatory minimum performance requirements and accountabilities for our business obligations, processes, functions and activities across the Bradken Group.

These GLDs are the foundation for developing and implementing management systems throughout our Divisions, Businesses and manufacturing facilities globally. Internal audits are conducted annually to test compliance with the requirements of the GLDs. Audit results are used by Management to create action plans where an entity has not yet achieved full compliance with GLD requirements. Key findings are reported to Executive Management and summary reports are reviewed and considered by the Board's Human Resources Committee and, where appropriate, by the Board's Audit and Risk Committee.





## ZERO HARM

*The Bradken Group is committed to achieving Zero Harm by:*



Preventing all injuries, illnesses and incidents



Providing a safe and healthy workplace



Protecting the environment

### OUR PHILOSOPHY

All injuries and incidents can be prevented.

Involvement in injury, illness and incident prevention and reporting is the direct responsibility of all employees.

All our employees shall be appropriately educated and trained in health, safety and the environment.

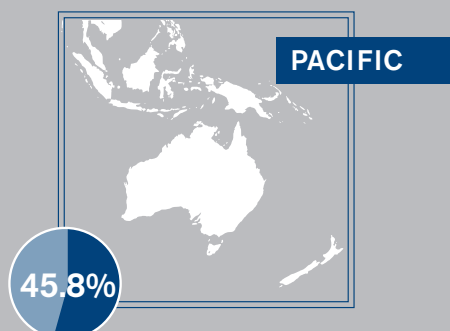
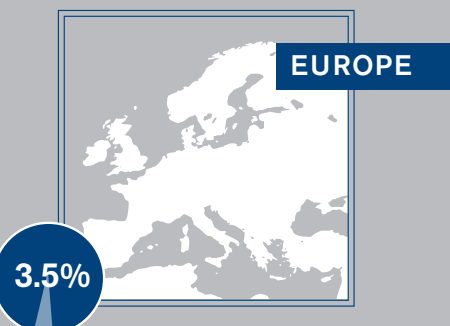
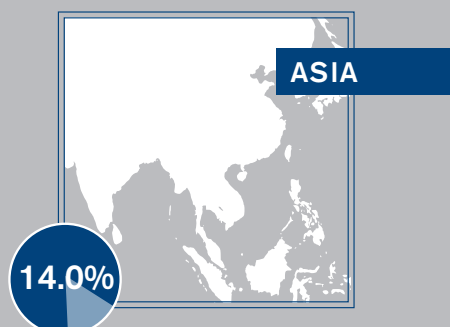
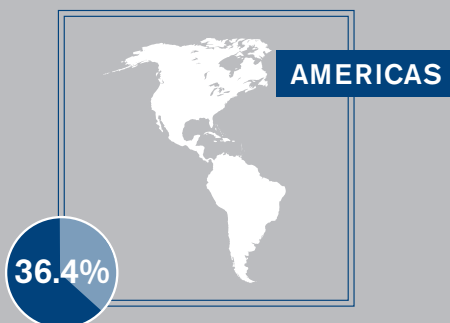
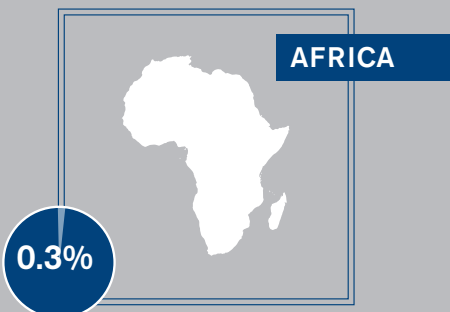
Management shall ensure management systems and operating procedures are compliant and proactively prevent injuries and incidents.

Management and Employees shall be committed to continuous improvement and the implementation of the 21 Step Safety Plan.

Management recognises that health, safety and protection of the environment is its highest priority.

# PEOPLE SUSTAINABILITY

## EMPLOYEES



*At Bradken we acknowledge that our people are the key to our ongoing success. From the foundry floor to the boardroom our Vision is for all our employees to be **Proud to Belong***

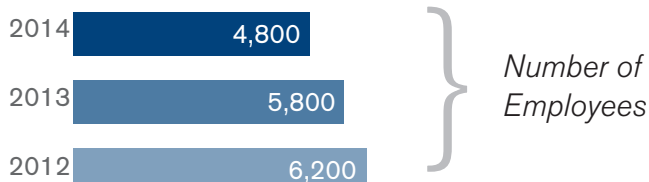
We recognise and value diverse perspectives and seek people who will passionately share their ideas and opinions including diversity of thought, background, experience and lifestyle, because it is these things which encourage us all to innovate and grow.

### *We value people who:*

- 1 Are health, safety and environmentally responsible
- 2 Have exemplary personal integrity
- 3 Enjoy a balanced lifestyle
- 4 Strive for continuous improvement in all that they do
- 5 Are customer focused
- 6 Possess courage and loyalty
- 7 Are highly motivated
- 8 Work together for common goals
- 9 Respect the individual rights of others

## WORKFORCE PROFILE

As at the end of FY14 Bradken directly employed 4,800 people. This figure is down 13.7% on the previous year due to significant employment downsizing as a result of the Group's decision to reorganise its manufacturing to utilise available capacity at its lower cost facilities. This figure also takes into account the cessation of operations at the Henderson, Western Australia foundry.



This year saw another of our long serving employees recognised for reaching the extraordinary milestone of 50 years of loyal service to the Company. The dedication and leadership of employees such as these exemplifies our Vision and Values and sets the bar for the broader workforce.

## YOUTH DEVELOPMENT

Investing in the education and development of the next generation of foundry industry professionals is a core value for Bradken. By offering cadetships and industry scholarships in partnership with Universities around the world, as well as providing trade apprenticeship opportunities across our global network of sites we are able to provide opportunities for students studying in fields aligned to our key business functions to obtain practical industry experience while gaining their formal qualifications. Our undergraduate programs are also a core component of our succession planning efforts and continue to provide us with a pipeline of talent for the future.

## CASE STUDY

### NURTURING THE NEXT GENERATION OF FOUNDRY INDUSTRY PROFESSIONALS

Bradken acknowledges that our continued success as a Company operating in a highly competitive global market is dependent on building teams of people that are passionate, highly skilled, dedicated and motivated in their fields.

Targeting fields of study including Materials Engineering/Metallurgy, Electrical Engineering, Mechanical Engineering, Mechatronic Engineering and Business Support (Human Resources, Finance, Safety, Information Technology and Marketing) Bradken looks to support students who could one day go on to become the future leaders of our Company.

For the period FY14 Bradken sponsored a total of 29 undergraduate students, both male and female, at Universities and Colleges in Australia (University of Wollongong, University of Newcastle and Curtin University) and China (Henan Science and Technology University). FY15 will see a similar program commence in Malaysia in partnership with the University of Malaysia, Perlis.

## EDUCATION AND TRAINING

Bradken remains committed to nurturing and developing the skills of our people and actively promotes a culture of continuous improvement and personal development. In Australia a number of in-house training programs were conducted during the period covering areas such as Competition and Consumer Law, Risk Management, Report Writing, Project Management, Train the Trainer and Essential Selling Skills. A successful sales training program was also implemented in the USA with all sales team members in North and South America participating.

## EMPLOYEE SERVICES

The ongoing development of our global Human Resource Management Systems has seen the Human Resources Employee Information Portal (Employee Connect) rolled out in Australia allowing staff to access and update base information including salary details, leave balances and training records online. Global roll out of this system will follow in the ensuing year.



# SAFETY SUSTAINABILITY

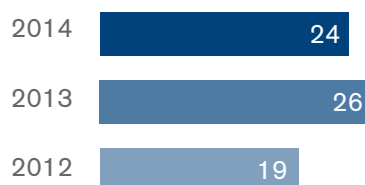
*{ A significant reduction for global Lost Time Injury Frequency Rate on the previous year's figure }*

As a Group, Bradken continues to prioritise safety in alignment with our Vision and Values. We promote Safety as a value to ensure that a positive culture of safe behavior evolves through employee involvement in ongoing education and training programs and participation in local, regional and global safety initiatives.

Bradken operates a 21 Step Safety Plan which forms an integral part of the Group's Management System and reinforces the safety processes outlined in international safety standards.

Bradken's global Lost Time Injury Frequency Rate (LTIFR) for FY14 was 4.1, a significant reduction on the previous year's figure of 5.3 based largely on the improvement in safety performance from the USA and UK sites. A total of 24 sites were Lost Time Injury (LTI) free, down slightly from FY13 with notable achievements from a number of sites including Adelaide, Australia (6.2 years), Innisfail, Australia (4.9 years) and Darlaston, United Kingdom (4.5 years).

## LOST TIME INJURY FREE SITES



Independent Management System triennial audits were conducted at all major global facilities with continued ISO9001 and ISO14001 certifications resulting. Safety System audits were conducted at all sites globally.

Bradken implemented a number of safety initiatives and training sessions during the period aimed at increasing safety awareness among employees across all levels of the Group. Revised global policies pertaining to lifting, hygiene, manual handling and melting practices were also released during the period.

## CASE STUDY

### BRADKEN SAFETY PASSPORT

In 2013 Bradken implemented a new Safety Policy which committed the Group and its employees to achieving Zero Harm in the workplace. As an initiative of that policy the pocket-sized Bradken Safety Passport was rolled out initially to sites in the Pacific region as a method of encouraging employees to stop and think about their actions in the workplace and to assess any risks observed or perceived in their routine activities.

The Safety Passport includes a 'Take Time Take Charge' form, a mini risk assessment for simple one off tasks that don't require a Permit to Work, and a 'Near Miss & Hazard Report' form designed to simplify and enhance the process of hazard and near miss reporting.

As a result of this initiative incident reporting has increased dramatically at sites throughout the Pacific region. The Safety Passport is now in the process of being rolled out to all Bradken sites globally.



# ENVIRONMENT SUSTAINABILITY

*Bradken's operations are subject to environmental regulations governing amongst other things, energy and Greenhouse Gas (GHG) emissions, noise, air emissions, and the use, handling and disposal of hazardous substances and waste products. Bradken has and will continue to devote resources to environmental compliance and management in each of the jurisdictions in which it operates.*

An Environmental Management System (EMS) is in place which complies with the international standard ISO 14001 in major sites in Australia, the UK and New Zealand, while the US and China facilities operate under local legal compliance requirements equivalent to ISO 14001. It is Group policy to be environmentally proactive, to adopt practices that minimise environmental impacts and to communicate and provide appropriate feedback on environmental performance.

*In accordance with the Group's environmental policy the following procedures and goals have been established:*

- All manufacturing and engineering sites to have developed and implemented an EMS meeting the requirements of ISO 14001
- Site EMS to be integrated with the existing business systems and maintained appropriately
- Zero notifiable incidents and zero justified neighbourhood complaints
- Reduction of industrial waste disposal costs through ongoing improvement of work practices

Based upon the results of inquiries made, the Board is not aware of any significant breaches during the period covered by this report nor does it consider the Group is subject to any presently known material environmental liabilities. Under agreements with local authorities capital expenditure is required at some sites to reduce nuisance dust and odour emissions. For the period almost \$10 million was spent on capital equipment to address such issues.

## FY14 ENVIRONMENTAL OVERVIEW

- GHG emissions 208,000 tonnes CO<sub>2</sub>e
- Energy use 2,500,000 GJ
- Waste to landfill 54,000 tonnes
- Waste to off-site recyclers 57,000 tonnes
- Scrap metal purchased 100,000 tonnes
- Significant environmental incidents NIL
- Environmental convictions NIL
- Neighbourhood complaints 35 (down 48% on FY13)

## ENERGY & GHG MANAGEMENT

Energy and resource use efficiency is benchmarked across the foundries and engineering sites to promote awareness of the benefits of efficiency improvements and share ideas around the company.

2

Bradken's foundries consume the largest amounts of energy to melting scrap metal to produce the new castings (60% of electricity use) and heat treating casings to give them the properties required by customers (80% of gas use).



Bradken's sites in the UK were exempted from the UK Climate Change Agreements in early 2014 with authorities deeming the industry as a whole to have met its requirements. UK sites will no longer be required to submit Climate Change Agreement reports but will still receive the applicable deductions for the UK carbon tax/levy in the gas and electricity charges. These deductions keep the carbon tax/levy costs at 1.6% of total energy costs for the UK.

In the US, Bradken's Atchison foundry will be reporting its GHG emissions as it exceeds the US Greenhouse Gas Reporting Rule threshold of 25,000 tpa CO<sub>2</sub>e. Due to reductions in production rates and energy usage, Atchison may be below the threshold and not be required to report. Other US sites do not exceed this threshold. The site is also participating voluntarily in the US Department of Energy Better Plants program with a pledge to reduce energy intensity by 25% over 10 years. There are no carbon taxes applicable in the US.

None of Bradken's Canadian facilities exceed the 50,000 tpa CO<sub>2</sub>e threshold for reporting under the Canadian GHGRP program. There are no carbon taxes applicable.

In New Zealand there is a small carbon tax that is equivalent to 3% of total energy costs. There are no GHG reporting requirements affecting Bradken's New Zealand facilities.

There are no current mandatory GHG or energy reporting requirements that apply to Bradken operations in China or Malaysia. There are no carbon taxes applicable.

In Australia, the energy related requirements have corporate thresholds and Bradken Group companies are subject to the reporting requirements of the National Greenhouse and Energy Reporting Act 2007 (all facilities) and the National Pollutant Inventory (10 facilities only). The reports are completed and submitted each year and submitted on time.

The Australian government cancelled the Energy Efficiency Opportunities Act 2006 (EEO) in the second half however Bradken will continue to apply the principles and practices of the EEO to improve energy and resource efficiency along with reducing the associated energy and resource costs and GHG emissions.

## *SUSTAINABLE USE OF RESOURCES*

The key resources for Bradken's foundries are energy, scrap metal and foundry sand. Bradken foundries are designed to recycle metal and have moulding sand reclamation plants on site that allow the sand to be reused up to 10 times.

In FY14 Bradken purchased 99,667 tonnes of scrap metal for recycling which, with the addition of the necessary specialty alloys, produced 99,287 tonnes of new products.

Bradken operates a buy-back program for many of its products once they have reached the end of their useful life. As such, a significant portion of the scrap metal recycled in FY14 was former Bradken product.

**99,667  
TONNES  
OF SCRAP METAL  
RECYCLED**

**\$10 MILLION  
SPENT TO  
REDUCE  
NUISANCE DUST &  
ODOUR EMISSIONS**

**ZERO  
SIGNIFICANT  
ENVIRONMENTAL  
INCIDENTS**

**BRADKEN FACILITIES  
RECYCLE  
UP TO 90%  
OF TOTAL  
INDUSTRIAL WASTE**

## EMISSIONS

Foundry emissions are well understood and made public via the Toxic Release inventory in the United States, the National Pollutant Release Inventory in Canada and the National Pollutant Inventory in Australia.

### CASE STUDY

#### RUNCORN BAGHOUSE INSTALLATION

**In December 2013 Bradken's Runcorn foundry in Queensland, Australia completed a \$5.4 million project to update the site's dust extraction system in response to community feedback and in compliance with a change to the Environmental Protection Act.**

**\$5.4MILLION  
UPDATE TO THE  
DUST EXTRACTION SYSTEM**

**4X MORE  
EXTRACTION**

The new system provides increased extraction of dust emissions via new roof mounted hoods and a substantially larger dust collector with interconnecting ductwork and programmable controls. At over four times the capacity of the previous system it is capable of extracting up to 410,000 cubic metres of dust laden air per hour and filtering it to less than 10 milligrams of dust per cubic metre.

Recent measurements showed less than 1 milligram of dust per cubic metre leaving the system, well below the 100 milligram maximum discharge level set out in the site's environmental licence. Melting section personnel are enjoying the cleaner working environment and neighbourhood representatives and the local EPA have praised Bradken on the success of the project.



## ENVIRONMENTAL COMPLIANCE

The Bradken facilities carry out annual environmental compliance audits as part of the site EMS. Many facilities also receive routine audits by their local Environmental Protection Agencies. All concerns raised in these audits have been rectified or actions plans are planned to address any remaining concerns, most within 30 days.

## WASTE MANAGEMENT

All Bradken facilities operate recycling programs with local waste and recycling contractors for conventional wastes. For FY14 over 52% of the total waste product generated by Bradken facilities was recycled with some individual sites recycling over 90% of their industrial waste products.

## COMMUNITY

There were 35 neighbourhood complaints this year about nuisance odour, dust and noise. This is a reduction of 33 (or 48%) from the previous year. A range of actions have been completed or are in place to address the causes of these complaints.



## CASE STUDY

### SCUNTHORPE BENEFICIAL REUSE PROJECT

**Foundries produce relatively large amounts of spent foundry sand which typically accounts for 85% of site waste. Until recently, the build-up of spent sand at Bradken's Scunthorpe, UK foundry was stored in an area covering approximately 50% of the total area of the site.**

With the aim of removing the material at little or no cost to Bradken, site OHS staff launched a campaign to find a suitable solution that would see the material reused in a beneficial manner. As a result of this campaign Bradken was contacted by a local aggregate company who had secured a multi-million dollar road construction project just north of Scunthorpe.

After a series of tests the material was deemed suitable for use as construction fill and by the end of the project (April 2014) some 218,000 tons of spent sand had been removed from site saving Bradken an estimated \$7.3 million in waste removal costs.



# MINERAL PROCESSING

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## OVERVIEW

The Mineral Processing Division is a global manufacturer of custom designed products for grinding mills, crushing and conveying equipment for the hard rock mining industry. The Division's customers include the world's largest mining companies and some OEMs, with products supplied to mining operations on five continents and over 30 countries.

Products are produced in the Division's manufacturing facilities in Australia, Malaysia and Canada as well as obtained from other Group facilities in Australia, China, the USA and the UK. The Division is the market leader in the manufacture and supply of grinding mill liners.

For the period FY14 the Division also operated a metal recycling business responsible for purchasing and processing steel feed for Bradken's foundries.

## YEAR IN REVIEW

The Division's sales decreased 6% in 2014 on lower activity by Grinding Mill OEMs as new mine developments were stalled and some mine closures took effect, particularly in the gold sector. Gross margins increased slightly from 37.7% to 37.9% (0.2% improvement) despite the large mining companies seeking cost reductions and some lower average pricing in effect for some significant new business wins in Africa and Northern Asia.

The business remains focused on reducing manufacturing costs and utilising available lower cost capacity from within the Bradken Group, with the Henderson, Western Australia foundry closure at the end of FY14 an example of this.

The Mineral Processing Division continues to implement new technologies in product development, technical support and manufacturing techniques to further differentiate its products and provide value for its customers. During the year the central Product Development/Research and Development Group made headway by defining the needs for simulating the operation of grinding mills to allow rapid development and iterations of new product designs, while the Adelaide, South Australia foundry successfully commissioned a robotic grinding cell that reduces cost of manufacture and labour for intensive and repetitive tasks where safety issues have historically occurred.

## OUTLOOK

Overall, the business direction continues to be the drive for global expansion, reflected in the new business gained throughout the period in Africa, Kazakhstan, the United States of America and Peru that helped offset the market softness and lower activity levels with existing customers.





## METAL RECYCLING

During the period the Metal Recycling business sold 32% less scrap to the previous year, primarily due to reduced production in the Australian foundries. This business remains focused on increasing its supply to all Bradken's foundries worldwide and increasing the purchased volumes of alloy scrap to reduce metal feed costs.

For FY15, Management of the Metal Recycling business has been transferred from the Mineral Processing Division and integrated into the Cast Metal Services Business.

# MINING PRODUCTS

## OVERVIEW

The Mining Products Division supplies consumable wear products to the global mining industry. These Products are manufactured in the Group's facilities in Australia, China, Canada, the United States of America and the United Kingdom.

The Division's customers include mine operators, OEMs and mining contractors in the world's major mining markets.

### *The Division manages three Businesses:*

The **Crawler Systems Business** is a leader in the design and manufacture of differentiated undercarriage componentry for mining class electric shovels and hydraulic excavators.

The **Fixed Plant Business** creates customised wear solutions through the design and manufacture of a wide range of wear resistant products to protect fixed plant equipment.

The **GET & Buckets Business** is a leader in the design and manufacture of differentiated Ground Engaging Tools (GET) and associated wear parts, dragline rigging packages and a range of buckets for dragline, front-end loader, face shovel and hydraulic excavator equipment.



## YEAR IN REVIEW

The Mining Products Division experienced difficult market conditions throughout FY14 as mining operators responded to lower commodity prices by significantly reducing capital expenditure and deferring maintenance programs to lower operating costs. As a result, total sales were down 18% on the previous year however this was offset somewhat by a 0.5% increase to gross margin.

Reduced demand for mining class excavators resulted in a marked reduction in sales of crawler systems to OEM customers for the year and an adversely affected order intake particularly in the second half. Despite these tough market conditions the Crawler Systems Business recorded an increase in direct aftermarket sales in the period, a demonstration of the quality, reliability and performance of the Business' products. The Business also benefited from the utilisation of low cost manufacturing capacity at Bradken's state-of-the-art foundry in Xuzhou, China.

Following a challenging first half year, the Fixed Plant Business recovered to enjoy a strong second half buoyed by solid demand from the Western Australian iron ore market and increasing sales of new ceramic wear liner products. The Business installed new capacity for the manufacture of wear liners at the Xuzhou facility. Full year sales were up on the previous year. Full year sales of Fixed Plant product into the Canadian Oil Sands market were also up driven by high project activity and sales of clad pipe product.

Sales revenue for the GET & Buckets Business contracted on the back of tough market conditions and reduced sales in the thermal coal market on Australia's east coast. Despite this, the Business continued to expand globally with some progress made in achieving market acceptance in the key mining regions of Brazil and North America. The Business also continued to invest strongly in product development, releasing second generation product designs (Twistlok<sup>pro</sup>, Penetrator<sup>max</sup>) which began to gain market acceptance in the second half.

## OUTLOOK

Looking forward we see mining operators maintaining and increasing production, however capital expenditure is anticipated to remain subdued. Demand for mining consumable products is expected to be in line with mining production volumes with some possible upside as mine operators recommence investment in maintenance programs and inventory levels are reduced. There are also opportunities for growth as the Division's sales presence is increased in major mining markets around the world.

The Crawler Systems business expects demand for aftermarket products to further increase in line with falling inventories. Activity is forecast to remain strong in the Western Australian iron ore market which will continue to drive up sales of Fixed Plant wear products however market conditions for the Australian coal sector are likely to remain tough. Sales for the GET & Buckets Business are expected to increase as second generation product lines achieve deeper market penetration.

The Division will continue to invest in product development and expand its presence in major mining markets around the world. The Division will also realise benefits from the relocation of product manufacture to Bradken's lower cost Chinese operation.





# RAIL



## OVERVIEW

*The Rail Division's manufactured products are used by customers in Australia to move more than 320 million tonnes of product annually. This represents more than one third of Australia's total mineral production. The Division is renowned for the supply of high quality rollingstock equipment and parts for mining, agricultural and general freight markets.*

*At present the Division's sales are Australian based and predominantly through the sale of rollingstock, with the remainder of sales coming from the supply of spare parts into the same market.*

## YEAR IN REVIEW

During 2014, 1,218 rail cars were manufactured at the Xuzhou, China facility. This represented a volume increase on the prior year. This result is in the face of the continuation of a general down turn in the resource sector. Notwithstanding current economic conditions, express parts sales in 2014 were significantly higher than the year end result of 2013.

The Australian market is now highly contested with Chinese wagon manufacturers firmly established. This coupled with lower overall demand impacts price and Bradken's opportunity to sell wagons into this market. In the circumstances therefore, the business effort has continued to focus on a shift away from a bias towards rail car manufacture towards a broader transportation solutions model with a greater focus on consumable parts, new (non-rail) transport related products, maintenance services and burgeoning overseas capital markets.

The negative consequences of a number of legacy issues have essentially now been washed through the business leaving a clean platform for growth. Favourable contract terms, highly effective cost structures and business controls have seen the work mix return acceptable margins.

## OUTLOOK

While signs are beginning to emerge (with the announcement of renewed interest in major projects such as Olympic Dam) that the resources cycle has bottomed, it is unlikely that a return to the demand levels of several years past will be seen again. The Australian market therefore is being seen very much as a source for maintenance and renewal opportunities. Given post-boom fleet size, inclusive of passenger stocks, this market is estimated in the order of \$1b per annum and while hotly contested still represents reasonable opportunity growth.

Outside of Australia opportunities loom large in a number of geographies including: Asia, the Americas and Africa and the Gulf Cooperation Council (GCC) countries. With a solid business systems platform now underpinning domestic operations a range of existing products and new products will be taken to these markets going forward.





# ENGINEERED PRODUCTS

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## OVERVIEW

The Engineered Products Division is a leading manufacturer of large, highly-engineered, complex steel castings and differentiated consumable and capital products to the mining, resource, transportation, and energy industries. The Division manages foundries throughout North America and the United Kingdom.

The Division works with OEMs, Tier 1 suppliers and design engineers to manufacture highly specialised capital products that are 'mission critical' and require first-run production integrity. With a wealth of understanding and knowledge in material handling, high-spec metallurgy, computer modeling, and non-destructive testing, the Division positions Bradken as a market leader in this field. Products are typically large castings in excess of 4,500 kg and are shipped to customers around the world.

### *The Division manages three businesses:*

The **Industrial Products Business** manufactures components predominantly for the mining and construction, rail and transit, military and dredging markets. The Business also manufactures components for specialised industrial markets, such as structural nodes for use in building construction. The Business' revenue is largely dependent upon sales to large, international OEMs who are well-known, blue-chip customers such as Caterpillar, Sulzer Pumps, EMD, Solar Turbines, and General Electric.

The **Energy Business** manufactures offshore oil and gas platform components, pumps, valves, turbines, and gas compressors for the global energy and power generation markets. The Business also manufactures military products for Tier 1 suppliers to the United States government.

The **Europe Business** specialises in the design and supply of differentiated wear consumables specific to dredge and industrial markets. Typical products include dredge GET, replacement slurry pump parts and grinding elements for coal fired power generation, cement production and other industries with equally demanding applications.

## YEAR IN REVIEW

Overall Division sales were down 26% in FY14, but second half sales were up 24% over first half sales. The Division responded to the current period of slower economic activity by reducing fixed costs, realigning workforce levels, reducing capital expenditures, and deferring discretionary spending.

Annual sales in the Industrial Products Business, the largest portion of the Engineered Products Division, were down 37% for the year as the result of continued soft demand in the mining and rail locomotive market sectors. Second half sales were however up 35% over the first half-year. Excess industry capacity and low-cost initiatives by some customers created a very competitive industrial market in the near term.

The Energy Business' annual sales declined 8% in the period, but second half sales were up 13% over the first half-year. Pricing pressure on products and services continues in the current environment with new competitors emerging in certain product lines.

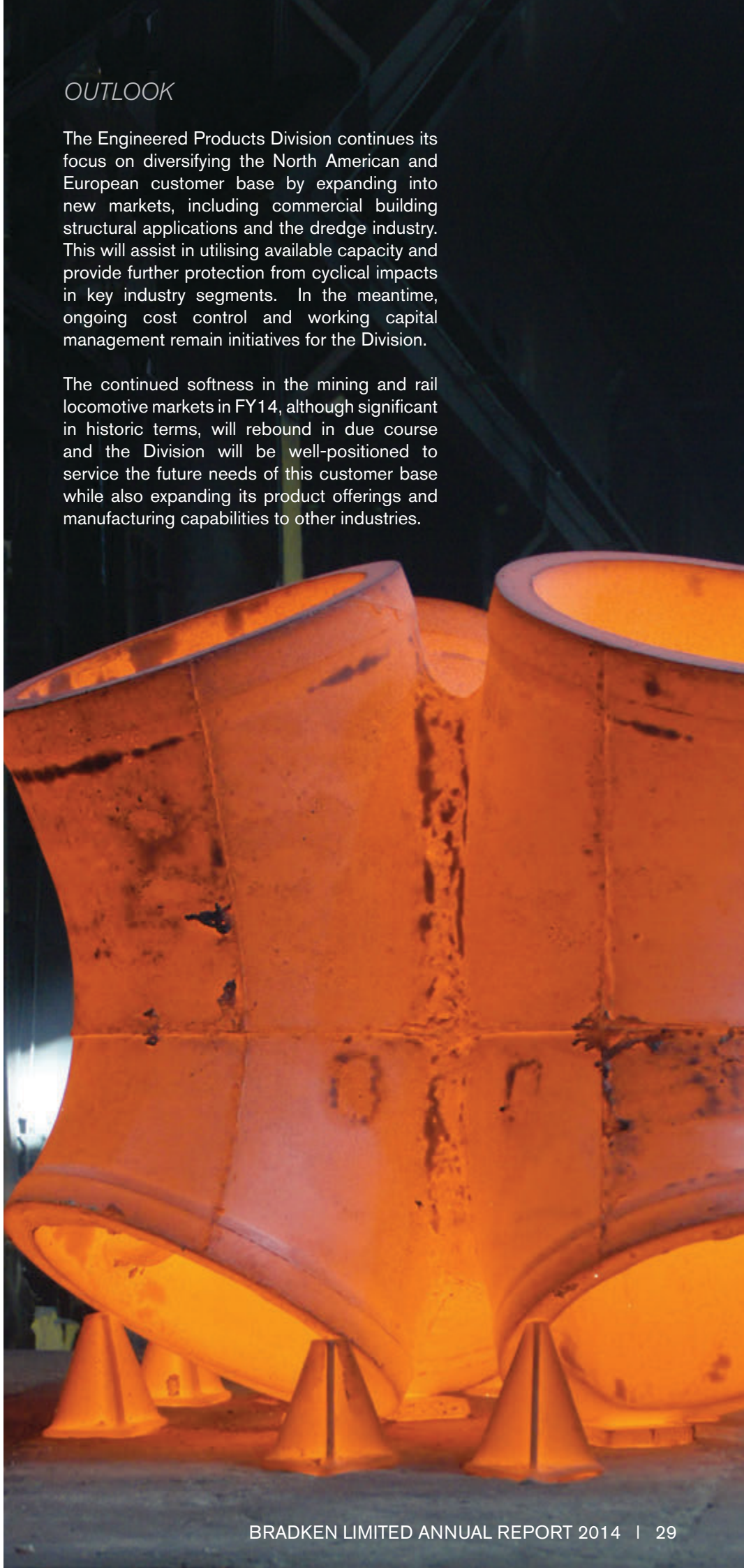
The Europe Business' sales declined 15% in the period. Whilst low-cost initiatives by some customers resulted in a very competitive environment in traditional markets and differentiated product development activities created wider opportunities in new sectors such as dredge and marine.

Management of the Alberta Oil & Gas business was transitioned from the Engineered Products Division to the Mining Products Division for FY14.

## OUTLOOK

The Engineered Products Division continues its focus on diversifying the North American and European customer base by expanding into new markets, including commercial building structural applications and the dredge industry. This will assist in utilising available capacity and provide further protection from cyclical impacts in key industry segments. In the meantime, ongoing cost control and working capital management remain initiatives for the Division.

The continued softness in the mining and rail locomotive markets in FY14, although significant in historic terms, will rebound in due course and the Division will be well-positioned to service the future needs of this customer base while also expanding its product offerings and manufacturing capabilities to other industries.





## CAST METAL SERVICES

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### YEAR IN REVIEW

*Bradken's Cast Metal Services Business is a supplier of traded and differentiated consumable products to the global cast metals industry.*

*The Business continues to leverage off the global footprint of the broader Bradken Group to increase the supply of manufactured products from the Xuzhou facility in China.*

Sales for FY14 were lower than the previous financial year due to further contraction in the resources sector and the completion of major capital expansion projects by some customers. Consequently, foundry activity and the consumption of manufacturing consumables reduced accordingly. Export orientated foundries within Australia continued to endure weak order books due to the high Australian dollar with other foundries succumbing to closure as Australian-based manufacturers continue to struggle to remain competitive. Sales in China, North America and Europe continued to gain momentum with the Business redeploying technical resources into these regions.

The installation and commissioning of the new refractory plant in Xuzhou, China has been completed with a marketing strategy implemented to take advantage of this lower cost base manufacturing. The Xuzhou facility has



already commenced exporting to Australia and Malaysia with product destined for Europe and North America in the immediate future.

On June 2, 2014 the Business was officially rebranded as Cast Metal Services (formerly CMS). The decision to rebrand was undertaken to enable a strong global brand identity, taking advantage of trademarking the Business' name to assist in the development of a visible footprint in what is a highly competitive global market place. The rebrand included the implementation of a new logo which offers a strong visual reinforcement of our core activities.

## OUTLOOK

From July 1, 2014 the Cast Metal Services Business assumed responsibility for Bradken's Metal Recycling operation. The Business is currently in the process of obtaining the necessary permits to allow export of recycled metal product to the Xuzhou foundry to maximise production efficiency and margins.

With the contracting Australian market the company has forecast growth in Europe and in particular North America with the implementation of a new sales and manufacturing structure. Sales of traded products in this region have already increased markedly during the year and the outlook is for further growth in this region where reliance on activity in the resource sector is significantly less.

For FY15, Management of the Metal Recycling Business has been integrated into the Cast Metal Services Business. The function of the Metal Recycling Business, dealing with essentially a traded product, dovetails into the current business systems of Cast Metal Services with synergy benefits relating to management costs and inventory management of ferro alloys and the metal scrap product line.





## BOARD OF DIRECTORS

Front row L-R

### MR GREGORY R LAURIE

*INDEPENDENT NON-EXECUTIVE DIRECTOR*

Appointed to the Board on 24 February 2005

*Chairman of the Audit and Risk Committee.*

Greg has extensive experience in a number of manufacturing and distribution industries. He was Finance Director of Crane Group Limited for almost 15 years until 2003. Prior to that he was the Chief Financial Officer of then top 100 listed company Rheem Australia Limited. He is an independent Non-Executive Director of Nick Scali Limited and Big River Group Pty Ltd. Greg holds a Bachelor of Commerce Degree from the University of New South Wales and an advanced management qualification from the University of Pittsburgh.

### DR EILEEN J DOYLE

*INDEPENDENT NON-EXECUTIVE DIRECTOR*

Appointed to the Board on 1 July 2011

*Member of the Audit and Risk Committee and the Chairman of the Human Resources Committee.*

Eileen has over 30 years of business experience in the materials and water industries in Australia, including senior executive roles in BHP, Hunter Water and CSR. She was a founding Director of OneSteel and on the board for 10 years. She was Chairman of Port Waratah Coal Services for 11 years. She is currently Chairman of the Hunter Valley Research Foundation, Deputy Chairman of the CSIRO and a Director of Boral Group Limited, GPT Group Limited, the Newcastle Port Corporation and various other private companies. Eileen has a PhD in Applied Statistics from the University of Newcastle, is a Fulbright Scholar and has an Executive MBA from Columbia University Business School.

## MR PHILLIP J ARNALL

### INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 13 April 2004.

#### *Member of the Audit and Risk Committee and the Human Resources Committee.*

Phil has extensive experience in the mining and steel industries in senior management positions. He was the General Manager International at Smorgon Steel Group Limited and he held various senior positions at Australian National Industries Limited including, Chief General Manager of Structural Steel Product Group, Group Chief Executive of Tube Mills and Mining Services and Group Chief Executive of ANI Products Group. He is currently Chairman of A J Lucas Group Limited and Non-Executive Director of two private companies. Phil holds a Bachelor of Commerce (Accounting) degree from University of Newcastle where he undertook postgraduate studies in Marketing and Industrial Law.

## MR NICHOLAS F H GREINER AC

### INDEPENDENT NON-EXECUTIVE CHAIRMAN

Appointed to the Board on 13 April 2004

#### *Member of the Human Resources Committee.*

Nick was Premier and Treasurer of New South Wales from 1988-1992 and has extensive experience as a corporate Director. He is currently Chairman of Accolade Wines, The Nuance Group, QBE Australia/Asia-Pacific, Rothschild Australia Limited Council of Advisors, Degremont, Deputy Chairman of CHAMP Private Equity, a Member of the Board of Governors Committee for Economic Development of Australia (CEDA) and the European Australian Business Council (EABC), and a Trustee of the Sydney Theatre Company Foundation. He is also a member of the Advisory Board for John Grill Centre for Project Leadership, Sydney University and of the Harvard Business School Asia-Pacific Advisory Board. In 1994, he was awarded a Companion of the Order of Australia for public sector reform and management and services to the community. Nick holds a Bachelor of Economics with Honours from Sydney University and a Master of Business Administration with High Distinction from Harvard Business School.

## MR BRIAN W HODGES

### MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Appointed to the Board on 13 April 2004

Brian has been Chief Executive of the Bradken business since 1997. He has guided Bradken and its culture through periods of considerable change and corporate activity with four different owners during his tenure as Chief Executive. Over the course of his career, Brian has gained extensive management and leadership experience in raw material production and processing, supply and logistics and steel manufacturing. Brian holds a Bachelor of Chemical Engineering with Honours from the University of Newcastle.

## DR DAVID SMITH

### INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 1 February 2014

#### *Member of the Audit and Risk Committee and the Human Resources Committee.*

David has extensive operational and business development experience, in particular in business integration, growth and safety. He has over 30 years of experience within Rio Tinto; until 2009 he was President of Rio Tinto Atlantic and from 2001 to 2008 was Managing Director of Rio Tinto's iron ore business in Australia. He is currently Lead Independent Director with Atlas Iron and Deputy Chairman of the WA Ballet. David has also served as President of the WA Chamber of Minerals & Energy, a Commissioner of Tourism WA, Director of the Australian Institute of Management (WA), a Councillor on the Australian Business Arts Foundation, a founding Director of Leadership WA and chaired the Federal Government's national Skills Working Group. David's formal qualifications include a Bachelor of Science and a PhD in Metallurgy from the University of New South Wales.

## MR PETER I RICHARDS

### INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 11 February 2009

#### *Member of the Audit and Risk Committee.*

Peter has over 30 years of business and international experience with global companies including BP plc, Wesfarmers Ltd, Dyno Nobel Limited and Norfolk Holdings Limited. During his time with Dyno Nobel, he successfully lead (through challenging times) the Asia Pacific operation based in Sydney followed by the North American business unit based in Utah, USA. After becoming CEO, he expanded the business into China, Southern Africa and Europe while continuing to build upon its core Australian and North American operations. Peter is currently the Chairman of NSL Consolidated Limited and Cockatoo Coal Limited, and a Non-Executive Director of Emeco Holdings Limited and Sedgman Limited. Peter holds a Bachelor of Commerce from the University of Western Australia.

# MANAGEMENT TEAM

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**MR ANDREW J ALLEN**

*GENERAL MANAGER BUSINESS DEVELOPMENT*

Andrew has been with Bradken since 1979 and was appointed to his current role as General Manager Business Development in 2011.

Andrew's previous positions include General Manager Rail from 2009, General Manager Industrial from 2004, and General Manager Mineral Processing from 1998. In his current role heading up the Corporate Strategy Group, Andrew is focused on expediting the global expansion of Bradken's manufacturing and new business opportunities. He has gained extensive manufacturing and technical expertise over the course of his career with Bradken. Andrew holds an Associate Diploma in Metallurgy from the Sydney Technical College.

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**MR KEVIN T MCDERMED**

*CHIEF OPERATING OFFICER ENGINEERED PRODUCTS*

Kevin has been with Bradken since the acquisition of AmeriCast Technologies in 2008 and was appointed to his current role as Chief Operating Officer of the Engineered Products Division in 2013.

Kevin's initial appointment with Bradken was as President of Bradken's Industrial Products Business (from 2008) and for the 17 years prior to that he served as the Chief Financial Officer of AmeriCast, and its predecessor Atchison Casting Corporation. Kevin holds a Bachelor of Science in Business Administration from Kansas State University and an MBA from Washburn University.

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**MR WAYNE G HERBERTSON**

*GENERAL MANAGER HUMAN RESOURCES*

Wayne has been with Bradken in the role of General Manager Human Resources, OHS and Systems since 2004.

Wayne is responsible for all aspects of Human Resources, Occupational Health and Safety and Management Systems. Prior to joining the Bradken business, Wayne held senior positions with Siemens and BHP Steel. Wayne holds a Master of Applied Science Metallurgy, a Bachelor of Applied Science Metallurgy and a Bachelor of Applied Science Multidiscipline from the University of Ballarat, as well as an Associate Diploma of Theology and a Diploma in Occupational Health and Safety.

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**MR STEPHEN P CANTWELL**

*GENERAL MANAGER TRANSPORT & INDUSTRIAL PRODUCTS*

Stephen has been with Bradken in the role of General Manager Rail since 2011.

As an experienced transport and logistics executive Stephen brings to Bradken a wealth of experience from a broad range of strategic, functional and customer-facing roles within multi-billion dollar national and international business environments. In his current role he is responsible for the development of the Rail Division as it evolves from a freight car manufacturer to a full service provider. Stephen holds a Business Degree majoring in Operations Research and Information Systems from the University of Southern Queensland, and a Graduate Diploma in Transport Management and Master of Business from the Royal Melbourne Institute of Technology. He is also a fellow of the Chartered Institute of Transport and Logistics and the Centre for Integrated Engineering Management.

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## MR STEVEN PERRY

### CHIEF FINANCIAL OFFICER

Steven has been with Bradken since 1990 and was appointed to his current role of Chief Financial Officer in 2011.

Steven has held a number of finance-based roles with Bradken. Prior to his appointment as CFO he was Commercial Manager of the Mining Products Division for nine years. In his current role he is responsible for finance, treasury, taxation, investor relations, investments, and audit and insurance. Steven holds a Bachelor of Commerce (Accounting) from the University of Newcastle, a Master of Business Administration (Advanced) from the University of Western Australia and is a member of CPA Australia.



## MR JOHN SAAD

### CHIEF TECHNICAL OFFICER

John has been with Bradken since 1986 and was appointed to his current role of Chief Technical Officer in 2005.

John is responsible for Bradken's technological direction, process and product innovation and advancement. He has considerable experience across Bradken's broader operations having previously occupied positions as a multi-site Manufacturing Manager, Technical and Product Development Manager for the Mineral Processing Division and Head of Rail Engineering. He assumed responsibility for the Cast Metal Services business in 2009. John holds a Bachelor of Metallurgical Engineering from the University of New South Wales.



## MR ENDA SHERIDAN

### EXECUTIVE GENERAL MANAGER MINING PRODUCTS

Enda has been with Bradken since 1990 and was appointed to his current role of Executive General Manager Mining Products in 2009.

Enda's responsibilities include the management of Bradken's Mining business (Crawler Systems, GET & Buckets and Fixed Plant) as well as the management of a number of the Company's Australian based manufacturing facilities. Prior to his current appointment he held a number of production, technical and marketing based positions. Enda holds a Bachelor of Materials Engineering from the University of Limerick and a Master of Business Administration from the University of Newcastle.



## MR BRADLEY J WARD

### EXECUTIVE GENERAL MANAGER MINERAL PROCESSING

Brad has been with the Bradken since 1984 and was appointed to his current role as Executive General Manager Mineral Processing in 2012.

Prior to this appointment Brad held a number of senior management positions for Bradken both in the United States and Australia including President Resource Products (USA) from 2009, President Bradken Products and Integration (USA) from 2008 and General Manager Mineral Processing (AUS) from 2004. He has gained extensive management, sales and marketing and manufacturing experience over his extensive career with Bradken and in his current role manages Bradken's Mineral Processing consumable products global business.





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## Full Financial Report 30 June 2014

### SECTION TWO

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# CORPORATE DIRECTORY

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## Directors

Nick Greiner, AC, B.Ec., MBA  
*Independent Non-Executive Chairman*

Brian Hodges, B.Chem.Eng. (Hons)  
*Managing Director and Chief Executive Officer*

Phil Arnall, B.Com.  
*Independent Non Executive Director*

Eileen Doyle, PhD  
*Independent Non Executive Director*

Greg Laurie, B.Com.  
*Independent Non Executive Director*

Peter Richards, B.Com.  
*Independent Non Executive Director*

David Smith, B.Sc., PhD  
*Independent Non Executive Director*

## Company Secretary and CFO

Steven Perry, B.Com. MBA, CPA

## Joint Company Secretary

David Chesterfield, MBA

## Business unit general managers

### Mining Products

Enda Sheridan, B. Materials Eng. MBA

### Mineral Processing

Brad Ward

### Engineered Products

Kevin McDermid, B. Sc, MBA

### Rail

Stephen Cantwell, B. Business (Operations Research and Information Systems)  
and Master of Business

## Notice of annual general meeting

The annual general meeting of Bradken Limited

**Will be held at** Bradken Global Corporate Centre  
Bradford Room  
20 McIntosh Drive  
Mayfield West NSW 2304

**Time** 2:30pm

**Date** Tuesday 21 October 2014

## Principal registered office in Australia

20 McIntosh Drive  
Mayfield West NSW 2304 Telephone: +61 2 4926 8200

## Share registry

Link Market Services Limited  
Level 12 680 George Street  
Sydney NSW 2000 Telephone: +61 2 8280 7519

## Auditor

Ernst & Young  
680 George Street  
Sydney NSW 2000

## Stock exchange listings

Bradken Limited shares are listed on the Australian Stock Exchange.  
The home exchange is Sydney.

## Web site address

[www.bradken.com](http://www.bradken.com)

# DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Bradken Limited and the entities it controlled at the end of, or during, the year ended 30 June 2014.

This report has been divided into the following sections:

- A. General information
- B. Corporate governance statement
- C. Operational and financial review
- D. Remuneration report
- E. Other information

## A. General information

### Directors

The following persons were directors of Bradken Limited during the whole of the financial year and up to the date of this report unless otherwise noted:

|              |                |             |             |
|--------------|----------------|-------------|-------------|
| Nick Greiner | Brian Hodges   | Greg Laurie | Phil Arnall |
| Eileen Doyle | Peter Richards | David Smith |             |

David Smith was appointed on 1 February 2014.

### Principal activities

During the year the principal activities of the Group consisted of:

- supply and service of wear components for mining and earthmoving equipment
- supply of equipment and consumables to the mineral processing, quarrying and power markets
- supply of cast, machined and fabricated components and highly engineered steel castings to the energy, industrial, oil & gas and rail transport industries
- manufacture and maintenance of freight rollingstock products
- supply of foundry consumables to the foundry and steelmaking industries

There were no major changes in the nature of the activities of the Group during the period.

### Dividends - Bradken Limited

Dividends paid to members during the financial year were as follows:

|                                                                                                                                                         | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Final dividend for the year ended 30 June 2013 of 18.0 cents (2012: 21.5 cents) per fully paid share paid on 13 September 2013 (2012: 4 September 2012) | 30,463         | 36,255         |
| Interim dividend for the year ended 30 June 2014 of 15.0 cents (2013: 20.0 cents) per fully paid share paid 21 March 2014 (2013: 14 March 2013)         | 25,386         | 33,848         |
|                                                                                                                                                         | <b>55,849</b>  | <b>70,103</b>  |

In addition to the above dividends, since the end of the financial year the directors have declared the payment of an unfranked final dividend of \$18,813,000 (11.0 cents per fully paid ordinary share) to be paid on 9 September 2014 out of retained profits at 30 June 2014.

### Significant changes in the state of affairs

There are no significant changes in the state of affairs of the Group during the financial year.

### Significant events after the balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

# DIRECTORS' REPORT (CONTINUED)

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## A. General information (continued)

### Likely developments and expected results of operations

Additional comments on expected results of certain operations of the Group are included in this annual report under the Operating and Financial Review section on pages 12 to 14.

Further disclosure on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

### Environmental regulation and performance

The Group's operations are subject to significant environmental laws and regulation. The Group has devoted and will continue to devote resources to environmental compliance and management in each of the jurisdictions in which it operates.

In Australia, the Group's energy related requirements have corporate thresholds and the Group's operations are subject to the reporting requirements of the *Energy Efficiency Opportunities Act 2006*, the *National Greenhouse and Energy Reporting Act 2007* and the *National Pollutant Inventory*.

In the USA, the Group's Atchison site will be reporting its Green House Gas (GHG) emissions as it exceeds the US Greenhouse Gas Reporting Rule threshold of 25,000 tpa CO<sub>2</sub>e. The Atchison site is also participating voluntarily in the US Department of Energy Better Plants program with a pledge to reduce energy intensity by 25% over 10 years. The Group's other US sites do not exceed the reporting threshold.

The Group's United Kingdom sites have been exempted from UK Climate Change Agreements in early 2014. The Bradken UK sites will no longer have to submit the Climate Change Agreement reports.

None of the Group's Canadian facilities exceed the 50,000 t CO<sub>2</sub>e threshold for reporting under the Canadian GHGRP program. No mandatory GHG or energy reporting requirements apply to the Group's operations in New Zealand, Malaysia or China.

The Group has established data collection systems and processes are in place to meet all requirements.

There have been no significant known breaches of the Group's obligations or environmental regulations to which it is subject.

### Information on directors

**Nick Greiner, AC, B.Ec., MBA.** *Independent Non-Executive Chairman.* Age 67.

#### **Experience and expertise**

Chairman of Bradken Limited since 2004. Extensive experience in corporate roles. Formerly, Premier and Treasurer of New South Wales.

#### **Other current directorships**

Chairman of QBE Australia, Chairman of Nuance Global Traders, Deputy Chairman of Champ Private Equity and a director of various private groups.

#### **Former directorships in the last three years**

Chairman of Infrastructure NSW and Chairman of Citigroup Australia.

#### **Special responsibilities**

Member of Human Resources Committee.

#### **Interest in shares**

371,272 ordinary shares in Bradken Limited.

**Brian Hodges, B.Chem.Eng. (Hons).** *Managing Director.* Age 60.

#### **Experience and expertise**

Managing Director of the Bradken business since 2001. Formerly General Manager of the Bradken business from 1997. Extensive management and engineering experience in Australia for BHP, Australian National Industries and the Smorgon Steel Group.

#### **Other current directorships**

None.

#### **Former directorships in the last three years**

None

#### **Special responsibilities**

Managing Director.

#### **Interest in shares and rights**

2,316,630 ordinary shares in Bradken Limited.

368,035 rights over ordinary shares in Bradken

# DIRECTORS' REPORT *(CONTINUED)*

## A. General information (continued)

**Phil Arnall, B.Com.** *Independent Non-Executive Director. Age 69.*

### **Experience and expertise**

Director of Bradken Limited since 2004. Extensive experience in mining and steel industries in management positions. Held senior management positions with Smorgon Steel Group and Australian National Industries.

### **Other current directorships**

Chairman of AJ Lucas Limited.

### **Former directorships in the last three years**

Chairman of Ludowici Limited and non-executive director of Macquarie Generation.

### **Special responsibilities**

Member of Audit and Risk Committee

Member of Human Resources Committee.

### **Interest in shares**

387,040 ordinary shares in Bradken Limited.

**Eileen Doyle, PhD** *Independent Non-Executive Director. Age 59.*

### **Experience and expertise**

Director of Bradken Limited since 1 July 2011. Over 30 years of experience in the materials and water industries in Australia, including senior executive roles in BHP, Hunter Water and CSR. A founding director of OneSteel Limited and board member for 10 years and Chairman of Port Waratah Coal Services Pty Ltd for 11 years.

### **Other current directorships**

Deputy Chairman of the CSIRO, Director of Boral Limited and the GPT Group and various other private and government groups.

### **Former directorships in the last three years**

None

### **Special responsibilities**

Member of Audit and Risk Committee

Chairman of Human Resources Committee.

### **Interest in shares**

17,650 ordinary shares in Bradken Limited.

**Greg Laurie, B.Com.** *Independent Non-Executive Director. Age 72.*

### **Experience and expertise**

Director of Bradken Limited since 2005. Extensive experience in manufacturing and distribution industries. Formerly Finance Director of Crane Group Limited and CFO of Rheem Australia Limited.

### **Other current directorships**

Independent non-executive director of Nick Scali Limited and various private groups.

### **Former directorships in the last three years**

None.

### **Special responsibilities**

Chairman of Audit and Risk Committee.

### **Interest in shares**

44,667 ordinary shares in Bradken Limited.

**Peter Richards, B.Com.** *Independent Non-Executive Director. Age 55.*

### **Experience and expertise**

Appointed Director of Bradken Limited in 2009. Over 30 years of business and international experience with global companies including BP plc, Wesfarmers Ltd, Dyno Nobel Limited and Norfolk Group.

### **Other current directorships**

Chairman and non-executive director of NSL Consolidated Limited and Cockatoo Coal Limited, and non-executive director of Emeco Holdings Limited and Sedgman Limited.

### **Former directorships in the last three years**

Chairman and non-executive director of Minbos Resources Limited and Kangaroo Resources Limited and non-executive director of Norfolk Group Limited.

### **Special responsibilities**

Member of Audit and Risk Committee.

### **Interest in shares**

42,099 ordinary shares in Bradken Limited.

# DIRECTORS' REPORT (CONTINUED)

## A. General information (continued)

**David Smith, B.Sc., PhD**, *Independent Non-Executive Director*. Age 61.

### **Experience and expertise**

Appointed director of Bradken Limited on 1 February 2014. Over 30 years of experience within Rio Tinto including 2001 to 2008 as Managing Director of its Australian iron ore business and President of Rio Tinto Atlantic until 2009.

### **Other current directorships**

Lead Independent Director Atlas Iron Limited.

### **Former directorships in the last three years**

Independent Chairman of Bannerman Resources and Independent Non-Executive Director of Macmahon Holdings.

### **Special responsibilities**

Member of Audit and Risk Committee.

### **Interest in shares**

No ordinary shares in Bradken Limited.

## **Company Secretary**

The Company Secretary is Mr Steven Perry, B.Com, MBA, CPA. Mr Perry joined the Group in 1990 and progressed through a number of financial roles most recently spending nine years as Commercial Manager Mining Products. As Company Secretary and Chief Financial Officer (CFO) Mr Perry is responsible for finance, treasury, taxation, investor relations, investments, audit and insurance. The Joint Company Secretary is Mr David Chesterfield, MBA.

## **Meetings of directors**

The number of meetings of the Company's board of directors and of each Board committee held during the year ended 30 June 2014, and the number of meetings attended by each director were:

| Director       | Full meetings of directors * |    | Audit and Risk Committee meetings |    | Human Resources Committee meetings |    | Non-executive directors meetings |    |
|----------------|------------------------------|----|-----------------------------------|----|------------------------------------|----|----------------------------------|----|
|                | A                            | B  | A                                 | B  | A                                  | B  | A                                | B  |
| Nick Greiner   | 16                           | 16 | **                                | ** | 5                                  | 5  | **                               | ** |
| Brian Hodges   | 16                           | 16 | **                                | ** | **                                 | ** | **                               | ** |
| Phil Arnall    | 15                           | 16 | 4                                 | 4  | 4                                  | 5  | 3                                | 3  |
| Eileen Doyle   | 14                           | 16 | 4                                 | 4  | 5                                  | 5  | 3                                | 3  |
| Greg Laurie    | 16                           | 16 | 4                                 | 4  | **                                 | ** | 3                                | 3  |
| Peter Richards | 15                           | 16 | 4                                 | 4  | **                                 | ** | 3                                | 3  |
| David Smith    | 5                            | 6  | 2                                 | 2  | 1                                  | 1  | 2                                | 2  |

**A** Number of meetings attended

**B** Number of meetings held during the time the director held office during the period

\* Bradken Limited does not have a fully constituted Nominations Committee, however, as and when required the full Board participates as the Nominations Committee in order to fulfill its corporate governance responsibilities

\*\* = Not a member of the relevant committee

# DIRECTORS' REPORT *(CONTINUED)*

## B. Corporate governance statement

### Principle 1 - Lay solid foundations for management and oversight

Bradken Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the ASX Corporate Governance Principles and Recommendations.

The responsibilities of the Board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy
- reviewing and approving the business plans, the annual budget and financial plans including available resources and capital expenditure initiatives
- overseeing and monitoring:
  - organisational performance and the achievement of the Group's strategic goals and objectives
  - compliance with the Company's Code of Conduct (see page 9)
  - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Group's auditors
- appointment, performance assessment and, if necessary, removal of the Managing Director
- ratifying the appointment and/or removal and contributing to the performance assessment of the members of the senior management team including the Chief Financial Officer (CFO) / Company Secretary
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives.

### Principle 2 - Structure the Board to add value

The Board operates in accordance with broad principles set out in its charter which is available from the corporate governance information section of the Company's website at [www.bradken.com](http://www.bradken.com). The charter details the Board's composition and responsibilities.

#### **Board composition**

The charter states:

- the Board comprises both executive and non-executive directors with a majority of non-executive directors, and one executive director being the Managing Director / Chief Executive Officer. Non-executive directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters
- in recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairman must be an independent non-executive director, the majority of the Board must be independent of management and all directors are required to exercise independent judgement and review and constructively challenge the performance of management
- the Chairman is elected by the full Board and is required to meet regularly with the Managing Director
- the Company is to maintain a mix of directors from different backgrounds with complementary skills and experience both nationally and internationally with a majority of directors having knowledge of the Group or related industries and/or financial expertise
- the Board is required to undertake an annual Board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the Board is conducive to effective discussion and efficient decision-making.

# DIRECTORS' REPORT (CONTINUED)

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## **B. Corporate governance (continued)**

### ***Directors' independence***

The Board has adopted specific principles in relation to directors' independence. These state that when determining independence, a director must be a non-executive and the Board should consider whether the director:

- holds less than 5% of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than 5% of the voting shares of the Company
- has not within the last three years been employed in an executive capacity by the Company or another Group member
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member
- is not a material supplier to or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer
- has no material contractual relationship with the Company or another Group member other than as a director of the Company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Group
- has not served on the Board of the Group for a period which could materially interfere with the Director's ability to act in the best interests of the Group.

The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

### ***Board members***

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "Information on directors" in Section A. As at the date of this report the Board of the Company comprises five non-executive directors, all of whom are considered independent under the principles set out above, and the Managing Director.

### ***Non-executive directors***

The five non-executive directors met twice during the year, in scheduled sessions without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings were shared with the full Board.

### ***Term of office***

The Board Charter recommends a maximum period of 12 years service as a director, subject to re-elections every year by rotation such that 1/3 of the directors are subject to re-election each year.

The Company's Constitution specifies the tenure of the Managing Director on the Board is limited to that of his Executive Office.

### ***Chairman and chief executive officer (CEO)***

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives. In accepting the position, the Chairman has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chairman.

The Board charter specifies that these roles are separate to be undertaken by separate people. The CEO is responsible for implementing Group strategies and policies.

### ***Induction***

The induction provided to new directors and senior managers enables them to actively participate in Board decision-making as soon as possible. It ensures that they have a full understanding of the Company's financial position, strategies, operations, culture, values and risk management policies. It also explains the respective rights, duties, responsibilities, interaction and roles of the Board and senior executives, the role of the Board committees and the Company's meeting arrangements.

# DIRECTORS' REPORT *(CONTINUED)*

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## **B. Corporate governance (continued)**

### ***Commitment***

The Board has established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds nine scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director and Company Secretary. Standing items include the Managing Director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time to discharge their responsibilities to the Company.

### ***Conflict of interest***

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group.

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

There were no director related entity transactions with companies of the Group.

### ***Independent professional advice***

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice from a suitably qualified adviser at the Group's expense. Prior approval from the Chairman is required, but this will not be unreasonably withheld.

### ***Performance assessment***

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. Management are invited to contribute to this appraisal process. The results and any action plans are documented. The most recent assessment was undertaken in November 2013.

The Chairman meets privately with each director to discuss this assessment and their individual situation.

### ***Board committees***

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Human Resources Committee and the Audit and Risk Committee. Each is comprised entirely of non-executive directors. The committee structure and membership is reviewed on an annual basis and a policy of rotation of committee members applies as considered appropriate by the Chairman.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Company website. All matters determined by the committees are submitted to the full Board as recommendations for Board decisions.

Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Bradken Limited does not have a fully constituted Nominations Committee, however, as and when required the full Board participates as the Nominations Committee in order to fulfill its corporate governance responsibilities in regard to:

- Board appointments and performance;
- Directors' induction program;
- Committee membership;
- Other relevant matters.

The full Board undertakes the functions of a Nominations Committee as described in the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

### ***Audit and Risk Committee***

The Company also has an Audit and Risk Committee, see page 10 for details.

# DIRECTORS' REPORT (CONTINUED)

## B. Corporate governance (continued)

### Principle 3 - Promote ethical and responsible decision making

#### Code of conduct

The Company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity and to take into account legal obligations and reasonable expectations of the Company's stakeholders.

All directors, managers and employees are expected to act with the utmost integrity, objectivity and in compliance with the letter and spirit of the law and Group policies, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

The Group has advised each director, manager and employee that they must comply with the Group's Whistleblower Policy. The Policy covers the following:

- encouraging employees to report any behaviour that may be dishonest, fraudulent, corrupt, illegal, in breach of Commonwealth or State Legislation, unethical, improper, unsafe or any other behaviour that may cause financial or non-financial loss to the Group or would be otherwise detrimental to the interests of the Group
- ensuring that the Group complies with its obligations to protect the reporter of any such behaviour.

The Company also has a Securities Trading Policy which details the insider trading provisions of the Corporations Act 2001. In summary, trading of the Company's shares is restricted to a period of six weeks after the release of the Group's half-year and annual results to the Australian Stock Exchange (ASX), the Annual General Meeting of the Company, at any time a prospectus or similar disclosure document has been lodged with ASIC and is open for acceptances and at such other times as the Board of Directors declare trading permissible. These windows are not available to individuals that possess inside information.

A copy of the Code, the Whistleblower Policy and the Securities Trading Policy are available on the Company's website.

#### Diversity and equality policy

The Group recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. The Group has established an Equal Opportunity and Diversity Policy, a copy of which can be accessed from the Company's website.

The Group believes its diverse workforce is the key to its continued growth, improved productivity and performance. The Group actively values and embraces the diversity of its employees and is committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated.

While the Group is committed to fostering diversity at all levels, gender diversity has been and continues to be a priority for the Group. The Board has not established any specific measurable objectives in terms of percentage of women employed, however, the Group's objective is to increase gender diversity throughout all levels of the organisation. This proactive approach begins at the recruitment phase but also is an important consideration in internal promotion, training and development activities.

The following statistics are provided outlining the percentage of women employed throughout the Group at the end of the current and previous financial year end.

|                                                  | 2014   |     | 2013   |     |
|--------------------------------------------------|--------|-----|--------|-----|
|                                                  | Number | %   | Number | %   |
| Number of women on the board                     | 1      | 14% | 1      | 17% |
| Number of women in senior management positions * | 3      | 4%  | 3      | 4%  |
| Number of women in all positions                 | 388    | 8%  | 406    | 8%  |

\* The percentage is expressed as the proportion of available positions in the described category.

#### Promote ethical and responsible decision making

The Group recognises the importance of integrating the Company's values and Code of conduct into a transparent social responsibility culture of compliance to meet the expectations of its stakeholders, which is described in the Company's Corporate Social Responsibility Policy.

The policy sets out the social principles, responsibilities, guidelines and features of the Company's social responsibility policy in compliance with Australian Standard AS8003 "Corporate Social Responsibility".

Management recognises that our social, economic and environmental responsibilities to our stakeholders are integral to our business and the Company aims to demonstrate these responsibilities through our actions and within our corporate policies.

# DIRECTORS' REPORT *(CONTINUED)*

## **B. Corporate governance (continued)**

### **Principle 4 - Safeguard integrity in financial reporting**

#### ***Audit and Risk Committee***

It is the Board's responsibility to ensure that an effective internal control framework exists within the Group. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information.

The Board has an Audit and Risk Committee which operates under a charter approved by the Board. The Board has delegated overseeing the establishment and maintenance of a framework of internal control, risk management and ethical standards to the Audit and Risk Committee. The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit and Risk Committee are non-executive directors. The charter under which the Audit and Risk Committee operates is available on the Company website.

The Audit and Risk Committee meets with the external and internal auditors on a regular basis. It reviews its performance and effectiveness periodically and reviews its charter and makes recommendations to the Board on its charter annually.

The Audit and Risk Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The members of the Audit and Risk Committee during the year were:

Greg Laurie (Chairman)

Phil Arnall

Eileen Doyle

Peter Richards

David Smith

Details of these directors attendance at Committee meetings are set out in the directors' report on page 5.

#### ***External auditors***

The Group policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. Ernst & Young was appointed as the external auditor in 2013. It is Ernst & Young's policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 26 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit and Risk Committee.

The external auditor is required to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

### **Principle 5 and 6 - Make timely and balanced disclosures and respect the rights of shareholders**

#### ***Continuous disclosure and shareholder communication***

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which focuses on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. The Company's procedures also include arrangements the company has in place to promote communication with shareholders and encourage effective participation at general meetings. Full details of the Continuous Disclosure Policy is available on the Company's website.

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules.

All shareholders can elect to receive a copy of the Group's annual report. In addition the Company seeks to provide opportunities for shareholders to participate through electronic means. All Company announcements, media briefings, details of Company meetings and press releases are available on the Company's website. All of the above information is made available on the Company's website within one day of public release, and is emailed to all shareholders who lodge their email contact details with the Company. Information on lodging email addresses with the Company is available on the Company's website.

# DIRECTORS' REPORT (CONTINUED)

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## **B. Corporate governance (continued)**

### **Principle 7 - Recognise and manage risk**

#### ***Risk assessment and management***

Bradken is committed to managing risk to protect its people, the environment, Group assets, the community and its reputation. Bradken operates an Enterprise Risk Management process consistent with international standards to manage its business risk. This risk-based system helps the Group operate effectively and efficiently, achieve business objectives, ensure reliable reporting and comply with applicable laws and regulations.

The Board implements this policy by overseeing the establishment and implementation of the risk management system through the Audit and Risk Committee, reviewing the effectiveness of the Group's implementation of that system.

A copy of the Group's Risk Management Policy is available on the Company website.

Not all aspects of risk management can be formalised and Bradken places considerable reliance on the skill, experience and judgement of its people to make risk based decisions within the policy framework, and to communicate openly on all risk related matters.

#### ***Corporate reporting***

The Managing Director and the CFO have made the following certifications to the Board:

- that the Group's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Group's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

### **Principle 8 - Remunerate fairly and responsibly**

#### ***Human Resources Committee***

The members of the Human Resources Committee during the year were:

Eileen Doyle (Chairman)

Nick Greiner

Phil Arnall

Details of these directors attendance at Committee meetings are set out in the directors' report on page 5.

The Human Resources Committee operates in accordance with its charter which is available on the Company website. The Human Resources Committee assists the Board to exercise sound governance in Human Resources matters. It oversees policies and makes recommendations to the Board in the areas of employment, remuneration and health, safety and the environment. The committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions. This includes overseeing processes in relation to meeting diversity objectives for executives and staff below board level.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' report under the heading 'Remuneration Report'.

# DIRECTORS' REPORT *(CONTINUED)*

## C. Review of operations

### Operating and Financial Review

|                               | 2014       | 2013       | Change |
|-------------------------------|------------|------------|--------|
| NPAT                          | \$21.5m    | \$66.9m    | (68%)  |
| EBITDA                        | \$143.0m   | \$183.6m   | (22%)  |
| Underlying NPAT               | \$55.1m    | \$96.1m    | (43%)  |
| Underlying EBITDA             | \$173.3m   | \$214.0m   | (19%)  |
| Underlying EBITDA Margin      | 15.3%      | 16.3%      |        |
| Sales Revenue                 | \$1,135.2m | \$1,313.1m | (14%)  |
| Operating Cash Flow           | \$155.1m   | \$217.6m   | (29%)  |
| Underlying Earnings per Share | 32.4 cents | 56.8 cents | (43%)  |
| Dividends per Share           | 26.0 cents | 38.0 cents | (32%)  |

The Company recorded a net profit after tax for the year ended 30 June 2014 of \$21.5 million, well down on the previous year. However, this profit was after adjustments for manufacturing restructure costs of \$41.2 million, FX losses of \$15.5 million, a favourable Pala settlement adjustment of \$13.3 million and costs of acquisitions that did not proceed (including legal costs) of \$6.5 million.

While statutory EBITDA was \$143.0 million, underlying EBITDA before these one-off costs was \$173.3 million, a decrease of 19% on the previous year. This result was achieved in an environment in which mining companies were focused on maximising cash returns from existing assets, leading to depressed demand. Bradken continued with fundamental changes in market positioning such as through the ongoing development of a competitive ground engaging tool range of products and focusing its Crawler Systems Business towards a broader product range and direct selling.

Sales revenue, as a result of reduced sales of rail wagon products, sales to mining OEMs and mining services, was down 14% to \$1,135.2 million, with margin percentages to sales slightly increasing, which demonstrates the strength of the Company's consumable products focus and the defensibility of its margins.

### Key Outcomes

- Achieved an underlying EBITDA for the year ended 30 June 2014 of \$173.3 million, which was in line with the guidance given in April 2014, but 19% down on the previous year due to the downturn in the resources capital products market
- Well past the de-stocking and order cancellation stage in the last quarter of FY13 with improved order intake levels from that low point remaining stable throughout the year
- Despite pricing pressure in some key markets, the company achieved 33.3% gross margin in the period, up from 32.7%, by moving work to lower cost facilities
- Maintained overheads up until April 2014 in the hope of a quick rebound in the mining consumable and capital products market and have since implemented plans to restructure manufacturing operations and supporting overheads to take account of the new reality and advantage of previously installed low cost capacity
- Completed closure of Henderson, Mittagong, Naval Base and Muswellbrook facilities and the Welshpool foundry is being wound down
- Generated Strong Free Cash Flow, resulting in a 13% Net Debt reduction from \$431.5 million to \$377.2 million
- Final dividend of 11.0 cents unfranked declared, payable on the 9<sup>th</sup> September 2014, taking the total dividend for the year to 26 cents unfranked

### Mining Products Division

The Mining Products Division supplies consumable wear products to the global mining industry. Products include Ground Engaging Tools (GET), Crawler System products for hydraulic mining excavators and electric rope shovels and wear solutions for mining fixed plant equipment including plate, block, rubber and ceramic products. These are produced in the Company's manufacturing facilities in Australia, China, Canada, the USA and the UK. The Division also produces wear pipe products and fabrications for customers in the northern oil sands region of Alberta, Canada and has foundry capacity in the United Kingdom to serve European markets.

Due to difficult market conditions, sales revenue of \$339 million was down 18% on the prior year but gross margin was increased from 34.1% to 34.6% in the highly competitive market. Lower commodity prices had a significant impact on the mining market, with substantial reductions in capital expenditure and deferment of maintenance projects in the period.

# DIRECTORS' REPORT (CONTINUED)

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## C. Review of operations (continued)

### Operating and Financial Review (continued)

#### ***Mining Products Division (Continued)***

A drop in demand from the Australian coal market was the main contributor to the reduction in sales revenue for the Ground Engaging Tools & Buckets Business which was down 14%.

Sales for the Crawler System Business were down 47% due to significantly reduced sales to OEMs as demand for new equipment stalled, offset by an increase in sales of replacement products in the period. The lower capital expenditure on new mining equipment adversely impacted order intake and sales of crawler system products, particularly in the second half.

The Fixed Plant Business' sales were up 11% with strong demand from the Western Australian iron ore market in the second half. The Canadian Oil & Gas Business' sales increased 10% due to high project activity.

#### ***Mineral Processing Division***

The Mineral Processing Division is a global manufacturer of custom designed products for grinding mills, crushing and conveying equipment for the hard rock mining industry. The Division's customers include the world's largest mining companies and some OEMs, with products supplied to mining operations on five continents and in over 30 countries. Products are manufactured in the Division's manufacturing facilities in Australia, Malaysia and Canada as well as being obtained from other Company manufacturing facilities in Australia, China, the USA and the UK. The Division is the market leader in the manufacture and supply of grinding mill liners.

Sales of \$236 million were down 6% on last year due to lower activity by OEMs as new mine developments were put on hold and some mines closed, predominantly in the gold sector and these factors were not totally offset by new business won. Margins increased by 0.2% while price pressure from mining companies remained. Significant product cost reductions have and are being addressed. These include closure of the Henderson foundry and the implementation of some automation in the remaining mill liner plants.

Business focus includes the introduction of new differentiated products into existing and target markets, with success in winning new customers in Zambia, Ghana, Mali, Kazakhstan, China, the US and Peru set to provide strong growth as that business ramps up on a full year basis.

#### ***Engineered Products Division***

The Engineered Products Division is a leading North American designer and manufacturer of large, highly-engineered steel castings and differentiated consumable products to the mining, resource, transportation, and energy industries. The Division also has foundry capacity in the United Kingdom to serve European markets. The Division is a leader in the North American market for large steel castings (over 4,500kg) and complex steel castings and has an approximate 40% share of the US large steel castings market.

Overall sales of \$257 million for the Division were down 17% from the previous year. This net change resulted from a continued slow-down in mining and locomotive rail product lines, which began in the latter half of calendar year 2012. Year-on-year sales were down 43% in the first half and 3% in the second half.

The Energy Business' annual sales declined 3%, with the majority of it occurring the second half of FY14. UK revenues were down 6%. General and administrative expenses for the division were down 32% compared with the prior year, driven by a number of cost reduction initiatives.

The Division has responded to the reduction in demand in F14 by reducing the workforce approximately 15% from the level at the end of F13. Additionally fixed costs and discretionary expenses have been reduced and will continue to be challenged throughout this period of slower economic activity.

#### ***Rail Division***

The Rail Division's products are used by customers in Australia to move more than 320 million tonnes of product annually. This represents more than one third of Australia's total mineral production. The Division is renowned for the supply of high quality rollingstock equipment and parts for mining, agricultural and general freight markets.

Overall, sales of \$206 million were down approximately 7% on FY13, however more favourable contract terms, better cost structures and tighter business controls deployed over the last two years, have delivered much higher margins. While growth remains slow for capital items, strong growth prospects continue to emerge in markets for parts and service, where many customers are returning to Bradken on the basis of the Company's superior quality.

Safety, quality, delivery and cost enhancements have been delivered into the Division's manufacturing facility in Xuzhou, China during FY14 with the introduction of further automation in fabrication and the broadening of product capability to include truck trays, buckets and rubberised ceramics.

# DIRECTORS' REPORT *(CONTINUED)*

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## C. Review of operations (continued)

### Operating and Financial Review (continued)

#### **Business Risks**

The Company maintains a proactive Risk Management System, which identifies potential risks by site, business, region and function, by actively pursuing the minimisation of identified business interruption risks. While each of the Company's Divisions has its own discrete business risks, as a group, the Company's Executive Management Team identify high level business risks with the potential of having a material impact on the financial prospects of the Company. The most significant business risks for fiscal 2015 are associated with further cost cutting by major mining customers and any significant faltering in USA economic recovery.

#### **Business Strategies and Outlook**

The Bradken vision, mission and business model continues to shape our business strategies. The Bradken business model focuses on the creation of differentiated consumable products and the sales of their value to its customers. There is a strong belief that the model can be adapted to our "consumable" markets, leading to end market diversification. A number of acquisition opportunities were explored in 2014 and continue to be a key strategic initiative. Bradken has continued to enhance its robust, bottom-up business planning program, which results in multiple growth initiatives being assessed and implemented as each new opportunity arises.

The end of the mining capital cycle has led to a number of acquisitions and consolidation opportunities becoming available in supply to the resources sector, which could be successfully integrated with Bradken and bolster the Company's presence in major mining regions globally. Production volumes in major commodity sectors remain strong with the exception of east coast Australian thermal coal. Iron ore and copper in particular, have grown strongly over the past year with this growth forecast to continue.

The steady recovery of the US economy is expected to improve non-mining business performance in that geographic market. The Australian manufacturing industry remains in decline and this is a trend which is forecast to continue.

The Company's business strategy for the mining industry remains focused on growing the mining consumables business by designing, manufacturing and selling differentiated consumable wear products throughout the major global mining regions. A number of discrete strategies are being implemented to aid this focus including:

- expanding our sales presence direct to mining customers throughout the world;
- new product design and innovation;
- further reducing manufacturing costs; and
- the global distribution network to include targeted stock holdings in key mining regions to support direct sales.

# DIRECTORS' REPORT (CONTINUED)

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## D. Remuneration report

The remuneration report is set out under the following main headings:

- |                                                                        |                              |
|------------------------------------------------------------------------|------------------------------|
| (a) Introduction                                                       | (d) Service agreements       |
| (b) Principles used to determine the nature and amount of remuneration | (e) Share-based compensation |
| (c) Key management personnel remuneration disclosure                   | (f) Additional information   |

### (a) Introduction

The information provided under headings (b) to (e) includes the remuneration disclosures that are required under the Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. Information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

This report details the Bradken Group's remuneration objectives, practices and outcomes for Non-Executive Directors, the Managing Director / Chief Executive Officer and other key management personnel of the Group for the year to 30 June 2014.

Consistent with the Company's normal process, external consultants AON Hewitt were again contracted to provide remuneration advice to the Human Resources Committee. In the 2014 financial year AON Hewitt provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001* and was paid \$19,080 for these services (2013: \$25,000). AON Hewitt have confirmed the above recommendations were made free from undue influence by members of the Group's key management personnel.

There were no changes to the remuneration framework in the current period compared to the previous period.

### Role of the Human Resources Committee

The Human Resources Committee is a Committee of the Board. It assists the Board to exercise sound governance in Human Resources matters. In the Remuneration area it is primarily responsible for making recommendations to the Board on:

- Non-Executive Director fees
- remuneration levels of the Managing Director, executive directors and other key management personnel; and
- the over-arching executive remuneration framework and incentive plans.

Its objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company. In doing this, the Human Resources Committee seeks advice from independent remuneration consultants.

The Corporate Governance Statement provides further information on the role of this Committee.

### Voting and comments made at the company's 2013 Annual General Meeting

Bradken Limited received more than 92% of "yes" votes on its remuneration report for the 2013 Financial year.

The Company did not receive any specific feedback at the AGM. No other correspondence was received throughout the year pertaining to the remuneration report.

### (b) Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance whilst maintaining competitiveness with the market and appropriateness for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward.

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

## **D. Remuneration report (continued)**

### **(b) Principles used to determine the nature and amount of remuneration (continued)**

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided as rights over ordinary shares of Bradken Limited under the rules of the Performance Rights Plan (PRP).

No key management personnel has entered into any arrangement to limit the exposure or risk related to their remuneration.

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- AON Hewitt was engaged by, and reported directly to, the chair of the Human Resources Committee. The agreement for the provision of remuneration consulting services was executed by the chair of the Human Resources Committee under delegated authority on behalf of the Board;
- The report containing the remuneration recommendations was provided by AON Hewitt directly to the chair of the Human Resources Committee; and
- AON Hewitt was permitted to speak to management throughout the engagement to understand Group processes, practices and other business issues and obtain management perspectives. However, AON Hewitt was not permitted to provide any member of management with a copy of their draft or final report that contained the remuneration recommendations.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

In addition to providing remuneration recommendations, AON Hewitt also provided advice on other aspects of the remuneration of the Group's employees.

### **Non-executive directors**

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board also uses the advice of independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market.

#### *(i) Directors' fees*

The current base remuneration was last reviewed with effect from 1 October 2011. Total aggregate remuneration for all Non-Executive Directors, last voted upon by shareholders in October 2011, is not to exceed \$1,200,000 per annum and actual amounts payable to individual directors are determined after considering advice from external advisors and with reference to fees paid to other non-executive directors of comparable companies.

Directors' base fees are presently \$130,000 (2013: \$130,000) per annum. The Chairman's fee is currently \$280,000 (2013: \$280,000) per annum. Non-Executive directors do not receive performance related remuneration. Directors' fees cover all main Board activities and membership of any Board committee.

In recognition of the prevailing external economic market conditions, the Chairman, the Non-Executive Directors and the Managing Director decided to voluntarily forego fee and salary increases in the period to 30 June 2014.

#### *(ii) Non-Executive Director Share Acquisition Plan*

Non-Executive Directors may elect to have a percentage of their annual fixed directors' fees provided in shares under the Non-Executive Director Share Acquisition Plan (NED plan). Participation in the NED plan is voluntary.

### **Executive pay**

In addition to base pay, at risk short-term salary and benefits including superannuation, key management personnel are invited to participate in a long term (3 year) incentive scheme. The combination of these comprise total remuneration.

#### *(i) Base pay and benefits*

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion it includes contributions to employee superannuation funds.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market and reflects the individual's performance. An executive's pay is also reviewed on promotion.

Each year the Board sets the job goals for the Managing Director. The senior executives' job goals are set and managed by the Managing Director. The job goals are focused on the growth of the business and generally include measures relating to the Group, the relevant business unit, and the individual, and include financial, people, customer, strategy and risk measures. The measures are chosen to directly align the individual's reward to the goals of the Group and to its strategy and performance.

# DIRECTORS' REPORT (CONTINUED)

## D. Remuneration report (continued)

### (b) Principles used to determine the nature and amount of remuneration (continued)

#### (ii) At risk short-term salary

At the end of the financial year an assessment is made of the actual performance of the Group, the relevant business unit and the individual targets set at the beginning of the financial year. A percentage of the at risk short-term salary is awarded depending on performance. At risk short-term salary is not awarded where there is no year on year growth for the financial year.

The at risk short-term salary is paid wholly on actual improvement in profitability. The value of the at risk short-term salary payable is set within a range of 30% to 60% of the executive's total cash base remuneration depending on the position held by the executive. In calculating the at risk short-term salary the growth in year on year NPAT is calculated and where applicable the EBITDA of the executive's business. To achieve the full at risk short-term salary value a growth of 15% on the previous year profitability must be achieved.

The Human Resources Committee recommends the at risk short-term salary to be paid to the Managing Director for approval by the Board. For other senior executives the Managing Director recommends the at risk short-term salary to be paid, and seeks approval from the Human Resources Committee.

#### (iii) Long-term incentives - Performance Rights Plan

The Group's long-term incentive, the Performance Rights Plan, focuses on rewarding for long-term growth and the retention of key people. Information on the Performance Rights Plan is set out on page 20.

The long-term incentive (LTI) is paid wholly on relative total shareholder return (TSR) performance over a 3 year period. The initial rights are provided based on a set range of 30% to 50% of the executive's total cash base remuneration depending on the position held by the executive. No rights vest to the executive if Bradken's TSR over a 3 year period is below 50% of the ASX Small Ordinaries Index and no re-testing occurs.

### (c) Key management personnel remuneration disclosure

The key management personnel of Bradken Limited and the Group are the directors of Bradken Limited (see page 2), the Chief Financial Officer and the General Managers and Chief Operating Officer of the Bradken business units who report directly to the Managing Director. The executives are:

- Andrew Allen - *General Manager Corporate Development*
- Kevin McDermid - *Chief Operating Officer Engineered Products* (appointed 15 October 2013)
- Stephen Cantwell - *General Manager Rail*
- Steven Perry - *CFO and Company Secretary*
- Enda Sheridan - *Executive General Manager Mining Products*
- Brad Ward - *Executive General Manager Mineral Processing*

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Bradken Limited and the Bradken Limited Group are set out in the following tables.

The values in column (A) of each table below are remuneration as defined in Australian Accounting Standard AASB2 *Share-based payment*. This consists of share rights. These values are calculated based on a Black Scholes valuation of the rights in the year in which they are granted and are amortised over the performance period to which they relate, which is typically a 3 year period. The degree to which performance conditions will be met is unclear until the end of the relevant performance periods. There is no certainty performance conditions will be met and there is therefore no direct correlation of these values to the remuneration received by the executive in any period.

The values in column (B) of each table shows the value of the rights that were granted to the executive for the performance periods 1 July 2011 to 30 June 2014 (2014) and 1 July 2010 to 30 June 2013 (2013).

For the performance period 1 July 2011 to 30 June 2014 the performance conditions were not met and no rights are eligible to vest for that period.

# DIRECTORS' REPORT (CONTINUED)

## D. Remuneration report (continued)

| 2014                                               | Short-term employee benefits |                              |                          | Post-employment benefits | Long-term benefits            | Share-based payment allocation (A) | Share-based payment (B)            |
|----------------------------------------------------|------------------------------|------------------------------|--------------------------|--------------------------|-------------------------------|------------------------------------|------------------------------------|
|                                                    | Cash salary and fees \$      | At risk short term salary \$ | Non-monetary benefits \$ | Super-annuation \$       | Long service leave accrued \$ | Share Rights accrued in period \$  | Share Rights to vest for period \$ |
| <i>Non-executive directors</i>                     |                              |                              |                          |                          |                               |                                    |                                    |
| Nick Greiner - Chairman                            | 280,000                      | -                            | -                        | -                        | -                             | -                                  | NIL                                |
| Phil Arnall                                        | 130,000                      | -                            | -                        | -                        | -                             | -                                  | NIL                                |
| Eileen Doyle                                       | 118,993                      | -                            | -                        | 11,007                   | -                             | -                                  | NIL                                |
| Greg Laurie                                        | 118,993                      | -                            | -                        | 11,007                   | -                             | -                                  | NIL                                |
| Peter Richards                                     | 118,993                      | -                            | -                        | 11,007                   | -                             | -                                  | NIL                                |
| David Smith                                        | 49,581                       | -                            | -                        | 4,586                    | -                             | -                                  | NIL                                |
| <b>Sub-total non-executive directors</b>           | <b>816,560</b>               | <b>-</b>                     | <b>-</b>                 | <b>37,607</b>            | <b>-</b>                      | <b>-</b>                           | <b>NIL</b>                         |
| <i>Executive directors</i>                         |                              |                              |                          |                          |                               |                                    |                                    |
| Brian Hodges                                       | 1,394,124                    | -                            | -                        | 35,348                   | 23,771                        | 503,913                            | NIL                                |
| <i>Other key management</i>                        |                              |                              |                          |                          |                               |                                    |                                    |
| Andrew Allen                                       | 408,633                      | -                            | -                        | 24,749                   | 7,076                         | 117,392                            | NIL                                |
| Tom Armstrong**                                    | 143,956                      | -                            | -                        | 9,905                    | -                             | 75,101                             | NIL                                |
| Stephen Cantwell                                   | 446,035                      | -                            | -                        | 23,174                   | 4,364                         | 180,488                            | NIL                                |
| Kevin McDermid***                                  | 330,555                      | -                            | -                        | 21,307                   | -                             | 71,873                             | NIL                                |
| Steven Perry                                       | 414,342                      | -                            | -                        | 25,144                   | 31,744                        | 95,135                             | NIL                                |
| Enda Sheridan                                      | 618,704                      | -                            | -                        | 20,393                   | 35,003                        | 216,394                            | NIL                                |
| Brad Ward                                          | 390,435                      | -                            | -                        | 20,210                   | 29,801                        | 125,657                            | NIL                                |
| <b>* Total key management compensation (group)</b> | <b>4,963,344</b>             | <b>-</b>                     | <b>-</b>                 | <b>217,837</b>           | <b>131,759</b>                | <b>1,385,953</b>                   | <b>NIL</b>                         |

\* The payment of at risk short-term salary has significantly reduced when compared to the previous year. In addition no share rights vested for the period. This is reflective of the quantum of year on year growth achieved and the current share price performance of Resource related stocks.

\*\* Tom Armstrong retired on 15 October 2013, values reported are for the period 1 July to 15 October 2013.

\*\*\* Kevin McDermid was appointed Chief Operating Officer Engineered Products on 15 October 2013. Before this appointment he was President Engineered Products. The amounts shown above include all Mr McDermid's remuneration during the reporting period. Amounts received as President Engineered Products were Cash Salary \$246,832, Superannuation \$15,354 and Share Rights \$NIL.

| 2013                                               | Short-term employee benefits |                              |                          | Post-employment benefits | Long-term benefits            | Share-based payment allocation (A) | Share-based payment (B)            |
|----------------------------------------------------|------------------------------|------------------------------|--------------------------|--------------------------|-------------------------------|------------------------------------|------------------------------------|
|                                                    | Cash salary and fees \$      | At risk short term salary \$ | Non-monetary benefits \$ | Super-annuation \$       | Long service leave accrued \$ | Share Rights accrued in period \$  | Share Rights to vest for period \$ |
| <i>Non-executive directors</i>                     |                              |                              |                          |                          |                               |                                    |                                    |
| Nick Greiner - Chairman                            | 280,000                      | -                            | -                        | -                        | -                             | -                                  | NIL                                |
| Phil Arnall                                        | 130,000                      | -                            | -                        | -                        | -                             | -                                  | NIL                                |
| Eileen Doyle                                       | 119,266                      | -                            | -                        | 10,734                   | -                             | -                                  | NIL                                |
| Greg Laurie                                        | 119,266                      | -                            | -                        | 10,734                   | -                             | -                                  | NIL                                |
| Vince O'Rourke                                     | 62,500                       | -                            | -                        | -                        | -                             | -                                  | NIL                                |
| Peter Richards                                     | 119,266                      | -                            | -                        | 10,734                   | -                             | -                                  | NIL                                |
| <b>Sub-total non-executive directors</b>           | <b>830,298</b>               | <b>-</b>                     | <b>-</b>                 | <b>32,202</b>            | <b>-</b>                      | <b>-</b>                           | <b>NIL</b>                         |
| <i>Executive directors</i>                         |                              |                              |                          |                          |                               |                                    |                                    |
| Brian Hodges                                       | 1,334,924                    | -                            | 9,429                    | 74,864                   | 40,048                        | 456,979                            | NIL                                |
| <i>Other key management</i>                        |                              |                              |                          |                          |                               |                                    |                                    |
| Andrew Allen                                       | 399,083                      | -                            | 3,860                    | 29,150                   | 11,972                        | 112,930                            | NIL                                |
| Tom Armstrong**                                    | 403,544                      | -                            | -                        | 32,075                   | -                             | 114,565                            | NIL                                |
| Stephen Cantwell                                   | 439,268                      | -                            | 359                      | 25,458                   | 13,178                        | 130,871                            | NIL                                |
| Steven Perry                                       | 388,734                      | -                            | -                        | 25,266                   | 11,662                        | 63,372                             | NIL                                |
| Enda Sheridan                                      | 597,047                      | -                            | 2,564                    | 34,457                   | 17,911                        | 206,030                            | NIL                                |
| Brad Ward                                          | 431,856                      | -                            | 2,404                    | 27,291                   | 12,956                        | 109,076                            | -                                  |
| <b>* Total key management compensation (group)</b> | <b>4,824,754</b>             | <b>-</b>                     | <b>18,616</b>            | <b>280,763</b>           | <b>107,727</b>                | <b>1,193,823</b>                   | <b>NIL</b>                         |

# DIRECTORS' REPORT (CONTINUED)

## D. Remuneration report (continued)

### Relationship between remuneration and Bradken Limited's performance

The following table shows key performance indicators for the group over the last five years:

|                                                                                   | 2010    | 2011    | 2012    | 2013    | 2014    |
|-----------------------------------------------------------------------------------|---------|---------|---------|---------|---------|
| Unadjusted EBITDA (\$'000)                                                        | 167,034 | 189,422 | 220,402 | 183,604 | 143,004 |
| Underlying EBITDA (\$'000)                                                        | 167,034 | 196,059 | 220,402 | 214,016 | 173,289 |
| Profit for the year attributable to owners of Bradken Limited (\$'000)            | 70,441  | 67,561  | 100,533 | 66,937  | 21,480  |
| Underlying profit for the year attributable to owners of Bradken Limited (\$'000) | 70,441  | 87,082  | 100,533 | 96,054  | 55,079  |
| Basic earnings per share (cents)                                                  | 54.1    | 47.6    | 60.5    | 39.6    | 12.7    |
| Dividends (\$'000)                                                                | 46,009  | 59,821  | 68,747  | 64,311  | 44,199  |
| Dividend payout ratio (%)                                                         | 65.3%   | 88.5%   | 68.4%   | 96.1%   | 205.8%  |
| BKN Y/E Share Price (\$'s)                                                        | 7.20    | 7.96    | 5.19    | 4.31    | 3.80    |
| Increase/(decrease) in share price (%)                                            | 67%     | 11%     | -35%    | -17%    | -12%    |
| Total KMP incentives as percentage of underlying profit/ (loss) for the year (%)  | 1.8%    | 3.2%    | 1.7%    | 1.2%    | 2.5%    |

Dividends shown above and the payout ratio calculated is in respect to profit earned for the year.

The graphs below illustrate two of the key links between key management personnel remuneration and Bradken Limited's performance.

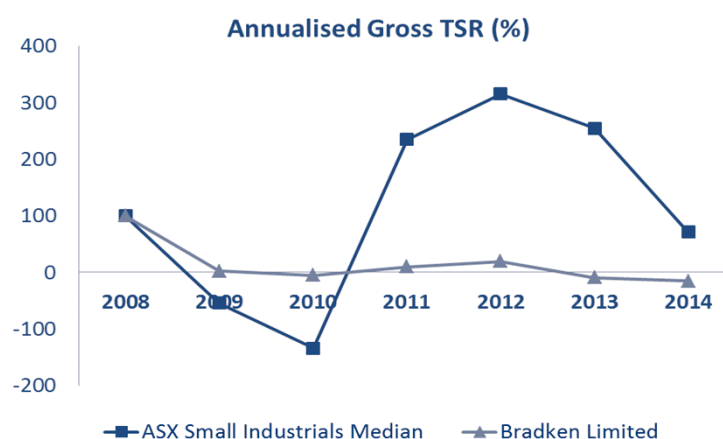
The first two graphs illustrate the link between Bradken Limited's net profit before tax and EBITDA, both unadjusted and underlying, compared to payments made under the STI plan. In the 2011 year STI payouts were calculated against underlying NPAT and underlying EBITDA.



\* Profit before tax is profit from continuing operations before income tax expense.

\*\* STI % of target reflects the percentage of the target STI pool that was paid out to executives.

The last graph illustrates the operation of the long-term incentive plan by comparing Bradken Limited's TSR performance to the median TSR of the ASX Small Industrials Index (see page 20 below) over the last five years.



# DIRECTORS' REPORT *(CONTINUED)*

## D. Remuneration report (continued)

### (d) Service agreements

Remuneration and other terms of employment for the Managing Director and key management personnel required to be disclosed under the *Corporations Act 2001* are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including, but not limited to, motor vehicles and participation, when eligible, in the Bradken Performance Rights Plan. Other major provisions of the agreements relating to remuneration are set out below.

| Name                                                               | Term of Agreement                   | * Base salary including superannuation | ** Termination Benefit |
|--------------------------------------------------------------------|-------------------------------------|----------------------------------------|------------------------|
| Brian Hodges, <i>Managing Director</i>                             | Ongoing commencing 2 July 2004      | \$1,429,389                            | 6 months base salary   |
| Andrew Allen, <i>General Manager Corporate Development</i>         | Ongoing commencing 1 September 2011 | \$433,382                              | 3 months base salary   |
| Steven Perry, <i>Chief Financial Officer and Company Secretary</i> | Ongoing commencing 1 December 2011  | \$441,651                              | 3 months base salary   |
| Stephen Cantwell, <i>General Manager Rail</i>                      | Ongoing commencing 1 July 2011      | \$469,209                              | 6 months base salary   |
| Kevin McDermid, <i>Chief Operating Officer Engineered Products</i> | Ongoing commencing 15 October 2013  | \$339,451                              | 12 weeks base salary   |
| Enda Sheridan, <i>Executive General Manager Mining Products</i>    | Ongoing commencing 17 June 2009     | \$639,097                              | 3 months base salary   |
| Brad Ward, <i>Executive General Manager Mineral Processing</i>     | Ongoing commencing 1 July 2012      | \$412,668                              | 3 months base salary   |

\* Base salaries quoted are as at 30 June 2014; they are reviewed annually by the Human Resources Committee.

\*\* Termination benefits are payable on early termination by the company, other than for gross misconduct; unless otherwise indicated, they are equal to the base salary for the remaining term of the agreement.

### (e) Share-based compensation

#### *Non-Executive Director Share Acquisition Plan*

Non-Executive Directors may elect to have a proportion of their quarterly directors' fees provided as shares under the NED Plan. Participation in the plan is voluntary.

Non-Executive Directors are not able to sell or otherwise dispose of the shares until the earliest of 10 years after acquisition or when the Non-Executive Director ceases to be a director of the Company (except in very limited circumstances). During this period the shares are subject to a holding lock. No shares were issued under the NED plan in the financial period.

#### *Rights*

The Performance Rights Plan (PRP) is the Company's long-term incentive (LTI) scheme for selected key executives. The Managing Director recommends the list of executives who are entitled to participate in this scheme and seeks approval of the list from the Human Resources Committee which is then ratified by the Board. Under the PRP, eligible executives may be granted Performance Rights (each being a right to acquire a share, subject to the satisfaction of exercise conditions) on terms and conditions determined by the Board and as documented in the PRP Plan rules and Trust Deed. If the exercise conditions are satisfied, the Performance Rights may be exercised and the shares issued and delivered to the executive. The Board may impose restrictions on the disposal of the shares and implement procedures to enforce the restrictions.

The rules of the PRP provide that the Board may determine a price that is payable to exercise a Performance Right, or that no amount is payable by the executive upon exercise of the Right.

If any additional persons become entitled to participate in the PRP and their participation requires approval under Chapter 10 of the Listing Rules, they will not participate in the PRP until shareholder approval is received pursuant to Listing Rule 10.14.

Mr Brian Hodges, being the only Executive Director of the Company, is the only Director entitled to participate in the PRP. If any other Director is to participate in the PRP, the Company will seek shareholder approval required by the ASX Listing Rules.

The performance conditions are based on the relative total shareholder return (TSR) of the Company measured against other companies in the ASX Small Industrials Index during the performance period. TSR measures the total return on investment of a share taking into account capital appreciation, capital return and dividend income.

# DIRECTORS' REPORT (CONTINUED)

## D. Remuneration report (continued)

### (e) Share-based compensation (continued)

The TSR performance conditions in relation to the grants issued are:

| Target                                                                                 | Percentage of Rights available in given year to vest |
|----------------------------------------------------------------------------------------|------------------------------------------------------|
| The Company's TSR does not meet performance of the median Company in ASX Small Cap     | 0                                                    |
| The Company's TSR equals or exceeds performance of the median Company in ASX Small Cap | 50                                                   |
| The Company's TSR ranked in third quartile of companies in ASX Small Cap               | Pro rata between 50 and 100                          |
| The Company's TSR ranked in fourth quartile of companies in ASX Small Cap              | 100                                                  |

In assessing whether the performance hurdles have been met, the Human Resources Committee receives independent data from an investment bank which provides both the Company's TSR from previous financial years and that of the ASX Small Cap Industrial Index. The Company's performance against the hurdle is then determined with each Company in the ASX Small Cap Industrial Index and Bradken being ranked in order of TSR in results from previous financial years. The Company's percentile ranking is determined by aggregating the weighting within the ASX Small Cap Industrial Index (based on market capitalisation) of each company ranked below Bradken. The method of assessment was chosen as it provides the Committee with an objective means of measuring the Company's performance against its peer group. Once vested the performance rights are exercised on the final test date depending on the conditions of the grant.

Dividends, changes in share price, and return of capital are included in the TSR calculation which is the only performance criteria assessed for the PRP scheme. New entrants to the scheme are provided with a transition to the 3 year plan. Rights granted under the PRP carry no dividend or voting rights. The terms and conditions of each grant of Rights affecting remuneration in the previous, this or future reporting periods are as follows:

| Grant Date        | Exercise price | Fair value per Right | Performance Period    | Test Date<br>(date vested and exercisable) | Expiry Date     |
|-------------------|----------------|----------------------|-----------------------|--------------------------------------------|-----------------|
| 5 November 2010   | \$0.00         | \$6.12               | 1 Jul 10 to 30 Jun 13 | Result announcement y/e 13                 | Final Test Date |
| 7 October 2011    | \$0.00         | \$4.76               | 1 Jul 11 to 30 Jun 14 | Result announcement y/e 14                 | Final Test Date |
| 7 October 2011    | \$0.00         | \$4.76               | 1 Jul 11 to 30 Jun 14 | Result announcement y/e 13                 | Final Test Date |
| 23 October 2012   | \$0.00         | \$2.84               | 1 Jul 12 to 30 Jun 13 | Result announcement y/e 13                 | Final Test Date |
| 23 October 2012   | \$0.00         | \$3.39               | 1 Jul 12 to 30 Jun 14 | Result announcement y/e 14                 | Final Test Date |
| 23 October 2012   | \$0.00         | \$3.39               | 1 Jul 12 to 30 Jun 15 | Result announcement y/e 15                 | Final Test Date |
| 19 September 2013 | \$0.00         | \$4.96               | 1 Jul 13 to 30 Jun 14 | Result announcement y/e 14                 | Final Test Date |
| 19 September 2013 | \$0.00         | \$4.53               | 1 Jul 13 to 30 Jun 15 | Result announcement y/e 15                 | Final Test Date |
| 19 September 2013 | \$0.00         | \$3.96               | 1 Jul 13 to 30 Jun 16 | Result announcement y/e 16                 | Final Test Date |
| 22 October 2013   | \$0.00         | \$4.43               | 1 Jul 13 to 30 Jun 16 | Result announcement y/e 16                 | Final Test Date |

Details of Rights over ordinary shares in the Company provided as remuneration to each director of Bradken Limited and each of the key management personnel are set out below. When exercisable, each Right is convertible into one ordinary share of Bradken Limited. Further information on the Rights is set out in note 35 to the financial statements.

#### Number of Rights granted and vested and Shares provided during the year on exercise of Performance Rights

Details of Rights granted and vested and ordinary shares in the Company provided as a result of the exercise of Performance Rights to the Managing Director of Bradken Limited and each of the key management personnel and other executives of the Group required to be disclosed under the *Corporations Act 2001* are set out below.

| Name                                               | Number of Rights granted during the year | Number of Rights vested during the year | Number of ordinary shares issued on exercise of Rights during the year | Value at exercise date * |
|----------------------------------------------------|------------------------------------------|-----------------------------------------|------------------------------------------------------------------------|--------------------------|
| <b>Directors of Bradken Limited</b>                |                                          |                                         |                                                                        |                          |
| Brian Hodges                                       | 142,151                                  | 0                                       | 0                                                                      | \$ -                     |
| <b>Other key management personnel of the Group</b> |                                          |                                         |                                                                        |                          |
| Andrew Allen                                       | 34,719                                   | 0                                       | 0                                                                      | \$ -                     |
| Stephen Cantwell                                   | 37,589                                   | 0                                       | 0                                                                      | \$ -                     |
| Kevin McDermed                                     | 22,978                                   | 0                                       | 0                                                                      | \$ -                     |
| Steven Perry                                       | 34,688                                   | 0                                       | 0                                                                      | \$ -                     |
| Enda Sheridan                                      | 63,999                                   | 0                                       | 0                                                                      | \$ -                     |
| Brad Ward                                          | 40,514                                   | 0                                       | 0                                                                      | \$ -                     |

\* The value at exercise date is deemed to be the closing price of the security on the date exercised.

No amounts were payable on the exercise of Rights during the period.

# DIRECTORS' REPORT (CONTINUED)

## D. Remuneration report (continued)

### (e) Share-based compensation (continued)

The assessed fair value at grant date of Rights granted to the individuals is allocated equally over the financial periods in which the Rights may vest, and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the Right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the Right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the Right.

*Principles used to determine the nature and amount of remuneration: relationship between remuneration and Company performance*

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year.

### *Details of share remuneration: Rights*

For each grant of Rights included in the tables on pages 18 to 22, the percentage of the available Right that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the performance criteria is set out below. The Rights vest over a period up to three years, provided the vesting conditions are met (see page 20). Rights not vested when performance hurdles are not met do not carry forward to future periods.

### (f) Additional information

| Name             | Rights                 |                           |                            |                 |                                          |                                                 |                                                 |
|------------------|------------------------|---------------------------|----------------------------|-----------------|------------------------------------------|-------------------------------------------------|-------------------------------------------------|
|                  | Financial year granted | Vested in prior years % * | Vested in current year % * | Forfeited (A) % | Financial years in which Rights may vest | Minimum total value of grant yet to vest (B) \$ | Maximum total value of grant yet to vest (C) \$ |
| Andrew Allen     | 2014                   | -                         | -                          | -               | 30/06/2017                               | -                                               | 131,932                                         |
|                  | 2013                   | -                         | -                          | -               | 30/06/2016                               | -                                               | 129,979                                         |
|                  | 2012                   | -                         | -                          | -               | 30/06/2015                               | -                                               | 78,820                                          |
|                  | 2011                   | -                         | -                          | 100             | 30/06/2014                               | -                                               | -                                               |
| Tom Armstrong    | 2013                   | -                         | -                          | -               | 30/06/2016                               | -                                               | 149,469                                         |
|                  | 2012                   | -                         | -                          | -               | 30/06/2015                               | -                                               | 73,416                                          |
|                  | 2011                   | -                         | -                          | 100             | 30/06/2014                               | -                                               | -                                               |
| Stephen Cantwell | 2014                   | -                         | -                          | -               | 30/06/2017                               | -                                               | 142,838                                         |
|                  | 2013                   | -                         | -                          | -               | 30/06/2016                               | -                                               | 140,725                                         |
|                  | 2013                   | -                         | -                          | -               | 30/06/2014                               | -                                               | 46,907                                          |
|                  | 2012                   | -                         | -                          | -               | 30/06/2015                               | -                                               | 64,623                                          |
|                  | 2012                   | -                         | -                          | -               | 30/06/2014                               | -                                               | 43,084                                          |
| Brian Hodges     | 2014                   | -                         | -                          | -               | 30/06/2017                               | -                                               | 540,174                                         |
|                  | 2013                   | -                         | -                          | -               | 30/06/2016                               | -                                               | 535,880                                         |
|                  | 2012                   | -                         | -                          | -               | 30/06/2015                               | -                                               | 322,479                                         |
|                  | 2011                   | -                         | -                          | 100             | 30/06/2014                               | -                                               | -                                               |
| Kevin McDermid   | 2014                   | -                         | -                          | -               | 30/06/2017                               | -                                               | 87,316                                          |
|                  | 2013                   | -                         | -                          | -               | 30/06/2016                               | -                                               | 75,681                                          |
|                  | 2012                   | -                         | -                          | -               | 30/06/2015                               | -                                               | 45,592                                          |
|                  | 2011                   | -                         | -                          | 100             | 30/06/2014                               | -                                               | -                                               |
| Steven Perry     | 2014                   | -                         | -                          | -               | 30/06/2017                               | -                                               | 131,814                                         |
|                  | 2013                   | -                         | -                          | -               | 30/06/2016                               | -                                               | 129,865                                         |
|                  | 2012                   | -                         | -                          | -               | 30/06/2015                               | -                                               | 25,696                                          |
|                  | 2011                   | -                         | -                          | 100             | 30/06/2014                               | -                                               | -                                               |
| Enda Sheridan    | 2014                   | -                         | -                          | -               | 30/06/2017                               | -                                               | 243,196                                         |
|                  | 2013                   | -                         | -                          | -               | 30/06/2016                               | -                                               | 239,598                                         |
|                  | 2012                   | -                         | -                          | -               | 30/06/2015                               | -                                               | 145,293                                         |
|                  | 2011                   | -                         | -                          | 100             | 30/06/2014                               | -                                               | -                                               |
| Brad Ward        | 2014                   | -                         | -                          | -               | 30/06/2017                               | -                                               | 153,953                                         |
|                  | 2013                   | -                         | -                          | -               | 30/06/2016                               | -                                               | 151,677                                         |
|                  | 2012                   | -                         | -                          | -               | 30/06/2015                               | -                                               | 64,843                                          |
|                  | 2011                   | -                         | -                          | 100             | 30/06/2014                               | -                                               | -                                               |

A= The % of rights that failed to vest in the period as the performance criteria were not met.

B= The minimum value of Rights yet to vest is nil as the performance criteria may not be met and consequently the Right may not vest.

C= The maximum value of rights yet to vest is not determinable as it depends on the market price of shares of Bradken Limited on the Australian Stock Exchange at the date the right is exercised. The maximum values presented above are based on the closing share price at 30 June 2014 of \$3.80.

# DIRECTORS' REPORT (CONTINUED)

## D. Remuneration report (continued)

### (f) Additional information (continued)

Share based compensation: Rights

Further details relating to rights are set out below.

| Name             | A<br>Remuneration<br>consisting of<br>Rights | B<br>Value at<br>grant<br>date<br>\$ | C<br>Value at<br>exercise<br>date<br>\$ | D<br>Value at<br>lapse<br>date<br>\$ |
|------------------|----------------------------------------------|--------------------------------------|-----------------------------------------|--------------------------------------|
| Andrew Allen     | 21.0%                                        | 137,487                              | -                                       | 119,437                              |
| Tom Armstrong    | 32.8%                                        | -                                    | -                                       | 113,942                              |
| Stephen Cantwell | 27.6%                                        | 148,852                              | -                                       | -                                    |
| Brian Hodges     | 25.7%                                        | 629,729                              | -                                       | 470,552                              |
| Kevin McDermid   | 17.0%                                        | 90,993                               | -                                       | 72,795                               |
| Steven Perry     | 16.8%                                        | 137,364                              | -                                       | 40,494                               |
| Enda Sheridan    | 24.3%                                        | 253,436                              | -                                       | 213,990                              |
| Brad Ward        | 22.2%                                        | 160,435                              | -                                       | 106,532                              |

A= The percentage of the value of remuneration consisting of Rights, based on the value at grant date set out in column B. Remuneration percentage refers to the AASB 2 Share-based payment values reported in the table in section (b) above and does not correlate to the remuneration received by the executive in the period.

B= The value at grant date calculated in accordance with AASB 2 *Share-based payment* of Rights granted during the year as part of remuneration.

C= The value at exercise date of Rights that were granted as part of remuneration and were exercised during the year.

D= The value at lapse date of Rights that were granted as part of remuneration and that lapsed during the year.

### Shares under Performance Rights

Unissued shares of Bradken Limited under Performance Right at the date of this report are as follows:

| Date Rights granted | Expiry date              | Exercise price | Number of shares under right |
|---------------------|--------------------------|----------------|------------------------------|
| 18 November 2005    | Ten years from Test Date | Nil            | 10,344                       |
| 30 October 2006     | Ten years from Test Date | Nil            | 7,340                        |
| 30 October 2006     | Ten years from Test Date | Nil            | 14,993                       |
| 31 October 2007     | Ten years from Test Date | Nil            | 3,353                        |
| 17 October 2008     | Ten years from Test Date | Nil            | 116                          |
| 17 October 2008     | Ten years from Test Date | Nil            | 12,690                       |
| 7 October 2011      | Final Test Date          | Nil            | 603,519                      |
| 23 October 2012     | Final Test Date          | Nil            | 61,369                       |
| 23 October 2012     | Final Test Date          | Nil            | 1,102,100                    |
| 19 September 2013   | Final Test Date          | Nil            | 19,384                       |
| 19 September 2013   | Final Test Date          | Nil            | 38,769                       |
| 19 September 2013   | Final Test Date          | Nil            | 926,328                      |
| 22 October 2013     | Final Test Date          | Nil            | 142,151                      |

All Rights expire on the earlier of their expiry date, their exercise, their failure to meet exercise conditions or termination of the employee's employment. In addition, the ability to exercise the Rights is conditional on the Group achieving certain performance hurdles related to relative total shareholder return to the ASX Small Cap Industrial index.

Further details are included in the Remuneration Report above.

# DIRECTORS' REPORT *(CONTINUED)*

## (f) Additional information (continued)

### Rights holdings

The number of Rights over ordinary shares in the company held during the financial year by each director of Bradken Limited and other key management personnel of the Group, including their personally related entities, are set out below.

| 2014                                               | Balance at the start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|----------------------------------------------------|----------------------------------|-----------------------------------------|---------------------------|-------------------------------|--------------------------------|-----------------------------------------------|
| Name                                               |                                  |                                         |                           |                               |                                |                                               |
| <b>Directors of Bradken Limited</b>                |                                  |                                         |                           |                               |                                |                                               |
| Brian Hodges                                       | 305,774                          | 142,151                                 | -                         | (79,890)                      | 368,035                        | -                                             |
| <b>Other key management personnel of the Group</b> |                                  |                                         |                           |                               |                                |                                               |
| Andrew Allen                                       | 75,225                           | 34,719                                  | -                         | (20,278)                      | 89,666                         | -                                             |
| Tom Armstrong                                      | 77,999                           | -                                       | -                         | (19,345)                      | 58,654                         | -                                             |
| Stephen Cantwell                                   | 77,721                           | 37,589                                  | -                         | -                             | 115,310                        | -                                             |
| Kevin McDermed                                     | -                                | 22,978                                  | -                         | (12,359)                      | 10,619                         | -                                             |
| Steven Perry                                       | 47,812                           | 34,688                                  | -                         | (6,875)                       | 75,625                         | -                                             |
| Enda Sheridan                                      | 137,618                          | 63,999                                  | -                         | (36,331)                      | 165,286                        | -                                             |
| Brad Ward                                          | 75,066                           | 40,514                                  | -                         | (18,087)                      | 97,493                         | -                                             |

| 2013                                               | Balance at the start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|----------------------------------------------------|----------------------------------|-----------------------------------------|---------------------------|-------------------------------|--------------------------------|-----------------------------------------------|
| Name                                               |                                  |                                         |                           |                               |                                |                                               |
| <b>Directors of Bradken Limited</b>                |                                  |                                         |                           |                               |                                |                                               |
| Brian Hodges                                       | 311,655                          | 141,021                                 | (36,521)                  | (110,381)                     | 305,774                        | -                                             |
| <b>Other key management personnel of the Group</b> |                                  |                                         |                           |                               |                                |                                               |
| Andrew Allen                                       | 62,441                           | 34,205                                  | -                         | (21,421)                      | 75,225                         | -                                             |
| Tom Armstrong                                      | 67,111                           | 39,334                                  | -                         | (28,446)                      | 77,999                         | -                                             |
| Stephen Cantwell                                   | 28,344                           | 49,377                                  | -                         | -                             | 77,721                         | -                                             |
| Steven Perry                                       | 23,136                           | 34,175                                  | -                         | (9,499)                       | 47,812                         | -                                             |
| Enda Sheridan                                      | 123,825                          | 63,052                                  | -                         | (49,259)                      | 137,618                        | -                                             |
| Brad Ward                                          | 60,593                           | 39,915                                  | -                         | (25,442)                      | 75,066                         | -                                             |

### Share holdings

The number of shares in the company held during the financial year by each director of Bradken Limited and other key management personnel of the Group, including their personally related entities, are set out below. There were no shares granted during the year as compensation.

| 2014                                               | Balance at the start of the year | Received during the year from Non-Executive Director Share Acquisition Plan | Received during the year on exercise of Rights | Other changes during the year | Balance at the end of the year |
|----------------------------------------------------|----------------------------------|-----------------------------------------------------------------------------|------------------------------------------------|-------------------------------|--------------------------------|
| Name                                               |                                  |                                                                             |                                                |                               |                                |
| <b>Directors of Bradken Limited</b>                |                                  |                                                                             |                                                |                               |                                |
| Nick Greiner                                       | 371,272                          | -                                                                           | -                                              | -                             | 371,272                        |
| Brian Hodges                                       | 2,316,630                        | -                                                                           | -                                              | -                             | 2,316,630                      |
| Phil Arnall                                        | 387,040                          | -                                                                           | -                                              | -                             | 387,040                        |
| Eileen Doyle                                       | 17,650                           | -                                                                           | -                                              | -                             | 17,650                         |
| Greg Laurie                                        | 44,667                           | -                                                                           | -                                              | -                             | 44,667                         |
| Peter Richards                                     | 42,099                           | -                                                                           | -                                              | -                             | 42,099                         |
| <b>Other key management personnel of the Group</b> |                                  |                                                                             |                                                |                               |                                |
| Andrew Allen                                       | 339,743                          | -                                                                           | -                                              | -                             | 339,743                        |
| Tom Armstrong                                      | 42,988                           | -                                                                           | -                                              | (42,988)                      | -                              |
| Kevin McDermed                                     | -                                | -                                                                           | -                                              | 23,581                        | 23,581                         |
| Steven Perry                                       | 60,118                           | -                                                                           | -                                              | (2,657)                       | 57,461                         |
| Enda Sheridan                                      | 584,182                          | -                                                                           | -                                              | (101,401)                     | 482,781                        |
| Brad Ward                                          | 81,920                           | -                                                                           | -                                              | -                             | 81,920                         |

# DIRECTORS' REPORT (CONTINUED)

## (f) Additional information (continued)

### Share holdings (continued)

| 2013<br>Name                                       | Balance at the start of the year | Received during the year from Non-Executive Director Share Acquisition Plan | Received during the year on exercise of Rights | Other changes during the year | Balance at the end of the year |
|----------------------------------------------------|----------------------------------|-----------------------------------------------------------------------------|------------------------------------------------|-------------------------------|--------------------------------|
| <b>Directors of Bradken Limited</b>                |                                  |                                                                             |                                                |                               |                                |
| Nick Greiner                                       | 371,272                          | -                                                                           | -                                              | -                             | 371,272                        |
| Brian Hodges                                       | 2,362,028                        | -                                                                           | 36,521                                         | (81,919)                      | 2,316,630                      |
| Phil Arnall                                        | 437,749                          | -                                                                           | -                                              | (50,709)                      | 387,040                        |
| Eileen Doyle                                       | 6,850                            | -                                                                           | -                                              | 10,800                        | 17,650                         |
| Greg Laurie                                        | 46,651                           | -                                                                           | -                                              | (1,984)                       | 44,667                         |
| Vince O'Rourke                                     | 93,522                           | -                                                                           | -                                              | (93,522)                      | -                              |
| Peter Richards                                     | 37,279                           | -                                                                           | -                                              | 4,820                         | 42,099                         |
| <b>Other key management personnel of the Group</b> |                                  |                                                                             |                                                |                               |                                |
| Andrew Allen                                       | 339,743                          | -                                                                           | -                                              | -                             | 339,743                        |
| Tom Armstrong                                      | 42,988                           | -                                                                           | -                                              | -                             | 42,988                         |
| Steven Perry                                       | 77,088                           | -                                                                           | -                                              | (16,970)                      | 60,118                         |
| Enda Sheridan                                      | 584,182                          | -                                                                           | -                                              | -                             | 584,182                        |
| Brad Ward                                          | 80,139                           | -                                                                           | -                                              | 1,781                         | 81,920                         |

# DIRECTORS' REPORT (CONTINUED)

## E. Other information

### Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or Group are important.

The Board of directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

The following non-audit services were provided by the entity's auditor, Ernst & Young Australia. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Related practices of Ernst & Young Australia received or are due to receive the following amounts for the provision of non-audit services:

|                         | \$            |
|-------------------------|---------------|
| Tax compliance services | 13,386        |
| Assurance related       | 4,645         |
|                         | <b>18,031</b> |

# DIRECTORS' REPORT (CONTINUED)

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## E. Other information (continued)

### Insurance of officers

During the year, the Company paid a premium to insure the directors and secretaries of the Company and its Australian-based controlled entities, the general managers of each of the businesses, all executive officers of the Group and of any related body corporate against a liability incurred by such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify any officer of the Group or of any related body corporate against a liability incurred by any such officer.

### Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount) – except for any loss in respect of any matters which are finally determined to have resulted from Ernst & Young's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during or since the financial year.

### Proceedings on behalf of the Company

No person has applied to the court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of these proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

### Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 28.

### Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the directors:



---

Nick Greiner  
Chairman



---

Brian Hodges  
Managing Director

Sydney  
11 August 2014



Ernst & Young  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

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ey.com/au

## Auditor's Independence Declaration to the Directors of Bradken Limited

In relation to our audit of the financial report of Bradken Limited for the financial year ended 30 June 2014 to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Trent van Veen  
Partner  
Sydney  
11 August 2014

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# FINANCIAL REPORT

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This financial report covers the consolidated entity consisting of Bradken Limited and its subsidiaries. The financial report is presented in the Australian currency.

Bradken Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

20 McIntosh Drive  
Mayfield West NSW 2304

A description of the nature of the consolidated entity's principal activities and an operating and financial review is included on page 2 and pages 12 to 14 respectively of the directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 11 August 2014. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: [www.bradken.com.au](http://www.bradken.com.au).

# CONSOLIDATED INCOME STATEMENT

|                                                                                                  | Notes | 2014<br>\$'000   | 2013<br>\$'000 |
|--------------------------------------------------------------------------------------------------|-------|------------------|----------------|
| <b>Revenue from continuing operations</b>                                                        | 6     | <b>1,139,361</b> | 1,317,188      |
| Cost of sales                                                                                    |       | <b>(907,568)</b> | (1,035,554)    |
| <b>Gross profit</b>                                                                              |       | <b>231,793</b>   | 281,634        |
| Other income                                                                                     | 6     | <b>14,621</b>    | 14,824         |
| Selling and technical expenses                                                                   |       | <b>(57,136)</b>  | (60,726)       |
| Administration expenses                                                                          | 6     | <b>(89,331)</b>  | (107,531)      |
| Finance costs                                                                                    | 6     | <b>(30,662)</b>  | (31,501)       |
| Restructuring and asset impairment costs                                                         | 7     | <b>(41,161)</b>  | (2,558)        |
| Share of net profit/(loss) of associates accounted for using the equity method                   |       | <b>(85)</b>      | 9,847          |
| <b>Profit before income tax</b>                                                                  |       | <b>28,039</b>    | 103,989        |
| Income tax expense                                                                               | 8     | <b>(6,559)</b>   | (37,052)       |
| <b>Net profit for the year</b>                                                                   |       | <b>21,480</b>    | 66,937         |
| <b>Net profit is attributable to:</b>                                                            |       |                  |                |
| <b>Owners of Bradken Limited</b>                                                                 |       | <b>21,480</b>    | 66,937         |
|                                                                                                  |       | <b>21,480</b>    | 66,937         |
|                                                                                                  |       | <b>Cents</b>     | <b>Cents</b>   |
| <b>Earnings per share for profit attributable to the ordinary equity holders of the company:</b> |       |                  |                |
| <b>Basic earnings per ordinary share: (cents per share)</b>                                      | 34    | <b>12.7</b>      | 39.6           |
| <b>Diluted earnings per ordinary share: (cents per share)</b>                                    | 34    | <b>12.4</b>      | 39.1           |

*The above consolidated income statement should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|                                                                      | Notes | 2014<br>\$'000  | 2013<br>\$'000 |
|----------------------------------------------------------------------|-------|-----------------|----------------|
| <b>Profit for the period</b>                                         |       | <b>21,480</b>   | 66,937         |
| <b>Other comprehensive income</b>                                    |       |                 |                |
| <i>Items that may be reclassified to profit or loss</i>              |       |                 |                |
| Changes in the fair value of cash flow hedges                        | 23(a) | (530)           | 1,154          |
| Exchange differences on translation of foreign operations            | 23(a) | (12,745)        | 37,972         |
| Income tax relating to these items                                   | 8(d)  | 159             | (346)          |
| <i>Items that will not be reclassified to profit or loss</i>         |       |                 |                |
| Actuarial (losses) / gains on retirement benefit obligations         | 23(b) | 898             | 4,775          |
| Income tax expense relating to these items                           |       | (207)           | (1,410)        |
| <b>Other comprehensive income for the period, net of tax</b>         |       | <b>(12,425)</b> | 42,145         |
| <b>Total comprehensive income for the period</b>                     |       | <b>9,055</b>    | 109,082        |
| <b>Total comprehensive income for the period is attributable to:</b> |       |                 |                |
| <b>Owners of Bradken Limited</b>                                     |       | <b>9,055</b>    | 109,082        |
|                                                                      |       | <b>9,055</b>    | 109,082        |

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

# CONSOLIDATED BALANCE SHEET

|                                                                | Notes | 2014<br>\$'000   | 2013<br>\$'000   |
|----------------------------------------------------------------|-------|------------------|------------------|
| <b>Current assets</b>                                          |       |                  |                  |
| Cash and cash equivalents                                      | 9     | 144,479          | 92,489           |
| Trade and other receivables                                    | 10    | 140,712          | 167,810          |
| Finance lease assets                                           | 11    | 509              | 453              |
| Inventories                                                    | 12    | 211,382          | 266,926          |
| Current tax assets                                             |       | 11,289           | 11,794           |
| Derivative financial instruments                               | 13    | -                | 12,897           |
| Total current assets                                           |       | <b>508,371</b>   | <b>552,369</b>   |
| <b>Non-current assets</b>                                      |       |                  |                  |
| Trade and other receivables                                    | 10    | 2,754            | 2,880            |
| Finance lease assets                                           | 11    | 4,802            | 5,078            |
| Property, plant and equipment                                  | 14    | 583,360          | 616,225          |
| Deferred tax assets                                            | 15    | 10,897           | 6,059            |
| Intangible assets                                              | 16    | 366,922          | 382,739          |
| Investments accounted for using the equity method              | 30    | 53,171           | 49,261           |
| Total non-current assets                                       |       | <b>1,021,906</b> | <b>1,062,242</b> |
| <b>Total assets</b>                                            |       | <b>1,530,277</b> | <b>1,614,611</b> |
| <b>Current liabilities</b>                                     |       |                  |                  |
| Payables                                                       | 17    | 143,504          | 197,029          |
| Borrowings                                                     | 20    | 5,690            | 29,283           |
| Current tax liabilities                                        |       | 5,947            | 3,004            |
| Provisions                                                     | 18    | 62,974           | 52,850           |
| Derivative financial instruments                               | 13    | 2,809            | 2,310            |
| Total Current Liabilities                                      |       | <b>220,924</b>   | <b>284,476</b>   |
| <b>Non-current liabilities</b>                                 |       |                  |                  |
| Payables                                                       | 17    | 7,728            | 8,231            |
| Borrowings                                                     | 20    | 515,963          | 494,749          |
| Deferred tax liabilities                                       | 21    | 40,808           | 43,882           |
| Provisions                                                     | 18    | 15,037           | 17,963           |
| Total non-current liabilities                                  |       | <b>579,536</b>   | <b>564,825</b>   |
| <b>Total liabilities</b>                                       |       | <b>800,460</b>   | <b>849,301</b>   |
| <b>Net assets</b>                                              |       | <b>729,817</b>   | <b>765,310</b>   |
| <b>Equity</b>                                                  |       |                  |                  |
| Contributed equity                                             | 22    | 549,671          | 542,071          |
| Reserves                                                       | 23(a) | 19,730           | 29,145           |
| Retained earnings                                              | 23(b) | 160,416          | 194,094          |
| Capital and reserves attributable to owners of Bradken Limited |       | <b>729,817</b>   | <b>765,310</b>   |
| <b>Total equity</b>                                            |       | <b>729,817</b>   | <b>765,310</b>   |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Attributable to owners of Bradken Limited                                                   |       |                    |                 |                   |                |
|---------------------------------------------------------------------------------------------|-------|--------------------|-----------------|-------------------|----------------|
|                                                                                             |       | Contributed Equity | Reserves        | Retained earnings | Total          |
|                                                                                             | Notes | \$'000             | \$'000          | \$'000            | \$'000         |
| <b>Total equity at the beginning of the financial year 1 July 2012</b>                      |       | <b>538,562</b>     | <b>(13,007)</b> | <b>193,895</b>    | <b>719,450</b> |
| <b>Profit for the year</b>                                                                  |       | -                  | -               | 66,937            | 66,937         |
| <b>Other comprehensive income</b>                                                           |       | -                  | 38,780          | 3,365             | 42,145         |
| <b>Total comprehensive income for the year as reported in the 2013 financial statements</b> |       | -                  | 38,780          | 70,302            | 109,082        |
| <b>Transactions with owners in their capacity as owners:</b>                                |       |                    |                 |                   |                |
| Dividends provided for or paid                                                              | 24    | 11,505             | -               | (70,103)          | (58,598)       |
| On-market share buyback and cancellation                                                    |       | (8,014)            | -               | -                 | (8,014)        |
| Deferred tax adjustment for previously booked placement costs                               |       | 18                 | -               | -                 | 18             |
| Employee share rights - value of employee services                                          | 23    | -                  | 3,372           | -                 | 3,372          |
|                                                                                             |       | 3,509              | 3,372           | (70,103)          | (63,222)       |
| <b>Balance at 30 June 2013</b>                                                              |       | <b>542,071</b>     | <b>29,145</b>   | <b>194,094</b>    | <b>765,310</b> |
| <b>Profit for the year</b>                                                                  |       | -                  | -               | 21,480            | 21,480         |
| <b>Other comprehensive income</b>                                                           |       | -                  | (13,116)        | 691               | (12,425)       |
| <b>Total comprehensive income for the year</b>                                              |       | -                  | (13,116)        | 22,171            | 9,055          |
| <b>Transactions with owners in their capacity as owners:</b>                                |       |                    |                 |                   |                |
| Dividends provided for or paid                                                              | 24    | 7,600              | -               | (55,849)          | (48,249)       |
| Employee share rights - value of employee services                                          | 23    | -                  | 3,701           | -                 | 3,701          |
|                                                                                             |       | 7,600              | 3,701           | (55,849)          | (44,548)       |
| <b>Balance at 30 June 2014</b>                                                              |       | <b>549,671</b>     | <b>19,730</b>   | <b>160,416</b>    | <b>729,817</b> |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

|                                                                                     | Notes | 2014<br>\$'000  | 2013<br>\$'000 |
|-------------------------------------------------------------------------------------|-------|-----------------|----------------|
| <b>Cash flows from operating activities</b>                                         |       |                 |                |
| Receipts from customers (inclusive of goods and services tax)                       |       | 1,249,887       | 1,593,602      |
| Payments to suppliers and employees (inclusive of goods and services tax)           |       | (1,059,872)     | (1,317,272)    |
| Transaction costs relating to acquisition of subsidiary and acquisition of business |       | -               | (16)           |
|                                                                                     |       | <b>190,015</b>  | 276,314        |
| Interest received                                                                   |       | 1,282           | 254            |
| Interest paid                                                                       |       | (27,078)        | (30,440)       |
| Income taxes paid                                                                   |       | (9,134)         | (28,493)       |
| <b>Net cash (outflow) inflow from operating activities</b>                          | 32    | <b>155,085</b>  | 217,635        |
| <b>Cash flows from investing activities</b>                                         |       |                 |                |
| Payment for property, plant and equipment                                           |       | (53,083)        | (103,835)      |
| Payment for businesses                                                              |       | (462)           | (3,412)        |
| Increase in investments by way of share purchases                                   | 30    | (6,441)         | (5,877)        |
| Proceeds from sale of property, plant and equipment                                 |       | 1,693           | 18,698         |
| Payment for capitalised design costs                                                |       | (3,995)         | (8,145)        |
| Dividends received                                                                  | 30    | 2,446           | 2,178          |
| <b>Net cash (outflow) inflow from investing activities</b>                          |       | <b>(59,842)</b> | (100,393)      |
| <b>Cash flows from financing activities</b>                                         |       |                 |                |
| Payment of finance lease liabilities                                                |       | (11,229)        | (10,872)       |
| Repayment of borrowings                                                             |       | (364,712)       | (326,234)      |
| Proceeds from borrowings                                                            |       | 382,545         | 272,144        |
| Dividends paid to Company's shareholders                                            | 24    | (48,249)        | (58,598)       |
| Payments for shares bought back                                                     | 22    | -               | (8,014)        |
| <b>Net cash (outflow) inflow from financing activities</b>                          |       | <b>(41,645)</b> | (131,574)      |
| <b>Net increase (decrease) in cash and cash equivalents</b>                         |       | <b>53,598</b>   | (14,332)       |
| Cash and cash equivalents at the beginning of the year                              |       | 91,822          | 101,719        |
| Effects of exchange rate changes on cash and cash equivalents                       |       | (941)           | 4,435          |
| <b>Cash and cash equivalents at the end of the year</b>                             | 9     | <b>144,479</b>  | 91,822         |
| Financing arrangements                                                              | 20    |                 |                |
| Non-cash financing and investing activities                                         | 33    |                 |                |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 1 Corporate information

The consolidated financial statements of Bradken Limited and its subsidiaries (collectively referred to as the Group) for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of the directors on 11 August 2014.

Bradken Limited (the Company or the parent) is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' report.

## 2 Summary of significant accounting policies

### (a) Basis of preparation

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Bradken Limited and its subsidiaries.

#### (i) Compliance with IFRS

The consolidated financial statements of the Bradken Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001.

#### (ii) Changes in accounting policies, disclosures, new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

##### Defined benefit superannuation plans

The group operates three defined benefit plans in its North American operations. The revised AASB 119 has been applied retrospectively from 1 July 2012. This has not had a material impact on the financial statements as the only change in the Group's accounting policy is with respect to the way the Group accounts for the expected return on plan assets. The difference between actual returns and the amount reported in the profit and loss will permanently bypass the profit and loss by being recorded as an actuarial variance.

##### EARLY ADOPTION OF AASB 2013-3 Recoverable Amount Disclosures for Non-Financial Assets – Amendments to AASB 136 Impairment of Assets

These amendments remove the unintended consequences of AASB 13 on the disclosures required under AASB 136. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided AASB 13 is also applied. The Group has early adopted these amendments to AASB 136 in the current period since the amended/additional disclosures provide useful information as intended by the AASB. Accordingly, these amendments have been considered while making disclosures for impairment of nonfinancial assets in Note 16. These amendments would continue to be considered for future disclosures.

##### New and amended standards and interpretations

The following accounting standards are applicable to the Group for the first time during the current period.

AASB 10 Consolidated Financial Statements

AASB 12 Disclosure of Interests in Other Entities; and

AASB 13 Fair Value Measurement

AASB 119 Employee Benefits

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities

AASB 2012-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]

The adoption of these standards did not have a significant impact on the Group's financial results, balance sheet or disclosures, with the exception of AASB 13 *Fair Value Measurement*, which has resulted in additional disclosure in the notes to the financial statements. All other accounting policies are consistent with those adopted and disclosed in the annual financial report for the year ended 30 June 2013. Accounting policies are applied consistently by each entity in the Group.

#### (iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2 Summary of significant accounting policies (continued)

### *(iv) Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

### **(b) Principles of consolidation**

#### *(i) Subsidiaries*

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 2(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

#### *(ii) Associates*

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill identified on acquisition (refer to note 30).

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### *(iii) Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Bradken Limited.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 2 Summary of significant accounting policies (continued)

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director.

### (d) Foreign currency translation

#### (i) Functional currency and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Bradken Limited's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

#### (iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### (e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

#### (i) Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has passed the significant risks and rewards to the buyer.

#### (ii) Contract revenue

Contract revenue and expenses are recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, costs to date can be clearly identified, and total contract revenue and costs to complete can be reliably estimated.

The stage of completion is measured by reference to an assessment of components completed to date as a percentage of total components for each contract.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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## 2 Summary of significant accounting policies (continued)

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that the cost will be recovered, revenue is recognised to the extent of costs incurred. Where it is probable that a loss will arise on a contract, the excess of total costs over revenue is recognised immediately as an expense.

### *(iii) Interest income*

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

### *(iv) Sale of non-current assets*

The gain or loss on disposal of non-current assets is included as other income or expense at the date control passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

### *(v) Royalties*

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

### *(vi) Dividends*

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 2(m).

### **(f) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### *(i) Investment allowances*

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 2 Summary of significant accounting policies (continued)

### (g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 14). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term, if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 28). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Lease income from finance leases where the group is a lessor is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period (note 11). The respective lease receivable is included in the balance sheet.

### (h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

### (i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### (k) Receivables

Trade receivables are recognised initially at fair value and subsequently, less provision for doubtful debts. Trade receivables are normally due for settlement no more than 30 days from the date of recognition. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the value of estimated future cash flows. The amount of the provision is recognised in the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2 Summary of significant accounting policies (continued)

### (l) Inventories

#### (i) Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on either standard or weighted average basis. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale such as expenses of marketing, selling and distribution to customers.

#### (ii) Construction and service contract work in progress

Construction and service contract work in progress is carried at cost plus profit recognised to date based on the value of work completed, less progress billings and less provision for foreseeable losses. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under other liabilities.

Cost includes variable and fixed costs directly related to specific contracts, those costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract. Costs expected to be incurred under penalty clauses and rectification provisions are also included.

#### (iii) Stock Obsolescence

All inventory items are reviewed on a regular basis during the year and a provision raised for products which have not been sold for one year unless the review indicates that a sale is likely.

### (m) Investments and other financial assets

#### Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

#### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 10).

#### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

#### Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

#### Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 2 Summary of significant accounting policies (continued)

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

### ***Fair value***

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### ***Impairment***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

### **(n) Derivatives and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 13. Movements in the hedging reserve in shareholders' equity are shown in note 23.

The full fair value of a hedging derivative is classified as a non current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

### **(i) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to the interest rate risk. The gain or loss relating to the ineffective portion is recognised in the income statement within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

### **(ii) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2 Summary of significant accounting policies (continued)

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within "finance costs". The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within "sales". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or a non-financial liability), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

### *(iii) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

### **(o) Property, plant and equipment**

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. Assets are depreciated or amortised from the date of acquisition, or in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

|                     |                |
|---------------------|----------------|
| Buildings           | 20 to 66 years |
| Plant and equipment | 1 to 20 years  |
| Patterns            | 1 to 40 years  |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

### **(p) Intangible assets**

#### *(i) Goodwill*

Goodwill is measured as described in note 2(h). Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 5).

#### *(ii) Patents, trademarks and brand names*

Patents are carried at fair value at acquisition and amortised on a straight line basis over the life of the patent. Trademarks are carried at their fair value at acquisition less impairment losses and amortised over 5 years with amortisation calculated on a straight line basis. Brand names are not amortised if they continue to be used and add value. Discontinued brand names are amortised over a period of 10 years as they are phased out.

#### *(iii) Customer relationships*

Customer relationships acquired as part of a business acquisition are recognised separately from goodwill. The customer relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on their estimated useful lives, which currently vary from 10 to 20 years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 2 Summary of significant accounting policies (continued)

### *(iv) Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 10 years.

### **(q) Payables**

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### **(r) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### **(s) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

### **(t) Provisions**

A provision is recognised in the accounts when there is a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### *(i) Warranties*

Products are warranted against faulty workmanship and in some cases these are specifically extended to periods up to seven years or hours used depending on the type of product and contract in place. Rectification claims are settled in cash or by repair of the item, at the discretion of the Group. Provision for warranty claims are made for claims received and claims expected to be received in relation to sales made prior to reporting date adjusted for specific information arising from internal quality assurance processes.

### **(u) Employee Benefits**

#### *(i) Wages, salaries, annual leave, sick leave, rostered days off and non-monetary benefits*

Liabilities for annual leave, accumulating sick leave and rostered days off, including non monetary benefits, expected to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Liabilities for unpaid wages and salaries up to the reporting date are recognised in current payables.

#### *(ii) Long service leave*

The provision for long service leave represents the present value of the expected future cash outflows to be made resulting from employees' services provided to reporting date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 2 Summary of significant accounting policies (continued)

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### (iii) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in current provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

### (iv) Employee share and rights plans

Share based compensation benefits are provided to employees and directors via the Performance Rights Plan ('PRP') and the Non-Executive Director Share Acquisition Plan ('NEDSAP') respectively.

The fair value of Rights granted under the PRP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the Rights. The fair value of Rights granted are measured using the Black & Scholes Pricing Model, taking into account the terms and conditions attached to the Rights. The amount recognised as an expense is adjusted to reflect the actual number of Rights that vest except where forfeiture is due to market related conditions.

The fair value of shares issued under the NEDSAP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date.

### (v) Retirement benefit obligations

All employees of the Group are entitled to benefit from various superannuation or pension plans on retirement, disability or death. The Group operates three defined benefit plans in its North American operations, two in the United States and the other in Canada. The United States plans are closed to new members and cover hourly employees hired before May 10, 1993 at one of the US subsidiaries. The Canadian plan is currently active at one of the Canadian subsidiaries for hourly employees but closed on March 1, 2010 to salaried employees.

The Group recognises a liability or asset in respect of defined benefit superannuation plans in the statement of financial position measured as the present value of the defined benefit obligation at the end of the reporting period less the fair value of the superannuation fund's assets at that date. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the end of the reporting period, calculated on a regular basis by independent actuaries using the projected unit credit method.

Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income.

### (vi) Healthcare reserves

The Group's U.S. operations primarily self-insure employee healthcare expenses. Reserves are based on historical claims experience.

### (v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or rights are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or rights for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

### (w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 2 Summary of significant accounting policies (continued)

### (x) Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (y) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

### (z) Rounding of amounts

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### (aa) Amended accounting standards and UIG interpretations

Certain amended accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Group's and the parent entity's assessment of the impact of these amended standards and interpretations is set out below.

#### **AASB 2012-3 Amendments to Australian Accounting Standards. Offsetting Financial Assets and Financial Liabilities**

(effective for annual periods beginning on or after 1 January 2014)

AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The standard will be adopted by the Group from 1 July 2014.

#### **AASB 9 Financial Instruments** (effective for annual periods beginning on or after 1 January 2018)

On 24 July 2014 The IASB issued the final version of IFRS 9 which replaces IAS 39 and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The final version of IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses.

The AASB is yet to issue the final version of AASB 9. A revised version of AASB 9 (AASB 2013-9) was issued in December 2013 which included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. AASB 9 includes requirements for a simplified approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The Group has not yet decided when to adopt AASB 9.

#### **Annual Improvements 2010–2012 Cycle Annual Improvements to IFRSs 2010–2012 Cycle** (effective for annual periods beginning on or after 1 January 2014)

This standard sets out amendments to International Financial Reporting Standards (IFRS) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.

- IFRS 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.
- IFRS 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.

The standard will be adopted by the Group from 1 July 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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## 2 Summary of significant accounting policies (continued)

### **AASB 1031 Materiality** (effective for annual periods beginning on or after 1 January 2014)

The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed. The standard will be adopted by the Group from 1 July 2014.

### **IFRS 15 Revenue from Contracts with Customers** (effective for annual periods beginning on or after 1 January 2017)

IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group has not yet decided when to adopt IFRS 15.

There are no other standards that are not yet effective and that are expected to have a material impact on the group in the current or future reporting periods on foreseeable future transactions.

### **(ab) Parent entity financial information**

The financial information for the parent entity, Bradken Limited, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### *(i) Investments in subsidiaries, associates and joint venture entities*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Bradken Limited.

#### *(ii) Tax consolidation legislation*

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Bradken Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Bradken Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Bradken Limited for any current tax payable assumed and are compensated by Bradken Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Bradken Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

#### *(iii) Financial guarantees*

The parent entity is a guarantor under the Bradken Group - Common Terms Deed Poll and unconditionally and irrevocably guarantees payments due in connection with any financing facilities owed by any Group company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3 Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used as hedging instruments, not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk and ageing analysis for credit risk.

Risk management is carried out centrally by the CFO and finance function under policies approved by the Board of Directors.

### (a) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

The maximum exposure to credit risk best represents the carrying value of the financial assets at balance date.

The standard terms and conditions on sale of goods includes a clause which allows Bradken to repossess goods which have not been consumed should Bradken require it necessary to recoup unpaid debts owed to them.

Bradken's global customer base is large and diverse and subject to strict credit application and assessment criteria to minimise impairment risk.

Details on the past due but not impaired trade receivables are disclosed at note 10(b).

### (b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims at maintaining flexibility in funding by keeping committed credit lines available.

Management monitors forecasts of the Group's liquidity on the basis of expected cash flow. See note 20(d) for details of available facilities.

The tables below analyse the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. There is no liquidity risk at the Parent entity level.

| Group - 2014                             | Less than 1 year<br>\$'000         | Between 1<br>and 3 years<br>\$'000          | Between 3<br>and 5 years<br>\$'000          | Between 5<br>and 8 years<br>\$'000          | Over 8 years<br>\$'000         |
|------------------------------------------|------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|--------------------------------|
| <b>Non-derivatives</b>                   |                                    |                                             |                                             |                                             |                                |
| Payables                                 | 143,504                            | -                                           | -                                           | -                                           | -                              |
| Borrowings (excluding finance leases)    | 21,999                             | 337,840                                     | 72,933                                      | 123,034                                     | 56,683                         |
| Finance leases liabilities               | 4,676                              | 4,137                                       | 2,111                                       | 1,548                                       | -                              |
| <b>Derivatives</b>                       |                                    |                                             |                                             |                                             |                                |
| Net settled interest rate swaps and caps | 2,809                              | -                                           | -                                           | -                                           | -                              |
| <b>Group - 2013</b>                      | <b>Less than 1 year<br/>\$'000</b> | <b>Between 1<br/>and 3 years<br/>\$'000</b> | <b>Between 3<br/>and 5 years<br/>\$'000</b> | <b>Between 5<br/>and 8 years<br/>\$'000</b> | <b>Over 8 years<br/>\$'000</b> |
| <b>Non-derivatives</b>                   |                                    |                                             |                                             |                                             |                                |
| Payables                                 | 197,029                            | -                                           | -                                           | -                                           | -                              |
| Borrowings (excluding finance leases)    | 47,910                             | 341,263                                     | 16,649                                      | 69,981                                      | 165,111                        |
| Finance leases liabilities               | 4,805                              | 5,138                                       | 1,058                                       | 890                                         | -                              |
| <b>Derivatives</b>                       |                                    |                                             |                                             |                                             |                                |
| Net settled interest rate swaps and caps | 2,310                              | -                                           | -                                           | -                                           | -                              |

The Group enters into forward exchange contracts to hedge foreign currency denominated receivables and also to manage foreign currency denominated inventory and capital items.

Refer to note 10(f) for receivables denominated in foreign currencies.

### (c) Market risk

#### (i) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets and the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest-rate-risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate-risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate-risk. Group policy is to fix the rates for between 30% and 70% of its borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3 Financial risk management (continued)

### (c) Market risk (continued)

The Group manages its cash flow interest-rate-risk by using floating-to-fixed interest rate swaps and interest rate caps. Such instruments have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Refer to note 20 for further details generally of the Group's borrowings.

A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table at note 3(c)(iv).

#### (ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. It is the policy of the Group to enter into forward foreign exchange contracts to cover all foreign currency exposure other than those effectively covered within the natural hedging pool.

Refer to note 10 and 17 for receivables and payables denominated in foreign currencies.

A sensitivity analysis of foreign exchange risk on the Group's financial assets and liabilities is provided in the table at note 3(c)(iv).

#### (iii) Price risk

The Group is exposed to commodity price risk through the purchase of steel and various alloys.

#### (iv) Summarised sensitivity analysis

The following table summarises the pre-tax sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk. These sensitivities are prior to the offsetting impact of hedging instruments.

| 2014                             | Carrying<br>amount<br>\$'000 | Interest rate risk |                  |                  |                  | Foreign exchange risk |                  |                  |                  |
|----------------------------------|------------------------------|--------------------|------------------|------------------|------------------|-----------------------|------------------|------------------|------------------|
|                                  |                              | -100 bps           |                  | +100 bps         |                  | -10%                  |                  | +10%             |                  |
|                                  |                              | Profit<br>\$'000   | Equity<br>\$'000 | Profit<br>\$'000 | Equity<br>\$'000 | Profit<br>\$'000      | Equity<br>\$'000 | Profit<br>\$'000 | Equity<br>\$'000 |
| <b>Financial assets</b>          |                              |                    |                  |                  |                  |                       |                  |                  |                  |
| Cash and cash equivalents        | 144,479                      | (1,444)            | (1,444)          | 1,444            | 1,444            | 7,740                 | 7,740            | (7,740)          | (7,740)          |
| Accounts receivable              | 125,428                      | -                  | -                | -                | -                | 8,963                 | 8,963            | (8,963)          | (8,963)          |
| Receivables under finance leases | 5,311                        | -                  | -                | -                | -                | -                     | -                | -                | -                |
| <b>Financial liabilities</b>     |                              |                    |                  |                  |                  |                       |                  |                  |                  |
| Derivatives - cashflow hedges    | (2,809)                      | -                  | (22)             | -                | 22               | -                     | 2,785            | -                | (2,785)          |
| Trade payables                   | (112,339)                    | -                  | -                | -                | -                | (7,941)               | (7,941)          | 7,941            | 7,941            |
| Borrowings                       | (521,653)                    | 5,217              | 5,217            | (5,217)          | (5,217)          | (32,644)              | (32,644)         | 32,644           | 32,644           |
| <b>Total increase/(decrease)</b> |                              | 3,773              | 3,751            | (3,773)          | (3,751)          | (23,882)              | (21,097)         | 23,882           | 21,097           |

| 2013                             | Carrying<br>amount<br>\$'000 | Interest rate risk |                  |                  |                  | Foreign exchange risk |                  |                  |                  |
|----------------------------------|------------------------------|--------------------|------------------|------------------|------------------|-----------------------|------------------|------------------|------------------|
|                                  |                              | -100 bps           |                  | +100 bps         |                  | -10%                  |                  | +10%             |                  |
|                                  |                              | Profit<br>\$'000   | Equity<br>\$'000 | Profit<br>\$'000 | Equity<br>\$'000 | Profit<br>\$'000      | Equity<br>\$'000 | Profit<br>\$'000 | Equity<br>\$'000 |
| <b>Financial assets</b>          |                              |                    |                  |                  |                  |                       |                  |                  |                  |
| Cash and cash equivalents        | 92,489                       | (924)              | (924)            | 924              | 924              | 5,735                 | 5,735            | (5,735)          | (5,735)          |
| Accounts receivable              | 155,353                      | -                  | -                | -                | -                | 11,552                | 11,552           | (11,552)         | (11,552)         |
| Receivables under finance leases | 5,531                        | -                  | -                | -                | -                | -                     | -                | -                | -                |
| Derivatives - FVTPL              | 12,897                       | -                  | -                | -                | -                | 20,078                | 20,078           | 5,556            | 5,556            |
| <b>Financial liabilities</b>     |                              |                    |                  |                  |                  |                       |                  |                  |                  |
| Derivatives - cashflow hedges    | (2,310)                      | -                  | 33               | -                | (32)             | -                     | -                | -                | -                |
| Trade payables                   | (115,931)                    | -                  | -                | -                | -                | (8,290)               | (8,290)          | 8,290            | 8,290            |
| Borrowings                       | (524,032)                    | 5,240              | 5,240            | (5,240)          | (5,240)          | (37,222)              | (37,222)         | 37,222           | 37,222           |
| <b>Total increase/(decrease)</b> |                              | 4,316              | 4,349            | (4,316)          | (4,348)          | (8,147)               | (8,147)          | 33,781           | 33,781           |

Financial risk exposure of the parent entity is limited to the exposure of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 3 Financial risk management (continued)

### (d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurement by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's assets and liabilities measured and recognised at fair value at 30 June 2014 and 30 June 2013.

| 2014 | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|------|-------------------|-------------------|-------------------|-----------------|
|------|-------------------|-------------------|-------------------|-----------------|

#### Liabilities

|                              |   |       |   |       |
|------------------------------|---|-------|---|-------|
| Derivatives used for hedging | - | 2,809 | - | 2,809 |
| <b>Total liabilities</b>     | - | 2,809 | - | 2,809 |

| 2013 | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|------|-------------------|-------------------|-------------------|-----------------|
|------|-------------------|-------------------|-------------------|-----------------|

#### Assets

|                              |   |        |   |        |
|------------------------------|---|--------|---|--------|
| Derivatives used for hedging | - | 12,897 | - | 12,897 |
| <b>Total assets</b>          | - | 12,897 | - | 12,897 |

#### Liabilities

|                              |   |       |   |       |
|------------------------------|---|-------|---|-------|
| Derivatives used for hedging | - | 2,310 | - | 2,310 |
| <b>Total liabilities</b>     | - | 2,310 | - | 2,310 |

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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## 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (i) *Estimated impairment of cash generating units*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(p). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 16 for details of these assumptions and the potential impact of changes to the assumptions.

#### (ii) *Estimated percentage completion for major contracts*

The Group reviews the percentage of completion for its major contracts monthly including assessing costs to be incurred to complete the project in accordance with the accounting policy stated in note 2(e) and note 2(l). These assessments require an estimate of the remaining labour and material costs for the projects.

#### (iii) *Equity accounting for Austin Engineering*

The Group has equity accounted the latest available published results of Austin Engineering Limited for the half year ending 31 December 2013 and extrapolated these to 30 June 2014 based on market conditions, market updates and analyst estimates. Differences identified when Austin Engineering Limited publishes results for the 2014 financial period will be adjusted in Bradken Limited's interim report for the half year ending 31 December 2014.

#### (iv) *Valuation of investment in Austin Engineering*

The Directors have assessed that the recoverable amount of the investment exceeds the carrying value of the investment using a value in use calculation. The directors consider this methodology provides a better estimate of the recoverable value through the business cycle.

#### (v) *Intangibles*

The group values identifiable intangibles acquired in a business combination based on a combination of independent valuations in some cases and management's estimate of the net present value of estimated future cash flows of the assets. Identifiable intangible assets are amortised over their estimated useful lives. Given the estimates involved, management review the carrying value of these assets annually for impairment.

## 5 Segment information

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Managing Director.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment. Segment assets include all assets used by a segment and consist primarily of receivables, inventories and property, plant and equipment, net of related provisions. Segment liabilities consist primarily of trade and other creditors, employee benefits and provision for service warranties.

Segment revenues, expenses and results include transfers between segments. Sales of scrap between controlled entities are made on an "arm's-length" basis and are eliminated on consolidation. All other transfers are made at variable cost and are eliminated on consolidation. The Group manages income taxes on a Group basis and this measure is therefore not reported internally at a segment level.

### (a) Description of segments

Mining Products consists of design, supply and service of wear components for all types of earth moving in the Mining and Quarry industries. Mineral Processing consists of design supply and service of mill liner components in the Mineral Processing industries. Rail is a package provider of Freight Rollingstock products and services including freight wagons, bogies, drawgear, inventory management, spare and renewed parts and the maintenance and refurbishment of rollingstock. Engineered Products, based in North America, is a supplier of cast parts to the Energy, Power, Cement, Industrial and Rail Transport industries specialising in large (greater than 4,500 kg) highly engineered steel castings.

The "all other" segment also represents other smaller businesses including Cast Metal Services.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 5 Segment information (continued)

### (b) Segment information provided to the Managing Director

The segment information provided to the Managing Director for the reportable segments for the year ending 30 June 2014 and for the year ending 30 June 2013 are as follows:

| 2014                                                                                                   |         | Mining<br>Products | Mineral<br>Processing | Engineered<br>Products | Rail           | All other<br>segments | Total            |
|--------------------------------------------------------------------------------------------------------|---------|--------------------|-----------------------|------------------------|----------------|-----------------------|------------------|
|                                                                                                        | Notes   | \$'000             | \$'000                | \$'000                 | \$'000         | \$'000                | \$'000           |
| Total segment revenue                                                                                  |         | 349,241            | 264,325               | 287,014                | 227,244        | 162,822               | 1,290,646        |
| Inter-segment revenue                                                                                  |         | (30,872)           | (28,288)              | (9,489)                | (20,907)       | (65,850)              | (155,406)        |
| <b>Revenue from external customers</b>                                                                 |         | <b>318,369</b>     | <b>236,037</b>        | <b>277,525</b>         | <b>206,337</b> | <b>96,972</b>         | <b>1,135,240</b> |
| <b>Gross margin</b>                                                                                    |         | <b>112,046</b>     | <b>89,441</b>         | <b>92,301</b>          | <b>48,594</b>  | <b>35,725</b>         | <b>378,107</b>   |
| Depreciation and amortisation expense                                                                  |         | 16,503             | 14,320                | 18,770                 | 9,604          | 3,138                 | 62,335           |
| Net interest expense                                                                                   |         | 2,377              | 2,990                 | 119                    | 1,155          | 30                    | 6,671            |
| Impairment of inventories                                                                              | Note 12 | 374                | 157                   | 163                    | 363            | 86                    | 1,143            |
| Impairment of trade receivables<br>expense / (income)                                                  |         | 17                 | (23)                  | (269)                  | -              | 60                    | (215)            |
| Other non cash expenses / (revenue)                                                                    |         | (4,309)            | (3,330)               | (4,195)                | 3,835          | 1,328                 | (6,671)          |
| <b>Total segment assets</b>                                                                            |         | <b>339,483</b>     | <b>318,279</b>        | <b>272,545</b>         | <b>222,991</b> | <b>124,068</b>        | <b>1,277,366</b> |
| Total segment assets include:                                                                          |         |                    |                       |                        |                |                       |                  |
| Acquisitions of property, plant and<br>equipment, intangibles and other non-<br>current segment assets |         | 16,951             | 10,469                | 9,311                  | 16,270         | 2,374                 | 55,375           |
| <b>Total segment liabilities</b>                                                                       |         | <b>52,888</b>      | <b>30,988</b>         | <b>47,571</b>          | <b>56,690</b>  | <b>27,711</b>         | <b>215,848</b>   |
| 2013                                                                                                   |         | Mining<br>Products | Mineral<br>Processing | Engineered<br>Products | Rail           | All other<br>segments | Total            |
|                                                                                                        | Notes   | \$'000             | \$'000                | \$'000                 | \$'000         | \$'000                | \$'000           |
| Total segment revenue                                                                                  |         | 417,235            | 289,987               | 389,477                | 227,392        | 198,495               | 1,522,586        |
| Inter-segment revenue                                                                                  |         | (51,933)           | (39,898)              | (32,875)               | (4,830)        | (79,911)              | (209,447)        |
| <b>Revenue from external customers</b>                                                                 |         | <b>365,302</b>     | <b>250,089</b>        | <b>356,602</b>         | <b>222,562</b> | <b>118,584</b>        | <b>1,313,139</b> |
| <b>Gross margin</b>                                                                                    |         | <b>125,573</b>     | <b>94,256</b>         | <b>124,394</b>         | <b>37,779</b>  | <b>47,583</b>         | <b>429,585</b>   |
| Depreciation and amortisation expense                                                                  |         | 14,413             | 13,177                | 17,574                 | 4,734          | 2,496                 | 52,394           |
| Net interest expense                                                                                   |         | 1,689              | 3,409                 | 2,312                  | 124            | (16)                  | 7,518            |
| Impairment of inventories                                                                              | Note 12 | 836                | 73                    | 575                    | (2)            | 20                    | 1,502            |
| Impairment of trade receivables                                                                        |         | -                  | -                     | 407                    | -              | 208                   | 615              |
| Other non cash expenses / (revenue)                                                                    |         | 3,808              | 375                   | 82                     | 1,609          | (2,888)               | 2,986            |
| <b>Total segment assets *</b>                                                                          |         | <b>403,769</b>     | <b>361,859</b>        | <b>336,862</b>         | <b>85,364</b>  | <b>119,692</b>        | <b>1,307,546</b> |
| Total segment assets include:                                                                          |         |                    |                       |                        |                |                       |                  |
| Acquisitions of property, plant and<br>equipment, intangibles and other non-<br>current segment assets |         | 65,391             | 9,301                 | 15,188                 | 3,515          | 3,855                 | 97,250           |
| <b>Total segment liabilities *</b>                                                                     |         | <b>53,605</b>      | <b>47,999</b>         | <b>61,268</b>          | <b>75,607</b>  | <b>22,580</b>         | <b>261,059</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 5 Segment information (continued)

### (c) Other segment information

The Group's divisions are managed on a global basis and operate in five main geographical areas, Australia, the home country of the parent entity, the UK, the US, Canada, China and Other countries. The majority of revenue classified within "Other countries" relates to Canada, and various European, African, Asian, and South American countries.

#### (i) Segment revenue

Sales between segments under the same tax jurisdiction are made at variable cost and are eliminated on consolidation. Sales between segments under different tax jurisdictions are carried out at arms length and are eliminated on consolidation.

The revenue from external parties reported to the Managing Director is measured in a manner consistent with that in the income statement. Segment revenue reconciles to total revenue from continuing operations as follows:

|                                                          | 2014<br>\$'000   | 2013<br>\$'000   |
|----------------------------------------------------------|------------------|------------------|
| Total segment revenue                                    | 1,290,646        | 1,522,586        |
| Intersegment eliminations                                | (155,406)        | (209,447)        |
| Total external segment revenue                           | 1,135,240        | 1,313,139        |
| Rental income                                            | 405              | 400              |
| Royalty income                                           | 251              | 506              |
| Sale of scrap                                            | 380              | 925              |
| Commission income                                        | 19               | 145              |
| Insurance recovery                                       | 1,795            | -                |
| Other                                                    | 1,271            | 2,073            |
| <b>Total revenue from continuing operations (note 6)</b> | <b>1,139,361</b> | <b>1,317,188</b> |

Segment revenues are allocated based on the country in which the customer is located.

|                                        |                  |                  |
|----------------------------------------|------------------|------------------|
| Australia                              | 548,971          | 605,717          |
| US                                     | 250,824          | 326,148          |
| Other countries                        | 335,445          | 381,274          |
| <b>Revenue from external customers</b> | <b>1,135,240</b> | <b>1,313,139</b> |

#### (ii) Gross margin

The Managing Director assesses the performance of each operating segment based on a measure of gross margin. Gross margin is considered the most relevant measure of individual segment results as manufacturing plants all make product for the various segments and transfer product at cost. This measurement basis excludes the allocation of manufacturing variances and overheads from individual manufacturing plants as any allocation would be arbitrarily based.

A reconciliation of standard gross margin to operating profit before income tax is provided as follows:

|                                                                                | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------------------------------------------------|----------------|----------------|
| <b>Gross margin</b>                                                            | <b>378,107</b> | <b>429,585</b> |
| Fixed manufacturing overheads and other cost of sale adjustments               | (150,435)      | (152,000)      |
| Other revenue                                                                  | 4,121          | 4,049          |
| Other income                                                                   | 14,621         | 14,824         |
| Selling and technical expenses                                                 | (57,136)       | (60,726)       |
| Administration expenses                                                        | (89,331)       | (107,531)      |
| Finance costs                                                                  | (30,662)       | (31,501)       |
| Restructuring and asset impairment costs                                       | (41,161)       | (2,558)        |
| Share of net profit/(loss) of associates accounted for using the equity method | (85)           | 9,847          |
| <b>Profit before income tax</b>                                                | <b>28,039</b>  | <b>103,989</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 5 Segment information (continued)

### (c) Other segment information (continued)

#### (iii) Segment assets

The amounts provided to the Managing Director with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. Reportable segments' assets are reconciled to total assets as follows:

|                                                   | 2014<br>\$'000   | 2013<br>\$'000   |
|---------------------------------------------------|------------------|------------------|
| <b>Segment assets</b>                             | <b>1,277,366</b> | <b>1,307,546</b> |
| Unallocated:                                      |                  |                  |
| Inventories                                       | (121)            | (1,593)          |
| Current receivables                               | (59,681)         | (29,913)         |
| Intangibles                                       | 77,940           | 162,547          |
| Property, plant and equipment                     | 14,989           | 16,461           |
| Investments accounted for using the equity method | 53,171           | 49,261           |
| Current tax assets                                | 11,289           | 11,794           |
| Deferred tax assets                               | 10,897           | 6,059            |
| Cash and cash equivalents                         | 144,427          | 92,449           |
| <b>Total assets as per the balance sheet</b>      | <b>1,530,277</b> | <b>1,614,611</b> |

Segment assets are allocated based on where the assets are located.

|                             |                  |                  |
|-----------------------------|------------------|------------------|
| Australia                   | 460,296          | 434,234          |
| US                          | 224,315          | 212,888          |
| Canada                      | 305,370          | 338,254          |
| China                       | 202,904          | 219,113          |
| UK                          | 32,161           | 40,504           |
| Other countries             | 52,320           | 62,553           |
| <b>Total segment assets</b> | <b>1,277,366</b> | <b>1,307,546</b> |

#### (iv) Segment liabilities

The amounts provided to the Managing Director with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment and the physical location of the liabilities. Reportable segments' liabilities are reconciled to total liabilities as follows:

|                                                   | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------------------------------------|----------------|----------------|
| <b>Segment liabilities</b>                        | <b>215,848</b> | <b>261,059</b> |
| Unallocated:                                      |                |                |
| Payables                                          | 6,877          | 12,853         |
| Derivative financial instruments                  | 2,809          | 2,310          |
| Current provisions                                | 9,119          | 2,506          |
| Non-current provisions                            | 4,839          | 4,155          |
| Current and non-current borrowings                | 514,213        | 519,532        |
| Current tax liabilities                           | 5,947          | 3,004          |
| Deferred tax liabilities                          | 40,808         | 43,882         |
| <b>Total liabilities as per the balance sheet</b> | <b>800,460</b> | <b>849,301</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6 Profit from ordinary activities

|                                                                                                  | 2014<br>\$'000   | 2013<br>\$'000   |
|--------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Revenue</b>                                                                                   |                  |                  |
| <b>From continuing operations</b>                                                                |                  |                  |
| <i>Sales revenue</i>                                                                             |                  |                  |
| Sale of goods                                                                                    | 1,135,240        | 1,313,139        |
|                                                                                                  | <b>1,135,240</b> | <b>1,313,139</b> |
| <i>Other revenue</i>                                                                             |                  |                  |
| Rental income                                                                                    | 405              | 400              |
| Royalty income                                                                                   | 251              | 506              |
| Sale of scrap                                                                                    | 380              | 925              |
| Commission received                                                                              | 19               | 145              |
| Insurance recovery                                                                               | 1,795            | -                |
| Other                                                                                            | 1,271            | 2,073            |
|                                                                                                  | <b>1,139,361</b> | <b>1,317,188</b> |
| <b>Other income</b>                                                                              |                  |                  |
| Interest                                                                                         | 1,282            | 254              |
| Foreign exchange gains recognised in profit before income tax for the year                       | -                | 12,137           |
| Net gain on disposal of property, plant and equipment                                            | -                | 2,433            |
| Recovery of costs associated with the Pala legal matter (note 7)                                 | 13,339           | -                |
|                                                                                                  | <b>14,621</b>    | <b>14,824</b>    |
| <b>Expenses</b>                                                                                  |                  |                  |
|                                                                                                  | 2014<br>\$'000   | 2013<br>\$'000   |
| <b>Profit before income tax includes the following specific expenses:</b>                        |                  |                  |
| <i>Depreciation</i>                                                                              |                  |                  |
| Buildings                                                                                        | 4,790            | 4,639            |
| Plant & equipment                                                                                | 42,790           | 36,251           |
| Leasehold improvements                                                                           | 184              | 339              |
| Plant & equipment under finance leases                                                           | 5,184            | 5,129            |
| Total depreciation                                                                               | <b>52,948</b>    | <b>46,358</b>    |
| <i>Amortisation</i>                                                                              |                  |                  |
| Customer lists                                                                                   | 7,470            | 7,341            |
| Trademarks                                                                                       | 1,423            | 1,289            |
| Licences and other                                                                               | 4,124            | 3,226            |
| Total amortisation                                                                               | <b>13,017</b>    | <b>11,856</b>    |
| <i>Finance costs - net</i>                                                                       |                  |                  |
| Interest and finance charges paid/payable                                                        | 30,636           | 30,127           |
| Borrowing costs amortisation                                                                     | 1,514            | 1,474            |
|                                                                                                  | <b>32,150</b>    | <b>31,601</b>    |
| Amount capitalised*                                                                              | (1,488)          | (100)            |
| Finance costs expensed                                                                           | <b>30,662</b>    | <b>31,501</b>    |
| *The borrowing costs capitalised represent amounts incurred upfront to renew finance facilities. |                  |                  |
| <i>Foreign exchange losses recognised in profit before income tax for the year</i>               | 15,498           | -                |
| <i>Net loss on disposal of property, plant and equipment</i>                                     | 136              | -                |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6 Profit from ordinary activities (continued)

### Expenses (continued)

|                                                                                                     | 2014<br>\$'000 | 2013<br>\$'000 |
|-----------------------------------------------------------------------------------------------------|----------------|----------------|
| <i>Rental expense relating to operating leases</i>                                                  |                |                |
| Minimum lease payments                                                                              | 9,416          | 8,590          |
| Total rental expense relating to operating leases                                                   | 9,416          | 8,590          |
| <i>Research and development</i>                                                                     | 17,005         | 6,861          |
| <i>Warranty</i>                                                                                     | 5,866          | 8,892          |
| <i>Stock Obsolescence</i>                                                                           | 1,143          | 1,502          |
| <i>Net bad and doubtful debts expense (revenue) including movements in doubtful debts provision</i> | (215)          | 615            |
| <i>Employee benefits expense</i>                                                                    | 377,597        | 415,056        |

## 7 Significant items

|                                                                  | Notes | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------------------------------------------------------|-------|----------------|----------------|
| <b>Gains</b>                                                     |       |                |                |
| Costs recovery associated with the Pala legal case and judgement | (a)   | 13,339         | -              |
| <b>Expenses</b>                                                  |       |                |                |
| Costs associated with the Pala legal case and judgement          | (a)   | -              | 30,412         |
| Impairment of assets                                             | (b)   | 19,535         | -              |
| Restructuring costs                                              | (b)   | 21,626         | 2,558          |
| Due diligence, acquisition and legal costs                       |       | 6,500          | -              |

### (a) Pala legal case

During the period Bradken reached a commercial in confidence settlement with Norcast S.ar.L regarding the 2011 of Norecast. An amount of \$30.4m (before tax) had been expensed during the financial year ending 30 June 2013 pursuant to the legal case relating to the Federal Court of Australia judgment sum, interest and associated costs. As a consequence of the Federal Court of Australia setting aside its initial judgement and the settlement reached with Norcast S.ar.L, a gain of \$13.3m (before tax) has been recorded in the current period.

### (b) Manufacturing reorganisation

As announced in May 2014, the Group undertook a review of its operations resulting in a reorganisation of its manufacturing facilities. In the year ended 30 June 2014, the Group incurred \$12.5m of redundancy and other restructuring costs and had provided a further \$9.1m in costs as a provision allowed in the accounts at 30 June 2014. In addition \$19.5m of impairment expenses were recognised relating to facilities subject to closure.

It is estimated that a further \$13.2 million of restructuring costs will be incurred in the first half of the 2015 financial year associated with this reorganisation.

### (c) Due diligence, acquisition and legal costs

During the year Bradken incurred \$5.3m of due diligence costs associated with acquisitions that did not proceed and further legal costs of \$1.2m.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 8 Income tax expense

|                                                                                                                                                                                      | Notes | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|----------------|----------------|
| <b>(a) Income tax expense</b>                                                                                                                                                        |       |                |                |
| Current tax                                                                                                                                                                          |       | 14,738         | 30,860         |
| Deferred tax                                                                                                                                                                         |       | (6,538)        | 12,943         |
| Adjustment for current tax of prior periods                                                                                                                                          |       | (1,641)        | (6,751)        |
|                                                                                                                                                                                      |       | <u>6,559</u>   | <u>37,052</u>  |
| Income tax expense is attributable to:                                                                                                                                               |       |                |                |
| Profit from continuing operations                                                                                                                                                    |       | <u>6,559</u>   | <u>37,052</u>  |
| Aggregate income tax expense                                                                                                                                                         |       | <u>6,559</u>   | <u>37,052</u>  |
| Deferred income tax (revenue) expense included in income tax expense comprises:                                                                                                      |       |                |                |
| Decrease (increase) in deferred tax assets (note 15)                                                                                                                                 |       | (3,553)        | (2,704)        |
| (Decrease) increase in deferred tax liabilities (note 21)                                                                                                                            |       | (2,985)        | 15,647         |
|                                                                                                                                                                                      |       | <u>(6,538)</u> | <u>12,943</u>  |
| <b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>                                                                                                 |       |                |                |
| Profit from continuing operations before income tax expense                                                                                                                          |       | <u>28,039</u>  | <u>103,989</u> |
|                                                                                                                                                                                      |       | 28,039         | 103,989        |
| Tax at the Australian tax rate of 30% (2013: 30%)                                                                                                                                    |       | 8,412          | 31,197         |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income:                                                                                              |       |                |                |
| Entertainment                                                                                                                                                                        |       | 40             | 61             |
| Research and development                                                                                                                                                             |       | (2,100)        | (1,500)        |
| Share based payments                                                                                                                                                                 |       | (97)           | 1,012          |
| Tax offset for franked dividends                                                                                                                                                     |       | (734)          | (654)          |
| Legal settlements                                                                                                                                                                    |       | (1,252)        | 8,170          |
| Sundry items                                                                                                                                                                         |       | 2,776          | 4,642          |
|                                                                                                                                                                                      |       | <u>7,045</u>   | <u>42,928</u>  |
| Difference in overseas tax rates                                                                                                                                                     |       | (934)          | 126            |
| Adjustment for tax of prior periods                                                                                                                                                  |       | (2,295)        | (6,116)        |
| Deferred tax assets restated for reduction in overseas tax rate                                                                                                                      |       | -              | 114            |
| Prior year tax losses de-recognised as not probable of recovery                                                                                                                      |       | 2,743          | -              |
| Income tax expense                                                                                                                                                                   |       | <u>6,559</u>   | <u>37,052</u>  |
| <b>(c) Amounts recognised directly in equity</b>                                                                                                                                     |       |                |                |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity |       |                |                |
| Net deferred tax - debited (credited) directly to equity (notes 15 and 21)                                                                                                           |       | (1,215)        | 6,193          |
|                                                                                                                                                                                      |       | <u>(1,215)</u> | <u>6,193</u>   |
| <b>(d) Tax expense (income) relating to items of other comprehensive income</b>                                                                                                      |       |                |                |
| Cash flow hedges (note 23(a))                                                                                                                                                        |       | (159)          | 346            |
|                                                                                                                                                                                      |       | <u>(159)</u>   | <u>346</u>     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 8 Income tax expense (continued)

### (e) Tax consolidation legislation

Bradken Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 2(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Bradken Limited.

The Australian entities have also entered into an agreement under which the wholly-owned entities fully compensate Bradken Limited for any current tax payable assumed and are compensated by Bradken Limited for any current tax receivable and deferred tax assets relating to the unused tax losses or unused tax credits that are transferred to Bradken Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

## 9 Cash and cash equivalents

|                          | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------|----------------|----------------|
| Cash at bank and in hand | 144,479        | 92,489         |
|                          | <b>144,479</b> | <b>92,489</b>  |

### (a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

|                                      | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------|----------------|----------------|
| Balances as above                    | 144,479        | 92,489         |
| Bank overdrafts (note 20)            | -              | (667)          |
| Balances per statement of cash flows | <b>144,479</b> | <b>91,822</b>  |

### (b) Interest rate risk exposure

The Group's and parent entity's exposure to interest rate risk is discussed in note 3.

## 10 Trade and other receivables

|                                         | 2014<br>\$'000 | 2013<br>\$'000 |
|-----------------------------------------|----------------|----------------|
| <b>Current</b>                          |                |                |
| Trade receivables                       | 125,428        | 155,353        |
| Provision for impairment of receivables | (63)           | (405)          |
|                                         | <b>125,365</b> | <b>154,948</b> |
| Other receivables                       | 10,054         | 6,298          |
| Prepayments                             | 5,293          | 6,564          |
|                                         | <b>140,712</b> | <b>167,810</b> |
| <b>Non-current</b>                      |                |                |
| Other receivables                       | 2,754          | 2,880          |
|                                         | <b>2,754</b>   | <b>2,880</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 10 Receivables and other assets (continued)

### (a) Impaired trade receivables

As at 30 June 2013 current trade receivables of the Group with a nominal value of \$63,000 (2013: \$405,000) were impaired. The amount of the provision was \$63,000 (2013: \$405,000).

Movements in the provision for impairment of receivables are as follows:

|                                                          | 2014<br>\$'000 | 2013<br>\$'000 |
|----------------------------------------------------------|----------------|----------------|
| Balance at 1 July                                        | 405            | 499            |
| Charge for the year                                      | 77             | 664            |
| Receivables written off during the year as uncollectable | (127)          | (739)          |
| Unused amounts reversed                                  | (292)          | (49)           |
| Foreign currency exchange differences                    | -              | 30             |
| Balance at 30 June                                       | 63             | 405            |

The creation and release of the provision for impaired receivables has been included in administration expenses in the income statement. Amounts charged to the provision are generally written off when there is no expectation of recovering additional cash.

### (b) Past due but not impaired

At 30 June, the ageing analysis of trade receivables is as follows:

|            | 2014<br>\$'000 | 2013<br>\$'000 |
|------------|----------------|----------------|
| Current    | 56,208         | 68,838         |
| 0-30 days  | 52,566         | 48,431         |
| 31-60 days | 8,691          | 22,064         |
| 61-90 days | 3,195          | 13,929         |
| 91 + days  | 4,768          | 2,091          |
| Total      | 125,428        | 155,353        |

As at 30 June 2014 trade receivables of \$63,000 (2013: \$405,000) were past due and considered impaired and trade receivables of \$69,157,000 (2013: \$86,110,000) were past due but not impaired.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

In relation to the receivables recognised as past due but not impaired and impaired, collateral is held in the form of a retention of title over the goods until payment is received. Given the consumable nature of these goods the ability to determine an accurate value for this collateral has been unable to be performed.

### (c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group and also include amounts receivable based on the revenue recognised for contracts on a percentage of completion basis.

### (d) Fair values

The fair values and carrying values of non-current receivables of the Group are as follows:

|                   | 2014                      |                      | 2013                      |                      |
|-------------------|---------------------------|----------------------|---------------------------|----------------------|
|                   | Carrying amount<br>\$'000 | Fair value<br>\$'000 | Carrying amount<br>\$'000 | Fair value<br>\$'000 |
| Other receivables | 2,754                     | 2,754                | 2,880                     | 2,880                |
|                   | 2,754                     | 2,754                | 2,880                     | 2,880                |

Due to the relatively short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

### (e) Credit risk

There is no concentration of credit risk with respect to current and non-current receivables, as the Group has a large number of customers, nationally and internationally dispersed. Refer to note 3 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 10 Receivables and other assets (continued)

### (f) Foreign exchange and interest rate risk

The carrying amounts of the Group's and parent entity current and non-current receivables are denominated in the following currencies:

|                    | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------|----------------|----------------|
| Australian Dollars | 42,463         | 42,848         |
| US Dollars         | 62,185         | 79,213         |
| Canadian Dollars   | 25,106         | 31,968         |
| Chinese Yuan       | 1,533          | 1,628          |
| Other *            | 12,179         | 15,033         |
|                    | <b>143,466</b> | <b>170,690</b> |

\* Other refers to a basket of currencies (Euros, Great British Pounds, Japanese Yen, New Zealand Dollars, Singapore Dollars, Malaysian Ringgit, South African Rand, Chilean Pesos)

Further information about the Group's and the parent entity's exposure to credit risk, foreign exchange risk and interest rate risk in relation to trade and other receivables is provided in note 3.

## 11 Finance lease assets

|                                                  | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------------------|----------------|----------------|
| Current receivables under finance leases (a)     | 509            | 453            |
| Non current receivables under finance leases (a) | 4,802          | 5,078          |

### (a) Receivables under finance leases

The Group leases freight rail wagons to customers in Australia under finance lease arrangements. Lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets give rise to accounts receivable in the amount of discounted future lease payments. The receivables under finance leases are as follows:

|                          | Not later than<br>one year<br>\$'000 | Between one<br>and five years<br>\$'000 | Later than five<br>years<br>\$'000 |
|--------------------------|--------------------------------------|-----------------------------------------|------------------------------------|
| <b>2013</b>              |                                      |                                         |                                    |
| Present value            | 453                                  | 2,453                                   | 2,625                              |
| Unearned interest income | 654                                  | 2,305                                   | 479                                |
| Total future payments    | <b>1,107</b>                         | <b>4,758</b>                            | <b>3,104</b>                       |
| <b>2014</b>              |                                      |                                         |                                    |
| Present value            | 509                                  | 4,802                                   | -                                  |
| Unearned interest income | 626                                  | 2,158                                   | -                                  |
| Total future payments    | <b>1,135</b>                         | <b>6,960</b>                            | <b>-</b>                           |

## 12 Inventories

|                                                                       | 2014<br>\$'000 | 2013<br>\$'000 |
|-----------------------------------------------------------------------|----------------|----------------|
| <i>Construction work in progress:</i>                                 |                |                |
| Contract costs incurred and recognised profits less recognised losses | 258,327        | 86,046         |
| Progress billing                                                      | (247,915)      | (70,370)       |
| Net construction work in progress                                     | 10,412         | 15,676         |
| Raw materials and stores                                              | 46,106         | 56,843         |
| Work in progress                                                      | 50,253         | 79,518         |
| Finished goods                                                        | 104,611        | 114,889        |
|                                                                       | <b>211,382</b> | <b>266,926</b> |

### (a) Inventory expense

Write downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2014 amounted to \$1,143,000 (2013: \$1,502,000). The expense has been included in 'cost of sales' in the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 13 Derivative financial instruments

|                                                                  | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------------------------------------------------------|----------------|----------------|
| <b>Current assets</b>                                            |                |                |
| Forward foreign exchange contracts - cash flow hedges ((a)(ii))  | -              | 12,897         |
| Total current derivative financial instrument assets             | -              | 12,897         |
| <b>Current liabilities</b>                                       |                |                |
| Interest rate swap and cap contracts - cash flow hedges ((a)(i)) | 1,825          | 2,310          |
| Forward foreign exchange contracts ((a)(ii))                     | 984            | -              |
| Total current derivative financial instrument liabilities        | 2,809          | 2,310          |

### (a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 3).

#### (i) Interest rate swap and interest rate cap contracts - cash flow hedges

Bank loans of the Group had an average variable interest rate of 3.64% at 30 June 2014 (2013: 4.40%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates, and interest rate caps which provide protection over an agreed interest rate level.

Swaps and caps currently in place cover approximately 14% of bank loans (2013: 14%). The average fixed interest for the swaps and caps is 4.88% (2013: 4.88%).

At balance date, the notional principal amounts and periods of expiry of the interest rate swap and cap contracts are as follows:

|                              | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------------------|----------------|----------------|
| Interest rate swap contracts |                |                |
| 1 year or less               | -              | 30,000         |
| 2 - 3 years                  | 40,000         | -              |
| 3 - 4 years                  | -              | 40,000         |
|                              | 40,000         | 70,000         |

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately.

At balance date for the Group these contracts were net liabilities with fair value of \$1,825,000 (2013: \$2,310,000 liability). In the year ended 30 June 2014 there was a gain from the change in fair value of \$485,000 (2013: \$1,099,000 gain).

#### (ii) Forward exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover all foreign currency exposures greater than \$100,000 AUD.

At balance date these contracts were net liabilities of \$984,000 (2013: \$12,897,000 asset). The Group has classified these hedging instruments to be effective hedges.

In the year ended 30 June 2014 there was a loss from the change in fair value of the asset of \$13,881,000 (2013: gain of \$13,138,000)

### (b) Risk exposures and fair values

Further information about the Group's exposure to credit risk, foreign exchange risk and interest rate risk is provided in note 3.

Further information about the fair value of the Group's derivatives is provided in note 3.

### (c) Offsetting financial assets and liabilities

Bradken presents derivative assets and derivative liabilities on a gross basis. Certain derivative assets and liabilities are subject to enforceable master netting arrangements with individual counterparties if they were subject to default. As at 30 June 2014, if these netting arrangements were to be applied to the derivative portfolio, derivative assets are reduced by \$0.58m (30 June 2013: \$4.4m) and derivative liabilities are reduced by \$0.58m (30 June 2013: \$4.4m).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 14 Property, plant and equipment

|                                             | Freehold<br>land<br>\$'000 | Buildings<br>\$'000 | Leasehold<br>improve-<br>ments<br>\$'000 | Plant and<br>equipment<br>\$'000 | Leased<br>plant and<br>equipment<br>\$'000 | Capital<br>works in<br>progress<br>\$'000 | Total<br>\$'000 |
|---------------------------------------------|----------------------------|---------------------|------------------------------------------|----------------------------------|--------------------------------------------|-------------------------------------------|-----------------|
| <b>At 1 July 2012</b>                       |                            |                     |                                          |                                  |                                            |                                           |                 |
| Cost or fair value                          | 39,487                     | 130,286             | 5,985                                    | 495,288                          | 42,681                                     | 80,303                                    | 794,030         |
| Accumulated depreciation                    | -                          | (23,258)            | (546)                                    | (205,551)                        | (31,495)                                   | -                                         | (260,850)       |
| Net book amount                             | <u>39,487</u>              | <u>107,028</u>      | <u>5,439</u>                             | <u>289,737</u>                   | <u>11,186</u>                              | <u>80,303</u>                             | <u>533,180</u>  |
| <b>Year ended 30 June 2013</b>              |                            |                     |                                          |                                  |                                            |                                           |                 |
| Opening net book amount                     | 39,487                     | 107,028             | 5,439                                    | 289,737                          | 11,186                                     | 80,303                                    | 533,180         |
| Exchange differences                        | 2,200                      | 7,258               | 475                                      | 29,694                           | 349                                        | -                                         | 39,976          |
| Additions                                   | -                          | -                   | 153                                      | (877)                            | 5,889                                      | 100,530                                   | 105,695         |
| Transfer (to)/from capital work in progress | 2,257                      | 59,676              | -                                        | 76,127                           | -                                          | (138,060)                                 | -               |
| Disposals                                   | (21)                       | (14,519)            | (1,439)                                  | (286)                            | (3)                                        | -                                         | (16,268)        |
| Depreciation charge                         | -                          | (4,639)             | (339)                                    | (36,251)                         | (5,129)                                    | -                                         | (46,358)        |
| Closing net book amount                     | <u>43,923</u>              | <u>154,804</u>      | <u>4,289</u>                             | <u>358,144</u>                   | <u>12,292</u>                              | <u>42,773</u>                             | <u>616,225</u>  |
| <b>At 30 June 2013</b>                      |                            |                     |                                          |                                  |                                            |                                           |                 |
| Cost or fair value                          | 43,923                     | 184,919             | 5,084                                    | 606,998                          | 27,909                                     | 42,773                                    | 911,606         |
| Accumulated depreciation                    | -                          | (30,115)            | (795)                                    | (248,854)                        | (15,617)                                   | -                                         | (295,381)       |
| Net book amount                             | <u>43,923</u>              | <u>154,804</u>      | <u>4,289</u>                             | <u>358,144</u>                   | <u>12,292</u>                              | <u>42,773</u>                             | <u>616,225</u>  |
| <b>Year ended 30 June 2014</b>              |                            |                     |                                          |                                  |                                            |                                           |                 |
| Opening net book amount                     | 43,923                     | 154,804             | 4,289                                    | 358,144                          | 12,292                                     | 42,773                                    | 616,225         |
| Exchange differences                        | (782)                      | (3,294)             | (129)                                    | (7,091)                          | (340)                                      | -                                         | (11,636)        |
| Additions                                   | -                          | -                   | -                                        | (4,145)                          | 6,548                                      | 50,680                                    | 53,083          |
| Transfer (to)/from capital work in progress | 62                         | 1,647               | -                                        | 33,355                           | -                                          | (35,064)                                  | -               |
| Disposals                                   | (51)                       | (1,132)             | (6)                                      | (20,091)                         | (84)                                       | -                                         | (21,364)        |
| Depreciation charge                         | -                          | (4,790)             | (184)                                    | (42,790)                         | (5,184)                                    | -                                         | (52,948)        |
| Closing net book amount                     | <u>43,152</u>              | <u>147,235</u>      | <u>3,970</u>                             | <u>317,382</u>                   | <u>13,232</u>                              | <u>58,389</u>                             | <u>583,360</u>  |
| <b>At 30 June 2014</b>                      |                            |                     |                                          |                                  |                                            |                                           |                 |
| Cost or fair value                          | 43,152                     | 180,361             | 4,925                                    | 587,711                          | 29,898                                     | 58,389                                    | 904,436         |
| Accumulated depreciation                    | -                          | (33,126)            | (955)                                    | (270,329)                        | (16,666)                                   | -                                         | (321,076)       |
| Net book amount                             | <u>43,152</u>              | <u>147,235</u>      | <u>3,970</u>                             | <u>317,382</u>                   | <u>13,232</u>                              | <u>58,389</u>                             | <u>583,360</u>  |

### (a) Non current assets pledged as security

Refer to note 20 for information on non-current assets pledged as security by the group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 15 Deferred tax assets

|                                                                                                      | 2014<br>\$'000  | 2013<br>\$'000  |
|------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>The balance comprises temporary differences attributable to:</b>                                  |                 |                 |
| <i>Amounts recognised in profit or loss</i>                                                          |                 |                 |
| Doubtful debts                                                                                       | 11              | 146             |
| Employee benefits                                                                                    | 14,402          | 16,175          |
| Depreciation                                                                                         | 257             | 1,318           |
| Other provisions                                                                                     | 11,497          | 4,040           |
| Unrealised foreign exchange differences                                                              | 8,231           | 6,563           |
| Other accruals                                                                                       | 5,743           | 6,519           |
| Tax losses                                                                                           | 297             | 2,136           |
| Cash flow hedges                                                                                     | 835             | 676             |
| Other                                                                                                | 2,351           | 2,795           |
| Total deferred tax assets                                                                            | <b>43,624</b>   | <b>40,368</b>   |
| <i>Set off of deferred tax liabilities of parent entity pursuant to set off provisions (note 21)</i> |                 |                 |
| Net deferred tax assets                                                                              | <b>(32,727)</b> | <b>(34,309)</b> |
|                                                                                                      | <b>10,897</b>   | <b>6,059</b>    |
| <b>Movements:</b>                                                                                    |                 |                 |
| Opening balance at 1 July                                                                            | 40,368          | 36,944          |
| Credited/(charged) to the income statement (note 8)                                                  | 3,553           | 2,704           |
| Credited/(charged) to other comprehensive income (note 8)                                            | 159             | (346)           |
| Credited/(charged) to equity                                                                         | (456)           | (778)           |
| Acquisition of subsidiary (note 30)                                                                  | -               | 39              |
| Reclassification from other current assets to deferred tax assets                                    | -               | 1,805           |
| Closing balance at 30 June                                                                           | <b>43,624</b>   | <b>40,368</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 16 Intangible assets

|                                         | Goodwill | Customer lists | Patents, trademarks and brands | Licences and other | Total    |
|-----------------------------------------|----------|----------------|--------------------------------|--------------------|----------|
|                                         | \$'000   | \$'000         | \$'000                         | \$'000             | \$'000   |
| <b>At 1 July 2012</b>                   |          |                |                                |                    |          |
| Cost                                    | 268,922  | 100,774        | 11,644                         | 52,091             | 433,431  |
| Accumulated amortisation and impairment | (8,759)  | (19,095)       | (2,606)                        | (40,543)           | (71,003) |
| Net book amount                         | 260,163  | 81,679         | 9,038                          | 11,548             | 362,428  |
| <b>Year ended 30 June 2013</b>          |          |                |                                |                    |          |
| Opening net book amount                 | 260,163  | 81,679         | 9,038                          | 11,548             | 362,428  |
| Additions                               | 1,519    | -              | -                              | 8,145              | 9,664    |
| Foreign exchange variation              | 13,692   | 7,996          | 815                            | -                  | 22,503   |
| Amortisation charge                     | -        | (7,341)        | (1,289)                        | (3,226)            | (11,856) |
| Closing net book amount                 | 275,374  | 82,334         | 8,564                          | 16,467             | 382,739  |
| <b>At 30 June 2013</b>                  |          |                |                                |                    |          |
| Cost                                    | 284,133  | 108,770        | 12,459                         | 60,236             | 465,598  |
| Accumulated amortisation and impairment | (8,759)  | (26,436)       | (3,895)                        | (43,769)           | (82,859) |
| Net book amount                         | 275,374  | 82,334         | 8,564                          | 16,467             | 382,739  |
| <b>Year ended 30 June 2014</b>          |          |                |                                |                    |          |
| Opening net book amount                 | 275,374  | 82,334         | 8,564                          | 16,467             | 382,739  |
| Additions                               | -        | -              | -                              | 3,994              | 3,994    |
| Foreign exchange variation              | (4,171)  | (2,384)        | (239)                          | -                  | (6,794)  |
| Amortisation charge                     | -        | (7,470)        | (1,423)                        | (4,124)            | (13,017) |
| Closing net book amount                 | 271,203  | 72,480         | 6,902                          | 16,337             | 366,922  |
| <b>At 30 June 2014</b>                  |          |                |                                |                    |          |
| Cost                                    | 279,962  | 106,386        | 12,220                         | 64,230             | 462,798  |
| Accumulated amortisation and impairment | (8,759)  | (33,906)       | (5,318)                        | (47,893)           | (95,876) |
| Net book amount                         | 271,203  | 72,480         | 6,902                          | 16,337             | 366,922  |

### Impairment tests for goodwill and other intangibles

The impairment testing has been performed on the following cash generating units (CGUs), Mineral Processing, Mining Products, Rail, Engineered Products, Industrial and Cast Metal Services.

The carrying amounts of goodwill as disclosed in the balance sheet is \$45.9m for the Mining Products CGU (2013: \$45.9m), \$113.8m for the Mineral Processing CGU (2013: \$117.1m), \$3.4m for the Rail CGU (2013: \$3.4m), \$85.1m for the Engineered Products CGU (2013: \$86.0m), \$15.9m for the Industrial CGU (2013: \$15.9m) and \$7.1m for the Cast Metal Services CGU (2013: \$7.1m). The Industrial and Cast Metal Services CGU's are reported in the 'all other segments' in Note 5.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts prepared by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using perpetual growth rates.

### Impairment Charge

There were no impairment charges in the period (2013: \$NIL).

### Key assumptions used for value in use calculations

The calculation of value in use for the CGUs is most sensitive to the following assumptions:

- EBITDA/sales margins
- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 16 Intangible assets (continued)

The Company has determined the assumptions based on past performance and expectations for the future. The growth rates used are consistent with forecasts included in industry reports.

In performing the value-in-use calculations, the company has applied a post tax discount rate to discount the forecast future attributable post tax cash flows. Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. CGU-specific risk premiums have been incorporated into the calculation of the discount rates.

The post tax discount rate used for the Australian based CGU's, including Mining Products, Rail, Industrial and Cast Metal Services is 12% (2013: 8.5%), which equates to a pre tax discount rate of 17.1% (2013: 12.1%).

The post tax discount rate used in the United States based Engineering Products CGU is 11% (2013: 8.59%), which would equate to a pre tax discount rate of 16.9% (2013: 13.2%).

The post tax discount rate used for the Mineral Processing CGU which operates in Canada and Australia is 11.5% (2013: 8.5%), which would translate into a pre tax discount rate of 17.1% (2013: 12.1%).

The perpetual growth rates per CGU are as follows; Mining 3.0%, Mineral Processing 2.0%, Engineered Products 2.5%, Rail 1.5%, Industrial 2.5% and Cast Metal Services 3.0%.

### Impact of reasonably possible changes in key assumptions

The directors believe there is a reasonably possible change in assumptions for the Mining Products and Engineered Products CGUs that may result in an impairment. These changes are listed below. There is no reasonably possible change in assumptions that would result in an impairment of goodwill allocated to the other CGU's.

The difference between the carrying value and recoverable amount of the Mining Products and Engineered Products CGU's at 30 June 2014 is as follows;

- (a) Mining Products: \$11.5 million
- (b) Engineered Products: \$33 million
- (c) Cast Metal Services: \$6.8 million

The implications of the key assumptions for the recoverable amount are discussed below:

#### *EBITDA Margin*

The following changes in the EBITDA margin would be required to result in impairment for CGU's considered to be significant in comparison with the entity's total carrying amount of goodwill.

Mining Products: a reduction of 2% in the EBITDA margins used would result in impairment.

Engineering Products: a reduction of 6% in the EBITDA margin used would result in impairment.

Cast Metal Services: a reduction of 5% in the EBITDA margins used would result in impairment.

#### *Discount rates*

The following changes in the post tax discount rate would be required to result in impairment for CGU's considered to be significant in comparison with the entity's total carrying amount of goodwill.

Mining Products: an increase of 0.3% in the post tax discount rate would result in impairment.

Engineering Products: an increase of 1.0% in the post tax discount rate would result in impairment.

Cast Metal Services: an increase of 1.3% of the post tax discount rate would result in impairment.

#### *Growth rate assumptions*

The Company recognises that the volatility of the current economic climate and competitive pressures in the manufacturing industry has an impact on growth rate assumptions.

The following changes in the long-term growth rate would be required to result in impairment for CGU's considered to be significant in comparison with the entity's total carrying amount of goodwill.

Mining Products: a reduction of 0.3% in the long-term growth rate would result in impairment.

Engineering Products: a reduction of 1.3% in the long-term growth rate would result in impairment.

Cast Metal Services: a reduction of 1.6% in the long-term growth rate would result in impairment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 17 Payables

|                | 2014<br>\$'000 | 2013<br>\$'000 |
|----------------|----------------|----------------|
| Current        |                |                |
| Trade payables | 112,339        | 115,931        |
| Other payables | 31,165         | 81,098         |
|                | <b>143,504</b> | <b>197,029</b> |
| Non current    |                |                |
| Other payables | 7,728          | 8,231          |
|                | <b>7,728</b>   | <b>8,231</b>   |

### (a) Foreign currency risk

The carrying amounts of the Group's and parent entity's payables are denominated in the following currencies:

|                    |                |                |
|--------------------|----------------|----------------|
| Australian Dollars | 46,572         | 88,708         |
| US Dollars         | 49,585         | 60,079         |
| Chinese Yuan       | 42,059         | 35,686         |
| Other *            | 13,016         | 20,787         |
|                    | <b>151,232</b> | <b>205,260</b> |

\* Other refers to a basket of currencies (Euros, Great British Pounds, Japanese Yen, New Zealand Dollars, Singapore Dollars, Malaysian Ringgit, South African Rand, Chilean Pesos)

### (b) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

## 18 Provisions

|                    | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------|----------------|----------------|
| <b>Current</b>     |                |                |
| Employee benefits  | 46,977         | 47,652         |
| Restructuring      | 9,292          | 2,558          |
| Warranty           | 6,705          | 2,640          |
|                    | <b>62,974</b>  | <b>52,850</b>  |
| <b>Non-current</b> |                |                |
| Employee benefits  | 14,669         | 17,963         |
| Environmental      | 368            | -              |
|                    | <b>15,037</b>  | <b>17,963</b>  |

### (a) Warranties

Provision is made for known warranty claims at balance date. Most claims are expected to be settled in the next financial year. Management estimates the provision based on expected costs to be incurred to resolve the warranty claim.

### (b) Restructuring

The restructuring provision represents those costs associated with the announced company restructure that are yet to be incurred but for which a constructive obligation exists at balance date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 18 Provisions (continued)

### (c) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

| 2014                             | Warranty<br>Current<br>\$'000 | Restructuring<br>Current<br>\$'000 | Environmental<br>Non Current<br>\$'000 |
|----------------------------------|-------------------------------|------------------------------------|----------------------------------------|
| Carrying amount at start of year | 2,640                         | 2,558                              | -                                      |
| Additional provisions recognised | 5,866                         | 21,626                             | 379                                    |
| FX variations                    | -                             | -                                  | (11)                                   |
| Amounts used                     | (1,801)                       | (14,892)                           | -                                      |
| Carrying amount at end of year   | 6,705                         | 9,292                              | 368                                    |

### (d) Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

|                                                                      | 2014<br>\$'000 | 2013<br>\$'000 |
|----------------------------------------------------------------------|----------------|----------------|
| Long service leave obligation expected to be settled after 12 months | 3,069          | 4,137          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 19 Employee defined benefit liability

### (a) Superannuation plan

All employees of the Group are entitled to benefit from various superannuation or pension plans on retirement, disability or death. The Group operates two defined benefit retirement plans, one in the United States and the other in Canada. The United States plan at one of the Group's US subsidiaries is closed to new members and covers hourly employees hired before May 10, 1993. The Canadian plan is currently active at one of the Group's Canadian subsidiaries for hourly employees but closed on March 1, 2010 to salaried employees. Benefits for the defined benefit plans are determined on years of credited service.

The Group also operates a number of defined contribution plans which receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The following sets out details of the liabilities in respect of the defined benefit plans only.

|                                           | 2014<br>\$'000 | 2013<br>\$'000  |
|-------------------------------------------|----------------|-----------------|
| US Defined benefit retirement plan        | (6,394)        | (8,082)         |
| Canadian defined benefit retirement plans | (2,723)        | (3,623)         |
|                                           | <b>(9,117)</b> | <b>(11,705)</b> |

### (b) Changes in the defined benefit plan obligation and fair value of plan assets

|                                                                            | Defined benefit obligation<br>\$'000 | Fair value of plan assets<br>\$'000 | Benefit Liability<br>\$'000 |
|----------------------------------------------------------------------------|--------------------------------------|-------------------------------------|-----------------------------|
| Balance at 1 July 2012                                                     | (52,109)                             | 35,112                              | (16,997)                    |
| <u>Pension costs charged to profit or loss</u>                             |                                      |                                     |                             |
| Service cost                                                               | (1,125)                              | (218)                               |                             |
| Net Interest                                                               | (2,127)                              | 1,464                               |                             |
| Subtotal included in profit or loss                                        | <b>(3,252)</b>                       | <b>1,246</b>                        | <b>(2,006)</b>              |
| Benefits paid                                                              | 2,304                                | (2,304)                             | -                           |
| <u>Re-measurement gains/(losses) in other comprehensive income</u>         |                                      |                                     |                             |
| Return on plan assets (excluding amounts included in net interest expense) | -                                    | 3,128                               | <b>3,128</b>                |
| Actuarial changes arising from changes in demographic assumptions          | (251)                                | -                                   | <b>(251)</b>                |
| Actuarial changes arising from changes in financial assumptions            | 2,220                                | -                                   | <b>2,220</b>                |
| Experience adjustments                                                     | (322)                                | -                                   | <b>(322)</b>                |
| Sub-total included in OCI                                                  | <b>1,647</b>                         | <b>3,128</b>                        | <b>4,775</b>                |
| Contributions by employer                                                  | -                                    | 3,580                               | <b>3,580</b>                |
| FX Translation                                                             | (5,120)                              | 4,063                               | (1,057)                     |
| Balance at 30 June 2013                                                    | <b>(56,530)</b>                      | <b>44,825</b>                       | <b>(11,705)</b>             |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 19 Employee defined benefit liability (continued)

|                                                                            | Defined benefit obligation<br>\$'000 | Fair value of plan assets<br>\$'000 | Benefit Liability<br>\$'000 |
|----------------------------------------------------------------------------|--------------------------------------|-------------------------------------|-----------------------------|
| Balance at 1 July 2013                                                     | (56,530)                             | 44,825                              | (11,705)                    |
| <u>Pension costs charged to profit or loss</u>                             |                                      |                                     |                             |
| Service cost                                                               | (1,239)                              | (168)                               |                             |
| Net Interest                                                               | (2,499)                              | 1,999                               |                             |
| Subtotal included in profit or loss                                        | <u>(3,738)</u>                       | <u>1,831</u>                        | <u>(1,907)</u>              |
| Benefits paid                                                              | 2,592                                | (2,592)                             | -                           |
| <u>Re-measurement gains/(losses) in other comprehensive income</u>         |                                      |                                     |                             |
| Return on plan assets (excluding amounts included in net interest expense) | -                                    | 6,123                               | 6,123                       |
| Actuarial changes arising from changes in demographic assumptions          | (1,522)                              | -                                   | (1,522)                     |
| Actuarial changes arising from changes in financial assumptions            | (4,169)                              | -                                   | (4,169)                     |
| Experience adjustments                                                     | 466                                  | -                                   | 466                         |
| Sub-total included in OCI                                                  | <u>(5,225)</u>                       | <u>6,123</u>                        | <u>898</u>                  |
| Contributions by employer                                                  | -                                    | 3,252                               | 3,252                       |
| FX Translation                                                             | 2,166                                | (1,821)                             | 345                         |
| Balance at 30 June 2014                                                    | <u>(60,735)</u>                      | <u>51,618</u>                       | <u>(9,117)</u>              |

### (c) Categories of the plan assets

The major categories of plan assets included in the fair value of the total plan assets are as follows:

|                   | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------|----------------|----------------|
| Cash equivalents  | 10,311         | 8,093          |
| Fixed interest    | 8,117          | 6,174          |
| Equity securities | 33,190         | 30,558         |
|                   | <u>51,618</u>  | <u>44,825</u>  |

### (d) Principal assumptions

The principal assumptions used in determining pension obligations for the Group's plans are shown below:

|                                           | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------|----------------|----------------|
| Discount rate:                            |                |                |
| US Defined benefit retirement plan        | 3.92%          | 4.38%          |
| Canadian defined benefit retirement plans | 4.90%          | 4.60%          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 19 Employee defined benefit liability (continued)

|                                                                                                             | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Life expectation for pensioners at the age of 65:                                                           |                |                |
| US Defined benefit retirement plan                                                                          |                |                |
| Male                                                                                                        | 17.87          | 17.79          |
| Female                                                                                                      | 19.92          | 19.87          |
| Canadian defined benefit retirement plans                                                                   |                |                |
| Male                                                                                                        | 21.40          | 19.80          |
| Female                                                                                                      | 23.90          | 22.10          |
|                                                                                                             | 2014<br>\$'000 |                |
| Sensitivity analysis                                                                                        |                |                |
| Impact of 1% change to the discount rate on defined benefit obligation at 30 June 2014                      |                |                |
| Increase in assumption                                                                                      |                |                |
| US Defined benefit retirement plan                                                                          | 3,694          |                |
| Canadian defined benefit retirement plans                                                                   | 4,232          |                |
| Decrease in assumption                                                                                      |                |                |
| US Defined benefit retirement plan                                                                          | (4,461)        |                |
| Canadian defined benefit retirement plans                                                                   | (5,428)        |                |
| Impact of 1% change in the salary rate increase on defined benefit obligation at 30 June 2014               |                |                |
| Increase in assumption                                                                                      |                |                |
| Canadian defined benefit retirement plans                                                                   | (11,315)       |                |
| Decrease in assumption                                                                                      |                |                |
| Canadian defined benefit retirement plans                                                                   | 11,584         |                |
| The average duration of the defined benefit plan obligation at the end of the reporting period in years is: |                |                |
| US Defined benefit retirement plan                                                                          | 12.0           |                |
| Canadian defined benefit retirement plans                                                                   | 15.5           |                |

### (e) Employer contributions

Employer contributions to the defined benefit plans are based on recommendations by the plan actuaries. Actuarial assessments are performed annually, and the last such assessments were made during June 2014.

Total employer contributions expected to be paid by Group companies for the year ending 30 June 2015 are \$3,223,979.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 20 Borrowings

|                                                                                                                   | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Current - secured</b>                                                                                          |                |                |
| Lease liabilities (note 28)                                                                                       | 4,676          | 4,805          |
| Total secured current borrowings                                                                                  | 4,676          | 4,805          |
| <b>Current - unsecured</b>                                                                                        |                |                |
| Bank overdrafts                                                                                                   | -              | 667            |
| Bank loans                                                                                                        | -              | 22,836         |
| Other loans                                                                                                       | 1,014          | 975            |
| Total unsecured current borrowings                                                                                | 1,014          | 24,478         |
| <b>Total current borrowings</b>                                                                                   | <b>5,690</b>   | <b>29,283</b>  |
| <b>Non-current secured</b>                                                                                        |                |                |
| Lease liabilities (note 28)                                                                                       | 7,796          | 7,086          |
| Total secured non-current borrowings                                                                              | 7,796          | 7,086          |
| <b>Non-current unsecured</b>                                                                                      |                |                |
| Bank loans                                                                                                        | 299,027        | 268,988        |
| US private placement                                                                                              | 209,140        | 218,675        |
| Total unsecured non-current borrowings                                                                            | 508,167        | 487,663        |
| <b>Total non-current borrowings</b>                                                                               | <b>515,963</b> | <b>494,749</b> |
| <b>(a) Secured liabilities</b>                                                                                    |                |                |
| The total secured liabilities (current and non-current) are as follows:                                           |                |                |
| Lease liabilities                                                                                                 | 12,472         | 11,891         |
| <b>Total secured liabilities</b>                                                                                  | <b>12,472</b>  | <b>11,891</b>  |
| <b>(b) Other loans</b>                                                                                            |                |                |
| Other loans are repayable within twelve months. The current interest rate on these loans are 1.57% (2013: 4.75%). |                |                |
| <b>(c) Risk exposures</b>                                                                                         |                |                |
| The carrying amounts of the Group's borrowings are denominated in the following currencies:                       |                |                |
| Australian Dollars                                                                                                | 195,214        | 151,808        |
| US Dollars                                                                                                        | 270,948        | 317,229        |
| Great British Pounds                                                                                              | 30,859         | 33,250         |
| Canadian Dollars                                                                                                  | 2,118          | 727            |
| Chinese Yuan                                                                                                      | 22,415         | 20,204         |
| Malaysian Ringgits                                                                                                | 69             | 165            |
| Chilean Pesos                                                                                                     | 30             | -              |
| Euros                                                                                                             | -              | 649            |
|                                                                                                                   | <b>521,653</b> | <b>524,032</b> |

Further information about the Group's and the parent entity's exposure to foreign exchange risk and interest rate risk and an analysis of the sensitivity of borrowings to interest rate and foreign exchange risk, is provided in note 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 20 Borrowings (continued)

### (d) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

|                                               | 2014<br>\$'000 | 2013<br>\$'000 |
|-----------------------------------------------|----------------|----------------|
| <b>Credit standby arrangements</b>            |                |                |
| Total facilities                              |                |                |
| Bank overdrafts                               | 41,608         | 41,765         |
| Standby letters of credit and bank guarantees | 118,053        | 100,655        |
|                                               | <b>159,661</b> | <b>142,420</b> |
| Used at balance date                          |                |                |
| Bank overdrafts                               | -              | 667            |
| Standby letters of credit and bank guarantees | 57,596         | 77,677         |
|                                               | <b>57,596</b>  | <b>78,344</b>  |
| Unused at balance date                        |                |                |
| Bank overdrafts                               | 41,608         | 41,098         |
| Standby letters of credit and bank guarantees | 60,457         | 22,978         |
|                                               | <b>102,065</b> | <b>64,076</b>  |
| <b>Bank loan facilities</b>                   |                |                |
| Total facilities                              | 565,226        | 633,190        |
| Used at balance date                          | 301,310        | 297,446        |
| Unused at balance date                        | 263,916        | 335,744        |
| <b>US private placement notes</b>             |                |                |
| Total facilities                              | 212,157        | 218,675        |
| Used at balance date                          | 212,157        | 218,675        |
| Unused at balance date                        | -              | -              |

Working capital facilities comprise bank overdraft facilities and bank guarantee and letter of credit lines. Bank overdraft facilities comprise a AUD 30,000,000 bilateral overdraft facility, a USD 10,000,000 overdraft facility, a GBP 500,000 multi option facility and a NZD 100,000 overdraft facility.

Bank guarantees and letters of credit facilities comprise a AUD 100,000,000 multicurrency revolving bank guarantee facility, a GBP 500,000 bank guarantee facility, a NZD 50,000 guarantees facility and a CNY 100,000,000 bank guarantee line.

Bank loan facilities comprise the following

- (i) a syndicated loan with three and five year revolving bullet term loan facilities with a AUD 359,200,000 multi-currency tranche and a USD 100,000,000 tranche. Current interest rate is 3.84% (2013: 4.21%).
- (ii) a USD 60 million revolving credit facility. Current interest rate is 4.43% (2013: 4.90%)
- (iii) a GBP 20 million loan with a three year revolving bullet term facility. Current interest rate is 2.02% (2013: n/a).

US Private Placement Notes comprise a 7 year USD 50,000,000 tranche, 10 year USD 100,000,000 tranche and 12 year USD 50,000,000 tranche. Current weighted average interest rate is 4.64% (2013: 4.64%).

On 31 March 2014 the previous three year syndicated loan facility was replaced with a new three year syndicated loan facility with the existing syndicate.

Subsequent to year end the Company replaced the five year syndicated facility with a four and five year facility.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 20 Borrowings (continued)

### (f) Fair value

The carrying amounts and fair values of interest bearing liabilities at balance date are:

|                                         | 2014                      |                      | 2013                      |                      |
|-----------------------------------------|---------------------------|----------------------|---------------------------|----------------------|
|                                         | Carrying amount<br>\$'000 | Fair value<br>\$'000 | Carrying amount<br>\$'000 | Fair value<br>\$'000 |
| <b>On balance sheet</b>                 |                           |                      |                           |                      |
| <i>Non traded financial liabilities</i> |                           |                      |                           |                      |
| Bank overdrafts                         | -                         | -                    | 667                       | 667                  |
| Bank loans                              | 299,027                   | 302,277              | 291,824                   | 294,147              |
| US private placement                    | 209,140                   | 213,032              | 218,675                   | 223,025              |
| Other loans                             | 1,014                     | 1,014                | 975                       | 975                  |
| Lease liabilities                       | 12,472                    | 12,472               | 11,891                    | 11,891               |
|                                         | <b>521,653</b>            | <b>528,795</b>       | <b>524,032</b>            | <b>530,705</b>       |

Fair value is inclusive of costs which would be incurred on settlement of a liability.

#### (i) On balance sheet

The fair value of interest bearing liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

#### (ii) Off balance sheet

The parent entity and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in note 27. As explained in those notes, no material losses are anticipated in respect of any of those contingencies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 21 Deferred tax liabilities

|                                                                                                      | 2014<br>\$'000  | 2013<br>\$'000  |
|------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>The balance comprises temporary differences attributable to:</b>                                  |                 |                 |
| <i>Amounts recognised in profit or loss</i>                                                          |                 |                 |
| Prepayments                                                                                          | 477             | 608             |
| Design assets                                                                                        | 5,004           | 4,940           |
| Unrealised foreign exchange differences                                                              | 5,511           | 8,977           |
| Financial assets at fair value through profit or loss                                                | 1,225           | 1,595           |
| Depreciation                                                                                         | 52,209          | 56,752          |
| Other                                                                                                | 9,109           | 5,319           |
| <b>Total deferred tax liabilities</b>                                                                | <b>73,535</b>   | <b>78,191</b>   |
| <i>Set off of deferred tax liabilities of parent entity pursuant to set off provisions (note 15)</i> | <b>(32,727)</b> | <b>(34,309)</b> |
| <b>Net deferred tax liabilities</b>                                                                  | <b>40,808</b>   | <b>43,882</b>   |
| <b>Movements:</b>                                                                                    |                 |                 |
| Opening balance at 1 July                                                                            | 78,191          | 57,129          |
| Charged/(credited) to the income statement (note 8)                                                  | (2,985)         | 15,647          |
| Charged/(credited) to equity (notes 22 and 23)                                                       | (1,671)         | 5,415           |
| <b>Closing balance at 30 June</b>                                                                    | <b>73,535</b>   | <b>78,191</b>   |

## 22 Contributed equity

|                                                 | Notes                                                                       | Parent entity  |                    | Parent entity        |                |
|-------------------------------------------------|-----------------------------------------------------------------------------|----------------|--------------------|----------------------|----------------|
|                                                 |                                                                             | 2014<br>Shares | 2013<br>Shares     | 2014<br>\$'000       | 2013<br>\$'000 |
| <b>(a) Share capital</b>                        |                                                                             |                |                    |                      |                |
| Ordinary shares                                 | (b),(c)                                                                     |                |                    |                      |                |
| Fully paid                                      |                                                                             | 171,027,249    | 169,240,662        | 715,293              | 707,693        |
| <b>Total contributed equity</b>                 |                                                                             |                |                    | <b>715,293</b>       | <b>707,693</b> |
| <b>(b) Movements in ordinary share capital:</b> |                                                                             |                |                    |                      |                |
| Date                                            | Details                                                                     | Notes          | Number of shares   | Parent entity \$'000 |                |
| At 1 July 2012                                  | Opening balance                                                             |                | 168,629,376        | 704,184              |                |
| 4 September 2012                                | Dividend reinvestment plan issues                                           | (d)            | 611,286            | 3,810                |                |
| 31 December 2012                                | Deferred tax asset adjustment relating to prior period equity raising costs |                | -                  | 18                   |                |
| 14 March 2013                                   | Dividend reinvestment plan issues                                           | (d)            | 1,064,244          | 7,695                |                |
| 6 March 2013 to 8 March 2013                    | Share buyback and cancellation                                              | (g)            | (1,064,244)        | (8,014)              |                |
| <b>At 30 June 2013</b>                          | <b>Balance</b>                                                              |                | <b>169,240,662</b> | <b>707,693</b>       |                |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 22 Contributed equity (continued)

### (b) Movements in ordinary share capital (continued):

| Date                   | Details                           | Notes | Number of shares   | Parent entity \$'000 |
|------------------------|-----------------------------------|-------|--------------------|----------------------|
| 21 March 2014          | Dividend reinvestment plan issues | (d)   | 1,786,587          | 7,600                |
| <b>At 30 June 2014</b> | <b>Balance</b>                    |       | <b>171,027,249</b> | <b>715,293</b>       |

### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### (d) Dividend reinvestment plan

The company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. The plan was active during the 2013 year.

### (e) Performance Rights Plan

Information relating to the Performance Rights Plan, including details of shares issued under the plan, is set out in note 35.

### (f) Non-executive director share acquisition plan

Information relating to the non-executive director share acquisition plan, including details of shares issued under the plan, is set out in note 35.

### (g) Capital risk management

The group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The group monitors its performance against these objectives on the basis of its gearing levels expressed as a ratio of net debt to earnings before interest, tax, depreciation and amortisation (EBITDA).

During 2014, the group's strategy, which was unchanged from 2013, was to maintain the net debt level to around 2.0 times underlying EBITDA. The comparative ratios at 30 June 2014 and 30 June 2013 were as follows:

|                    | Notes | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------|-------|----------------|----------------|
| Net Debt           | 9, 20 | <b>377,174</b> | 431,543        |
| EBITDA *           |       | <b>163,935</b> | 214,016        |
| Net debt to EBITDA |       | <b>2.30</b>    | 2.02           |

\* EBITDA for 2013 adjusted for Pala judgement and associated costs.

EBITDA for 2014 adjusted for acquisition, restructuring (including asset impairment of \$19.535m) and Pala litigation costs.

Bradken Limited has complied with the financial covenants of its borrowing facilities during the 2014 and 2013 reporting periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 23 Reserves and retained profits

|                                                                          | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------------------------------------------|----------------|----------------|
| <b>(a) Reserves</b>                                                      |                |                |
| Hedging reserve - cash flow hedges                                       | (1,946)        | (1,575)        |
| Share based payments reserve                                             | 15,087         | 11,386         |
| Foreign currency translation reserve                                     | 7,153          | 19,898         |
| Revaluation reserve                                                      | -              | -              |
| Transactions with non-controlling interests                              | (564)          | (564)          |
|                                                                          | <b>19,730</b>  | <b>29,145</b>  |
| <b>Movements:</b>                                                        |                |                |
| <i>Hedging reserve - cash flow hedges</i>                                |                |                |
| Balance 1 July                                                           | (1,575)        | (2,383)        |
| Revaluation-gross (note 13)                                              | (530)          | 1,154          |
| Deferred tax (note 15)                                                   | 159            | (346)          |
| Balance 30 June                                                          | <b>(1,946)</b> | <b>(1,575)</b> |
| <i>Share-based payments reserve</i>                                      |                |                |
| Balance 1 July                                                           | 11,386         | 8,014          |
| Rights expense                                                           | 3,701          | 3,597          |
| Transfer to share capital (Rights exercised)                             | -              | (225)          |
| Balance 30 June                                                          | <b>15,087</b>  | <b>11,386</b>  |
| <i>Foreign currency translation reserve</i>                              |                |                |
| Balance 1 July                                                           | 19,898         | (18,074)       |
| Currency translation differences arising during the year                 | (12,745)       | 37,972         |
| Balance 30 June                                                          | <b>7,153</b>   | <b>19,898</b>  |
| <i>Transactions with non-controlling interests</i>                       |                |                |
| Balance 1 July                                                           | (564)          | (564)          |
| Balance 30 June                                                          | <b>(564)</b>   | <b>(564)</b>   |
| <b>(b) Retained profits</b>                                              |                |                |
| Balance 1 July                                                           | 194,094        | 193,895        |
| Net profit for the year                                                  | 21,480         | 66,937         |
| Dividends                                                                | (55,849)       | (70,103)       |
| Actuarial (losses) / gains on retirement benefit obligations, net of tax | 691            | 3,365          |
| Balance 30 June                                                          | <b>160,416</b> | <b>194,094</b> |

### (c) Nature and purpose of reserves

#### (i) Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 2(n). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

#### (ii) Share-based payments reserve

The share based payments reserve is used to recognise the fair value of rights issued but not exercised.

#### (iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 2(d). The reserve is recognised in profit and loss when the net investment is disposed of.

#### (iv) Transactions with non-controlling interests

This reserve is used to record the differences described in note 2(b)(iii) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 24 Dividends

|                                                                                                                                                                                                                                                                                                                                                                                                                         | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>(a) Ordinary shares</b>                                                                                                                                                                                                                                                                                                                                                                                              |                |                |
| Final dividend for the year ended 30 June 2013 of 18.0 cents (2012: 21.5 cents) per fully paid share paid on 13 September 2013 (2012: 4 September 2012)                                                                                                                                                                                                                                                                 |                |                |
| Fully franked based on tax paid @ 30%                                                                                                                                                                                                                                                                                                                                                                                   | <b>30,463</b>  | 36,255         |
| Interim dividend for the year ended 30 June 2014 of 15.0 cents (2013: 20.0 cents) per fully paid share paid 21 March 2014 (2013: 14 March 2013)                                                                                                                                                                                                                                                                         |                |                |
| Fully franked based on tax paid @ 30%                                                                                                                                                                                                                                                                                                                                                                                   | <b>25,386</b>  | 33,848         |
| Total dividends provided for or paid                                                                                                                                                                                                                                                                                                                                                                                    | <b>55,849</b>  | 70,103         |
| Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2013 and 30 June 2014 were as follows:                                                                                                                                                                                                                                                   |                |                |
| Paid in cash                                                                                                                                                                                                                                                                                                                                                                                                            | <b>48,249</b>  | 58,598         |
| Satisfied by issue of shares                                                                                                                                                                                                                                                                                                                                                                                            | <b>7,600</b>   | 11,505         |
|                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>55,849</b>  | 70,103         |
| <b>(b) Dividends not recognised at year end</b>                                                                                                                                                                                                                                                                                                                                                                         |                |                |
| In addition to the above dividends, since year end the directors have recommended the payment of an unfranked final dividend of 11.0 cents per fully paid ordinary share, (2013: 18.0 cents franked to 100% based on tax paid at 30%). The aggregate amount of the proposed dividend expected to be paid on 9 September 2014 out of retained profits at 30 June 2014, but not recognised as a liability at year end, is | <b>18,813</b>  | 30,463         |

## (c) Franked dividends

|                                                                                                  | Consolidated   |                | Parent entity  |                |
|--------------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                                                                  | 2014<br>\$'000 | 2013<br>\$'000 | 2014<br>\$'000 | 2013<br>\$'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2013: 30%) | -              | 5,917          | -              | 5,917          |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

There will be no impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end (2013: reduction \$13,056,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 25 Key management personnel disclosures

### (a) Directors

The following persons were directors of Bradken Limited during the financial year:

#### (i) Chairman - non-executive

Nick Greiner

#### (ii) Executive director

Brian Hodges, Managing Director

#### (iii) Non executive directors

Phil Arnall

Eileen Doyle

Greg Laurie

Peter Richards

David Smith (appointed 1 February 2014)

### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| <i>Name</i>      | <i>Position</i>                                                      | <i>Employer</i>           |
|------------------|----------------------------------------------------------------------|---------------------------|
| Tom Armstrong    | Chief Operating Officer - Engineered Products (till 15 October 2013) | Bradken Inc.              |
| Andrew Allen     | General Manager - Corporate Development                              | Bradken Resources Pty Ltd |
| Stephen Cantwell | General Manager Rail                                                 | Bradken Resources Pty Ltd |
| Kevin McDermid   | Chief Operating Officer - Engineered Products (from 15 October 2013) | Bradken Inc.              |
| Steven Perry     | Chief Financial Officer                                              | Bradken Resources Pty Ltd |
| Enda Sheridan    | General Manager - Mining Products & Industrial Products              | Bradken Resources Pty Ltd |
| Brad Ward        | General Manager - Mineral Processing                                 | Bradken Resources Pty Ltd |

### (c) Key management personnel compensation

|                              | 2014             | 2013             |
|------------------------------|------------------|------------------|
|                              | \$               | \$               |
| Short-term employee benefits | 4,963,344        | 4,843,370        |
| Post-employment benefits     | 217,837          | 280,763          |
| Other long-term benefits     | 131,759          | 107,727          |
| Share-based payments         | 1,385,953        | 1,193,823        |
|                              | <b>6,698,893</b> | <b>6,425,683</b> |

The company has taken advantage of the relief provided by Corporation and related legislation *Amendment Regulation 2013 (No. 1)* and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections (a) to (f) of the remuneration report on pages 15 to 25.

### (d) Equity instrument disclosures relating to key management personnel

#### (i) Rights provided as remuneration and shares issued on exercise of rights

Details of Performance Rights provided as remuneration and shares issued on the exercise of such Rights, together with terms and conditions of the Rights, can be found in section (C) of the remuneration report on pages 17 to 19 and in section (E) of the remuneration report on pages 20 to 22.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 26 Remuneration of auditors

The current auditor of Bradken Limited is Ernst & Young who were appointed at the 2013 AGM following a comprehensive tender process. The previous auditor was Pricewaterhousecoopers. It is the Group's policy to employ Ernst & Young on assignments additional to their statutory audit duties where Ernst & Young's expertise and experience with the Group are important. During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non related audit firms:

|                                                                                                         | 2014<br>\$ | 2013<br>\$ |
|---------------------------------------------------------------------------------------------------------|------------|------------|
| Amounts received or due and receivable by Ernst & Young for:                                            |            |            |
| An audit or review of the financial report of the entity and any other entity in the consolidated group | 930,000    | -          |
| Other services in relation to the entity and any other entity in the consolidated group                 | 930,000    | -          |
| Amounts received or due and receivable by related practices of Ernst & Young for:                       |            |            |
| Tax compliance services                                                                                 | 13,386     | -          |
| Assurance related                                                                                       | 4,645      | -          |
|                                                                                                         | 18,031     | -          |
| Amounts received or due and receivable by non Ernst & Young audit firms for:                            |            |            |
| An audit or review of the financial report of the entity and any other entity in the consolidated group | 119,317    | 1,111,972  |
|                                                                                                         | 119,317    | 1,111,972  |
| Amounts received or due and receivable by non Ernst & Young audit firms for:                            |            |            |
| Assurance related                                                                                       | 22,732     | -          |
| Taxation and tax compliance services                                                                    | 679,418    | 830,295    |
| Other non-audit services.                                                                               | -          | 94,431     |
|                                                                                                         | 702,150    | 924,726    |
| Amounts received or due and receivable by related practices of non Ernst & Young audit firms for:       |            |            |
| Other non-audit services.                                                                               | 34,900     | -          |
|                                                                                                         | 34,900     | -          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 27 Contingencies

### (a) Contingent Liabilities

The parent entity and Group had contingent liabilities at 30 June 2014 and 2013 in respect of:

#### *Guarantees and letters of credit*

|                                          | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------------------------------|----------------|----------------|
| Bank guarantees for contract performance | 56,800         | 76,915         |
| Letters of credit                        | 796            | 762            |
| Total estimated contingent liabilities   | 57,596         | 77,677         |

Information about guarantees given by entities within the Group, including the parent entity are described in note 31. No deficiencies of assets exist in any of these companies.

#### *Claims*

The Bradken Group is involved in various claims and lawsuits incidental to the ordinary course of business, including damages and commercial disputes relating to its products and services. The Group has disclaimed liability and will defend any action flowing from specific claims. It is not practical to estimate the potential effect of these claims but legal advice obtained indicates that any liability that may arise in the unlikely event these claims are successful will not be significant.

No material losses are anticipated in respect of any of the above contingent liabilities.

#### *Austin Engineering*

There are no contingent liabilities that are known to Bradken that relate to Austin Engineering.

## 28 Commitments

### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

|                                                   | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------------------------------------|----------------|----------------|
| Land & buildings                                  |                |                |
| Payable:                                          |                |                |
| Within one year                                   | 92             | 66             |
|                                                   | 92             | 66             |
| Property, plant and equipment                     |                |                |
| Payable:                                          |                |                |
| Within one year                                   | 9,459          | 26,532         |
| Later than one year but not later than five years | -              | 3,266          |
|                                                   | 9,459          | 29,798         |

### (b) Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

|                                                   |        |        |
|---------------------------------------------------|--------|--------|
| Within one year                                   | 11,145 | 11,276 |
| Later than one year but not later than five years | 26,348 | 29,556 |
| Later than five years                             | 15,338 | 18,303 |
|                                                   | 52,831 | 59,135 |
| Representing:                                     |        |        |
| Non cancellable operating leases                  | 51,372 | 57,797 |
| Future finance charges on finance leases          | 1,459  | 1,338  |
|                                                   | 52,831 | 59,135 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 28 Commitments (continued)

### (i) Operating leases

Operating leases relate to buildings and plant and equipment with lease terms generally between 1 to 5 years with a small amount being payable over greater than 5 years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

|                                                                                                                | 2014<br>\$'000 | 2013<br>\$'000 |
|----------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows: |                |                |
| Within one year                                                                                                | 10,503         | 10,599         |
| Later than one year but not later than five years                                                              | 25,591         | 28,928         |
| Later than five years                                                                                          | 15,278         | 18,270         |
|                                                                                                                | <b>51,372</b>  | <b>57,797</b>  |

### (ii) Finance leases

The Group leases various items of plant and equipment with a carrying amount of \$13,232,000 (2013: \$12,292,000) under finance leases expiring within three to five years. Under the terms of the leases, the Group has the option to acquire some of the leased assets on expiry of the leases.

|                                                                   | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------------------------------|----------------|----------------|
| Commitments in relation to finance leases are payable as follows: |                |                |
| Within one year                                                   | 5,322          | 5,489          |
| Later than one year but not later than five years                 | 7,002          | 6,817          |
| Later than five years                                             | 1,607          | 923            |
| Minimum lease payments                                            | 13,931         | 13,229         |
| Future finance charges                                            | (1,459)        | (1,338)        |
| Total lease liabilities                                           | <b>12,472</b>  | <b>11,891</b>  |
| Representing lease liabilities:                                   |                |                |
| Current (note 20)                                                 | 4,676          | 4,805          |
| Non current (note 20)                                             | 7,796          | 7,086          |
|                                                                   | <b>12,472</b>  | <b>11,891</b>  |

The weighted average interest rate implicit in the leases is 8.51% (2013: 8.48%).

## 29 Related party transactions

### (a) Parent entities

The ultimate parent entity within the Group is Bradken Limited.

### (b) Key management personnel

Disclosures relating to key management personnel are set out in note 25.

### (c) Terms and conditions

Transactions relating to dividends were on the same conditions that applied to other shareholders.

The terms and conditions of the tax funding agreement are set out in note 8(e).

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. Outstanding balances are unsecured with no fixed term for repayment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 30 Investments in associates

|                                                                    | 2014<br>\$'000 | 2013<br>\$'000 |
|--------------------------------------------------------------------|----------------|----------------|
| <b>(a) Movements in carrying amounts</b>                           |                |                |
| Carrying amount at the beginning of the financial year             | 49,261         | 38,521         |
| Increase in investment by way of share purchases in current period | 6,441          | 5,877          |
| Share of (loss) / profit after income tax <sup>(1)</sup>           | (85)           | 7,041          |
| Dividends received/receivable                                      | (2,446)        | (2,178)        |
| Carrying amount at the end of the financial year                   | 53,171         | 49,261         |

(1) This amount includes the Company's actual share of ANG's net profit after tax for the six months ending 31 December 2014, an estimate of the Company's share of ANG's net profit after tax for the six month period ending 30 June 2014 based on market conditions, market updates and analyst estimates and an adjustment to reflect the Company's actual share of ANG's net profit after tax for the year ending 30 June 2013. Differences identified when ANG publishes their results for the 30 June 2014 financial year will be adjusted in the Group's interim report for the half year ending 31 December 2014.

### (b) Summarised financial information of associates

As ANG are yet to announce their 30 June 2014 financial results, the following table contains the summarised financial information of the most recent published financial results of ANG.

|                                                               | 31-Dec13<br>\$'000 | 31-Dec12<br>\$'000 |
|---------------------------------------------------------------|--------------------|--------------------|
| Current assets                                                | 113,205            | 101,621            |
| Non-current assets                                            | 238,781            | 184,020            |
| Current Liabilities                                           | (63,973)           | (84,649)           |
| Non-current liabilities                                       | (115,349)          | (81,669)           |
| <b>Total Equity</b>                                           | <b>172,664</b>     | <b>119,323</b>     |
| Revenue                                                       | 106,414            | 156,982            |
| <b>Net profit for the period (from continuing operations)</b> | <b>860</b>         | <b>17,209</b>      |
| Other comprehensive income                                    | (3,046)            | 534                |
| <b>Total other comprehensive income</b>                       | <b>(2,186)</b>     | <b>17,743</b>      |

### (c) Market value of listed investment in associate based on last traded share price at 30 June 2014

|                                       | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------------------------|----------------|----------------|
| Austin Engineering Ltd <sup>(1)</sup> | 28,442         | 49,481         |
|                                       | <b>28,442</b>  | <b>49,481</b>  |

(1) The Directors have assessed that the recoverable amount of the investment exceeds the carrying value of the investment using a value in use calculation. The directors consider this methodology provides a better estimate of the recoverable value through the business cycle.

The carrying value of the investment in associate has been tested for impairment using a value in use calculation. The key assumptions used in the model include;

- a) a post tax discount rate of 11.5%
- b) a growth rate in perpetuity of 2.5%

The cashflows used in the model represent the Directors best estimate of the future results of the Austin Engineering. Based on this methodology the recoverable amount of the investment has been estimated to be \$57.7 million.

The directors believe there is a reasonably possible change in assumptions for the investment that may result in an impairment. These include a 0.9% increase in the post tax discount rate or a 1.0% decrease in the long term growth rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 31 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit, and lodgement of financial reports, and directors' report. It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act 2001, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The companies subject to the Deed are:

- Bradken Limited
- Bradken Resources Pty Limited
- Bradken Finance Pty Limited
- Bradken Operations Pty Limited

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Bradken Limited, they also represent the 'Extended Closed Group'.

### (a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2014 of the Closed Group outlined above.

|                                                                         | 2014<br>\$'000  | 2013<br>\$'000 |
|-------------------------------------------------------------------------|-----------------|----------------|
| <b>Income statement</b>                                                 |                 |                |
| <b>Revenue from continuing operations</b>                               | <b>455,301</b>  | 614,922        |
| Cost of sales                                                           | (330,628)       | (467,344)      |
| <b>Gross profit</b>                                                     | <b>124,673</b>  | 147,578        |
| Other income                                                            | 15,867          | 16,983         |
| Selling and technical expenses                                          | (38,181)        | (41,647)       |
| Administration expenses                                                 | (61,503)        | (74,401)       |
| Finance costs                                                           | (19,205)        | (18,503)       |
| Restructuring and asset impairment costs                                | (39,668)        | (2,558)        |
| Share of net profit of associates accounted for using the equity method | (85)            | 9,847          |
| <b>Profit before income tax</b>                                         | <b>(18,102)</b> | 37,299         |
| Income tax (expense) / benefit                                          | 9,376           | (17,494)       |
| <b>Profit for the period</b>                                            | <b>(8,726)</b>  | 19,805         |
| <b>Statement of comprehensive income</b>                                |                 |                |
| <b>Profit for the period</b>                                            | <b>(8,726)</b>  | 19,805         |
| <i>Items that may be reclassified to profit or loss</i>                 |                 |                |
| Changes in the fair value of cash flow hedges                           | (530)           | 1,154          |
| Exchange differences on translation of foreign operations               | 339             | 253            |
| Income tax relating to these items                                      | 159             | (346)          |
| <b>Other comprehensive income for the period, net of tax</b>            | <b>(32)</b>     | 1,061          |
| <b>Total comprehensive income for the period</b>                        | <b>(8,758)</b>  | 20,866         |
| <b>Summary of movements in consolidated retained earnings</b>           |                 |                |
| <b>Retained earnings at the beginning of the financial year</b>         | <b>108,714</b>  | 152,078        |
| Profit for the period                                                   | (8,726)         | 19,805         |
| Dividends provided for or paid                                          | (55,849)        | (70,103)       |
| Dividends received from companies not in Closed Group                   | -               | 6,934          |
| <b>Retained earnings at the end of the financial year</b>               | <b>44,139</b>   | 108,714        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 31 Deed of cross guarantee (continued)

### (b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2014 for the Closed Group outlined above.

|                                                   | 2014<br>\$'000   | 2013<br>\$'000   |
|---------------------------------------------------|------------------|------------------|
| <b>Current assets</b>                             |                  |                  |
| Cash and cash equivalents                         | 65,361           | 37,150           |
| Trade and other receivables                       | 286,985          | 380,624          |
| Finance lease assets                              | 509              | 453              |
| Inventories                                       | 70,944           | 92,064           |
| Current tax assets                                | 11,289           | 10,550           |
| Derivative financial instruments                  | -                | 12,897           |
| <b>Total current assets</b>                       | <b>435,088</b>   | <b>533,738</b>   |
| <b>Non-current assets</b>                         |                  |                  |
| Trade and other receivables                       | 365,244          | 364,419          |
| Finance lease assets                              | 4,802            | 5,078            |
| Investments accounted for using the equity method | 53,171           | 49,261           |
| Property, plant and equipment                     | 212,070          | 236,770          |
| Intangible assets                                 | 64,614           | 64,744           |
| Deferred tax assets                               | 7,895            | -                |
| <b>Total non-current assets</b>                   | <b>707,796</b>   | <b>720,272</b>   |
| <b>Total assets</b>                               | <b>1,142,884</b> | <b>1,254,010</b> |
| <b>Current liabilities</b>                        |                  |                  |
| Payables                                          | 15,845           | 50,452           |
| Borrowings                                        | 3,851            | 3,226            |
| Provisions                                        | 51,904           | 40,924           |
| Derivative financial instruments                  | 2,809            | 2,310            |
| <b>Total Current Liabilities</b>                  | <b>74,409</b>    | <b>96,912</b>    |
| <b>Non-current liabilities</b>                    |                  |                  |
| Borrowings                                        | 456,559          | 490,816          |
| Deferred tax liabilities                          | -                | 250              |
| Provisions                                        | 5,155            | 5,957            |
| <b>Total non-current liabilities</b>              | <b>461,714</b>   | <b>497,023</b>   |
| <b>Total liabilities</b>                          | <b>536,123</b>   | <b>593,935</b>   |
| <b>Net assets</b>                                 | <b>606,761</b>   | <b>660,075</b>   |
| <b>Equity</b>                                     |                  |                  |
| Contributed equity                                | 549,679          | 542,082          |
| Reserves                                          | 12,943           | 9,279            |
| Retained profits                                  | 44,139           | 108,714          |
| <b>Total equity</b>                               | <b>606,761</b>   | <b>660,075</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 32 Reconciliation of profit after income tax to net cash inflow from operating activities

|                                                                                           | 2014<br>\$'000 | 2013<br>\$'000 |
|-------------------------------------------------------------------------------------------|----------------|----------------|
| Profit for the year                                                                       | 21,480         | 66,937         |
| Share of profits of associates                                                            | 85             | (9,847)        |
| Depreciation and amortisation of licences and designs                                     | 65,965         | 58,214         |
| Impairment of assets                                                                      | 19,535         | -              |
| Amortisation of finance costs                                                             | 1,514          | 1,474          |
| Non-cash employee benefits expense - share-based payments                                 | 3,609          | 3,597          |
| Net (gain) loss on sale of non-current assets                                             | 136            | (2,433)        |
| Net exchange differences                                                                  | 17,245         | (11,121)       |
| (Increase) / decrease in trade debtors and bills of exchange                              | 18,208         | 67,347         |
| (Increase) / decrease in inventories                                                      | 50,081         | 59,913         |
| (Increase) / decrease in deferred tax assets                                              | (5,400)        | 9,105          |
| Increase / (decrease) in trade creditors                                                  | (46,078)       | (20,695)       |
| (Increase) / decrease in other financial liabilities at fair value through profit or loss | 499            | (1,340)        |
| Increase / (decrease) in provision for income taxes payable                               | 3,448          | (7,838)        |
| Increase / (decrease) in provision for deferred income tax                                | (3,074)        | 5,724          |
| Increase / (decrease) in other provisions                                                 | 7,832          | (1,402)        |
| Net cash inflow from operating activities                                                 | 155,085        | 217,635        |

## 33 Non cash investing and financing activities

|                                                               | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------------------------------------------------|----------------|----------------|
| Acquisition of plant and equipment by means of finance leases | 6,548          | 5,889          |
|                                                               | 6,548          | 5,889          |

Dividends satisfied by the issue of shares under the dividend reinvestment plan are shown in note 24 and rights and shares issued to employees under the Bradken Limited Performance Rights Plan and the Bradken Limited Employee Share Plan for no cash consideration are shown in note 35.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 34 Earnings per share

|                                                                                                                                                                                                                                                                                                                                                                                     | 2014<br>Cents  | 2013<br>Cents  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>(a) Basic earnings per share</b>                                                                                                                                                                                                                                                                                                                                                 |                |                |
| Profit from continuing operations attributable to the ordinary equity holders of the company                                                                                                                                                                                                                                                                                        | 12.7           | 39.6           |
| Profit attributable to the ordinary equity holders of the company                                                                                                                                                                                                                                                                                                                   | 12.7           | 39.6           |
| <b>(b) Underlying basic earnings per share</b>                                                                                                                                                                                                                                                                                                                                      |                |                |
| Underlying profit from continuing operations attributable to the ordinary equity holders of the company                                                                                                                                                                                                                                                                             | 32.4           | 56.8           |
| Underlying profit attributable to the ordinary equity holders of the company                                                                                                                                                                                                                                                                                                        | 32.4           | 56.8           |
| <b>(c) Diluted earnings per share</b>                                                                                                                                                                                                                                                                                                                                               |                |                |
| Profit from continuing operations attributable to the ordinary equity holders of the company                                                                                                                                                                                                                                                                                        | 12.4           | 39.1           |
| Profit attributable to the ordinary equity holders of the company                                                                                                                                                                                                                                                                                                                   | 12.4           | 39.1           |
| <b>(d) Underlying diluted earnings per share</b>                                                                                                                                                                                                                                                                                                                                    |                |                |
| Underlying profit from continuing operations attributable to the ordinary equity holders of the company                                                                                                                                                                                                                                                                             | 31.9           | 56.1           |
| Underlying profit attributable to the ordinary equity holders of the company                                                                                                                                                                                                                                                                                                        | 31.9           | 56.1           |
| <b>(e) Reconciliations of earnings used in calculating earnings per share</b>                                                                                                                                                                                                                                                                                                       |                |                |
|                                                                                                                                                                                                                                                                                                                                                                                     | 2014<br>\$'000 | 2013<br>\$'000 |
| Profit attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share                                                                                                                                                                                                                                                          | 21,480         | 66,937         |
| <b>(d) Weighted average number of shares used as the denominator</b>                                                                                                                                                                                                                                                                                                                |                |                |
|                                                                                                                                                                                                                                                                                                                                                                                     | 2014<br>Number | 2013<br>Number |
| <i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>                                                                                                                                                                                                                                                                   | 169,759,506    | 169,131,803    |
| Adjustments for calculation of diluted earnings per share:                                                                                                                                                                                                                                                                                                                          |                |                |
| Rights                                                                                                                                                                                                                                                                                                                                                                              | 2,782,743      | 2,039,469      |
| <i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>                                                                                                                                                                                                                                   | 172,542,249    | 171,171,272    |
| <b>(e) Information concerning the classification of securities</b>                                                                                                                                                                                                                                                                                                                  |                |                |
| <b>(i) Rights</b>                                                                                                                                                                                                                                                                                                                                                                   |                |                |
| Rights granted to employees under the Bradken Performance Rights Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The Rights have not been included in the determination of basic earnings per share. Details relating to the Rights are set out in note 35. |                |                |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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## 35 Share based payments

### (a) Non-Executive Director Share Acquisition Plan

The Company has a Non-Executive Director Share Acquisition Plan (NED Plan). All current and future Non-Executive Directors are encouraged to have a percentage of their annual Directors' fees provided in shares under the NED Plan. Shares will be allocated to the Non-Executive Directors under the NED Plan and must be held for a specified period.

Non-executive directors may elect to have a percentage of their annual fixed directors' fees provided in shares under the Non-Executive Director Share Acquisition Plan (NED plan). Participation in the plan is voluntary.

Non-Executive Directors will not be able to sell or otherwise dispose of the shares until the earliest of 10 years after acquisition or the Non-Executive Director ceasing to be a director of the Company (except in very limited circumstances). During this period the shares will be subject to a holding lock.

At 30 June 2014 there are no Directors participating in the NED plan.

### (b) Performance Rights Plan

The Performance Rights Plan (PRP) is the Company's long-term incentive (LTI) scheme for selected key executives. The Managing Director recommends the list of executives who are entitled to participate in this scheme and seeks approval of the list from the Human Resources Committee which is then ratified by the Board. Under the PRP, eligible executives may be granted Performance Rights (each being a right to acquire a share, subject to the satisfaction of exercise conditions) on terms and conditions determined by the Board and as documented in the PRP Plan rules and Trust Deed. If the exercise conditions are satisfied, the Performance Rights may be exercised and the shares issued and delivered to the executive. The Board may impose restrictions on the disposal of the shares and implement procedures to enforce the restrictions.

The rules of the PRP provide that the Board may determine a price that is payable to exercise a Performance Right, or that no amount is payable by the executive upon exercise of the Right.

Shares will immediately be allocated on exercise of a Performance Right. Performance Rights may only be exercised following satisfaction of performance conditions, unless the Board determines an event (such as a takeover bid) has occurred.

All grants of Performance Rights issued so far have been at no cost to participating executives. In relation to future grants, the Board may impose performance conditions that reflect the Company's business plans, targets, budgets and its performance relative to peer groups of companies.

If any additional persons become entitled to participate in the PRP and their participation requires approval under Chapter 10 of the Listing Rules, they will not participate in the PRP until shareholder approval is received pursuant to Listing Rule 10.14. Mr Brian Hodges, being the only Executive Director of the Company, is the only Director entitled to participate in the PRP. If any other Director is to participate in the PRP, the Company would seek shareholder approval as required by the Listing Rules.

The performance conditions are based on the relative total shareholder return ("TSR") of the Company measured against other companies in the ASX Small Cap Industrials index during the performance period. TSR measures the total return on investment of a share taking into account capital appreciation, capital return and dividend income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 35 Share based payments (continued)

### (b) Performance Rights Plan (continued)

In assessing whether the performance hurdles have been met, the Human Resources Committee receives independent data from an independent investment bank which provides both Bradken's growth from previous financial years and that of the ASX Small Industrials Index. The Company's performance against the hurdle is then determined with each company in the ASX Small Industrials Index and Bradken being ranked in order of growth in results from previous financial years. The Company's percentile ranking is determined by aggregating the weighting within the ASX Small Industrials Index (based on market capitalisation) of each company ranked below Bradken. The method of assessment was chosen as it provides the Committee with an objective means of measuring the Company's performance against its peer group.

Dividends, changes in share price, and return of capital are included in the TSR calculation which is one of the performance criteria assessed for the LTI. The specific TSR performance conditions in relation to the grants are:

| Target                                                                                 | Percentage of Rights available in given year to vest |
|----------------------------------------------------------------------------------------|------------------------------------------------------|
| The Company's TSR does not meet performance of the median company in ASX Small Cap     | 0                                                    |
| The Company's TSR equals or exceeds performance of the median company in ASX Small Cap | 50                                                   |
| The Company's TSR ranked in third quartile of companies in ASX Small Cap               | Pro rata between 50 and 100                          |
| The Company's TSR ranked in fourth quartile of companies in ASX Small Cap              | 100                                                  |

New entrants to the scheme are provided with a transition to the 3 year plan.

#### *Summary of Rights issues in the plan:*

| Grant date        | Number of Rights | Fair value per Right | Financial periods in which Rights may vest |
|-------------------|------------------|----------------------|--------------------------------------------|
| 7 October 2011    | 24,304           | \$4.76               | 30 June 2013 / 2015                        |
| 7 October 2011    | 24,311           | \$4.76               | 30 June 2014 / 2015                        |
| 7 October 2011    | 554,904          | \$4.76               | 30 June 2015                               |
| 23 October 2012   | 16,493           | \$2.84               | 30 June 2014 / 2016                        |
| 23 October 2012   | 32,987           | \$3.39               | 30 June 2015 / 2016                        |
| 23 October 2012   | 44,876           | \$2.84               | 30 June 2014 / 2015                        |
| 23 October 2012   | 1,069,113        | \$3.39               | 30 June 2016                               |
| 19 September 2013 | 19,384           | \$4.96               | 30 June 2015 / 2016                        |
| 19 September 2013 | 38,769           | \$4.53               | 30 June 2016 / 2017                        |
| 19 September 2013 | 926,328          | \$3.96               | 30 June 2017                               |
| 22 October 2013   | 142,151          | \$4.43               | 30 June 2017                               |

There were no other Rights eligible for issuance under the scheme at 30 June 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 35 Share based payments (continued)

The movements in Rights issues in the plan are as follows:

| Grant Date             | Balance at start of the year<br>Number | Granted during the year<br>Number | Exercised during the year<br>Number | Expired during the year<br>Number | Balance at end of the year<br>Number | Exercisable at end of the year<br>Number |
|------------------------|----------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|------------------------------------------|
| <b>2014</b>            |                                        |                                   |                                     |                                   |                                      |                                          |
| 18 November 2005       | 10,344                                 | -                                 | -                                   | -                                 | 10,344                               | 10,344                                   |
| 30 October 2006        | 7,340                                  | -                                 | -                                   | -                                 | 7,340                                | 7,340                                    |
| 30 October 2006        | 14,993                                 | -                                 | -                                   | -                                 | 14,993                               | 14,993                                   |
| 31 October 2007        | 3,353                                  | -                                 | -                                   | -                                 | 3,353                                | 3,353                                    |
| 17 October 2008        | 116                                    | -                                 | -                                   | -                                 | 116                                  | 116                                      |
| 17 October 2008        | 12,690                                 | -                                 | -                                   | -                                 | 12,690                               | 12,690                                   |
| 5 November 2010        | 23,988                                 | -                                 | -                                   | (23,988)                          | -                                    | -                                        |
| 5 November 2010        | 543,929                                | -                                 | -                                   | (543,929)                         | -                                    | -                                        |
| 7 October 2011         | 619,410                                | -                                 | -                                   | (15,891)                          | 603,519                              | -                                        |
| 7 October 2011         | 17,877                                 | -                                 | -                                   | (17,877)                          | -                                    | -                                        |
| 23 October 2012        | 61,369                                 | -                                 | -                                   | -                                 | 61,369                               | -                                        |
| 23 October 2012        | 1,122,908                              | -                                 | -                                   | (20,808)                          | 1,102,100                            | -                                        |
| 19 September 2013      | -                                      | 19,384                            | -                                   | -                                 | 19,384                               | -                                        |
| 19 September 2013      | -                                      | 38,769                            | -                                   | -                                 | 38,769                               | -                                        |
| 19 September 2013      | -                                      | 926,328                           | -                                   | -                                 | 926,328                              | -                                        |
| 22 October 2013        | -                                      | 142,151                           | -                                   | -                                 | 142,151                              | -                                        |
| <b>Total</b>           | <b>2,438,317</b>                       | <b>1,126,632</b>                  | <b>-</b>                            | <b>(622,493)</b>                  | <b>2,942,456</b>                     | <b>48,836</b>                            |
| Weighted average price | 4.36                                   | 4.06                              |                                     | 5.90                              | 3.92                                 | 3.54                                     |

Vesting for the performance period to 30 June 2014 will occur following the test date on 12 August 2014.

## 2013

|                        |                  |                  |                 |                  |                  |               |
|------------------------|------------------|------------------|-----------------|------------------|------------------|---------------|
| 18 November 2005       | 10,344           | -                | -               | -                | 10,344           | 10,344        |
| 30 October 2006        | 11,789           | -                | -               | (4,449)          | 7,340            | 7,340         |
| 30 October 2006        | 14,993           | -                | -               | -                | 14,993           | 14,993        |
| 31 October 2007        | 4,944            | -                | -               | (1,591)          | 3,353            | 3,353         |
| 17 October 2008        | 116              | -                | -               | -                | 116              | 116           |
| 17 October 2008        | 49,211           | -                | (36,521)        | -                | 12,690           | 12,690        |
| 29 October 2009        | 13,071           | -                | -               | (13,071)         | -                | -             |
| 29 October 2009        | 649,045          | -                | -               | (649,045)        | -                | -             |
| 5 November 2010        | 34,434           | -                | -               | (10,446)         | 23,988           | -             |
| 5 November 2010        | 543,929          | -                | -               | -                | 543,929          | -             |
| 7 October 2011         | 619,410          | -                | -               | -                | 619,410          | -             |
| 7 October 2011         | 17,877           | -                | -               | -                | 17,877           | -             |
| 23 October 2012        | -                | 61,369           | -               | -                | 61,369           | -             |
| 23 October 2012        | -                | 1,122,908        | -               | -                | 1,122,908        | -             |
| <b>Total</b>           | <b>1,969,163</b> | <b>1,184,277</b> | <b>(36,521)</b> | <b>(678,602)</b> | <b>2,438,317</b> | <b>48,836</b> |
| Weighted average price | 4.98             | 3.36             | 4.82            | 4.40             | 4.36             | 3.54          |

The expiry dates of all grants shown in the tables above are 10 years from the test date. The weighted average share price at the date of exercise of Rights exercised regularly during the year ended 30 June 2014 was \$NIL (2013: \$6.17). The weighted average remaining contractual life of share Rights outstanding at the end of the period was 1.50 years (2013: 1.63 years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 35 Share based payments (continued)

### *Fair value of Rights granted*

The assessed fair value at grant date of Rights granted during the year ended 30 June 2014 was between \$3.96 and \$4.96 per right (2013: between \$2.84 and \$3.39). The fair value at grant date for rights granted during the year ended 30 June 2014 was determined using a Monte Carlo option pricing model that took into account the exercise price, the term of the Right, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the Right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the Right. In previous periods a Black Scholes option pricing model was used for the valuation using similar inputs.

The following factors and assumptions have been used in determining the fair value of Rights for the issues granted:

| Grant Date | Expiry Date              | Fair value per Right | Exercise price | Price of shares on grant date | Estimated volatility | Risk free interest rate | Dividend yield |
|------------|--------------------------|----------------------|----------------|-------------------------------|----------------------|-------------------------|----------------|
| 18/11/2005 | Ten years from Test Date | 2.35                 | -              | 4.15                          | 90%                  | 5.35%                   | 0.00%          |
| 30/10/2006 | Ten years from Test Date | 2.80                 | -              | 6.00                          | 90%                  | 5.73%                   | 0.00%          |
| 30/10/2006 | Ten years from Test Date | 3.44                 | -              | 6.00                          | 90%                  | 5.73%                   | 0.00%          |
| 31/10/2007 | Ten years from Test Date | 4.44                 | -              | 14.68                         | 90%                  | 6.18%                   | 0.00%          |
| 17/10/2008 | Ten years from Test Date | 4.11                 | -              | 6.30                          | 139%                 | 5.19%                   | 0.00%          |
| 17/10/2008 | Ten years from Test Date | 4.82                 | -              | 6.30                          | 139%                 | 5.19%                   | 0.00%          |
| 29/10/2009 | Final test date          | 3.71                 | -              | 6.05                          | 129%                 | 5.52%                   | 0.00%          |
| 29/10/2009 | Final test date          | 4.41                 | -              | 6.05                          | 129%                 | 5.52%                   | 0.00%          |
| 5/11/2010  | Final test date          | 5.13                 | -              | 8.60                          | 125%                 | 5.25%                   | 0.00%          |
| 5/11/2010  | Final test date          | 6.12                 | -              | 8.60                          | 125%                 | 5.25%                   | 0.00%          |
| 7/10/2011  | Final test date          | 4.76                 | -              | 6.80                          | 121%                 | 4.24%                   | 0.00%          |
| 7/10/2011  | Final test date          | 4.01                 | -              | 6.80                          | 121%                 | 4.24%                   | 0.00%          |
| 23/10/2012 | Final test date          | 2.84                 | -              | 4.96                          | 119%                 | 3.08%                   | 0.00%          |
| 23/10/2012 | Final test date          | 3.39                 | -              | 4.96                          | 119%                 | 3.08%                   | 0.00%          |
| 19/09/2013 | Final test date          | 4.96                 | -              | 5.99                          | 50%                  | 2.48%                   | 0.00%          |
| 19/09/2013 | Final test date          | 4.53                 | -              | 5.99                          | 50%                  | 2.76%                   | 0.00%          |
| 19/09/2013 | Final test date          | 3.96                 | -              | 5.99                          | 50%                  | 2.76%                   | 0.00%          |
| 22/10/2013 | Final test date          | 4.43                 | -              | 6.45                          | 50%                  | 2.92%                   | 0.00%          |

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

### **(c) Expenses arising from share based payment transactions**

Total expenses arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

|                                             | 2014<br>\$'000 | 2013<br>\$'000 |
|---------------------------------------------|----------------|----------------|
| Rights issued under Performance Rights Plan | 3,609          | 3,597          |
|                                             | <b>3,609</b>   | <b>3,597</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

## 36 Parent entity financial information

### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

|                                    | 2014<br>\$'000 | 2013<br>\$'000 |
|------------------------------------|----------------|----------------|
| <b>Balance sheet</b>               |                |                |
| Total assets                       | 904,151        | 773,963        |
| <i>Shareholders' equity</i>        |                |                |
| Issued capital                     | 715,293        | 707,693        |
| Share-based payments reserve       | 15,087         | 11,386         |
| Retained earnings                  | 173,771        | 54,884         |
|                                    | <b>904,151</b> | <b>773,963</b> |
| <b>Profit or loss for the year</b> | <b>174,736</b> | <b>50,000</b>  |
| <b>Total comprehensive income</b>  | <b>174,736</b> | <b>50,000</b>  |

### (b) Guarantees entered into by the parent entity

The parent entity is a guarantor under the Bradken Group - Common Terms Deed Poll and unconditionally and irrevocably guarantees payments due in connection with any financing facilities owed by any Group company.

### (c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013.

### (d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any contractual commitments for the acquisition of property, plant or equipment at 30 June 2014 or 30 June 2013.

## 37 Events occurring after balance sheet date

No material events have occurred that affect the operations of the Group from the end of the financial period ended 30 June 2014 to the date of issue of this report.

# DIRECTORS' DECLARATION

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In the directors' opinion:

- (a) the financial statements and notes set out on pages 29 to 91 are in accordance with the Corporations Act 2001, including
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 31.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors:



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Nick Greiner  
Chairman



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Brian Hodges  
Managing Director

Sydney  
11 August 2014



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Sydney NSW 2000 Australia  
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## Independent auditor's report to the members of Bradken Limited

### Report on the Financial Report

We have audited the accompanying financial report of Bradken Limited, which comprises the consolidated balance sheet as at 30 June 2014, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is referenced in the Directors' Report.

## Opinion

In our opinion:

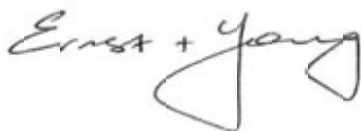
- a. the financial report of Bradken Limited is in accordance with the *Corporations Act 2001* , including:
  - a) giving a true and fair view of the consolidated entity's financial positions as at 30 June 2014 and of its performance for the year ended on that date; and
  - b) complying with Australian Accounting Standards and the *Corporations Regulations 2001* ; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1 .

## Report on the remuneration report

We have audited the Remuneration Report included in pages 15 to 25 of the directors' report for the year ended 30 June 2014 . The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001* . Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Bradken Limited for the year ended 30 June 2014 , complies with section 300A of the *Corporations Act 2001* .



Ernst & Young



Trent van Veen  
Partner  
Sydney  
11 August 2014

# SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 19 August 2014.

## A. Distribution of equity security holders

Analysis of numbers of equity security holders by size of holding:

|                  | Class of equity security |        |
|------------------|--------------------------|--------|
|                  | Ordinary shares          | Rights |
| 1 – 1,000        | 4,791                    | 0      |
| 1,001 – 5,000    | 6,035                    | 0      |
| 5,001 – 10,000   | 1,515                    | 11     |
| 10,001 – 100,000 | 991                      | 75     |
| 100,001 and over | 63                       | 3      |
|                  | 13,395                   | 89     |

The number of shareholders holding less than a marketable parcel of ordinary shares is 720.

## B. Equity security holders

*Twenty largest quoted equity security holders*

The names of the twenty largest holders of quoted equity securities are listed below:

| Name                                                                       | Ordinary shares |                             |
|----------------------------------------------------------------------------|-----------------|-----------------------------|
|                                                                            | Number held     | Percentage of issued shares |
| HSBC Custody Nominees Australia Limited                                    | 30,397,939      | 17.8%                       |
| National Nominees Limited                                                  | 24,846,723      | 14.5%                       |
| J P Morgan Nominees Australia Limited                                      | 21,991,520      | 12.9%                       |
| Citicorp Nominees Pty Limited                                              | 11,856,239      | 6.9%                        |
| Australian Foundation Investment Company Limited                           | 6,000,000       | 3.5%                        |
| HSBC Custody Nominees (Australia) Limited <NT-Commonwealth Super CORP A/c> | 4,668,359       | 2.7%                        |
| Mr Brian Hodges                                                            | 2,316,630       | 1.4%                        |
| BNP Paribas Noms Pty Ltd <Master Cust DRP>                                 | 2,084,149       | 1.2%                        |
| UCA Growth Funds Limited                                                   | 1,275,000       | 0.7%                        |
| ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/c>                  | 1,101,061       | 0.6%                        |
| Australian United Investment Company Limited                               | 1,000,000       | 0.6%                        |
| Diversified United Investment Limited                                      | 1,000,000       | 0.6%                        |
| RBC Investor Services Australia Nominees Pty Limited (BKCUST A/c)          | 889,175         | 0.5%                        |
| Milton Corporation Limited                                                 | 826,514         | 0.5%                        |
| QIC Limited                                                                | 681,763         | 0.4%                        |
| Mr E Sheridan                                                              | 482,781         | 0.3%                        |
| Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/c>                 | 424,884         | 0.2%                        |
| Famarn Pty Limited                                                         | 387,040         | 0.2%                        |
| Mr Nick Greiner                                                            | 371,272         | 0.2%                        |
| The Australian National University                                         | 363,621         | 0.2%                        |
|                                                                            | 112,964,670     | 65.9%                       |

# SHAREHOLDER INFORMATION *(CONTINUED)*

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## C. Substantial shareholders

Substantial holders in the company are set out below:

| Shareholder                     | Number of ordinary shares |
|---------------------------------|---------------------------|
| National Australia Bank Limited | 10,729,533                |
| Blackrock Group                 | 10,299,873                |
| Dimensional Entities            | 8,555,069                 |

## D. Voting rights

### (a) Ordinary shares

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share shall have one vote.

### (b) Rights

No voting rights

# NOTES

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