Media / Market Release

Tuesday, 11 August 2015

For immediate release

	June 2015	June 2014	Change
NPAT	($241.3m)	$21.5m	
EBITDA	$109.7m	$143.0m	(23%)
Underlying NPAT	$33.9m	$55.1m	(38%)
Underlying EBITDA	$136.1m	$173.3m	(21%)
Underlying EBITDA Margin	14.1%	15.3%	
Sales Revenue	$965.9m	$1,135.2m	(15%)
Operating Cash Flow	$81.2m	$155.1m	(52%)
Underlying Earnings per Share (based on weighted average number of shares)	19.8 cents	32.4 cents	(39%)
Dividend per Share	Nil	26.0 cents	
LTIFR [1]	3.4	4.1	17%

Notes: 1. Lost time injury frequency rate (LTIFR) is the number of occurrences of injury divided by the total number of hours worked by all workers, for each one million hours worked.

Key Outcomes

- Sales revenue decreased 15% to $966 million due to lower mining capital sales.
- Variable costs reduced in line with the sales revenue decrease while cash overhead improvements of $25 million year-on-year delivered an underlying EBITDA of $136 million.
- An NPAT loss of $241 million was recorded after significant, but mainly non-cash, charges for restructuring and impairment, somewhat offset by sale of properties.
- Restructuring was largely completed with the creation of a new division from four existing businesses, closure of high cost subscale manufacturing facilities and write-down of assets in line with current market conditions.
- The balance sheet was strengthened with the completion of a $70 million RPS, short-term increase in the key banking covenant (Net Debt / EBITDA) and substantially reduced exposure to USD denominated debt.
- The Directors did not declare a dividend to ensure maximum flexibility is maintained at the bottom of the current market cycle.

Business Review

While unadjusted EBITDA was $109.7 million, underlying EBITDA before one-off costs was $136.1 million, a decrease of 21% on the previous year. This result was achieved in a challenging environment where mining companies were focused on reducing expenditure. This resulted in pricing pressure and depressed demand for some of Bradken's products, especially capital products such as rail wagons.

The Sales Revenue decline of 15% resulted from lower sales of rail wagon products, lower sales to mining OEMs and reduced demand for energy products. Margin percentages were largely retained as variable costs were reduced in line with volume decreases. The Company's base load of key product sales has remained steady over the last four years, which continues to demonstrate the strength of the Company's consumable products focus.

"Bradken has responded to the market pressure with a restructuring program to lower the Company's cost base with the closure of high cost facilities and movement of product manufacture to lower cost locations as well as substantial reductions in cash overheads and this program is now largely complete," said Mr Brian Hodges, Managing Director.

The Directors have not declared a dividend, choosing to conserve cash in order to maintain business flexibility during the low in the current market cycle.

Operational Review

In May 2015 the Australian based Industrial business, Rail Division, Ground Engaging Tools and Crawler Systems businesses (formerly part of the Mining Products Division) were merged to form the new Mining & Transport Division. This consolidation will enable more effective utilisation of shared resources in manufacturing, product development and sales. The Fixed Plant business, also formerly part of the Mining Products Division, has been split out to form a new Division retaining the Fixed Plant name. The Company's Oil & Gas business in Canada has been consolidated into the Fixed Plant Division in a move that will see improved utilisation of like resources including manufacturing and sales of wear parts. Similarly, management of the Metal Recycling business, previously under the Mineral Processing Division, has been transferred to the Cast Metal Services business.

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 in over 30 countries across five continents. Products are produced 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 a global market leader in the manufacture and supply of grinding mill liners.

Sales of $217 million were down 6% on the previous year due to reduced operations of large mines in Indonesia and Africa, and commissioning delays in other regions, all now resolved and returning to normal ordering patterns. The Division's key manufacturing strategy continues to focus on the relocation of work to lower cost manufacturing facilities, with the transfer to India planned to begin in th1e first quarter of F16. Current business focus continues with the introduction of new differentiated products into existing and new markets where some geographies, particularly the Americas and Africa, are already demonstrating good wins.

The **Mining & Transport Division** designs, manufactures and supplies consumable wear products for all types of earth moving equipment to the global mining industry. Products include Ground Engaging Tools (GET), crawler system products for hydraulic mining excavators and electric rope shovels, and industrial cast products for general industry and mining OEM's. The Division also manufactures and supplies freight rollingstock products including freight wagons, bogies, drawgear and spare and renewed parts, and Services include the maintenance and refurbishment of rollingstock.

While sales of $328 million were down 27% on the previous year primarily due to lower rail wagon sales, the restructuring has reduced fixed costs by $25 million per annum. The restructured business will focus on extracting maximum value and leverage from the reorganisation and rationalised overheads, sale of new products, successful entry into new mining regions and utilisation of low cost capacity including from the Company's Xuzhou, China foundry.

The **Fixed Plant Division** creates customised wear solutions through the design and manufacture of a wide range of wear resistant products to protect fixed plant equipment in mining and port operations. The Division mainly services the iron ore, gold and copper markets in Australia as well as oil sand mines in Alberta, Canada. The Division is developing a fully integrated supply chain, for a wide range of wear parts for major mine operations.

Sales of $135 million were down 9% on FY14 as lower iron ore and oil prices had a significant impact on the market with major customers delaying capital expenditure projects and a general decrease in sales of key wear consumables. Most mining companies sought price reductions from their suppliers which meant F15 was a challenging year for the division.

Overall, the business direction continues to concentrate on increasing share in existing markets while identifying and gaining sales in targeted mining regions globally, not currently serviced by the Fixed Plant Division. With the oil and gas business being consolidated into the Fixed Plant Division, providing the benefits of more effective utilisation of shared resources, the division has positioned itself to grow into the global market and replicate its successful business model.

The **Engineered Products Division** is a leading North American manufacturer of large, highly-engineered steel castings and differentiated consumable products to the mining, resource, transportation, structural, energy, and military industries. The Division is a leader in the North American market for large, complex steel castings (over 4,500kg) and has an approximate 30% share of the US large steel castings market. The Division also has foundry capacity in the United Kingdom to serve European markets.

Sales revenue of $267 million was down 4% on FY14, reflecting continued softness throughout the year in the capital mining market. The release of deferred military projects, notably submarine builds, is expected to benefit the division in F16 and there will be foreign exchange translation benefits from the weaker Australian dollar against the US dollar. Sales in F16 are expected to gradually increase, as improved military and transit rail markets are projected to offset a lower capital mining market

The **Cast Metal Services Business** is a supplier of foundry consumable products operating in regions where Bradken has an established manufacturing footprint. Cast Metal Services' customer base consists of 85% internal (Bradken) and 15% external sales. The Business focuses on traded products and its own consumable products for which manufacturing facilities are located in Brisbane, Australia and Xuzhou, China. Cast Metal Services is the dominant supplier to the Australian and New Zealand industry and is expanding globally into other regions.

Sales were up on the previous corresponding period from the net effect of significant new sales in North America offsetting a 15% reduction of sales in Australia due to contracting market conditions and domestic foundry closures. The Australian foundry industry and hence the consumables market, has been contracting for the past couple of years at an accelerated rate. New plant and equipment for the business in Xuzhou, China has been commissioned and is proving a catalyst for low cost refractories and coatings manufacture for promotion and sales globally.

Cash Flow and Borrowings

Operating cash flow for the year before capital expenditure was $54.3 million. Although this was a 65% reduction on the previous year, the result included $26.8 million of cash restructuring costs as well as higher inventory balances required while the company relocates products to lower cost manufacturing facilities. Total capital expenditure was slightly lower than the previous year at $56.1 million, and included an initial payment for the new Indian foundry of $5.7 million. During the year a number of properties were sold generating $40.4 million of cash.

Net debt level including the Redeemable Preference Shares (RPS) was 9% higher than the previous year at $398.6 million due mainly to higher working capital and the adverse translation impact on the USD denominated debt. At 30 June 2015 the Company's gearing for banking covenant purposes (which excludes the RPS) was 2.5 times. During the year the Company's senior lenders agreed to a temporary increase in the Net Debt / EBITDA covenant from 3.0 to 3.5 times for the periods ending June 2015 and December 2015 and 3.25 times for the period ended 30 June 2016.

Human Resources

The Global Lost Time Injury Frequency Rate (LTIFR) for FY15 was 3.4, which is a significant reduction on the previous year's performance of 4.1, with 35 sites being Lost Time Injury (LTI) free for the whole of F15.

Significant employment downsizing in FY15 from 4,970 to 3,650 occurred which included the closure of the Welshpool, Western Australia and Chehalis, USA foundries along with significant reductions in manning of several other facilities as the business was reshaped in line with market demand.

Several safety initiatives were introduced during the year including the introduction of monthly safety themes to promote hazard awareness, the revision of global policy released on electrical safety and a focus on core hazard and risk reduction.

Corporate Actions

On 26 June 2015, Bradken announced that a consortium comprising a Chilean company the SK Group and CHAMP Private Equity had approached the Company regarding some form of merger between Bradken and Magotteaux, a wholly owned subsidiary of the SK Group.

The parties agreed to work together during a 60 day exclusivity period to review the strategic and financial merits of some form of merger, which is currently scheduled to expire on 29 August 2015.

No financial proposal has been provided by the consortium at this stage. Both groups must see a mutual benefit to their shareholder base for a merger to be superior to the underlying potential for the individual companies. A Market update will be provided when appropriate.

Strategy and Outlook

"The restructure of manufacturing to materially lower costs is close to completion. This well-positions us to gain volume when the market improves," said Mr Hodges.

"The foundry in India will contribute to further cost reductions in F17 and will recover any lost capacity as a result of the prior plant closures."

"The Company's short-term strategy is to focus on growing high margin revenue through market share for consumable products and product development in preparation for an eventual uplift in global mining demand."

The increased covenants and the recent RPS provides the Company with adequate headroom to appropriately traverse the cycle and thereby protect shareholder equity.

Forecasting results in the current environment remains challenging, however any further reductions in volume and price are expected to be offset by an additional $10 million EBITDA from full year run-rate savings from the restructuring program as well as $9 million of EBITDA (based on current FX rates) due to higher translation of from the North American based businesses which provides more than 50% of the Company's profits.

Gearing is forecast to reduce significantly in the second half of F16 due to very low translation exposure of debt to any further reductions in the AUD/USD exchange rates, continued inventory reductions especially in the Ground Engaging Tools and Crawler Systems product lines, given that the relocation of their manufacturing will be complete. Additionally, the sale of surplus properties and continued capex restrictions will assist gearing reduction further.

Completion of the RPS, an increase in the key banking covenant (Net Debt / EBITDA) and substantially reduced exposure to USD denominated debt will continue to protect the balance sheet.

Ends

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