ASX Announcement

Takeover bid by Hitachi Construction Machinery (HCM)

- **Bidder's Statement and Target's Statement released today**
- **Bradken Directors confirm their unanimous recommendation that shareholders ACCEPT the offer from HCM in the absence of superior proposal**
- **Independent Expert (Grant Thornton) concludes the offer is fair and reasonable**
- **Offer of $3.25 per share represents a 34% premium to Bradken's closing price on 3 October and a 90% premium to Bradken's 90 trading day VWAP**

25 October 2016

Bradken Limited (**Bradken**) today released its Target's Statement in relation to the offer by HCM to acquire all of the issued shares in Bradken by way of an off-market takeover for $3.25 per Bradken Share (**Offer**). The Offer is currently scheduled to open on 1 November 2016 and close on 10 February 2017.

The Target's Statement has been lodged with the Australian Securities and Investments Commission and given to HCM today. As required by item 14 of section 633(1) of the *Corporations Act 2001* (Cth), a copy of the Target's Statement is enclosed.

HCM has also released its Bidder's Statement today.

Bradken's Board of Directors has conducted a detailed assessment of HCM's Offer and sought the opinion of Independent Expert, Grant Thornton.

Grant Thornton has concluded that the Offer is fair and reasonable to Bradken Shareholders, in the absence of a Superior Proposal and estimates Bradken's equity value to be in the range of $2.79 to $3.37 per Share on a controlling and fully diluted basis.

The Board unanimously recommends that shareholders accept the Offer in the absence of a Superior Proposal. In addition, each of the Directors who hold or control Shares intends to accept the Offer in respect of those shares in the absence of a Superior Proposal.

Bradken's Chairman, Mr Phil Arnall, said: *"The Board has carefully assessed the Offer from HCM and sought the advice of an Independent Expert. We believe that the offer represents an attractive premium for Bradken shareholders on all metrics."*

"Bradken's management team, led by Paul Zuckerman, continues to work hard on the Bradken transformation program and is making pleasing progress in tough market conditions. This clear roadmap for transformation, including potential EBITDA upside outlined to the market at our August results presentation, has also provided additional perspective in framing the Board's recommendation. This is reinforced by the opinion of Grant Thornton."

"Upon successful conclusion of the Offer, Bradken – which has a proud history in mining and industrial services – will join with one of the world's leading machinery companies to form a premium global business."

Bradken's Target's Statement outlines six key reasons why Bradken shareholders should accept the Offer from HCM:

- the Independent Expert has concluded that the Offer is fair and reasonable to Bradken Shareholders in the absence of a Superior Proposal;
- the Consideration of $3.25 cash is an attractive price reflecting a premium to recent trading prices, being a premium of:
    - 34% to closing price on 3 October (date of announcement)

- 40% to 30 trading day VWAP (calculated to 3 October)
- 76% to 60 trading day VWAP (calculated to 3 October)
- 90% to 90 trading day VWAP (calculated to 3 October);

- HCM's Offer of $3.25 cash per Share provides you with certainty of value (subject to the satisfaction of the Offer Conditions);
- Bradken's Share price may fall if the Offer is unsuccessful and no Superior Proposal emerges;
- there are risks associated in being a minority Shareholder of Bradken if the Offer is successful; and
- since the announcement of the Offer, no Superior Proposal has emerged.

The Offer is subject to a number of conditions, including the Bidder and its Associates together having a relevant interest in more than 50% of all Shares (on a fully diluted basis), FIRB approval, receipt of a number of competition and regulatory approvals in the United States, Canada, Australia and South Africa and other conditions as outlined in the Bidder's Statement.

Key dates for the Offer are as follows:

Date Bidder's Statement lodged with ASIC, ASX and served on Bradken	25 October 2016
Date of Target's Statement	25 October 2016
Offer opens	1 November 2016
Scheduled close of HCM's Offer Period (unless extended or withdrawn)	7.00pm (Sydney time) 10 February 2017

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BRADKEN

Target's Statement by Bradken Limited (ABN 33 108 693 009) in response to the Offer by Hitachi Construction Machinery Co., Ltd. to acquire all of your Bradken Shares

Your Directors unanimously recommend that you

ACCEPT

HCM's Offer to acquire all of your Bradken Shares for $3.25 cash per Share, in the absence of a Superior Proposal.

This is an important document and requires your immediate attention. You should read the entire document. If you are in doubt as to what you should do, you should consult your investment, financial, taxation or other professional adviser.

For more information, please call the Shareholder Information Line on 1300 131 543 (within Australia) or +61 1300 131 543 (outside Australia) between 9.00am and 5.00pm (Sydney time) Monday to Friday.

Financial Adviser

HIGHBURY PARTNERSHIP

Legal Adviser

ALLEN & OVERY

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KEY DATES

Date Bidder's Statement lodged with ASIC, ASX and served on Bradken	**25 October 2016**
Date of this Target's Statement	**25 October 2016**
Offer opens	**1 November 2016**
Scheduled close of HCM's Offer Period (unless extended or withdrawn)	**7.00pm (Sydney time) 10 February 2017**

IMPORTANT NOTICES

Bradken Shareholder Information Line

Bradken has established the Bradken Shareholder Information Line, which Bradken Shareholders may call if they have any queries in relation to HCM's Offer. The telephone number for the Bradken Shareholder Information Line is 1300 131 543 (for calls made from within Australia) or +61 1300 131 543 (for calls made from outside Australia) and will be available Monday to Friday between 9.00am and 5.00pm (Sydney time). Any telephone calls to these numbers may be taped, recorded, indexed and stored.

Further information relating to HCM's Offer can be obtained from Bradken's website (www.bradken.com) or on the ASX website (www.asx.com.au ASX code: BKN).

Nature of this document

This document is the Target's Statement dated 25 October 2016 given by Bradken under Part 6.5 Division 3 of the Corporations Act. This Target's Statement is given in response to the Bidder's Statement by HCM dated 25 October 2016. This document and the Bidder's Statement should be read in their entirety.

ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC and sent to the ASX on 25 October 2016. Neither ASIC nor ASX nor any of their respective officers takes any responsibility for the content of this Target's Statement.

Defined terms and interpretation

Capitalised terms used in this Target's Statement are defined in Section 14 of this Target's Statement. Section 14 also sets out some rules of interpretation which apply to this Target's Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in this Target's Statement have the same meaning and interpretation as in the Corporations Act.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, their actual calculations may differ from the calculations set out in this Target's Statement.

No account of personal circumstances

This Target's Statement and the recommendations and other information contained in it do not constitute financial product advice. The recommendations and other information contained in this Target's Statement do not take into account the individual investment objectives, financial or tax situation or particular needs of each shareholder, and should not be taken as personal financial or taxation advice, as each Shareholder's deliberations and decision will depend upon their own financial situation, tax position, investment objectives and particular needs. Bradken is not licensed to provide financial advice.

It is important that you read this Target's Statement and the Bidder's Statement in their entirety before making any investment decision and any decision relating to the Offer. Your Directors encourage you to obtain independent advice from your investment, financial, taxation or other professional adviser before making a decision whether or not to accept HCM's Offer.

Forward looking statements

Some of the statements appearing in this Target's Statement are forward looking statements. All statements other than statements of historical fact are forward looking statements, which generally may be identified by the use of forward looking words such as "believe", "aim", "expect", "anticipate", "intending", "foreseeing", "likely", "should", "planned", "may", "estimate", "potential", or other similar words. Similarly, statements that describe the objectives, plans, goals or expectations of Bradken or any member of the Bradken Group may be forward looking statements.

Shareholders should note that such forward looking statements are only predictions and are inherently subject to uncertainties, in that they may be affected by a variety of known and unknown risks, variables and other important factors, many of which are beyond the control of Bradken. Actual values or results, performance or achievements may differ materially from those expressed or implied by such statements. The risks, variables and other factors that may affect the forward looking statements include matters specific to the industry sector in which Bradken operates, as well as economic and financial market conditions; legislative, fiscal or regulatory developments; the price performance of Bradken Shares, including the risk of possible price decline in the absence of the Offer or other takeover or merger speculation; and risks associated with the business and operations of Bradken. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected.

None of Bradken, any of its officers or any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) or gives any assurance as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statements, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement. To the maximum extent permitted by law, Bradken and its Directors, employees and agents disclaim liability for any loss or damage which may be suffered by any person (including by negligence or otherwise) through the use (directly or indirectly) or reliance on anything contained in or omitted from this Target's Statement.

Reliance on information obtained from HCM or public sources

The information in this Target's Statement about HCM, including HCM's assets and liabilities, financial position, funding and performance, profits and losses and prospects, and information about its related parties has been compiled from or is otherwise based on, and has been prepared by Bradken using information obtained from HCM or publicly available sources, and has not been independently audited or verified by Bradken or its advisers. If the information obtained from Bradken or the public sources is inaccurate or incomplete, this may affect the information included in the Target's Statement. In particular, if the information has been used as the basis for forward looking statements in the Target's Statement, this may add to the risk that actual values, results, performance or achievements will differ materially from those expressed or implied by the forward looking statements. Accordingly, Bradken does not, subject to the Corporations Act and general law, make any representation or warranty (express or implied) as to the accuracy or completeness of such information.

Foreign jurisdictions

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared solely in accordance with Australian law, and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

Websites

Both Bradken and HCM maintain internet sites. The Bradken website is www.bradken.com HCM's website is www.hitachicm.com/global/. Information contained in, or otherwise accessible through, these internet sites is not part of this Target's Statement. All references in this Target's Statement to these internet sites are inactive textual references to these internet sites and are for your information only.

Diagrams

Any diagrams, charts, maps, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available as at the date immediately prior to the date of this Target's Statement.

Privacy

Bradken has collected your information from the register of Bradken Shareholders for the purpose of providing you with this Target's Statement. The type of information Bradken has collected about you includes your name, contact details and information on your shareholding (as applicable) in Bradken. Without this information, Bradken would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the names and addresses of Bradken Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to external service providers (including the Bradken Share Registry and print and mail service providers) and may be required to be disclosed to regulators such as ASIC and ASX.

If you would like details of the information about you held by Bradken, please contact the Bradken Share Registry on 1300 131 543 (within Australia) or +61 1300 131 543 (outside Australia) between 9.00am and 5.00pm (Sydney time) Monday to Friday. Bradken's privacy policy is available on Bradken's website at www.bradken.com.

Your Directors unanimously recommend that you

ACCEPT

the Offer in the absence of a Superior Proposal

How to ACCEPT the OFFER:

1. To ACCEPT HCM's Offer, **follow the instructions set out in the Bidder's Statement.**

2. You should read this Target's Statement which contains your Directors' recommendation to **ACCEPT** HCM's Offer and the reasons for this recommendation.

3. If you have any questions, please contact the Shareholder Information Line on 1300 131 543 (within Australia) or +61 1300 131 543 (outside Australia) between 9.00am and 5.00pm (Sydney time) Monday to Friday.

If you do not wish to accept the Offer you do not need to do anything.

To retain flexibility to deal with your Bradken Shares, you may wish to defer acceptance of the Offer until the Regulatory Approval Conditions have been satisfied or waived.

1.0

CHAIRMAN'S LETTER

CHAIRMAN'S LETTER

25 October 2016

Dear Bradken Shareholder,

Your Directors unanimously recommend that you ACCEPT HCM's Offer for your Shares, in the absence of a Superior Proposal.

On 3 October 2016, Bradken Limited (**Bradken**) announced it had entered into a bid implementation agreement (**Bid Implementation Agreement)** with Hitachi Construction Machinery Co., Ltd. (**HCM**) in relation to the offer by HCM to acquire all of the issued shares in Bradken (**Shares**) by way of an off-market takeover for $3.25 per Bradken Share (**Offer**). You will have or will shortly be receiving the Bidder's Statement setting out the terms and conditions of HCM's Offer.

The Offer is subject to a number of conditions (**Conditions**), including the Bidder and its Associates together having a relevant interest in more than 50% of all Shares (on a fully diluted basis), FIRB approval, receipt of a number of competition and regulatory approvals in the United States, Canada, Australia and South Africa and other Conditions as outlined in the Bidder's Statement.

After a detailed assessment of HCM's Offer, your Board unanimously recommends that you ACCEPT the Offer in the absence of a Superior Proposal. In addition, each of the Directors who hold or control Shares intends to ACCEPT the Offer in respect of all of those Shares, in the absence of a Superior Proposal.

The Bradken Directors have appointed Grant Thornton to provide an Independent Expert's Report on the Offer. The Independent Expert's Report is contained in Annexure A to this Target's Statement and the Directors encourage you to read the report in its entirety. In its report, Grant Thornton:

- concludes that the Offer is fair and reasonable to Bradken Shareholders, in the absence of a Superior Proposal; and
- estimates Bradken's equity value to be in the range of $2.79 to $3.37 per Share on a controlling and fully diluted basis.

Section 2 of this Target's Statement outlines the reasons for the Bradken Directors' unanimous recommendation that you **ACCEPT** the Offer. These reasons include:

- the Independent Expert has concluded that the Offer is fair and reasonable to Bradken Shareholders in the absence of a Superior Proposal;
- the Consideration of $3.25 cash (**Offer Price**) is an attractive price reflecting a premium to recent trading prices, being a premium of:
  - 34% to closing price on 3 October (date of announcement)
  - 40% to 30 trading day VWAP (calculated to 3 October)
  - 76% to 60 trading day VWAP (calculated to 3 October)
  - 90% to 90 trading day VWAP (calculated to 3 October);
- HCM's Offer of $3.25 cash per Share provides you with certainty of value (subject to the satisfaction of the Offer Conditions);
- Bradken's Share price may fall if the Offer is unsuccessful and no Superior Proposal emerges;
- there are risks associated in being a minority Shareholder of Bradken if the Offer is successful; and
- since the announcement of the Offer, no Superior Proposal has emerged.

In deciding whether or when to accept the Offer, you should consider the Conditions remaining to be satisfied (see Sections 8.10 – 8.13 of the Bidder's Statement for details of the Conditions and their status). HCM has indicated in the Bidder's Statement that it does not expect the proposed acquisition of Bradken to raise any substantive competition concerns in the jurisdictions where competition approvals are required and that it is not aware of any circumstances that would impede the grant of CFIUS clearance in the United States on the basis that HCM's Offer is not a 'covered' transaction and even if it is, it should not give rise to any national security concerns.

Upon successful conclusion of the Offer, Bradken, which has a proud history in mining and industrial services, will join with one of the world's leading machinery companies to form a premium global business.

The Offer is scheduled to close at 7.00pm (Sydney time) on 10 February 2017, unless extended or withdrawn. To **ACCEPT** the HCM Offer, please refer to the acceptance instruction at the front of the Bidder's Statement.

This Target's Statement is your Board's detailed response to HCM's Offer. The Directors urge you to read this Target's Statement and the Bidder's Statement in their entirety and carefully consider the Offer, having regard to your own personal risk profile, investment strategy and tax position. You should seek independent financial, taxation or other professional advice if you are in any doubt as to what you should do in response to the Offer.

We will keep you updated if there are any material developments with respect to the Offer. Announcements relating to the Offer and Bradken can be found on the ASX website (www.asx.com.au ASX code: BKN).
If you have any queries in relation to HCM's Offer, please call the Bradken Shareholder Information Line on 1300 131 543 (within Australia) or +61 1300 131 543 (outside Australia) between 9.00am and 5.00pm (Sydney time) Monday to Friday.

Yours sincerely,

Phillip Arnall
CHAIRMAN

2.0

REASONS TO ACCEPT THE OFFER

Reason 1	THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE OFFER IS FAIR AND REASONABLE TO BRADKEN SHAREHOLDERS IN THE ABSENCE OF A SUPERIOR PROPOSAL
Reason 2	CONSIDERATION OF $3.25 CASH REPRESENTS A SIGNIFICANT PREMIUM TO RECENT HISTORICAL SHARE PRICES
Reason 3	THE $3.25 CASH PER SHARE PROVIDES YOU WITH CERTAINTY OF VALUE (SUBJECT TO THE SATISFACTION OF THE OFFER CONDITIONS)
Reason 4	BRADKEN'S SHARE PRICE MAY FALL IF THE OFFER IS UNSUCCESSFUL AND NO SUPERIOR PROPOSAL EMERGES
Reason 5	THERE ARE RISKS ASSOCIATED IN BEING A MINORITY SHAREHOLDER OF BRADKEN IF THE OFFER IS SUCCESSFUL
Reason 6	SINCE THE ANNOUNCEMENT OF THE OFFER, NO SUPERIOR PROPOSAL HAS EMERGED

2.1 REASON 1

THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE OFFER IS FAIR AND REASONABLE TO BRADKEN SHAREHOLDERS IN THE ABSENCE OF A SUPERIOR PROPOSAL

Bradken has appointed Grant Thornton Corporate Finance Pty Ltd to prepare an Independent Expert's Report to provide an opinion as to whether the Offer is fair and reasonable to Bradken Shareholders.

The Independent Expert has assessed the fair market value of Bradken Shares before the Offer in the range of $2.79 to $3.37 per Bradken Share on a 100% controlling and fully diluted basis. As the Offer is at the high end of the Independent Expert's assessed valuation range for Bradken Shares, the Independent Expert has concluded that the Offer is fair and reasonable in the absence of a Superior Proposal.

A complete copy of the Independent Expert's Report is included in Annexure A. The Directors recommend that you read the Independent Expert's Report carefully.

2.2 REASON 2

CONSIDERATION OF $3.25 CASH REPRESENTS A SIGNIFICANT PREMIUM TO RECENT HISTORICAL SHARE PRICES

Subject to the Offer becoming unconditional, Bradken Shareholders will receive $3.25 cash per Bradken Share. This consideration represents a significant premium of:

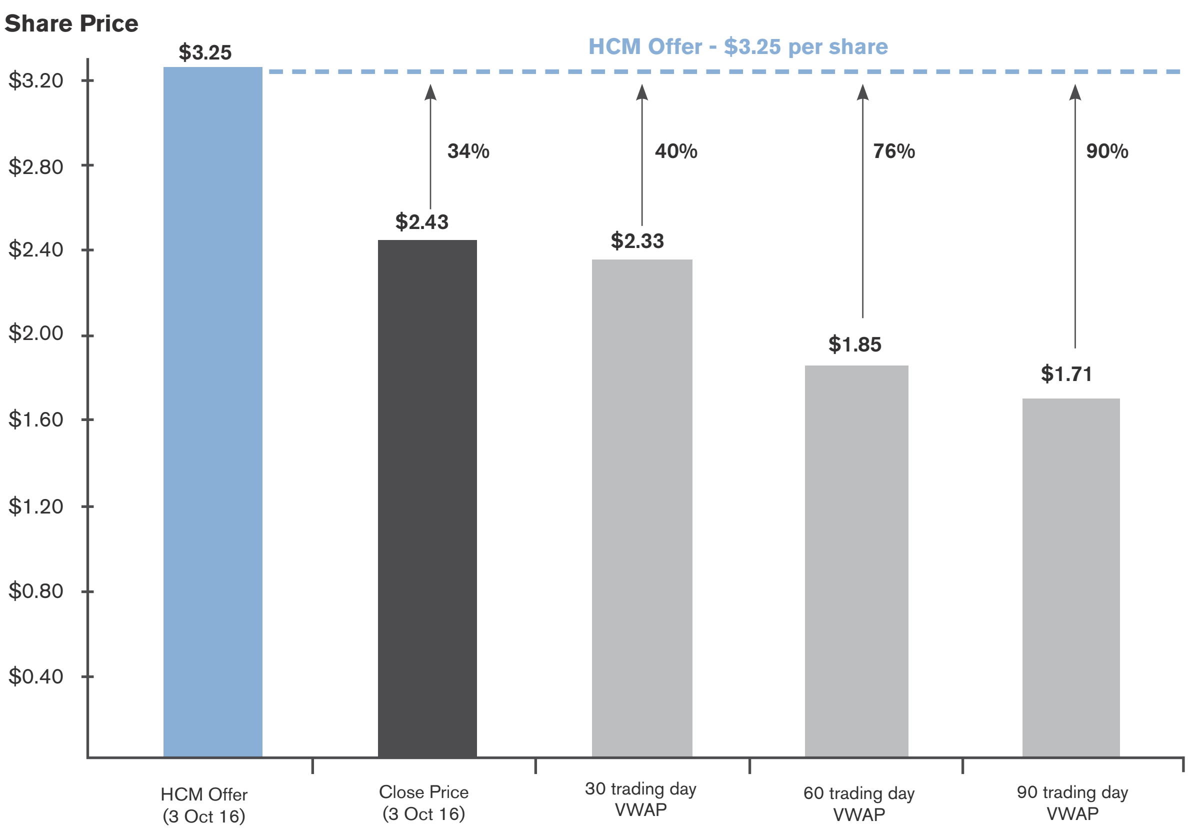
- 34% to closing price on 3 October (date of announcement)
- 40% to 30 trading day VWAP (calculated to 3 October)
- 76% to 60 trading day VWAP (calculated to 3 October)
- 90% to 90 trading day VWAP (calculated to 3 October)

Figure 2 below shows the premium to the Bradken Share price before the announcement of the Offer on 3 October.

Figure 1: Bradken Share price for last 12 months

Source: Trading data sourced from Capital IQ. Capital IQ has not consented to the use of this trading data in this Target's Statement.

Figure 2: Premia relative to close price and trading day VWAP



Source: Trading data sourced from Capital IQ. Capital IQ has not consented to the use of this trading data in this Target's Statement.

2.3 REASON 3

THE $3.25 CASH PER SHARE PROVIDES YOU WITH CERTAINTY OF VALUE (SUBJECT TO THE SATISFACTION OF THE OFFER CONDITIONS)

The consideration of $3.25 cash per Bradken Share provides you with certainty of value for your Bradken Shares (subject to the Offer Conditions being satisfied or waived).

In addition, by accepting the Offer, you will not incur brokerage fees on your Bradken Shares, which may otherwise be incurred if you were to sell your Bradken Shares on market. However, if your Bradken Shares are registered in a CHESS Holding or you hold your Bradken Shares through a bank, custodian or other nominee, you should ask your Controlling Participant (usually your broker), or the bank, custodian or other nominee whether it will charge any transaction fees or service charges in connection with your acceptance of the Offer.

The certainty of all cash consideration should be compared with the risks and the uncertainties of remaining a Bradken Shareholder, which include share price volatility caused by external economic and market factors as well as Bradken's operational performance.

While Bradken's earnings have stabilised and Bradken has initiated a promising restructuring program, these initiatives will take time to fully implement and carry execution risks. Also Bradken's current level of debt reduces its ability to absorb adverse outcomes.

Should you not accept the Offer (or should it fail to complete), the future price of your Bradken Shares will remain subject to these risks, including those summarised in more detail in Section 11 of this Target's Statement.

2.4 REASON 4

BRADKEN'S SHARE PRICE MAY FALL IF THE OFFER IS UNSUCCESSFUL AND NO SUPERIOR PROPOSAL EMERGES

The Offer Price of $3.25 is above the highest price at which Bradken Shares have traded in the 12 months to 3 October 2016, the last unaffected trading prior to the announcement of the Offer. For the 12 month period prior to 3 October 2016, Bradken's closing Share price traded between $0.38 and $2.52.

Whilst the Bradken Share price on the ASX is impacted by a range of factors, if the Offer is unsuccessful and an alternative proposal does not emerge, there is a risk that the Bradken Share price may fall to a lower price than the price at which it has traded since the Offer was announced on 3 October 2016.

2.5 REASON 5

THERE ARE RISKS ASSOCIATED IN BEING A MINORITY SHAREHOLDER OF BRADKEN IF THE OFFER IS SUCCESSFUL

If the Offer becomes unconditional and HCM is able to acquire more than 50% (but less than 90%) of Bradken's Shares on a fully diluted basis, then control of Bradken would pass to HCM without HCM having the ability to compulsorily acquire the remaining Bradken Shares.

This would mean that Shareholders who did not accept the Offer would remain as minority Shareholders of Bradken. The possible implications of being a minority shareholder include that:

- HCM would be in a position to cast the majority of votes at a Bradken general meeting. This will enable HCM to control the composition of the Bradken Board (although in the Bid Implementation Agreement HCM has committed to maintain at least 2 independent directors where it has more than 50% (but less than 90%) of Bradken's Shares);
- the restructured Bradken Board may continue the current practice of not declaring any dividends even if financial performance improves;
- it is unlikely the Share price would include any takeover premium;
- HCM will be able to pass an ordinary resolution at a meeting of Bradken Shareholders which, amongst other outcomes, could result in a change in the current strategic direction of Bradken;
- the change of control of Bradken may impact some of Bradken's material contracts including potentially triggering a requirement to refinance certain existing financing arrangements (see Sections 10.1 and 11.1 of this Target's Statement for further details);
- where HCM holds at least 75% of all Bradken Shares, it will be able to pass a special resolution at a meeting of Bradken Shareholders which would permit HCM to change the Bradken Constitution and pursue a delisting of Bradken;
- if HCM is able to acquire a relevant interest in at least 90% of Bradken Shares, then HCM may become entitled to acquire your Bradken Shares through the implementation of compulsory acquisition procedures in accordance with the Corporations Act. If this occurs, you will be compelled to sell your Bradken Shares to HCM at the Offer Price but you will receive your consideration later than if you accept HCM's Offer;
- the liquidity of Bradken Shares may be lower than at present; and
- Bradken may not maintain its listed status if, for example, the number of Bradken Shareholders falls below the criteria specified in the ASX Listing Rules and, if delisting were to occur, Bradken Shares will not be able to be bought or sold on the ASX.

Further information on HCM's intentions if the Offer becomes unconditional but is unable to proceed to compulsory acquisition are set out in Section 5.4 of the Bidder's Statement. The risks this presents are set out in Section 11.1 of the Target's Statement.

2.6 REASON 6

SINCE THE ANNOUNCEMENT OF THE OFFER, NO SUPERIOR PROPOSAL HAS EMERGED

Since the announcement of the Offer on 3 October 2016, and up to the date of this document, no Superior Proposal has emerged.

TO PRESERVE FLEXIBILITY TO DEAL WITH YOUR BRADKEN SHARES, YOU MAY WISH TO WAIT FOR THE REGULATORY APPROVAL CONDITIONS TO THE OFFER TO BE SATISFIED OR WAIVED BEFORE YOU ACCEPT

The Offer is conditional on a number of competition and regulatory approvals and expiry of regulatory notice periods in Australia, the United States, Canada and South Africa as set out in Sections 8.10 – 8.13 of the Bidder's Statement and summarised in Section 8.2 of this Target's Statement.

HCM has indicated in its Bidder's Statement that it does not expect the proposed acquisition of Bradken to raise any substantive competition concerns in the jurisdictions where competition approvals are required and that it is not aware of any circumstances that would impede the grant of CFIUS clearance in the United States on the basis that HCM's Offer is not a 'covered' transaction and even if it is, it should not give rise to any national security concerns.

3.0

POSSIBLE REASONS YOU MAY CHOOSE NOT TO ACCEPT THE OFFER

POSSIBLE REASONS YOU MAY CHOOSE NOT TO ACCEPT THE OFFER

Reason 1	YOU MAY DISAGREE WITH THE DIRECTORS' RECOMMENDATION OR THE CONCLUSION OF THE INDEPENDENT EXPERT AND BELIEVE THAT THE OFFER IS INADEQUATE
Reason 2	BY ACCEPTING THE OFFER BRADKEN SHAREHOLDERS WILL LOSE EXPOSURE TO ANY POTENTIAL UPSIDE IN THE BRADKEN SHARE PRICE
Reason 3	YOU MAY CONSIDER THAT THERE IS THE POTENTIAL FOR A SUPERIOR PROPOSAL TO BE MADE IN THE FORESEEABLE FUTURE
Reason 4	THE POTENTIAL TAX CONSEQUENCES OF THE OFFER MAY NOT SUIT YOUR CURRENT FINANCIAL POSITION OR TAX CIRCUMSTANCES

3.1 REASON 1

YOU MAY DISAGREE WITH THE DIRECTORS' RECOMMENDATION OR THE CONCLUSION OF THE INDEPENDENT EXPERT AND BELIEVE THAT THE OFFER IS INADEQUATE

You may disagree with the unanimous recommendation of the Directors' and the Independent Expert's opinion that the Offer is fair and reasonable. As at 25 October 2016, no Superior Proposal has emerged for consideration by the Bradken Directors.

3.2 REASON 2

BY ACCEPTING THE OFFER BRADKEN SHAREHOLDERS WILL LOSE EXPOSURE TO ANY POTENTIAL UPSIDE IN THE BRADKEN SHARE PRICE

If you accept the Offer, you will give up your right to sell your Bradken Shares on market, accept a competing proposal in relation to Bradken, or otherwise deal with your Bradken Shares (subject to limited withdrawal rights). You will also lose the right to future Bradken distributions. This means you will also lose exposure to any potential upside in the Bradken Share price associated with an improvement in Bradken's financial and operational performance which may or may not be driven by Bradken's recent restructuring initiatives as announced on ASX on 27 July 2016.

A summary of the implications of accepting the Offer are set out in Section 8.5 of this Target's Statement.

3.3 REASON 3

YOU MAY CONSIDER THAT THERE IS THE POTENTIAL FOR A SUPERIOR PROPOSAL TO BE MADE IN THE FORESEEABLE FUTURE

You may believe that there is a possibility that a Superior Proposal could be made in the foreseeable future. As at 25 October 2016, there is no Superior Proposal. You may also wish to sell your Bradken Shares independently of the Offer.

3.4 REASON 4

THE POTENTIAL TAX CONSEQUENCES OF THE OFFER MAY NOT SUIT YOUR CURRENT FINANCIAL POSITION OR TAX CIRCUMSTANCES

The tax consequences of the Offer depend on a number of factors and will vary depending on your particular circumstances. A general outline of the Australian tax consequences of the Offer is set out in Section 13 of this Target's Statement. The outline provided is of a general nature only and you should obtain your own specific tax advice as to the tax consequences applicable to your circumstances.

4.0

QUESTIONS ABOUT HCM'S OFFER

QUESTIONS ABOUT HCM'S OFFER

This Section answers some frequently asked questions about HCM's Offer. It is not intended to address all issues relevant to Bradken Shareholders. This Section should be read together with all other parts of this Target's Statement.

1.	*Who is HCM?*	HCM is a Japanese company, headquartered in Tokyo and listed on the Tokyo Stock Exchange. HCM's majority shareholder (holding approximately 50.2%), Hitachi, Ltd. is also separately listed on the Tokyo Stock Exchange. HCM is a leading global manufacturer and supplier of construction and mining machinery as well as machinery consumables and parts.
2.	*What is HCM's Offer?*	HCM is offering $3.25 for every Bradken Share that you hold. HCM's Offer is subject to Conditions.
3.	*What is the Bidder's Statement?*	The Bidder's Statement is the document setting out the terms of HCM's Offer. HCM lodged the Bidder's Statement with ASIC on 25 October 2016 and will shortly be sending out the Bidder's Statement to Bradken Shareholders along with the Target's Statement.
4.	*What is this Target's Statement?*	This Target's Statement has been prepared by Bradken and provides Bradken's response to HCM's Offer, including the recommendation of your Directors.
5.	*What are Bradken's Directors recommending?*	Your Directors unanimously recommend that you ACCEPT HCM's Offer for the reasons explained in Section 2 of this Target's Statement headed 'Reasons to ACCEPT the Offer'. To follow your Directors' recommendation that you ACCEPT HCM's Offer, please refer to the instruction on how to accept at the front of the Bidder's Statement. If there is a change in your Directors' recommendation or there are any material developments in relation to the Offer, your Directors will make the appropriate supplementary disclosure.
6.	*What choices do I have as a Bradken Shareholder?*	As a Bradken Shareholder you have three options available: 1. ACCEPT the Offer and follow the instructions in the Bidder's Statement; 2. Sell your Shares on ASX (unless you have already accepted the Offer and have not validly withdrawn your acceptance); or 3. Reject the Offer. If you choose to reject the Offer then do not fill in or return any of the Offer documentation. In making your decision you should carefully consider the Directors' recommendation and other information in this Target's Statement and the Bidder's Statement. If you are in any doubt as to what to do, you should consult with your investment, financial, taxation or other professional adviser.

7.	*What does the Independent Expert say?*	The Bradken Directors engaged Grant Thornton to opine on whether the Offer is fair and reasonable and to prepare an Independent Expert's Report on the Offer. In this report, Grant Thornton: ▪ concludes that the Offer is fair and reasonable to Bradken Shareholders, in the absence of a Superior Proposal; and ▪ estimates Bradken's equity value to be in the range $2.79 to $3.37 per Bradken Share on a 100% controlling and fully diluted basis. The Independent Expert's Report accompanies this Target's Statement as Annexure A.
8.	*Can I be forced to sell my Bradken Shares?*	If HCM obtains a relevant interest in more than 90% of the Bradken Shares, then (subject to satisfaction of various legal requirements) HCM will be entitled to proceed to compulsory acquisition of Bradken Shares held by those shareholders who did not accept the Offer, in which case you will receive the same amount per Bradken Share as the Offer Price but the time for payment will be later. More information about this is contained in Section 10.2 of this Target's Statement.
9.	*When do I have to make a decision?*	If you wish to accept the Offer, you must do so before its scheduled closing date. The Offer is presently scheduled to close at 7:00pm (Sydney time) on 10 February 2017 but the Offer Period can be extended in certain circumstances. See Section 8.4 of this Target's Statement for details on the circumstances in which the Offer Period may be extended.
10.	*What are the consequences of accepting HCM's Offer now?*	If you accept the Offer now, then unless withdrawal rights are available at the applicable time and you exercise those rights, you will not be able to sell your Bradken Shares on market or to any other bidder that may make a takeover offer, or deal with them in any other manner. You may wish to defer acceptance until you have an update on the satisfaction of the Regulatory Approval Conditions. If you accept HCM's Offer and HCM subsequently raises its Offer Price, you will receive the higher price.

11.	*What are the implications of HCM acquiring more than 50% but less than 90% of the Bradken Shares?*	If HCM acquires more than 50% and less than 90% of Bradken Shares, HCM will hold a majority shareholding in Bradken and, if you did not accept the Offer, you may be exposed to the risks associated with being a minority Shareholder of Bradken. As a majority shareholder, HCM will be able to control the majority of votes at a general meeting of Bradken and control the composition of the Bradken Board (subject to HCM's commitment in the Bid Implementation Agreement to have two independent directors in these circumstances). Further this could require repayment of certain of Bradken's existing financing arrangements and create a risk that material contracts are adversely impacted. HCM has agreed to lend Bradken up to $450 million under a short term loan agreement (**Loan Agreement**) to assist in the refinancing of these financing arrangements. See Section 10 of this Target's Statement for more details.
12.	*If I accept the Offer, how can I withdraw my acceptance?*	After the FIRB Condition is satisfied, you will only be permitted to withdraw your acceptance if the Offer lapses without becoming unconditional or the Offer Period is extended which defers the time for payment of the Offer consideration by more than one month, and then only if the Offer has not become unconditional. See Section 8.6 of this Target's Statement for further information.
13.	*Can I accept the Offer for only part of my Shares?*	Not unless you hold the Shares as trustee or nominee for, or otherwise on account of, another person. See paragraph 4 of Appendix 1 to the Bidder's Statement for further information.
14.	*During the period of the Offer, can I sell my Bradken Shares on ASX?*	Yes, but only if you have not already accepted the Offer (or have validly withdrawn that acceptance).
15.	*What if there is a competing offer?*	The Directors will carefully consider the merits of any competing offer and will send a supplementary Target's Statement to Bradken Shareholders advising whether the competing offer affects their recommendation that Bradken Shareholders accept the Offer. If you have already accepted the Offer, then you may not be able to participate in any competing offer. Refer to question 10 above for further information.
16.	*What do the Directors of Bradken intend to do with their Shares?*	Each Bradken Director intends to accept, or procure the acceptance of, the Offer in respect of each Bradken Share they hold or have control over the disposal of, subject to there being no Superior Proposal.
17.	*When does HCM's Offer close?*	HCM's Offer is currently scheduled to close at 7.00pm Sydney time on 10 February 2017, unless withdrawn or extended. Your Directors will keep you informed if there are any material developments in relation to the Offer.

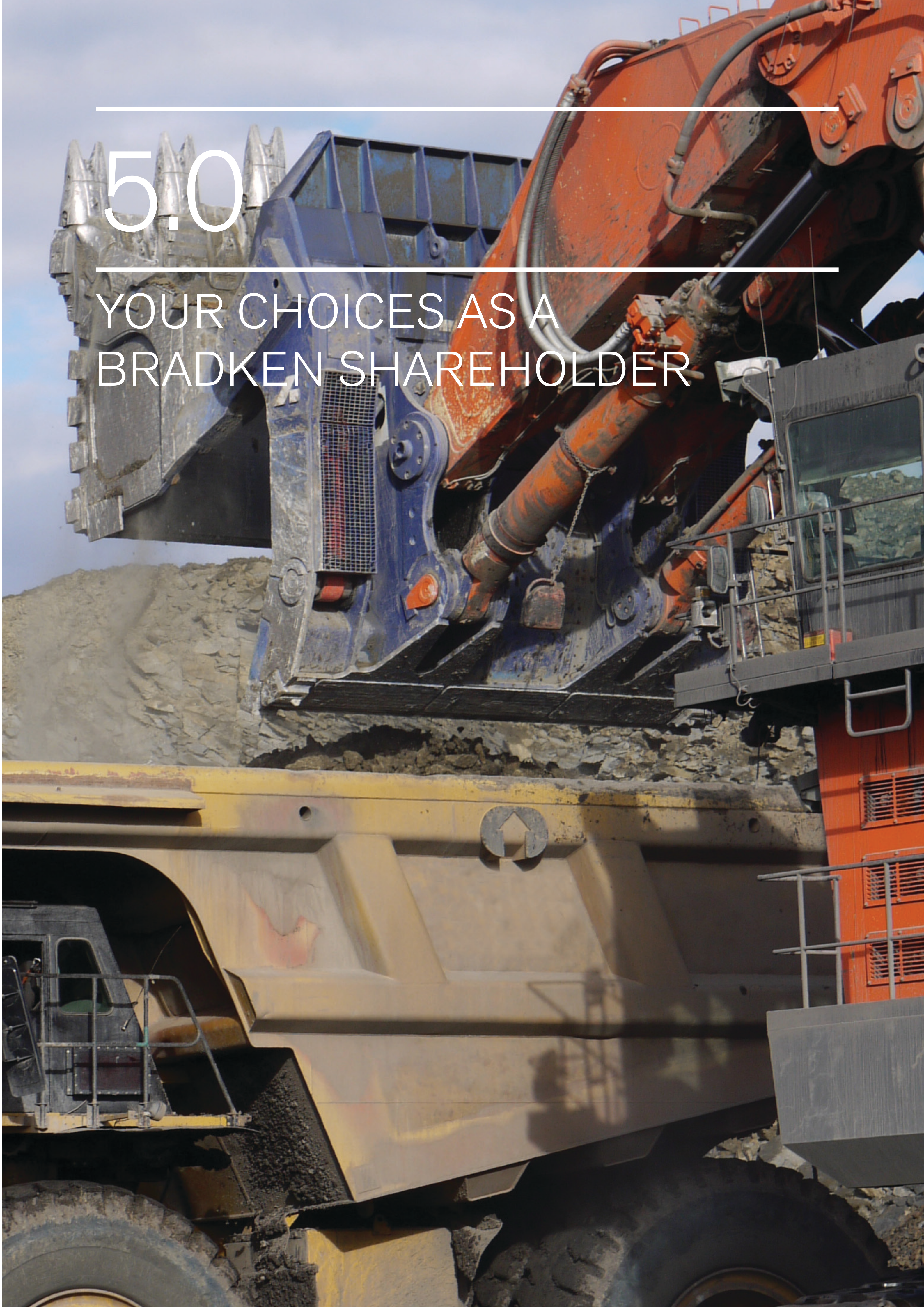
18.	*Can HCM vary its Offer for Bradken?*	Yes, HCM may vary its Offer in accordance with the provisions of section 650D of the Corporations Act but cannot extend the Offer beyond 1 May 2017 without Bradken's consent.
19.	*What happens if the Offer Price is increased?*	If HCM raises the Offer Price, your Directors will carefully consider the revised Offer and advise you accordingly. If you have already accepted the Offer you will be entitled to the increased Offer Price. If the Offer Price is increased in the last seven days of the Offer Period, the Offer Period will be automatically extended by 14 days. If you have sold your Bradken Shares independently of the Offer (e.g. on market) you will not be eligible for the benefit of any increase in the Offer Price.
20.	*What are the Conditions to HCM's Offer?*	HCM's Offer is conditional. The Offer Conditions include: ▪ receipt of FIRB approval by HCM; ▪ receipt of competition and certain regulatory approvals by HCM in the United States, Canada, Australia and South Africa; ▪ HCM acquiring a relevant interest in more than 50% of Bradken Shares on a fully diluted basis; ▪ no Prescribed Occurrences happening; ▪ no Material Adverse Change occurring; ▪ other than certain permitted actions, no material acquisitions, disposals, new commitments or other events; ▪ no distributions by Bradken; and ▪ no new Bradken Performance Rights are granted or issued. This is only a summary of some of the Conditions of HCM's Offer. The full Offer Conditions are set out in Appendix 2 to the Bidder's Statement and summarised in more detail in Section 8.2 of this Target's Statement.
21.	*What happens if the Conditions of HCM's Offer are not satisfied or waived?*	If the Conditions are not satisfied or waived before the Offer closes, the Offer will lapse, and you will not get paid (even if you had accepted the Offer) unless the Offer is extended. You would then be free to deal with your Bradken Shares.
22.	*When will I be paid if I accept HCM's Offer?*	If you validly accept HCM's Offer, HCM has said that it will pay the cash consideration for your Bradken Shares on the earlier of: ▪ one month after the date of your acceptance or, if the Offer is subject to a Condition when you accept, within one month after the Offer becomes unconditional; and ▪ if the Offer becomes unconditional, 21days after the end of the Offer Period.

23.	*What is the Bid Implementation Agreement?*	On 3 October 2016, Bradken entered into a Bid Implementation Agreement with HCM which sets out the manner in which Bradken and HCM have agreed to co-operate with each other in relation to the Offer. The Bid Implementation Agreement provides HCM with exclusivity until the end of the Offer Period and also provides for a number of customary deal protections in favour of HCM including a break fee of $6.885 million payable in certain circumstances and subject to certain exceptions. If a Superior Proposal emerges, Bradken has the right to terminate the Bid Implementation Agreement subject to HCM's matching rights. Other circumstances in which the Bid Implementation Agreement may be terminated are set out in clause 12 of the Bid Implementation Agreement. See Section 12.1 of this Target's Statement for further information in relation to the Bid Implementation Agreement. A copy of the full Bid Implementation Agreement is attached to the ASX announcement made by Bradken on 3 October 2016.
24.	*How will I know when the Offer is unconditional?*	HCM is required to inform Bradken Shareholders as soon as any Conditions are fulfilled or waived. Notices from HCM will be available on the ASX website (www.asx.com.au ASX code: BKN).
25.	*What are the tax implications of HCM's Offer?*	A general outline of the tax implications of accepting the Offer for certain Australian resident Bradken Shareholders is set out in Section 7 of the Bidder's Statement and Section 13 of this Target's Statement. The information in Section 13 of this Target's Statement is general in nature and does not deal with the position of all Bradken Shareholders, or take into account the particular circumstances of each Bradken Shareholder. You should therefore obtain your own professional financial and taxation advice before making a decision as to whether or not to accept HCM's Offer for your Bradken Shares. You may, for example, be liable for Australian capital gains tax (**CGT**) if you accept HCM's Offer.
26.	*What if I hold RPS?*	The Offer does not extend to RPS. However, the Offer extends to the 35 million new Bradken Shares to be issued on conversion of the RPS during the period from the Register Date to the end of the Offer Period. Bradken has received conversion notices in relation to all of the RPS on issue. This means that Bradken will be required to issue 35 million new Bradken Shares and the RPS will be cancelled in early to mid-November 2016 (see Section 12.3 of this Target's Statement for further details).

27.	*What if I am an employee of Bradken holding Bradken Performance Rights?*	The Offer does not extend to Bradken Performance Rights. However, the Offer will extend to any new Bradken Shares issued during the period from the Register Date to the end of the Offer Period (inclusive) due to the exercise or vesting of Bradken Performance Rights that were in existence as at the Register Date. If HCM and its Associates together have relevant interests in more than 50% of all Bradken Shares and the Offer becomes unconditional then Bradken Performance Rights will vest and you will receive Bradken Shares (or for cash plans, cash) in respect of those vested Bradken Performance Rights. Where you receive Bradken Shares, you can then deal with those Bradken Shares as you wish, including by accepting the Offer (subject to Bradken's security trading policy and laws relating to insider trading). If you are in any doubt about how to deal with your Bradken Performance Rights, you are encouraged to seek independent financial, tax or other professional advice.
28.	*Will I need to pay brokerage if I accept HCM's Offer?*	No brokerage or stamp duty will be payable by you on acceptance of the Offer. If your Bradken Shares are registered in a CHESS Holding or you hold your Bradken Shares through a bank, custodian or other nominee, you should ask your Controlling Participant (usually your broker), or the bank, custodian or other nominee whether it will charge any transaction fees or service charges in connection with your acceptance of the Offer.
29.	*What if I have other questions in relation to HCM's Offer?*	You can contact the Bradken Shareholder Information Line on 1300 131 543 (within Australia) or +61 1300 131 543 (outside Australia) between 9.00am and 5.00pm (Sydney time) Monday to Friday, or you can speak to your financial or other professional adviser.

5.0

YOUR CHOICES AS A BRADKEN SHAREHOLDER



Your Directors unanimously recommend that you ACCEPT HCM's Offer for the reasons explained in Section 2 of this Target's Statement headed 'Reasons to ACCEPT the Offer'.

As a Bradken Shareholder, you have three choices currently available to you:

1 ACCEPT the Offer by following the instructions in the Bidder's Statement. If you agree with the Directors' recommendation to ACCEPT the Offer, then fill in and return the acceptance form provided with the Bidder's Statement. You may wish to wait for the Regulatory Approval Conditions to be satisfied or waived before you accept the Offer;

2 Sell your Shares on ASX (unless you have already accepted the Offer and have not validly withdrawn your acceptance); or

3 Reject the Offer. If you choose to reject the Offer then do not fill in or return any of the Offer documentation. Ignore all correspondence and communications from HCM in relation to the Offer. You are not required to do anything if you decide to reject the Offer.

If you are in any doubt as to what to do, your Directors recommend that you consult with your investment, financial, taxation or other professional adviser.

1. Accept HCM's Offer

You may choose to accept HCM's Offer. Details of the payment that you will receive if you accept HCM's Offer are set out in paragraph 13 of Appendix 1 to HCM's Bidder's Statement. You will only receive that payment if the Conditions of HCM's Offer are all either satisfied or waived.

The consequences of accepting HCM's Offer are discussed in Section 8.5 of this Target's Statement. If you accept HCM's Offer, you will not be able to sell your Bradken Shares on market unless, at the time you decide that you no longer wish to accept HCM's Offer, you have the right to withdraw your acceptance and you exercise that right. The circumstances in which acceptances of HCM's Offer may be withdrawn are set out in Section 8.6 of this Target's Statement. You may wish to wait for the Regulatory Approval Conditions to the Offer to be satisfied or waived before you accept the Offer.

If you accept HCM's Offer, you may be liable for CGT or income tax as a result of your acceptance. An overview of the Australian taxation consequences for certain Bradken Shareholders of selling Bradken Shares is provided in Section 7 of HCM's Bidder's Statement. See also Section 13 of this Target's Statement.

See HCM's Bidder's Statement and the acceptance form provided to you by HCM for instructions on how to accept HCM's Offer.

2. Sell your Bradken Shares on market

During the Offer Period, you may sell your Bradken Shares through ASX for cash, provided you have not accepted HCM's Offer for those Shares (or, if you have accepted HCM's Offer, provided you have validly withdrawn that acceptance).

If you sell your Bradken Shares on market, you will receive the consideration for your Shares sooner than if you accept HCM's Offer while it is subject to Conditions.

If you sell your Bradken Shares on market, you:

- will lose the ability to accept HCM's Offer and receive the Offer Price in relation to those Shares pursuant to HCM's Offer;
- may be liable for CGT or income tax on the sale of those Shares;
- may incur a brokerage charge; and
- will lose the opportunity to receive future returns from Bradken.

You should contact your broker for information on how to sell your Bradken Shares on ASX and your tax adviser to determine the tax implications for you from such a sale.

3. Reject HCM's Offer

If you do not wish to sell your Bradken Shares on market and do not wish to accept HCM's Offer, you should take no action. Simply disregard the documents sent to you by HCM in relation to the Offer.

You should note that:

- if you choose not to accept HCM's Offer and HCM and its Associates acquire a relevant interest in at least 90% of the Bradken Shares during or at the end of the Offer Period, HCM will be entitled to compulsorily acquire your Bradken Shares (see Section 10.2 of this Target's Statement for further information regarding compulsory acquisition); and
- if HCM acquires more than 50% but less than 90% of the Bradken Shares, all of the Conditions of HCM's Offer are satisfied or waived, and you continue to hold Bradken Shares, you will be exposed to the risks associated with being a minority Shareholder of Bradken. Some of these risks are explained in Section 11.1 of this Target's Statement.

Bradken encourages you to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to your Bradken Shares.

6.0

INFORMATION ABOUT BRADKEN

6.1 OVERVIEW

Bradken is a manufacturer of differentiated consumable and capital products to international markets, supplying a range of cast and fabricated products and services.

Bradken develops and manufactures products for the mining, freight rail, steel making, smelting, transport, cement, oil & gas, power generation, sugar and other primary industries.

Bradken employs more than 3,100 people in 21 manufacturing facilities and more than 41 sales and service centres across Australia, New Zealand, USA, Canada, the United Kingdom, India, Indonesia, Malaysia, South Africa, China and South America.

Bradken, which has been publicly listed on the ASX since 2004, has been in business for more than 90 years and operates three market-focused divisions, supported by two global support functions.

6.2 BRADKEN'S DIVISIONS

6.2.1 Mobile Plant

The Mobile Plant Division designs, manufactures and supplies consumable wear and other engineered products for mining mobile plant, rail and industrial customers. Products include ground engaging tools (GET), rigging and buckets for dragline, front-end loader, face shovel and hydraulic excavator equipment, and crawler system products for hydraulic mining excavators and electric rope shovels. It also manufactures industrial cast products for general industry and original equipment manufacturers (OEMs), and freight rolling stock products and services including freight wagons and bogies, as well as associated spare and renewed parts and maintenance.

Customers include mine operators, mine contractors, OEMs and general industrial operators.

6.2.2 Mining Fixed Plant

The Mining Fixed Plant Division brings a full range of Bradken's advanced engineering capabilities to its mining customers' processing plants. Products include grinding mills and crushing and conveying equipment predominantly for the hard rock mining industry. Other products include wear liners, wear piping and associated fabrications utilising a wide variety of proprietary materials for both material storage and bulk handling operations. The Division also assists mines and ports in managing their assets and off-site repairs.

Customers include most of the world's largest mining companies and a number of mining OEMs. Mining Fixed Plant serves customers through the provision of design, manufacture and aftermarket support and optimisation in its mining operations across five continents and in more than 30 countries.

6.2.3 Engineered Products

The Engineered Products Division is a North American-based manufacturer of large, highly engineered steel castings and differentiated consumable products servicing the mining, resource, transportation, structural, energy and military industries.

The Division manufactures cast components including truck components and structural parts for the mining and construction, locomotive and transit rail and general industrial markets. It manufactures castings for specialised markets such as structural nodes used in building construction.

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

Customers include a whole range of industrial OEMs.

6.2.4 Global support functions

The Divisions are supported by two global support functions: Bradken Supply Chain and Bradken Technical & Operational Excellence. Bradken Supply Chain supports sourcing and procurement to service Bradken's operations. Bradken Technical & Operational Excellence focuses on continuous quality and cost improvements and overall operational performance.

6.3 FINANCIAL INFORMATION

Bradken's annual report for the year ended 30 June 2016 was lodged with the ASX on 23 September 2016. The annual report includes audited financial statements.

Bradken Shareholders can view these documents on Bradken's website (www.bradken.com) or on the ASX website (www.asx.com.au).

Trading for the first quarter of fiscal year 2017 has been in line with Bradken's plan and the guidance given for fiscal year 2017 as part of the company's full year results presentation on 23 September 2016. Revenue of $186 million was achieved in the first quarter of 2017, which is down slightly from last year's first quarter of $193 million with some improvement in margins and costs.

Except as disclosed in this Target's Statement and any announcement made by Bradken since 23 September 2016, the Directors are not aware of any material change in Bradken's audited financial statements in the annual report for the year ended 30 June 2016.

6.4 DIRECTORS AND SENIOR MANAGEMENT

6.4.1 Phillip J Arnall
Chairman

Mr Phillip Arnall was appointed to the Board on 13 April 2004 and served as a Non-Executive Director until 2015 when he was appointed to the role of Chairman. He is a 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 Shape (a private building company) and AJ Lucas Group Limited. Phil holds a Bachelor of Commerce (Accounting) degree from University of Newcastle where he undertook postgraduate studies in Marketing and Industrial Law.

6.4.2 Gregory R Laurie
Independent Non-Executive Director

Mr Greg Laurie was appointed to the Board on 24 February 2005. He is 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 Shriro Holdings Limited. Greg holds a Bachelor of Commerce degree from the University of New South Wales and an advanced management qualification from the University of Pittsburgh.

6.4.3 David Smith
Independent Non-Executive Director

Dr David Smith was appointed to the Board on 1 February 2014.

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. In addition to his position on the Bradken Board, he also currently serves as 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.

6.4.4 Rupert A Harrington
Independent Non-Executive Director

Mr Rupert Harrington was appointed to the Board on 1 December 2015.

Rupert has extensive experience in capital markets and a broad range of skills including a deep understanding of mining services and a proven track record of shareholder value creation. He is currently a Non-Executive Director of ASX listed companies Integral Diagnostics Limited and Clover Corporation Limited and is Executive Chairman of Advent Private Capital, a leading Australian private equity manager. Rupert holds a Bachelor of Technology degree and a Masters of Business Management from Bradford University, and a Diploma in Accounting and Finance from Manchester University.

6.4.5 Paul Zuckerman
Chief Executive Officer

Paul was appointed Chief Executive Officer of Bradken Limited in March 2016. Before joining Bradken Paul spent 9 years with building materials supplier Fletcher Building as Chief Executive of the Steel Division (from May 2007) and then as Chief Executive of the Laminates and Panels Division (from October 2012).

Previous to this he has had considerable experience in senior roles within the steel industry in Australia, New Zealand, USA and China, between 1994 and 2012. These included Divisional Chief Executive positions in Bluescope Coated Products China and BHP Coated Products USA.

6.4.6 Steven Perry
Chief Financial Officer

Steven has been with Bradken for 26 years. He was first appointed as Chief Financial Officer in 2011 after nine years as Commercial Manager of the former Mining Products Division.

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.

7.0

INFORMATION ABOUT HCM

INFORMATION ABOUT HCM

This information on the Bidder has been prepared based on information provided in the Bidder's Statement dated 25 October 2016.

Established in 1970, HCM is a body incorporated in Japan and is headquartered in Tokyo and listed on the Tokyo Stock Exchange. HCM's majority shareholder is Hitachi, Ltd., also separately listed on the Tokyo Stock Exchange.

HCM is a manufacturer and supplier of construction and mining machinery (such as hydraulic excavators, rigid dump trucks and wheel loaders), as well as machinery consumables and parts.

HCM has over 20,000 staff globally, and has a number of subsidiaries, comprising 12 within Japan, and 31 overseas. HCM markets its products worldwide through a global network of corporate-owned and independent dealers.

HCM operates manufacturing facilities (either wholly owned or through joint ventures) in Japan, Brazil, Canada, China, Holland, Indonesia, Russia and the USA. It does not operate any manufacturing facilities in Australia.

7.1 FINANCIAL INFORMATION

In the year ended 31 March 2016, HCM's total external revenue was ¥758,331 million (A$9,479 million)[1].

As at 31 March 2016, HCM had total assets of ¥926,628 million (A$11,583 million)[1], total liabilities of ¥469,812 million (A$5,873 million)[1] and cash and cash equivalents of ¥79,110 million (A$989 million)[1].

[1] *Converted at an exchange rate of A$1 = ¥80.*

7.2 OWNERSHIP

The major shareholders (exceeding 5%) of HCM are as follows:

- Hitachi, Ltd. – 50.2%
- The Master Trust Bank of Japan, Ltd. (Trust account) – 6.0%

7.3 HCM IN AUSTRALIA

In Australia, HCM operates through its subsidiary, Hitachi Construction Machinery (Australia) Pty Ltd (**HCA**) and supplies a range of machinery for use in the construction, mining, forestry, material handling and recycling industries. HCA supplies machinery under the Hitachi, John Deere and Bell brands. Under the Hitachi brand, for example, HCA supplies machinery such as hydraulic excavators, rigid dump trucks and wheel loaders.

HCA also provides consumables or wear parts, and service support, in respect of HCA supplied machinery. These include ground engaging tools (such as bucket teeth, tooth adaptors, lip shrouds, side wall shrouds and wear bars), buckets and components (such as crawler shoes) for the undercarriage of machinery which move using tracks rather than wheels (such as excavators).

7.4 DIRECTORS

The current directors of HCM are:

Yutaka Saito, Director and Chairman of the HCM board;

Kazushige Okuhara, Outside Director;

Haruyuki Toyama, Outside Director;

Junko Hirakawa, Outside Director;

Osamu Okada, Director;

Tetsuo Katsurayama, Director;

Koji Sumioka, Director; and

Yuichi Tsujimoto, Director.

7.5 EXECUTIVE OFFICERS

The current Executive Officers of HCM are:

Yuichi Tsujimoto, Representative Executive Officer, President and Executive Officer;

Koji Sumioka, Representative Executive Officer, Executive Vice President and Executive Officer;

Yasushi Ochiai, Senior Vice President and Executive Officer;

Kenji Ota, Vice President and Executive Officer;

Toshihiro Oono, Vice President and Executive Officer;

Tetsuo Katsurayama, Vice President and Executive Officer;

Michifumi Tabuchi, Vice President and Executive Officer;

Hisashi Hasegawa, Vice President and Executive Officer;

Koutarou Hirano, Vice President and Executive Officer;

Takaharu Ikeda, Executive Officer;

Moriaki Kadoya, Executive Officer;

Toshikazu Sakurai, Executive Officer;

Hideshi Fukumoto, Executive Officer;

Tadashi Motoi, Executive Officer; and

Naoyoshi Yamada, Executive Officer.

7.6 INTENTIONS

HCM's intentions in relation to Bradken are set out in detail in Section 5 of the Bidder's Statement. In summary, HCM has indicated that, subject to completion of the strategic review of Bradken's operations, its present intention, on the basis of the facts and information concerning Bradken that are known to it, are to:

- not make any major changes to Bradken's existing business and strategy;
- maintain Bradken's existing management team;
- continue the employment of the present employees of Bradken; and
- provide a strong financial platform for Bradken in Australia and, with HCM's reputation and global resources, provide Bradken with the opportunities to expand its leading reputation and highly credentialed team into those markets over time.

HCM intends to proceed to compulsory acquisition if possible following the Offer and will also seek to delist Bradken if it holds more than 75% of the Bradken Shares (see Section 10.1.3 of this Target's Statement for details).

7.7 FUNDING

HCM has indicated in the Bidder's Statement that it will fund the Offer consideration through a combination of its existing cash deposits and new bank loan facilities, which in aggregate will exceed the maximum Offer consideration and HCM's transaction costs. Details of HCM's funding arrangements are set out in Section 6 of the Bidder's Statement.

8.0

KEY TERMS OF THE OFFER

8.1 SUMMARY OF THE OFFER

The consideration being offered by HCM is $3.25 cash per Bradken Share. The Offer extends to each Bradken Share on issue at the Register Date and all new Bradken Shares issued during the period from the Register Date to the end of the Offer Period (inclusive) due to the conversion of RPS and as a result of the exercise or vesting of Bradken Performance Rights, that are in existence as at the Register Date.

HCM is offering to acquire all of your Bradken Shares and accordingly, you may only accept the Offer in respect of all the Bradken Shares you hold at the time of your acceptance unless:

- you hold one or more parcels of Bradken Shares as trustee or nominee for, or otherwise on account of, another person, in which case you may accept as if a separate offer had been made in relation to each of those parcels, and any parcel you hold in your own right; or
- at any time during the Offer Period some of your Bradken Shares are subject to transfer restrictions imposed by Bradken (for example, because you hold some of your Bradken Shares under an employee incentive plan), in which case you may accept as if a separate offer had been made in relation to the balance of your Bradken Shares.

8.2 CONDITIONS TO THE OFFER

HCM's Offer is subject to a number of Conditions. If any of these Conditions are not fulfilled or waived by HCM before the end of the Offer Period (including as extended), then the Offer will lapse. Many of these Conditions are outside of Bradken's control and there is no certainty as to whether the Conditions will be fulfilled.

Set out below is an overview of the outstanding Conditions as at the date of this Target's Statement. The Conditions are set out in full in Appendix 2 to the Bidder's Statement.

8.2.1 Regulatory Approval Conditions

- (Australian foreign investment approval) before the end of the Offer Period the Australian Treasurer (or his delegate) provides notice that the Australian Government does not object to the Transaction.
- (US foreign investment approval) before the end of the Offer Period CFIUS determines not to conduct an investigation or if it conducts an investigation determines not to take action to prevent the completion of the Transaction.
- (Bradken's ITAR registration) Bradken files with the United States Department of State, Directorate of Defense Trade Controls the required 60 day notification of a potential change of control, and that period has been waived or expired by the end of the Offer Period without the United States Department of State, Directorate of Defense Trade Controls revoking Braden's ITAR registration or imposing new conditions on it.
- (Australian competition approval) before the end of the Offer Period the ACCC gives a notice that it does not object to or intend to intervene in the Transaction.
- (US competition approval) before the end of the Offer Period any approval, clearance or expiration of a waiting period required in relation to the Transaction under the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976 has occurred.
- (Canadian competition approval) before the end of the Offer Period the Transaction is cleared by the Canadian Competition Bureau under the Canadian Competition Act, R.S.C. 1985, c. C-34, as amended.
- (South African competition approval) before the end of the Offer Period the authorities under the Competition Act, Act 89 of 1998 (as amended) (Republic of South Africa) have approved the Transaction.

As at the date of this Target's Statement none of the Regulatory Approval Conditions have been satisfied. HCM has lodged its FIRB application for the Australian foreign investment approval Condition, filed its application to the ACCC for the Australian competition approval and submitted its filing in relation to the US competition approval. Bradken has also submitted a filing in relation to the US competition approval. See Sections 8.10 – 8.13 of the Bidder's Statement for details of the status of the Regulatory Approval Conditions.

8.2.2 Minimum acceptance and no Material Adverse Change Conditions

- (Minimum acceptance) before the end of the Offer Period, HCM has acquired a relevant interest in more than 50% of all Bradken Shares on a fully diluted basis (that is taking into account all new Bradken Shares which could be issued during the Offer Period as a result of conversion of the RPS or on vesting of Share Rights). HCM has agreed not to waive this Condition without Bradken's consent unless it has a relevant interest in at least 40% of Bradken Shares.
- (No Material Adverse Change) between 3 October 2016 and the end of the Offer Period no events, matters, changes or circumstances occur which (individually or when aggregated) have or could reasonably be expected to have, a material adverse effect on the business, financial or trading position, assets or liabilities, profitability or prospects of the Bradken Group (taken as a whole), including the effect of:
    - diminishing the value of the consolidated net assets of the Bradken Group as set out in the balance sheet for the financial year ended 30 June 2016 by $25 million or more; or
    - diminishing the EBIT of the Bradken Group by at least $7.5 million per year against the EBIT for the financial year ended 30 June 2016,

  other than matters that fall within a range of typical exceptions such as matters resulting from a change of control of Bradken under the Offer, matters disclosed to HCM prior to 3 October 2016 and events or circumstances effecting the mining services industry generally.

  As at the date of this Target's Statement Bradken is not aware of any Material Adverse Change having occurred.

8.2.3 Bradken conduct Conditions

- (No Prescribed Occurrences) between 3 October 2016 and the end of the Offer Period no Prescribed Occurrence occurs. For example, Bradken must not vary its capital structure (other than as a result of RPS or Share Rights in existence at the Register Date), dispose of a substantial part of its business or become insolvent.
- (No dividends) between 3 October 2016 and the end of the Offer Period Bradken does not pay any dividend or other distribution.
- (No Bradken Performance Rights) between 3 October 2016 and the end of the Offer Period Bradken does not issue or grant any further Bradken Performance Rights.
- (No material acquisitions, disposals, or other material events) between 3 October 2016 and the end of the Offer Period (other than as disclosed to HCM prior to 3 October) no member of the Bradken Group:
    - makes any material acquisitions or disposals;
    - enters into any material commitment or agreement other than in the ordinary course of business;
    - makes any changes to its constitution;
    - engages, or varies the contract of service with, any director or senior executive on a base salary of more than $200,000 per annum (or the approximate local currency equivalent);

- implements a scheme of arrangement or restructure;
- grants an encumbrance over a material part of its assets other than in the ordinary course of business; or
- incurs new indebtedness such that the Bradken Group's net financial indebtedness exceeds $450 million.

As at the date of this Target's Statement Bradken is not aware of any Prescribed Occurrences having occurred or any breach of the Condition relating to no material acquisitions, disposals, or other material events. Bradken has not since 3 October paid or declared any dividends or distributions to Bradken Shareholders or granted any Bradken Performance Rights.

8.3 NOTICE OF STATUS OF CONDITIONS

Paragraph 8 of Appendix 1 to the Bidder's Statement indicates that the Bidder will give a Notice of Status of Conditions to ASX and Bradken on 3 February 2017.

HCM is required to set out in the Notice of Status of Conditions:

- whether the Offer is free of any or all of the Conditions;
- whether, so far as HCM knows, any of the Conditions have been fulfilled on the date the notice is given; and
- HCM's voting power in Bradken.

If the Offer Period is extended before the time by which the Notice of Status of Conditions is to be given, the date for giving the Notice of Status of Conditions will be taken to be postponed for the same period. In the event of such an extension, HCM is required, as soon as practicable after the extension, to give a notice to ASX and Bradken that states the new date for the giving of the Notice of Status of Conditions.

If a Condition is fulfilled (so that the Offer becomes free of that Condition) during the Offer Period but before the date on which the Notice of Status of Conditions is required to be given, HCM must, as soon as practicable, give ASX and Bradken a notice that states that the particular Condition has been fulfilled.

8.4 OFFER PERIOD

Unless the Offer is extended or withdrawn, it is open for acceptance until 7.00pm (Sydney time) on 10 February 2017.

The circumstances in which the Bidder may extend or withdraw the Offer are set out below.

8.4.1 Extension of the Offer Period

Under the Bid Implementation Agreement HCM has agreed that it will not extend the Offer Period so that it exceeds 6 months without Bradken's prior written consent.

HCM has also agreed to extend the Offer Period if 8 days before the then current end of the Offer Period, each Regulatory Approval Condition has not been satisfied or waived. This applies until the End Date.

HCM may extend the Offer Period at any time before it gives the Notice of Status of Conditions (referred to in Section 8.3 of the Target's Statement above) while the Offer is subject to Conditions (subject to the agreement not to extend beyond 6 months without Bradken's consent).

Further, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

- HCM improves the Offer Price; or
- HCM's voting power in Bradken increases to more than 50%.

If either of these two events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

8.4.2 Withdrawal or lapse of the Offer

HCM may not withdraw the Offer if you have already accepted it (although the Conditions may not be fulfilled, and the Offer may lapse and any contract arising from acceptance of the Offer may become void if those Conditions are not waived). Before you accept the Offer, HCM may withdraw the Offer with the written consent of ASIC and subject to any conditions specified in such consent.

The Offer will lapse if the Conditions are not fulfilled or waived by the end of the Offer Period. In this case all contracts resulting from acceptance of the Offer and all acceptances that have not yet resulted in binding contracts will become void and you will be free to deal with your Bradken Shares as you choose.

8.5 EFFECT OF ACCEPTANCE

The effect of acceptance of the Offer is set out in paragraph 11 of Appendix 1 to the Bidder's Statement. You should read this Section in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your Bradken Shares and the representations and warranties which you give by accepting the Offer.

If you accept the Offer while it is conditional, some of the consequences include the following (subject to your ability to withdraw prior to the satisfaction or waiver of the FIRB Condition and the other limited rights to withdraw your acceptance (see in Section 8.6 of this Target's Statement)):

- you will not be able to sell your Bradken Shares on ASX or otherwise deal with them while the Offer remains open (this will also prevent you from accepting any Superior Proposal from another party that may emerge);
- you will not be able to control your Bradken Shares; and
- if and when all the Conditions are satisfied or waived and the contract resulting from your acceptance of the Offer becomes unconditional, you irrevocably appoint HCM (and any director, secretary or nominee of HCM) severally as your attorney to exercise all your powers and rights in relation to your Bradken Shares, including the right to vote at general meetings, until HCM is registered as the holder of your Bradken Shares.

8.6 WITHDRAWING YOUR ACCEPTANCE

Once accepted you will be able to revoke your acceptance at any time while the FIRB Condition has not been satisfied or waived (see paragraph 6 of Appendix 1 to the Bidder's Statement for details). After this

Condition is satisfied or waived you only have limited rights to withdraw your acceptance of the Offer. You may only withdraw your acceptance of the Offer if:

- any of the Conditions are not waived or fulfilled by the end of the Offer Period; or
- HCM varies the Offer in a way that postpones, for more than one month, the time when HCM needs to meet its payment obligations under the Offer.

8.7 CONSIDERATION

8.7.1 When you will receive payment

In the usual case, you will be sent your consideration before the earlier of:

- one month after the date of your acceptance or, if the Offer is subject to a Condition when you accept the HCM Offer, within one month after the HCM Offer becomes unconditional; and
- if the HCM Offer becomes unconditional, 21 days after the end of the Offer Period.

However, this is subject to you having provided all necessary transfer documents. Full details are set out in paragraph 13 of Appendix 1 to the Bidder's Statement.

8.7.2 Effect of an improvement in consideration

If HCM improves the consideration offered under its Offer, all Bradken Shareholders, whether or not they have accepted the Offer before the higher price is offered will be entitled to the increased Offer Price.

8.8 HOW TO ACCEPT THE OFFER

Instructions on how to accept the Offer are set out in paragraph 3 of Appendix 1 to the Bidder's Statement and on the acceptance form enclosed with the Bidder's Statement.

9.0

DIRECTORS' RECOMMENDATION AND INTERESTS

9.1 DETAILS OF DIRECTORS

The Directors of Bradken as at the date of this Target's Statement are:

Name	Position
Mr Phillip Arnall	Chairman
Mr Gregory Laurie	Non-Executive Director
Mr David Smith	Non-Executive Director
Mr Rupert Harrington	Non-Executive Director

9.2 DIRECTORS' RECOMMENDATION

In assessing HCM's Offer, your Directors have taken into account many considerations, including matters set out in the Bidder's Statement and in this Target's Statement.

Based on this assessment, and for the reasons set out in preceding Sections of this Target's Statement, each of your Directors recommends that Bradken Shareholders accept HCM's Offer in respect of all of their Shares subject to there being no Superior Proposal and the Independent Expert not changing its opinion that the Offer is fair and reasonable.

In considering whether you wish to follow your Directors' recommendation, you should:

- read the whole of this Target's Statement and the Bidder's Statement;
- consider your individual risk profile, investment strategy, tax position and financial circumstances; and
- obtain independent financial and taxation advice if you believe that is necessary.

You should also consider the following:

- if you hold Bradken Shares as a short term investment, and you decide that you wish to sell your Bradken Shares now, you should consider either accepting the Offer or selling your Bradken Shares on the ASX; and
- if you decide to retain your Bradken Shares, you should consider the risks associated with an investment in Bradken which operates in a competitive market. You can expect that the price of Bradken Shares will fluctuate, depending on Bradken's operating performance, issues that face the markets in which it operates, and changes in sentiment regarding its prospects. Further information on the risks associated with holding Bradken Shares is set out in Section 11.2 of this Target's Statement.

9.3 INTENTIONS OF THE DIRECTORS

Each Director intends to accept HCM's Offer in respect of the Bradken Shares held by them or on their behalf subject to there being no Superior Proposal.

9.4 DIRECTORS' INTERESTS IN BRADKEN SECURITIES

The only securities that Bradken has on issue are Bradken Shares and Bradken Performance Rights.

There are also 700,000 RPS issued by Bradken RPS Pty Limited ACN 606 577 084 (an Australian subsidiary of Bradken) which will convert into Bradken Shares..

The number of securities of Bradken in which each Director has a relevant interest as at the date of this Target's Statement is set out below:

Name of Director	Number of Bradken Shares	Number of Bradken Performance Rights
Mr Phillip Arnall	524,040	Nil
Mr Gregory Laurie	74,667	Nil
Mr David Smith	Nil	Nil
Mr Rupert Harrington	400,000	Nil

None of the Directors has an interest in any RPS.

9.5 DEALINGS BY DIRECTORS IN BRADKEN SECURITIES

No Director acquired or disposed of any Bradken securities within the period of four months immediately preceding the date of this Target's Statement.

9.6 DIRECTORS' INTERESTS IN HCM SECURITIES

No Director has a relevant interest in any marketable securities of HCM.

9.7 DEALINGS BY DIRECTORS' IN HCM SECURITIES

No Director acquired or disposed of any marketable securities in HCM within the period of four months immediately preceding the date of this Target's Statement.

9.8 CONDITIONAL AGREEMENTS

No Director is a party to any agreement or arrangement with any other person in connection with or conditional on the outcome of HCM's Offer.

9.9 CONTRACTS WITH HCM

None of the Directors has any interest in any contract with HCM, or any related body corporate of HCM, other than in their capacity as a Bradken Shareholder.

9.10 PAYMENTS AND BENEFITS FOR KEY MANAGEMENT PERSONNEL

No benefit (other than a benefit permitted by section 200F or 200G of the Corporations Act) will or may be given to a director or member of key management personnel as a result of the Offer:

- in connection with their retirement from office in Bradken or a related body corporate of Bradken; or
- in connection with the transfer of the whole or any part of the undertaking or property of Bradken.

10.0

OTHER IMPORTANT INFORMATION

10.1 CONSEQUENCES OF HCM ACQUIRING LESS THAN 90%

If HCM and its Associates acquire more than 50% (on a fully diluted basis) but less than 90% of all Bradken Shares under the Offer, they will have a majority shareholding in Bradken. Any Bradken Shareholders who did not accept the Offer will then be minority Shareholders.

This has a number of potential implications, including:

- HCM will be able to cast the majority of votes at a general meeting of Bradken allowing it to control the composition of Bradken's Board and senior management, and control Bradken's business decisions and directions;
- Bradken's current financing arrangements may be terminated and its material contracts adversely impacted, as described in Sections 10.1.1 and 10.1.2 of this Target's Statement; and
- the liquidity of Bradken Shares may be lower than at present, and, depending on how much of Bradken HCM acquires there is a risk that HCM may seek to have Bradken removed from the official list of ASX. See Section 10.1.3 of this Target's Statement for more details on ASX delisting.

See Section 11.1 for further risks associated with being a minority Shareholder of Bradken.

10.1.1 Impact on Bradken's financing arrangements

If HCM's Offer becomes unconditional and HCM obtains control of Bradken, change of control provisions in Bradken's financing agreements mean that Bradken may be required to repay significant amounts of debt. To ensure that Bradken is able to repay these amounts if required, HCM has entered into a $450 million unsecured Loan Agreement with Bradken which Bradken can draw down on to refinance existing debt if it is required to do so as a result of the Transaction and HCM obtaining control.

A summary of the terms of this Loan Agreement is set out in Section 12.2 of this Target's Statement.

Syndicated loan facility

Bradken has a syndicated loan facility in place with its bank lenders totalling A$268.4 million of which around $105.2 million has been drawn. If a change of control of Bradken occurs it will be a review event under the syndicated facility. If a review event occurs a lender under the facility agreement may, after a period of consultation with Bradken, require the outstanding amounts owed to it to be repaid and commitments cancelled.

The syndicated facility agreement uses the definition of control from section 50AA of the Corporations Act. A change of control will occur if the Offer becomes unconditional and HCM acquires more than 50% of Bradken Shares, although in theory control could pass at a lower percentage holding.

It is also a review event under the syndicated facility agreement if Bradken ceases to be listed on the ASX.

USPP

Bradken has US$200 million of US private placement notes on issue. The USPP agreement contains a change of control provision which requires that if a change of control of Bradken occurs Bradken must make an offer to the USPP note holders to repay the notes at par value with accrued interest. No make whole amount or other premium amount is payable if the USPP note holders elect to take up this offer of repayment.

The USPP agreement uses the same definition of control as the syndicated facility agreement.

Other finance agreements

Bradken also has other smaller finance agreements such as equipment finance leases with Wells Fargo which contain change of control provisions.

10.1.2 Impact on Bradken's material contracts

In the ordinary course of business, Bradken enters into customer contracts which contain provisions allowing the counterparty to terminate for any reason by providing a period of notice. A number of Bradken's customer and supplier contracts also contain change of control provisions. Many of Bradken's customer contracts are framework agreements which provide for customers to place orders on pre-agreed terms rather than long term fixed quantity purchasing agreements.

In the context of the Offer, there is a risk that counterparties to such contracts may seek to terminate their arrangements or cease supplying to or ordering from Bradken, for instance if they do not want to contract with HCM going forward. Bradken currently has some customers who are competitors of HCM and may choose not to purchase from HCM. These customers currently account for only a small part of Bradken's revenue.

The Bradken Group owns many of its key facilities. However, it also leases some facilities and a range of offices and other premises. The lease for the Bradken Group's facility in Bassendean, Perth contains a change of control provision which will require Bradken to seek consent from the landlord if a change of control occurs and satisfy the landlord that HCM is financially sound and capable of performing the obligations under the lease. There may also be change of control provisions in some of the Bradken Group's less significant leases.

As at 25 October 2016 Bradken has not received written notice from a counterparty to any material contract to the operation of Bradken as a whole seeking to terminate a contract as a result of the Offer.

10.1.3 Delisting

HCM has indicated that if it acquires more than 50% of Bradken Shares but less than 90% it will consider whether it is appropriate to maintain Bradken's ASX listing, and, if it acquires a relevant interest in at least 75% of Bradken Shares it intends to cause Bradken to apply to be removed from the official list of the ASX. The ASX is not required to act on an entity's request for removal from the official list and may require conditions to be satisfied before it does so.

ASX guidance indicates that the ASX is likely to approve an application for Bradken to be removed from the official list of ASX without the need for shareholder approval if:

- at the end of the Offer Period, HCM and its Associates own or control at least 75% of the Bradken Shares;
- the Offer has remained open for at least two weeks after HCM and its Associates attained ownership or control of at least 75% of the Bradken Shares;
- the number of Bradken Shareholders (other than HCM and its Associates) having holdings with a value of at least $500 is fewer than 150; and
- Bradken has applied for removal no later than one month after the close of the Offer Period.

If these conditions are not met, and the entity has been the subject of a takeover bid in the preceding 12 months, ASX is likely to require shareholder approval of a proposed removal – with the bidder and its associates excluded from voting. Where more than 12 months have elapsed since the close of the takeover bid, ASX guidance indicates that it will generally permit the bidder and its associates to vote on a resolution approving an entity's removal from the official list of the ASX.

10.2 CONSEQUENCES OF HCM ACQUIRING 90% OR MORE

HCM has stated in Section 5.3 of the Bidder's Statement that if it satisfies the required thresholds it will compulsorily acquire any outstanding Bradken Shares and arrange for Bradken to be removed from the official list of the ASX.

10.2.1 Following Offer

Under Part 6A.1 of the Corporations Act, HCM will be able to compulsorily acquire any outstanding Bradken Shares for which it has not received acceptances on the same terms as the Offer, if during, or at the end of, the Offer Period, HCM and its Associates:

- have a relevant interest in at least 90% of all Bradken Shares; and
- have acquired at least 75% of all Bradken Shares for which it made an Offer.

If these thresholds are met, HCM will have until one month from the end of the Offer Period to give compulsory acquisition notices to Bradken Shareholders who have not accepted the Offer.

Bradken Shareholders would have certain rights under the Corporations Act to challenge a compulsory acquisition.

10.2.2 Future compulsory acquisition

If HCM does not become entitled to compulsorily acquire Bradken Shares in accordance with the above procedures, it may nevertheless later become entitled to exercise general compulsory acquisition rights if after the end of the Offer Period, HCM either alone or with a related body corporate, comes to hold full beneficial interests in at least 90% of the Bradken Shares.

Compulsory acquisition notices must be lodged within six months after HCM becomes a 90% holder. The price for compulsory acquisition under this procedure would have to be considered in a report by an independent expert.

Bradken Shareholders would have certain rights under the Corporations Act to challenge a compulsory acquisition through this procedure. If people who hold at least 10% of the Bradken Shares that are proposed to be the subject of the compulsory acquisition object HCM must satisfy the court that the terms of the offer represent 'fair value' for the Bradken Shares.

11.0

RISK FACTORS

11.1 MINORITY SHAREHOLDER RISK

11.1.1 Financing

As set out in Section 10.1 of this Target's Statement if the Offer results in a change of control of Bradken, Bradken's lenders under its syndicated facility agreement will be entitled to cancel their commitments and require repayment of amounts owed, and the USPP note holders will be entitled to require Bradken to repay those notes. While HCM has agreed to provide Bradken with a loan facility to allow it to meet any repayment obligations the Loan Agreement has a maturity date of 180 days from first draw down. This is significantly shorter than the maturity dates for Bradken's current financing facilities.

The USPP notes comprise a 7 year tranche (becoming payable in November 2018), a 10 year tranche (becoming payable in November 2021) and a 12 year tranche (becoming payable in November 2023). The syndicated facility comprises 4 and 5 year revolving bullet term loan facilities becoming payable in July 2018 and July 2019 respectively.

If Bradken loses its current financing arrangements and draws on the Loan Agreement it will be required to arrange refinancing of this debt within 180 days. There is a risk that the terms of any replacement financing arrangements entered into by Bradken will be less favourable to Bradken than its current financing arrangements.

11.1.2 Material contracts

Bradken will work with HCM during the Offer Period to obtain consent to the potential change of control from the counterparties to material contracts with change of control provisions.

11.1.3 General risks

As noted in Section 10.1 of this Target's Statement if the Offer becomes unconditional and HCM acquires more than 50% but less than 90% of the Bradken Shares, Bradken Shareholders that have not accepted the Offer will become minority Shareholders in Bradken.

This has risks such as:

- the price of Bradken Shares may fall following the end of the Offer Period;
- the liquidity of Bradken Shares may be lower than at present;
- there may be limited institutional support for Bradken Shares and fewer analysts providing coverage for Bradken Shares;
- the new Bradken Board may not declare any dividends even if financial performance improves;
- HCM may seek to have Bradken removed from the official list of the ASX. If this occurs, Bradken Shares will not be able to be bought or sold on the ASX; and
- if HCM acquires a majority of the Bradken Shares, your Directors believe that it is unlikely that a subsequent takeover bid for Bradken will emerge at a later date from a third party.

11.2 RISKS ASSOCIATED WITH AN INVESTMENT IN BRADKEN

If you do not accept the Offer and retain your Bradken Shares (subject to the possibility of compulsory acquisition described in Section 10.2 of this Target's Statement) you will continue to enjoy the rewards, and be subject to the risks, of being a Bradken Shareholder. This includes the general and specific risks set out below. These risks will also continue to be relevant to all Bradken Shareholders if the Offer does not proceed.

The risks set out below are not listed in order of importance and do not constitute an exhaustive list of all the risks involved with retaining an investment in Bradken. Additional risks and uncertainties may also have an adverse effect on Bradken's business and the value of Bradken Shares.

11.2.1 Specific risks

- (Client demand and the resources industry) many of Bradken's clients are involved in the mining, energy and resources industries. These industries can be cyclical and are affected by commodity markets. The cyclical downturns in those industries in Australia, North America and elsewhere overseas have already adversely impacted and may continue to adversely impact client demand for Bradken's products and thus adversely impact Bradken's financial performance. In addition, consolidation in the industries of Bradken's customers or suppliers may reduce Bradken's bargaining power and lead to Bradken transacting at less advantageous financial terms with those customers or suppliers.
- (Key inputs) Bradken's manufacturing operations are dependent on quality inputs and critical equipment. If Bradken is unable to secure adequate supplies of the required inputs at appropriate prices or if the quality of the available supplies is not acceptable, Bradken's financial performance may be adversely impacted.
- (Competition) Bradken operates in a competitive environment. An increase in competition or a change in the behaviour of competitors could result in price reductions, reduced operating margins and/or loss of market share.
- (Product substitution and new product costs) continued product improvement by competitors may result in Bradken's customers using substitutes in place of some of Bradken's products. Bradken may not always be able to match its competitors in both functionality and price. Management may underestimate production costs in manufacturing a new product. The realised margin may be either less than expected or Bradken may incur a loss on the manufacture and sale of the product.
- (Key customers) Bradken relies on various key customer and supplier relationships, and the loss or impairment of any of these relationships could have a material adverse effect on Bradken's operations, financial condition and prospects. These relationships may be affected if HCM acquires control of Bradken.
- (Restructuring initiatives and costs) Bradken is continuing to pursue restructuring initiatives including reducing the number of business units, closing or selling some facilities and introducing new global support functions. Costs incurred in such restructuring may have a material impact on the financial position of Bradken in the short term. The changes are designed to reduce costs, improve efficiency and position Bradken for future growth. These restructuring initiatives will take time to fully implement and carry execution risks.
- (Debt) while Bradken has been paying down its net debt and improving its gearing position, Bradken continues to have significant debt obligations. Bradken has various covenants in relation to its financing arrangements, including interest cover and gearing. Factors such as worsening market conditions and increased competition could lead to a breach of these covenants. In such an event, Bradken's lenders may require their loans to be repaid immediately.

Bradken is also exposed to risks relating to the refinancing of existing financing arrangements as they mature in coming years. Bradken may experience difficulty on refinancing its debts, may not be able to refinance it debts or the terms on which they are refinanced may be less favourable than at present.

In particular Bradken has bank guarantee facilities drawn to around $70 million with a maturity date of 31 October 2016. There is a risk that Bradken will not be able to have these facilities extended or refinanced and will be required to prepay these facilities by way of cash cover. There is also a risk that any new bank guarantee facilities will be on terms less favourable than current arrangements.

- (Product risk) the products Bradken manufactures and sells are subject to sales agreements with customers and must meet certain specifications. Despite controls and measures being in place, products and services may fall outside these specifications and Bradken is exposed to warranty and liability risks relating to defects in its products. Where products are defective or fail to meet the required specifications, a customer may assert claims against Bradken.
- (Health, safety and industrial relations) a broad range of situations, conditions or actions could lead to a workplace incident resulting in a fatality and / or serious injury or a failure to comply with the necessary health, safety and environmental regulatory requirements. This could result in reputational damage, fines, penalties and compensation for damages as well as poor staff morale and industrial action.
- (Key personnel) while Bradken has retention systems in place (including the Bradken Performance Rights) to retain key employees, loss of a number of key personnel or the inability to recruit or retain suitable personnel may adversely affect Bradken's business.
- (Foreign operations) Bradken has global operations. There are certain risks inherent in doing business internationally, such as unexpected changes in regulatory requirements, tariffs, customs, duties and other trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, political instability, and the threat of bribery and corruption, expropriation, nationalisation and war.
- (Operational risk) Bradken manufactures products in a number of different locations and a major disruption to one or more of these operations would have an adverse impact on Bradken's profitability. Operational risks which could lead to a disruption include equipment failures, IT system failures, external services failure, industrial disputes and natural disasters. Bradken endeavours to take appropriate action to mitigate these operational risks.
- (Environmental regulation) Bradken and the manufacturing industry in which it operates are subject to a broad range of environmental laws, regulations and standards. This results in significant compliance costs and could expose Bradken to legal liabilities or place limitations on the operation of its facilities.
- (Litigation) Bradken is involved in various claims and lawsuits incidental to the ordinary course of business including worker's compensation claims and damages and commercial disputes relating to its products and services. Legal and other disputes arising from time to time may impact Bradken earnings.

11.2.2 General market risks

- (Markets) the market price of Bradken Shares will fluctuate due to various factors, many of which are not specific to Bradken, including Australian and international general economic conditions, inflation rates, interest rates, changes in government, fiscal, monetary and regulatory policies, commodity prices, global geo-political events and hostilities and acts of terrorism and investor perceptions. In the future, these factors may cause Bradken Shares to trade at a lower price.
- (Foreign exchange and interest rates) Bradken operates internationally and faces foreign exchange rate risks associated with foreign currency-denominated debt, input costs and offshore earnings. Increases in interest rates may impact on Bradken's cost of funding.
- (Economic conditions) changes in the domestic and global economic conditions and outlook may impact Bradken's earnings. A downturn in domestic or global economic conditions could adversely affect financial performance.
- (Regulatory and taxation changes) Bradken may be affected by changes in government policies or regulatory regimes (in Australia and overseas), changes in accounting or financial reporting standards and changes in taxation laws (or their interpretation).
- (Insurance) Bradken enters into contracts of insurance that provide a degree of protection for its assets, operations and people. However, it is not always possible to obtain insurance against all risks and Bradken may decide not to insure against certain risks as a result of high premiums or other reasons. The occurrence of an event that is not fully covered, or covered at all, by insurance, could have a materially adverse effect on Bradken's financial position.

12.0

ADDITIONAL INFORMATION

12.1 BID IMPLEMENTATION AGREEMENT

12.1.1 The agreement

Bradken and HCM entered into a Bid Implementation Agreement in relation to the Offer on 3 October 2016. A copy of the Bid Implementation Agreement was released to the ASX on the same day. A summary of certain key terms of the Bid Implementation Agreement is set out below.

On 25 October 2016, Bradken and HCM entered into an amending deed to the Bid Implementation Agreement to allow HCM to put forward a longer initial Offer Period than originally included in the Bid Implementation Agreement.

12.1.2 Exclusivity arrangements

The Bid Implementation Agreement contains certain exclusivity arrangements in favour of HCM. In summary, during the Exclusivity Period:

- (No shop) Bradken, its Directors, officers, employees and representatives (each a Relevant Person) must not directly or indirectly solicit or invite Competing Proposals;
- (No talk) subject to a fiduciary carve out, Bradken and the Relevant People must not participate in any discussions or negotiations with a third party in relation to a Competing Proposal;
- (No due diligence) subject to a fiduciary carve out, Bradken and the Relevant People must not provide any non-public information to a third party in connection with a Competing Proposal; and
- (Fiduciary carve-out) the no talk and no due diligence restrictions do not apply where the Bradken Board acting in good faith determines (after taking advice from its external advisers) that a Competing Proposal is or may reasonably be expected to lead to a Superior Proposal and failing to respond to it would be reasonably likely to constitute a breach of the fiduciary or statutory duties owed by the Bradken Board.

In addition during the Exclusivity Period:

- (Notification of approaches) Bradken must promptly inform HCM if it is approached in relation to a Competing Proposal and provide the material details of the approach (other than the identity of the third party making the approach). Bradken's obligation to do this does not apply where the Bradken Board acting in good faith determines (after taking advice from its external advisers) that complying with this obligation would constitute or would be likely to constitute a breach of the fiduciary or statutory duties owed by the Bradken Board.
- (Matching right) If Bradken receives a Superior Proposal during the Exclusivity Period and the Board proposes to change its recommendation or enter into any agreement with the rival acquirer to implement the Competing Proposal it must first give HCM 5 Business Days to match that Superior Proposal.

Under the Bid Implementation Agreement, Bradken must also cease any existing discussions in relation to any Competing Proposals and request the return of all confidential information provided to those third parties.

12.1.3 Break Fee

Under the Bid Implementation Agreement Bradken has agreed to pay HCM a break fee of $6.885 million in the following circumstances:

- a Competing Proposal is publicly announced before the End Date and Bradken completes the Competing Proposal within 12 months of the End Date under the Bid Implementation Agreement;
- a majority of the Board withdraws its recommendation for the Offer subject to certain exceptions; or
- Bradken materially breaches its warranties or other material obligation under the Bid Implementation Agreement or a Prescribed Occurrence occurs.

12.1.4 Warranties and conduct of business

- (Warranties) Bradken gives a number of warranties to HCM under the Bid Implementation Agreement including in relation to its capital structure; no regulatory actions; the due diligence information provided; its 30 June 2016 financial statements and material customers.
- HCM gives Bradken warranties in relation to having sufficient cash or bank commitments to fund the consideration under the Offer and its obligations under the Loan Agreement.
- (Conduct of business) Bradken has agreed that it will, and will procure that each of its subsidiaries will, from 3 October 2016 until the end of the Offer Period:
    - conduct their business in the usual and ordinary course;
    - not take any action that will or is likely to breach or prevent satisfaction of the Conditions;
    - not alter its capital structure (other than as required on the vesting of Share Rights or conversion of RPS);
    - not announce or pay any dividend or distribution; and
    - make all reasonable efforts to maintain its relationships with customers, suppliers, government agencies and others with whom it has business dealings.

However, the conduct of business provisions do not restrict any member of the Bradken Group from acting in a manner which:

- the Directors consider in good faith and acting reasonably, is required by their duties as directors;
- was fairly disclosed to HCM prior to 3 October 2016;
- is consented to by HCM (that consent not to be unreasonably withheld or delayed);
- is required or permitted by the Bid Implementation Agreement; or
- is required by law or by an order of a court or a government agency or to respond to an emergency.

12.1.5 Board Transition

As soon as practicable after HCM acquires more than 50% of the Bradken Shares and the Offer becomes unconditional, Bradken must use its best endeavours to procure the appointment of such persons as HCM nominates to the Board and the resignation of the existing Bradken Directors other than 2 existing independent directors. HCM agrees that 2 existing independent directors will remain on the Board until at least the end of the Offer Period.

Further, until HCM becomes entitled to and starts the process of compulsory acquisition of remaining Bradken Shares that it does not already own, HCM has agreed that it will ensure:

- its nominees to the Board do not participate in decisions regarding the HCM Takeover Bid;
- that there are a minimum of 2 independent directors on the Board (although they may be new independent directors); and
- that Bradken has in place and complies with a related party and conflicts of interest policy.

12.2 LOAN AGREEMENT

12.2.1 The agreement

Bradken and HCM entered into a Loan Agreement on 3 October 2016. A summary of the key terms of the Loan Agreement is set out below.

12.2.2 Key terms

- (Amount) the facility limit is $450 million. This can be drawn in Australian dollars or US dollars.
- (Purpose) the loan facility may only be used to refinance existing financial indebtedness of a member of the Bradken Group which it is required to repay or discharge as a result of the Transaction and HCM obtaining control of Bradken.
- (Interest) the interest rate is 6.00% per annum for advances in Australian dollars and 4.00% per annum for advances in US dollars.
- (Term) Bradken must repay all amounts drawn on the earlier of:
  - a person other than HCM and its controlled entities acquiring 50% or more of Bradken's Shares; and
  - 180 days after the first advance.

12.3 BRADKEN'S CAPITAL STRUCTURE

As at the date of this Target's Statement there are:

- 171,027,249 Bradken Shares on issue;
- 2,971,989 Share Rights and 2,849,523 Cash Rights; and
- 700,000 RPS which are to be converted into 35,000,000 Bradken Shares.

On 12 October 2016 Bradken announced to the ASX that it had received conversion notices from CHAMP Private Equity investors and Sigdo Koppers requiring that all of their RPS be converted into Bradken Shares. Bradken will issue 35 million Bradken Shares to these investors and cause the cancellation all RPS in early to mid November 2016.

All Bradken Shares carry one vote per Share and carry the right to dividends.

The Share Rights and Cash Rights do not carry any voting or dividend rights. On vesting the holders of Share Rights receive one Bradken Share per vested Share Right. On vesting of the Cash Rights holders receive a payment equal to the number of vested Cash Rights multiplied by the value of Bradken Shares at the time of vesting (based on the VWAP over the previous 5 business days).

12.4 EFFECT ON RPS

The Offer does not extend to RPS but will extend to all Bradken Shares issued during the Offer Period as a result of conversion of RPS in existence as at the Register Date.

12.5 EFFECT ON BRADKEN PERFORMANCE RIGHTS

In the ordinary course the Bradken Performance Rights vest 3 years after issue, subject to Bradken's performance against specified performance hurdles. However, the Bradken Share Rights Plan rules and Bradken Cash Rights Plan rules allow for early vesting in the event of a change of control and the Board has determined that all outstanding Bradken Performance Rights will vest if the Offer becomes unconditional and HCM acquires more than 50% of the Bradken Shares.

The Offer will extend to the Bradken Shares issued during the period from the Register Date to the end of the Offer Period (inclusive) due to the vesting and exercise of Bradken Performance Rights in existence at the Register Date.

Under the Bid Implementation Agreement HCM has agreed that Bradken will be permitted to pay out the Cash Rights based on the Offer Price.

12.6 PUBLICLY AVAILABLE INFORMATION ABOUT BRADKEN

Bradken is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. These obligations require Bradken to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information.

ASX maintains files containing announcements released by all ASX listed companies. Bradken's recent announcements are available from the ASX website at www.asx.com.au.

Bradken's recent ASX announcements as well as copies of its recent half-yearly and annual financial results are available from the Bradken website at www.bradken.com.

12.7 CONSENTS

- Grant Thornton has given, and not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement in the form and context in which it is named as the Independent Expert and to the inclusion of the Independent Expert's Report, as set out in Annexure A to this Target's Statement. Grant Thornton has not authorised or caused the issue or preparation of this Target's Statement and, to the maximum extent permitted by law, expressly disclaims, and takes no responsibility for, any part of this Target's Statement other than the references specified above.
- Highbury Partnership has given, and not withdrawn before the lodgement of the Target's Statement with ASIC, its written consent to be named in this Target's Statement as Bradken's financial adviser in the form and context in which it is named. Highbury Partnership has not caused or authorised the issue of this Target's Statement, does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based and takes no responsibility for any part of this Target's Statement other than any reference to its name.

- Allen & Overy has given, and not withdrawn before the lodgement of the Target's Statement with ASIC, its written consent to be named in this Target's Statement as Bradken's legal adviser in the form and context in which it is named. Allen & Overy has not caused or authorised the issue of this Target's Statement, does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based and takes no responsibility for any part of this Target's Statement other than any reference to its name.
- Link Market Services Limited has given, and not withdrawn before the lodgement of the Target's Statement with ASIC, its written consent to be named in this Target's Statement as Bradken's Share registry in the form and context in which it is named. Link Market Services Limited has not caused or authorised the issue of this Target's Statement, does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based and takes no responsibility for any part of this Target's Statement other than any reference to its name.
- Ernst & Young has given, and not withdrawn before the lodgement of the Target's Statement with ASIC, its written consent to be named in this Target's Statement as Bradken's auditor in the form and context in which it is named. Ernst & Young has not caused or authorised the issue of this Target's Statement, does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based and takes no responsibility for any part of this Target's Statement other than any reference to its name.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements which are made, or based on statements made, in documents lodged by HCM with ASIC or given to ASX or another prescribed financial market (in compliance with the listing rules of the relevant financial market). Pursuant to the Class Order, the consent of HCM is not required for the inclusion of such statements in this Target's Statement. Any Bradken Shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting the Bradken Shareholder Information Line on 1300 131 543 (for calls made from within Australia) or +61 1300 131 543 (for calls from outside Australia) and will be available Monday to Friday between 9.00am and 5.00pm (Sydney time). Any telephone calls to these numbers may be taped, recorded, indexed and stored.

As permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement may include or be accompanied by certain statements:

- fairly representing what purports to be a statement by an official person , that are a correct and fair copy of, or extract from, what purports to be a public official document, or
- that are a correct and fair copy of, or extract from, a statement which has already been published in a book, journal or comparable publication.

In addition, as permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement contains Share price trading data sourced from Capital IQ without its consent.

13.0

TAXATION INFORMATION

TAXATION INFORMATION

The information in this Section is a general summary of the Australian income tax (including CGT), stamp duty and GST consequences for Bradken Shareholders who accept HCM's Offer. The Australian taxation consequences for Bradken Shareholders will depend on their individual circumstances. Bradken Shareholders should make their own enquiries and seek independent professional advice on their circumstances.

This information is relevant only to those Bradken Shareholders who hold their Bradken Shares on capital account. This information relates only to Bradken Shares, and not to other rights held over Bradken Shares.

Stamp duty and GST information is also set out in this Section of the Target's Statement.

This Section does not consider the Australian income tax consequences for Bradken Shareholders:

- who hold their Bradken Shares as trading stock or as revenue assets;
- who acquired their Bradken Shares through an employee incentive scheme;
- that may be subject to special tax rules, such as financial institutions, insurance companies, partnerships (except where expressly stated), tax exempt organisations, trusts (except where expressly stated), superannuation funds (except where expressly stated) or temporary residents; or
- who are subject to the taxation of financial arrangements rules in relation to gains and losses on their Bradken Shares.

The information in this Section is based on taxation law and practice in effect as at the date of this Target's Statement. It is not intended to be an authoritative or complete statement or analysis of the taxation laws applicable to the particular circumstances of every Bradken Shareholder.

Bradken Shareholders should seek independent professional advice regarding the taxation consequences of accepting HCM's Offer or otherwise disposing of their Bradken Shares taking into account their own particular circumstances.

13.1 TAXATION CONSEQUENCES OF DISPOSAL OF BRADKEN SHARES BY AUSTRALIAN RESIDENTS

13.1.1 General CGT considerations

Acceptance of HCM's Offer by a Bradken Shareholder will result in the disposal of Bradken Shares by that Bradken Shareholder.

This disposal will constitute a CGT event for the Bradken Shareholder. Where a Bradken Shareholder accepts HCM's Offer, the date of disposal for CGT purposes will be either:

- the time at which the Bradken Shareholder accepted HCM's Offer; or
- if the Bradken Shareholder does not accept HCM's Offer and the Bradken Shares are compulsorily acquired by HCM, the time at which the Bradken Shares are acquired.

If HCM's Offer does not become unconditional, then no CGT event will occur.

The disposal of Bradken Shares may result in a capital gain or capital loss for the Bradken Shareholder. A capital gain will arise if the Bradken Shareholder's capital proceeds from the disposal exceed the cost base of their Bradken Shares. A capital loss will arise if the Bradken Shareholder's capital proceeds from the disposal are less than the reduced cost base of their Bradken Shares.

13.1.2 Capital proceeds

The capital proceeds received by a Bradken Shareholder who accepts HCM's Offer (or has their Bradken Shares otherwise acquired under HCM's Offer) will be equal to the amount of cash received by that Bradken Shareholder in respect of the disposal of their Bradken Shares.

13.1.3 Cost base and reduced cost base

The cost base or reduced cost base of Bradken Shares should include the money that a Bradken Shareholder has paid or was required to pay to acquire its Bradken Shares, plus certain other amounts associated with the acquisition of the Bradken Shares and disposal to HCM, such as brokerage or stamp duty.

13.1.4 Net capital gain

Subject to the CGT reductions discussed below, capital gains and capital losses of a taxpayer in a year of income are aggregated to determine whether the taxpayer has a net capital gain or loss for that period. Any net capital gain, after applying carried forward capital losses, is included in the taxpayer's assessable income. It is subject to income tax after deductions, including, subject to satisfying any applicable loss recoupment rules, deductions for any tax losses.

13.1.5 Capital losses

Capital losses may only be offset against capital gains realised in the same income year. A net capital loss for an income year can, subject to satisfaction of the loss recoupment rules, where applicable, be carried forward to be offset against capital gains in future income years.

13.1.6 CGT discount

Bradken Shareholders who derive a capital gain as a result of accepting HCM's Offer may be eligible for the CGT discount.

Broadly the CGT discount can reduce an eligible taxpayer's capital gain if the taxpayer has held the relevant asset (in this case, Bradken Shares) for at least 12 months prior to disposal. The CGT discount applies after an eligible taxpayer has applied any available capital losses against their capital gains for the income year.

The size and availability of the applicable CGT discount is determined by the legal status of the Bradken Shareholder:

- individuals are subject to CGT on 50% of any capital gain;
- complying superannuation entities are subject to CGT on two thirds of any capital gain;
- companies (other than in a capacity as trustee) are not entitled to the CGT discount;
- trustee: where beneficiaries are presently entitled to the income of the trust, the net capital gain for the trust is determined with the benefit of the 50% CGT discount if the Bradken Shares have been held for at least 12 months (refer above). On distribution by the trustee, the net capital gain would be grossed up to 100% in the hands of beneficiaries;
- beneficiaries of trusts that are individuals or complying superannuation entities should be entitled to the CGT discount (at 50% for individuals and 33.3% for superannuation funds) in respect of the disposal of the Bradken Shares by the trust. The beneficiaries will include the grossed up capital gain in their assessable income, which may be offset by any current year or carry forward losses of the beneficiary (subject to satisfying the relevant loss recoupment tests, where applicable) prior to the application of any CGT discount available;

- beneficiaries of trusts that are companies are not entitled to the CGT discount. They will include the grossed up capital gain in their assessable income, which may be offset by any current year or carry forward losses of the company, subject to satisfying the relevant loss recoupment tests; and
- where no beneficiaries are presently entitled to the net income of a trust that is a Bradken Shareholder, the full amount of any capital gain in respect of the disposal of Bradken Shares will be included in the assessable income of the trustee.

Bradken Shareholders that are trusts should obtain specific tax advice as to whether they are entitled to obtain the benefit of the CGT discount and in relation to the tax consequences of distributions attributable to discounted capital gains.

13.2 TAXATION CONSEQUENCES OF DISPOSAL OF BRADKEN SHARES BY NON-RESIDENTS

13.2.1 CGT

Generally a Bradken Shareholder who is not a resident for Australian income tax purposes and who holds their Bradken Shares on capital account will not be subject to CGT on the disposal of their Bradken Shares unless:

- both of the following requirements are satisfied:
  - the non-resident Bradken Shareholder (and any associates) hold, or have the option or right to acquire, 10% or more of the issued Shares in Bradken or the non-resident Bradken Shareholder (and any associates) previously held 10% or more of the issued Shares in Bradken for a continuous 12 month period during the 2 years prior to the disposal of the Bradken Shares under the Offer; and
  - the total market value of Bradken's Australian real property assets (including any mining, quarrying or prospecting rights for minerals, petroleum or quarry minerals which are situated in Australia) is more than 50% of the total market value of Bradken's assets;

or

- they were used at any time by the non-resident Bradken Shareholder in carrying on a business through a permanent establishment in Australia.

Non-resident Bradken Shareholders who are subject to CGT on disposal of their Bradken Shares will not be entitled to the CGT discount in relation to that portion of the capital gain which arises after 8 May 2012.

Bradken Shareholders who are not resident in Australia for tax purposes should also take into account the tax consequences under the laws of their country of residence, as well as under Australian law, on the disposal of their Bradken Shares under HCM's Offer.

13.2.2 Withholding

Due to changes in Australian tax law which apply to transactions entered into on or after 1 July 2016, HCM has an obligation, subject to certain exceptions, to withhold and pay an amount equal to 10% of the Offer consideration to the Australian Taxation Office if the shares acquired from a foreign resident Bradken Shareholder qualify as indirect Australian real property interests. HCM has indicated in the Bidder's Statement that it is of the opinion that the Bradken Shares are not indirect Australian real property interests. Accordingly, HCM does not consider that it has an obligation to make the above payment to the Australian Taxation Office and so will not withhold in accordance with these tax law changes any amount from the Offer Consideration payable to any Bradken Shareholder who accepts the Offer.

13.3 STAMP DUTY

No Australian stamp duty should be payable by Bradken Shareholders in respect of the disposal of their Bradken Shares to HCM.

13.4 GST

No GST should be payable by Bradken Shareholders in respect of their acceptance of HCM's Offer.

Bradken Shareholders may be charged GST on third party costs (such as adviser fees) that they incur and which relate to their participation in HCM's Offer. Bradken Shareholders may be entitled to input tax credits for such costs, but should seek independent advice in relation to their specific circumstances.

14.0 GLOSSARY AND INTERPRETATION

The following definitions apply in this Target's Statement unless the context requires otherwise.

ACCC means the Australian Competition and Consumer Commission.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to that term in Division 2 of Part 1.2 of the Corporations Act as if section 12(1) of the Corporations Act included a reference to this Target's Statement.

ASX means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as 'ASX' operated by it.

ASX Settlement means ASX Settlement Pty Limited (ABN 49 008 504 532).

ASX Settlement Operating Rules means the operating rules of ASX Settlement or of any relevant organisation which is an alternative or successor to or replacement of, ASX Settlement or of any applicable clearing and settlement facility licensee.

Bid Implementation Agreement means the bid implementation agreement entered into by Bradken and HCM on 3 October 2016 as amended on 25 of October 2016.

Bidder or HCM means Hitachi Construction Machinery Co., Ltd.

Bidder's Statement means the statement of HCM under Part 6.5 of the Corporations Act relating to the Offer dated 25 October 2016.

Bradken or Company means Bradken Limited (ABN 33 108 693 009).

Bradken Board or Board means the board of directors of Bradken from time to time.

Bradken Cash Rights Plan means the 2016 Incentive Rights Plan approved by the Bradken Board.

Bradken Constitution means the Constitution of Bradken as amended from time to time.

Bradken Director or Director means a director of Bradken.

Bradken Group means Bradken and each of its subsidiaries.

Bradken Performance Rights means the Share Rights and the Cash Rights.

Bradken Share or Share means a fully paid ordinary Share in Bradken.

Bradken Share Rights Plans means the 2014 and 2015 employee share plans approved by the Bradken Board.

Bradken Shareholder or Shareholder means a person who is registered as the holder of a Bradken Share in the Bradken register of members.

Business Day means a day which is not a Saturday, Sunday, bank holiday or a public holiday in Sydney, Australia or Tokyo, Japan.

Cash Rights means the rights to receive remuneration linked to the market price of Bradken Shares granted by Bradken pursuant to the Bradken Cash Rights Plan.

CGT means capital gains tax.

CHESS means the Clearing House Electronic Subregister System, which provides for electronic security transfer in Australia.

CHESS Holding means a holding of Bradken Shares on the CHESS subregister of Bradken.

Competing Proposal means a proposed transaction or arrangement pursuant to which a third party, would, if the proposed transaction or arrangement is entered into or completed substantially in accordance with its terms:

a) directly or indirectly acquire or have a right to acquire: (i) a relevant interest in 20% or more of Bradken Shares (or securities that may convert into or be exchanged for such a relevant interest) or otherwise acquire control of Bradken; or (ii) an economic interest in all or a material part of the business of the Bradken Group;

b) enter into, buy, dispose of, terminate or otherwise deal with any cash settled equity swap or other synthetic, economic or derivative transaction connected with or relating to 20% or more of Bradken Shares; or

c) otherwise acquire or merge with Bradken whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction, share buy-back, sale or purchase of assets, joint venture, reverse takeover, dual-listed company structure or other synthetic merger or any other transaction or arrangement with similar effect.

Condition where used in the context of the Offer, means each defeating condition to which the Offer is subject, as set out in Appendix 2 to the Bidder's Statement.

Controlling Participant has the meaning ascribed to it in Section 9 of the Bidder's Statement.

Corporations Act means the Corporations Act 2001 (Cth).

CFIUS means the Committee on Foreign Investment in the United States.

Director or Bradken Director means a director of Bradken.

EBIT means earnings from normal underlying activities of the Bradken Group before interest and tax calculated in accordance with the accounting policies and practices applied by Bradken as at 3 October 2016.

End Date means the earlier of:

(a) the date on which the Offer Period ends; and

(b) 3 May 2017 (or such later date as HCM and Bradken agree in writing).

Exclusivity Period means the period starting on 3 October 2016 and ending on the first to occur of the termination of the Bid Implementation Agreement and the End Date.

FIRB means the Australian Foreign Investment Review Board.

FIRB Condition means the Condition in paragraph 1 of Appendix 2 to the Bidder's Statement relating to Australian foreign investment approval.

GST means Goods and Services Tax.

HCM means Hitachi Construction Machinery Co., Ltd. a body, registered in Japan.

HCM's Offer or Offer means the takeover bid by HCM to acquire all of the Bradken Shares on the terms and conditions set out in HCM's Bidder's Statement as subsequently varied in accordance with the Corporations Act.

Independent Expert means Grant Thornton Corporate Finance Pty Ltd ABN 59 003 265 987.

Independent Expert Report means the report prepared by the Independent Expert and included at Annexure A to this Target's Statement.

Listing Rules means the listing rules of ASX.

Loan Agreement means the $450 million loan agreement entered into by Bradken and HCM on 3 October 2016.

Material Adverse Change has the meaning ascribed to it in Section 9 of the Bidder's Statement.

Notice of Status of Conditions means HCM's notice disclosing the status of the Conditions of the Offer, which is required to be given under section 630(3) of the Corporations Act.

Offer Period means the period within which HCM's Offer is open for acceptance in accordance with HCM's Bidder's Statement and the Corporations Act.

Offer Price means the consideration offered under the Offer which, as at the date of this Target's Statement, is $3.25 cash for each Bradken Share.

Prescribed Occurrence has the meaning ascribed to it in Section 9 of the Bidder's Statement.

Register Date means the date set by HCM under subsections 633(2) to (4) inclusive of the Corporations Act, being 7.00pm (Sydney time) on Tuesday, 25 October 2016.

Regulatory Approval Conditions means the Conditions to the Offer set out in paragraphs 1 – 4 of Appendix 2 of the Bidder's Statement and summarised in Section 8.2.1 of this Target's Statement.

Relevant interest has the meaning given to that term in the Corporations Act as if Sections 609(6) and 609(7) were omitted.

RPS means the redeemable convertible preference securities issued by Bradken RPS Pty Limited in July 2015 to Sigdo Koppers and CHAMP Private Equity (which are to convert into Bradken Shares).

Share Rights means the unlisted right to acquire Shares granted by Bradken pursuant to the Bradken Share Rights Plans.

Superior Proposal means a bona fide Competing Proposal which in the determination of the Directors acting in good faith in order to satisfy what the Bradken Board considers to be its fiduciary or statutory duties (after having taken advice from their legal and financial advisers):

1. is reasonably capable of being completed, taking into account the nature of the Competing Proposal, the person or persons making it and any other factors they consider relevant; and
2. would, if completed substantially in accordance with its terms, be reasonably likely to result in a transaction more favourable to Bradken or Bradken Shareholders as a whole than the Offer.

Target's Statement means this document, being the statement of Bradken under Part 6.5 of the Corporations Act in relation to HCM's Offer. It includes the Independent Expert's Report at Annexure 1A.

Transaction means the acquisition by HCM of Bradken Shares under the Offer.

USPP means Bradken's US Private Placement.

VWAP means volume weighted average price.

INTERPRETATION

The following rules of interpretation apply unless the context requires otherwise.

- A term not specifically defined in this Target's Statement has the meaning given to it (if any) in the Corporations Act, the Listing Rules or the ASX Settlement Operating Rules (as is appropriate to the context).
- A gender includes all genders.
- The singular includes the plural, and the converse also applies.
- A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- A reference to legislation or to a provision of legislation includes any modification or re-enactment of it, any legislative provision substituted for it and any regulations and statutory instruments issued under it.
- A reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including, but not limited to, persons taking by novation) and assigns.
- A reference to an agreement or document is to the agreement or document as amended, supplemented, novated or replaced.
- Headings used in this Target's Statement are for ease of reference only and do not affect the meaning or interpretation of this Target's Statement.
- A reference to a Section or Annexure is to a section of, or annexure to, this Target's Statement.
- If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- $, A$ or AUD is a reference to the lawful currency of Australia.
- US$ or USD is a reference to the lawful currency of the United States of America.
- JPY or ¥ is a reference to the lawful currency of Japan.
- A reference to time is a reference to Sydney time.

15. AUTHORISATION

This Target's Statement has been approved by a resolution passed by the Directors of Bradken. Each Director of Bradken voted in favour of the resolution authorising this Target's Statement.

DATED 25 October 2016, being the date on which this Target's Statement was lodged with ASIC.

SIGNED for and on behalf of Bradken Limited:

Mr Phillip Arnall
Chairman

CORPORATE DIRECTORY

Bradken Limited

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ACN 108 693 009
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20 McIntosh Drive
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Directors

Phillip J Arnall, Chairman
Greg R Laurie, Independent Non-Executive Director
Rupert A Harrington, Independent Non-Executive Director
David Smith, Independent Non-Executive Director

Financial Adviser

Highbury Partnership Pty Limited
Level 12, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Legal Adviser

Allen & Overy
Level 25
85 Castlereagh Street
Sydney NSW 2000

Auditors

Ernst & Young
200 George Street
Sydney NSW 2000

Share Registry

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000

ANNEXURE A

INDEPENDENT EXPERT'S REPORT

Bradken Limited

Independent Expert's Report and Financial Services Guide

25 October 2016

The Directors
Bradken Limited
20 McIntosh Drive
Mayfield West, NSW 2304

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25 October 2016

Dear Directors

Independent Expert's Report and Financial Services Guide

Introduction

Bradken Limited ("BKN" or the "Company") is engaged in the manufacture and supply of consumable and capital products to the global resources, energy and freight rail industries. The Company is listed on the Australian Securities Exchange ("ASX") and as at 30 September 2016, BKN's market capitalisation was approximately A$413.9 million.

Hitachi Construction Machinery Co., Ltd. ("HCM" or the "Bidder") is a global manufacturer and supplier of construction and mining machinery as well as machinery consumables and parts. HCM was founded in 1970 and is listed on the Tokyo Stock Exchange ("TSE") with a market capitalisation of approximately A$5.5 billion as at 30 September 2016. HCM's majority shareholder (holding approximately 50.2%), Hitachi, Ltd. is also separately listed on the TSE.

On 3 October 2016, BKN announced that it had entered into a bid implementation agreement ("BIA") with HCM under which HCM agreed to make a cash takeover offer ("Takeover Offer") for 100% of the ordinary shares in BKN ("BKN Shares") at $3.25 per share ("Offer Price").

Among other conditions, the Takeover Offer is subject to a minimum acceptance condition of greater than 50% of BKN Shares on a fully diluted[1] basis. HCM has also agreed to provide BKN with a A$450 million unsecured credit facility should BKN be required to repay any existing financing facilities as a result of the Takeover Offer becoming unconditional. Refer to Section 1 for further details on the BIA. On 25 October 2016, HCM released the Bidder's Statement in relation to the Takeover Offer.

The Directors of BKN ("the Directors") have unanimously recommended that the shareholders of BKN ("BKN Shareholders") accept the Takeover Offer subject to the Independent Expert opining (and continuing to opine) that the Takeover Offer is fair and reasonable, and in the absence of a superior proposal. Subject to those same two qualifications, each Director intends to procure the

[1] We note as at the date of this report, BKN has approximately 5.8 million performance rights on issue of which 2,971,989 rights are expected to convert into an equivalent number of BKN Shares, and 2,849,523 rights into cash. In addition, BKN issued 140,000 redeemable preference shares ("RPS") to Sigdo Koppers S.A. ("Sigdo") and 560,000 RPS to funds managed by CHAMP Private Equity ("CHAMP") in June 2015. Subsequently, BKN announced on 12 October 2016 that it had received separate conversion notices from Sigdo and CHAMP. The RPS will convert into 35 million BKN Shares. Following conversion of the RPS, CHAMP will become the largest shareholder of BKN with an interest of approximately 16%.

acceptance of the Takeover Offer in respect of all BKN Shares they control.

Purpose of the report

Whilst there is no legal requirement for the preparation of an independent expert's report in conjunction with the Takeover Offer, the Directors have decided to commission an independent expert's report to assist BKN Shareholders in assessing the merits of the Takeover Offer.

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Takeover Offer is FAIR AND REASONABLE to the BKN Shareholders.

In forming our opinion, Grant Thornton Corporate Finance has considered whether the Takeover Offer is fair and reasonable to the BKN Shareholders and other quantitative and qualitative considerations.

Fairness assessment

In accordance with the requirements of the Australian Securities and Investment Commission ("ASIC") Regulatory Guide 111 *Contents of expert reports* ("RG 111"), in forming our opinion in relation to the fairness of the Takeover Offer to the BKN Shareholders, Grant Thornton Corporate Finance has compared the value per BKN Share before the Takeover Offer on a 100% controlling and fully diluted basis to the Offer Price of A$3.25 per BKN Share. The following table summarises our fairness assessment:

Valuation summary	*Section Reference*	Low (A$/share)	High (A$/share)
Fair market value of BKN Share before the Takeover Offer (fully diluted, control basis)	*6.1*	2.79	3.37
Offer Price		3.25	3.25
Variance in value per BKN Share (A$/share)		**0.46**	**(0.12)**
Variance in value per BKN Share (%)		*+16.4%*	*-3.6%*

Source: GTCF Calculations

The Offer Price of A$3.25 per BKN Share is at the high-end of our assessed valuation range of a BKN Share on a 100% and fully diluted basis. Accordingly, we conclude that the Takeover Offer is **FAIR** to BKN Shareholders.

BKN Shareholders should be aware that our assessment of the value per BKN Share does not reflect the price at which BKN Shares will trade if the Takeover Offer lapses. The price at which BKN Shares will ultimately trade depends on a range of factors including the liquidity of BKN Shares, macro-economic conditions, commodity prices, exchange rates and the underlying performance of the BKN business.

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Reasonableness assessment

RG111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, there are sufficient reasons for the security holders to accept the offer in the absence of any superior proposal. In assessing the reasonableness of the Takeover Offer, we have considered the following advantages, disadvantages and other factors.

Advantages

Premium for control

A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as the ability to realise synergies, access to cash flows, access to tax benefits and control of the board of directors of the company.

Evidence from studies indicates that premiums for control on successful takeovers have frequently been in the range of 20% to 40% in Australia and that the premiums vary significantly from transaction to transaction. As set out in more details in Section 6.4.4, we have estimated that the average premium for control in the mining, mining services and industrial sectors have been in Australia between 30% and 40% over a period from January 2015 to September 2016.

The Offer Price of A$3.25 per BKN Share represents a premium of:

- 34% compared with the closing price of BKN on 3 October 2016 (date of the announcement of Takeover Offer[2]).

- 41% compared with the 2 week VWAP of BKN on 3 October 2016.

- 38% compared with the 1 month VWAP of BKN on 3 October 2016.

- 79% compared with the 3 month VWAP of BKN on 3 October 2016.

This premium for control is unlikely to be available to the BKN Shareholders in the absence of the Takeover Offer. However, the analysis above should be taken with caution due to the following:

- As discussed in details in Section 6.4, the trading prices of BKN have experienced a significant increase over the last few months which have been in excess of the overall market re-rating of the mining and mining services companies in conjunction with an increase in commodity prices.

- Over the last two years, BKN has received a number of unsolicited, indicative incomplete, non-binding and conditional proposals to implement a change of control in the Company. The first proposal disclosed to the market was announced in December 2014 and was made by funds advised by Pacific Equity Partners Pty Limited and Bain Capital Asia LLC to acquire 100% of BKN for A$5.10 per share[3]. The last approach received by the Company before the Takeover Offer was when BKN announced on 21 April 2016 that on 14 March 2016, it had received an unsolicited, indicative incomplete, non-binding and conditional recapitalisation proposal from

[2] The Takeover Offer was announced on 3 October 2016 after market closed. VWAP calculations based on data sourced from S&P Capital IQ.
[3] We note that BKN also disclosed in the same announcement that it had received a confidential, non-binding and indicative proposal by the same parties in August 2014 at A$6.00 per share.

funds managed by CHAMP Private Equity ("CHAMP") to subscribe for A$150 million worth of BKN Shares at a price between A$0.75 and A$1.00[4] a share. BKN advised CHAMP on 19 April 2016, that the proposal was not acceptable. All the approaches received by the Company over the course of the last two years have caused greater volatility in the trading prices of BKN than its peers and disrupted the Company and the Management team of BKN ("Management") in a period of challenging market conditions.

- The share register of BKN is dominated by sophisticated and institutional investors, including several hedge funds. This may increase the short-term volatility of the trading prices given the often opportunistic nature of their investments.

- The trading prices of BKN before the announcement of the Takeover Offer may already incorporate a component of a premium for control given the number of approaches received over the last two years and the improved outlook driven by the recent uplift in commodity prices.

Based on the discussions above, we are of the opinion that it is difficult to draw a definitive conclusion in relation to the quantum of the premium for control effectively offered by HCM even if it appears to be in line or higher than the average control premium paid on successful takeovers in the Australian market.

Ability to realise their investment in BKN

The Takeover Offer represents an opportunity for all BKN Shareholders to receive certain and immediate value for their investment in BKN free of any realisation costs. The Takeover Offer provides an opportunity to all BKN Shareholders to exit their investment in BKN at a significant premium which is unlikely to be available in the absence of the Takeover Offer.

By accepting the Takeover Offer, BKN Shareholders will avoid ongoing risks associated with the operations of BKN which are summarised below in a non-exhaustive manner:

- BKN's clients are exposed to the highly cyclical mining, energy and resources industries. Whilst the investors, analysts and market commentators are currently of the general consensus that these industries are recovering from the troughs of the current cycle, there is still significant uncertainties and volatility on the future performance of the global, US and Australian economies which may adversely impact the speed of the recovery in these industries.

- Volatility in the global economy is still significant mainly due to continuing stagnation in the European economy, the UK vote to exit the European Union, the impending US election, slowdown in China and other emerging countries, and the potential uncertainty in relation to the effect of an increase in US interest rates.

- BKN has been restructuring and streamlining its operations to adapt to the changed economic environment for quite some time now. Based on a review of the information available and discussions with the Management, we are of the opinion that any additional financial performance upside arising from cost efficiencies and cost savings above what has already been captured in our valuation assessment is limited.

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[4] The maximum number of shares available under the Company's placement capacity at a price of A$0.75 per share with the balance subject to shareholders approval at A$1.00 per share.

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- Notwithstanding BKN has materially reduced its debt level over the years, the gearing ratio is higher than peer companies and higher than the target debt level adopted by the Board. The financial circumstances of the Company may quickly deteriorate in conjunction with a significant adverse change in the current market conditions. The current capital structure of BKN will likely make it more sensitive to such volatility in the financial markets and commodity prices.

Change of control provision of the existing debt facilities

If the Takeover Offer becomes unconditional, it may trigger a repayment event for the existing debt facilities totalling A$369.4 million as at 30 September 2016[5]. However, BKN will have access to an A$450 million unsecured loan facility from HCM to assist in this repayment. In our opinion, the change of control provision in the existing facilities and costs reduces the attractiveness of BKN as a takeover target.

BKN Share price in the absence of the Takeover Offer

In the absence of the Takeover Offer or an alternative transaction, all other things being equal, it is likely that BKN Shares will trade at prices below the Offer Price. In our opinion, the prospect of BKN Shares trading above the Offer Price in the short term, based on the current market conditions, is limited in the absence of the Takeover Offer or alternative transactions.

However, in our opinion, it is unlikely that the share price of BKN will fall back to the level before April 2016 (of or around A$1.00 per share) as the Takeover Offer has confirmed to the market that the Company was undervalued compared with the intrinsic value and the price that an interested party is prepared to pay.

No brokerage costs

BKN Shareholders will be able to realise their investment in BKN without incurring any brokerage costs.

Disadvantages

No participation in future potential upside of BKN

BKN Shareholders accepting the Takeover Offer will forgo the opportunity to participate in the future potential upside of the Company and any uplift in the current market conditions.

In particular, we note that market conditions in the mining and energy sectors are at a low point in the cycle and accordingly, in the medium term, the financial performance of BKN may materially increase benefiting from expected earnings improvements in conjunction with the industry moving through the next cycle.

In addition, as announced to the market on 23 August 2016, BKN has recently embarked on a transformation program which aims, among other things, to increase EBITDA between A$40 million and A$50 million over the next three years ("Transformation Program"). However, we

[5] We also note that BKN's US$200 million of US private placement notes ("USPP") may require a material make whole amount or other premium amount payable if BKN seeks early repayment (i.e. as opposed to USPP electing early repayment) upon triggering the change of control provision. Though given the reasonable interest rates and long maturity of the USPP, we understand that it is unlikely BKN would seek early repayment.

consider these potential upsides to be already largely captured in our valuation assessment due to the following:

- In our valuation assessment of BKN based on the earning multiple approach, we have adopted a future maintainable EBITDA of between A$110 million and A$130 million. The high-end of our range is circa 20% higher than the underlying FY16 EBITDA of A$108.4 million achieved by the Company and the guidance provided to the market in relation to the FY17 underlying EBITDA[6].

- The Company has significantly reduced its global production capabilities by selling or shutting down a large number of facilities around the world to adjust its business to the reduced demand. BKN is a capital intensive business and unlike a mining services business is less able to quickly scale-up its operations to meet improved market conditions. Whilst the Company currently has some spare capacity, BKN will likely still be required to invest capital in its assets base if market conditions improve considerably from the current level.

- There are risks in the implementation of the Transformation Program and it is unlikely that a pool of potential purchasers would be prepared to pay in full today for the future potential improvements in the financial performance of BKN arising from the execution of the Transformation Program.

Other factors

Limited prospect of alternative transactions

In our opinion, the prospect of a superior offer or alternative transaction is limited as the Takeover Offer is the result of a number of approaches for a change of control transaction received by the Company over the last two years. The approaches received have mainly been from private equity firms which identified a strong value accretive opportunity to purchase BKN around the trough of the mining cycle at depressed trading prices. However, in our opinion, financial buyers may find it economically challenging to compete with the Offer Price given the potential cost and revenue synergies available to HCM and other trade buyers. In addition, the recent strong performance of BKN Share prices before the announcement of the Takeover Offer may further deter financial buyers given the premium for control typically required to be paid on historical trading prices to secure a directors' recommendation.

Finally we note that since the announcement of the Takeover Offer, the share price of BKN has traded on or around the Offer Price which typically indicates that market participants do not expect a superior offer or alternative proposal to emerge.

The Directors are of the opinion that the Takeover Offer represents the best possible transaction for BKN Shareholders based on the current market conditions and the specific circumstances of the Company.

In addition, whilst BKN has agreed not to solicit any competing proposals or, subject to a fiduciary exception, to participate in discussions or negotiations in relation to any competing proposals, there are no material impediments to an alternative proposal being submitted by potential interested parties. The transaction process may act as a catalyst for potential interested parties and the

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[6] BKN announced in August 2016 that it expects FY17 underlying EBITDA to be in line with reported underlying EBITDA for FY16.

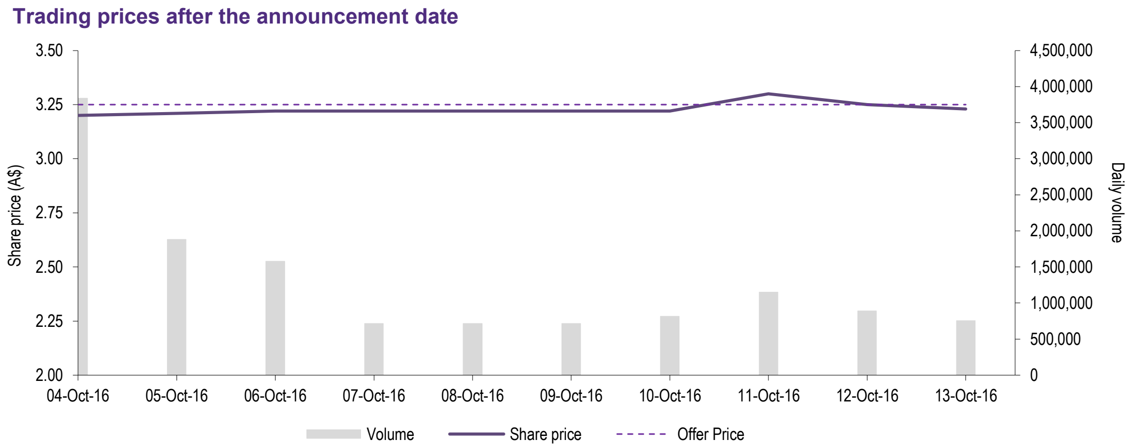
additional information provided in the Target's Statement and Independent Expert's Report will facilitate the ability of interested parties to assess the merits of potential alternative transactions. If an alternative proposal on better terms were to emerge, it is expected that this would occur prior to the Takeover Offer becoming unconditional. Though we also note that under the BIA, HCM will have a right to match any competing proposals within 5 business days from BKN giving notice to HCM of a competing proposal.

Cyclical industry

As discussed before, BKN operates in a cyclical industry and current market conditions are considered at a low point in the cycle. Whilst we are of the opinion that we have appropriately dealt with the cyclicality of BKN in our fairness assessment, a wide range of alternative views could credibly be adopted on this matter, which could impact the assessed fair values either positively or negatively. Depending upon the views taken by individual shareholders in relation to these assumptions, it is possible that individual shareholders could reach a different conclusion on the appropriate range of values for BKN. Under these circumstances, individual shareholders will have the opportunity to retain their shares and remain a shareholder of BKN[7] which will become a controlled entity of HCM.

Share price after the announcement

As set out below, following the announcement of the Takeover Offer, the trading prices of BKN have traded substantially in line with the Offer Price which seems to indicate good support from investors for the Takeover Offer, perceived low risk of the Takeover Offer not becoming unconditional and limited expectations for a superior proposal.



Source: S&P CapitalIQ and GTCF calculations

Acquisition of more than 50% interest in BKN by HCM

If the Takeover Offer becomes unconditional and HCM acquires less than 75% of the issued capital of BKN, BKN Shareholders not intending to accept the Takeover Offer should consider the following risks:

[7] Subject to HCM not being able to compulsorily acquire all the shares in BKN in accordance with the requirements of the Corporations Act.

- BKN will remain as a listed company on the ASX, however the liquidity and free float of BKN may reduce which may affect the ability of the remaining BKN Shareholders to sell their shares at fair market value.

- If HCM holds more than 50% of BKN, it will represent a strong deterrent to any future takeover bids for the Company and accordingly the trading prices of BKN may be adversely affected given the lack of takeover contestability of the Company.

If HCM acquires more than 75% of the issued capital of BKN and seeks to delist BKN from the ASX as disclosed in the Bidder's Statement, we strongly recommend to BKN Shareholders not intending to accept the Takeover Offer to carefully consider the risks of remaining as a minority shareholder in an unlisted public company.

Value of BKN to HCM if HCM acquires more than 90% of the issued capital in BKN

HCM is engaged in the construction and mining equipment sector which is complementary with the mining equipment and consumable business of BKN, and accordingly if the Takeover Offer becomes unconditional and HCM acquires more than 90% of the issued capital of BKN, HCM may be able to realise the following synergies:

- BKN will be delisted from the ASX and HCM will realise direct synergies in relation to cost savings on listing fees, ASX compliance costs and Directors' fees. We have incorporated these cost savings into our valuation assessment of BKN on a 100% basis.

- HCM may be able to realise further cost savings arising from the amalgamation of existing manufacturing facilities in common geographical locations. HCM may benefit from synergies arising from the use of any excess manufacturing capacity resulting in improved operating margins.

- HCM may be able to realise cost savings in the form of increased buying power to reduce purchasing costs. HCM will also retain the margin which was previously being paid to BKN as a supplier.

- HCM may be able to increase BKN revenue by leveraging off HCM global customer base which can be provided with a more complementary and comprehensive product offering.

- BKN will have access to a broader engineering base, management team and deeper pool of employees and financial resources to grow the business.

Whilst the above potential synergies are likely to eventually emerge, they are difficult to estimate and are subject to significant implementation and execution risks (including subject to HCM being able to acquire 90% of BKN). It is unlikely the Offer Price fully incorporates these potential synergies and cross-selling opportunities. However, we note that this is not uncommon for transactions of this nature.

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Compulsory acquisition

HCM has stated in Section 5.3 of the Bidder's Statement that, if it acquires 90% or more of BKN Shares and becomes entitled to do so under the Corporations Act, HCM will give notices to compulsorily acquire any outstanding BKN shares. As such, remaining BKN Shareholders may wish to consider accepting the Takeover Offer prior to the end of the offer period in order to expedite receipt of the cash consideration.

Break fee

In the event that a competing superior proposal emerges during the offer period or the Directors of the Company do not recommend the Takeover Offer or withdraw their recommendation, BKN will pay to HCM a break fee of A$6.885 million. The break fee may also become payable under other circumstances as set out in Section 12.1.3 of the Target's Statement.

Tax implications

BKN Shareholders accepting the Takeover Offer may crystallise a capital gains tax expense, however the taxation consequences for shareholders will vary according to their individual circumstances and will be impacted by various factors such as place of residence. BKN Shareholders should read the overview of tax implications of the Takeover Offer set out in Section 7 of the Bidder's Statement and also seek independent financial and tax advice on the implications of accepting the Takeover Offer.

Directors' recommendations and intentions

In the absence of a superior proposal and subject to the Independent Expert's opinion that the Takeover Offer is (and continues) to be fair and reasonable to BKN Shareholders, the Directors of BKN unanimously recommend that all BKN Shareholders accept the Takeover Offer.

All BKN Directors intend to accept the Takeover Offer in respect of all BKN Shares that they own or control in the absence of a superior proposal.

Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Takeover Offer is **REASONABLE** to the BKN Shareholders.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Takeover Offer is **FAIR AND REASONABLE** to the BKN Shareholders in the absence of a superior alternative proposal emerging.

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Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to accept the Takeover Offer is a matter for each BKN Shareholder to decide based on their own views of value of BKN and expectations about future market conditions, BKN's performance, risk profile and investment strategy. If BKN Shareholders are in doubt about the action they should take in relation to the Takeover Offer, they should seek their own professional advice.

Yours faithfully,
GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN
Director

HARLEY MITCHELL
Authorised Representative

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25 October 2016

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance" or "GTCF") carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by BKN to provide general financial product advice in the form of an Independent Expert's Report in relation to the Takeover Offer. This report is included in BKN's Target's Statement.

2 Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in our report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from BKN fees in the order of A$170,000 plus GST, which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of BKN and HCM in order to provide this report. The guidelines for independence in the preparation of an independent expert's report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with BKN or HCM (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Takeover Offer.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."

We note that Grant Thornton LLP is engaged by BKN to provide tax compliance services. We note that Grant Thornton LLP is a completely separate firm from Grant Thornton Australia. The two companies are not financially integrated and they do not share profits, people, and infrastructure. Both firms are affiliated member firms of Grant Thornton International.

In our opinion, the above engagement does not impact on our ability to provide an independent and unbiased opinion in the context of the Takeover Offer. Accordingly, we consider Grant Thornton Corporate Finance to be independent of BKN, its Directors and all other parties involved in the Takeover Offer.

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West
Melbourne, VIC 8007
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the Target's Statement should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

7 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act 2001.

Contents

1 Outline of the Takeover Offer

1.1 Key terms of the BIA

Key terms of the Takeover Offer pursuant to the BIA are outlined below:

- *Defeating conditions*:
  - Minimum acceptance conditions of greater than 50% of BKN Shares on a fully diluted basis.
  - Satisfaction of regulatory approvals/ expiry of regulatory notice periods, including ACCC, CCB, HSR, SACA, FIRB, CFIUS and DDTC[8].
  - No "material adverse change", "prescribed occurrence" or prohibited actions by BKN.
- *Bidder Facility Agreement* – HCM will provide a A$450 million unsecured credit facility ("Bidder Facility") to assist BKN in the repayment of any existing debt facilities that may become triggered as a result of the Takeover Offer. The Bidder Facility will have a 180 day term from first drawdown and an interest rate of 6% for advances denominated in A$ and 4% for advances denominated in US$. As at 30 September 2016, BKN had approximately A$369.0 million in bank loans and corporate notes outstanding. Refer to Section 4 for further details of BKN's current capital structure.
- *Share Rights* – the Bidder acknowledges that certain outstanding performance rights of 5,821,512 ("Rights") may vest during the Offer Period of which 2,971,989 Share Rights[9] will be converted into BKN Shares and subject to the Takeover Offer, and 2,849,523 Cash Rights[10] will be paid out in cash at the Offer Price. Refer to Section 4.5.3 for further details on the Rights.
- *Board transition* – following the date that the Takeover Offer becomes free of any defeating conditions and the Bidder has a relevant interest in BKN of more than 50% on a fully diluted basis ("Control Date"), the Board of BKN ("Board") will procure as soon as practicable to appoint to the Board such persons as nominated by the Bidder. Those Directors not nominated by the Bidder shall resign with a minimum of two existing Independent Directors remaining on the Board until at least the end of the Offer Period.
- *Break fee* – A$6.885 million payable by BKN to HCM if, among other circumstances, the Directors withdraw their recommendation to BKN Shareholders to accept the Takeover Offer and/or a "Competing Proposal" is publically announced and completes.
- Other terms usual for a transaction of this nature, including customary exclusivity arrangements such as "no shop", "no talk", and "no due diligence" and a right for the Bidder to be notified of and to match any competing proposals.

Refer to Section 8.2 of the Target's Statement for further details in relation to the conditions of the Takeover Offer.

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[8] Australian Competition and Consumer Commission (ACCC), Canada's Competition Bureau (CBC), the Hart-Scott-Rodino Act (HSR), South African Competition Act (SACA), Foreign Investment Review Board (FIRB), Committee on Foreign Investment in United States (CFIUS), and the Directorate of Defence Trade Controls (DDTC)

[9] In relation to the 2014 BKN Share and Restricted Share Rights Plan and the 2015 BKN Share and Restricted Share Rights Plan

[10] In relation to the 2016 BKN Restricted Cash Rights Plan

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1.2 Effects of the Takeover Offer

We note the following effects and intentions of HCM upon acquisition of a controlling stake equal to or greater than 50% but less than 75% of the BKN Shares:

- Seek reconstitution of the Board so that at least a majority of the Directors are nominees of HCM. However, we note that HCM has committed to maintain at least two Independent Directors on the Board until at least the end of the Offer Period.

- HCM will consider whether it is appropriate to maintain BKN's ASX listing. If BKN remains as a listed entity, the liquidity of trading in BKN Shares may reduce.

- Complete a strategic review of the operations.

- BKN's current financing arrangements may be terminated and its material contracts adversely impacted. However, we note that HCM has agreed to provide a A$450 million Bidder Facility should BKN be required to repay any existing financing facilities as a result of the Takeover Offer becoming unconditional.

We note the following effects and intentions of HCM upon acquisition of a controlling stake equal to or greater than 75% but less than 90% of the BKN Shares:

- HCM will be able to pass a special resolution at a meeting of BKN Shareholders which would permit HCM, among other things, to change the BKN constitution.

- It intends to cause BKN to apply to be removed from the official list of the ASX.

HCM's intentions upon acquisition of 90% or more of the BKN Shares is, if it becomes entitled to do so under the Corporations Act, to compulsorily acquire any outstanding BKN Shares and delist BKN from the ASX.

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2 Purpose and scope of the report

2.1 Purpose

Section 640 of the Corporations Act requires that a target's statement made in response to a takeover offer for securities in an Australian publicly listed company must be accompanied by an independent expert's report if:

- the bidder's voting power in the target is 30% or more; and
- for a bidder who is, or includes, an individual – the bidder is a director of the target company; or
- for a bidder who is, or includes, a body corporate – a director of the bidder is a director of the target company.

The independent expert's report must state whether, in the opinion of the independent expert, the takeover offer is fair and reasonable to the target company's shareholders and provide the reasons for forming that opinion.

As at the date of our report, we note that there is no legal requirement to prepare an independent expert report as HCM does not hold any interest in BKN and there is no common director between the two companies. However, the Directors of BKN have requested Grant Thornton Corporate Finance to prepare an independent expert's report to assist BKN Shareholders in assessing the Takeover Offer.

2.2 Basis of assessment

The Corporations Act does not define the meaning of "fair and reasonable". In preparing this report, Grant Thornton Corporate Finance has had regard to Regulatory Guide 111 *Content of expert reports* ("RG 111") which establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" are in the context of a takeover offer.

As the Takeover Offer is a takeover bid, RG 111 requires the following assessment:

- An offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are subject to the offer. The comparison should be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is script or cash and without consideration of the percentage holding of the offeror or its associates in the target company.
- An offer is considered reasonable if it is fair. If the offer is not fair it may still be reasonable after considering other significant factors which justify the acceptance of the offer in the absence of a higher bid. ASIC has identified the following factors which an expert might consider when determining whether an offer is reasonable:
  - The offeror's pre-existing entitlement, if any, in the shares of the target company.

- Other significant shareholding blocks in the target company.
- The liquidity of the market in the target company's securities.
- Taxation losses, cash flow or other benefits through achieving 100% ownership of the target company.
- Any special value of the target company to the offeror, such as particular technology or the potential to write off outstanding loans from the target company.
- The likely market price if the offer is unsuccessful.
- The value to an alternative offeror and likelihood of an alternative offer being made.

Grant Thornton Corporate Finance has determined whether the Takeover Offer is fair to the BKN Shareholders by comparing the fair market value range of BKN Shares on a 100% basis with the value of the Offer Price, being A$3.25 per BKN Share.

In considering whether the Takeover Offer is reasonable to the BKN Shareholders, we have considered a number of factors, including:

- Whether the Takeover Offer is fair.
- The implications to BKN Shareholders if the Takeover Offer does not complete.
- Other likely advantages and disadvantages associated with the Takeover Offer as required by RG111.
- Other costs and risks associated with the Takeover Offer that could potentially affect the BKN Shareholders.

2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Takeover Offer with reference to the ASIC Regulatory Guide 112 "Independence of experts" ("RG 112").

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Takeover Offer other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Takeover Offer.

We also note that Grant Thornton LLP is engaged by BKN to provide tax compliance services. We note that Grant Thornton LLP is a completely separate firm from Grant Thornton Australia. The two companies are not financially integrated and they do not share profits, people, and infrastructure. Both firms are affiliated member firms of Grant Thornton International.

In our opinion, the above engagement does not impact on our ability to provide an independent and unbiased opinion in the context of the Takeover Offer. Accordingly, we consider Grant Thornton Corporate Finance to be independent of BKN, its Directors and all other parties involved in the Takeover Offer.

2.4 Consent and other matters

Our report is to be read in conjunction with the Target's Statement dated on or around 25 October 2016 in which this report is included, and is prepared for the exclusive purpose of assisting the BKN Shareholders in their consideration of the Takeover Offer. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this Report in its form and context and consents to its inclusion in the Target's Statement.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Takeover Offer to the BKN Shareholders as a whole. We have not considered the potential impact of the Takeover Offer on individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Takeover Offer on individual shareholders.

The decision of whether or not to accept the Takeover Offer is a matter for each BKN Shareholder based on their own views of the value of BKN and expectations about future market conditions, BKN's performance, their individual risk profile and investment strategy. If shareholders are in doubt about the action they should take in relation to the Takeover Offer, they should seek their own professional advice.

3 Industry sector profile

BKN is a global manufacturer of consumable and capital products, supplying an extensive range of cast and fabricated products mainly to the resources sector. Accordingly, we have focused this section on the global mining consumable and capital products manufacturing sector ("the Mining Products Sector").

3.1 Introduction

The Mining Products Sector consists of companies primarily engaged in the manufacturing of two product categories:

- *Capital equipment* – includes products such as machinery and vehicles, and also original equipment manufacturers ("OEMs") which produce parts or subsystems that are used to ultimately complete another company's capital equipment end product.

- *Consumable products* – products include wear and spare parts needed to ensure the functioning of capital equipment. These parts are often also referred to as 'aftermarket' parts and are usually required to be replaced regularly, often as a function of equipment usage.

With the recent decline in the development of new mines, the demand for mining products has also declined. Though, capital equipment has been materially more adversely impacted than consumable products which sources majority of its demand from existing operating mines. In FY16, consumable products accounted for approximately 89% of BKN's total revenue, up from 81% in FY13 at the turning point of the mining cycle.

3.2 Key revenue drivers

The key drivers of revenue growth for the Mining Products Sector are listed below:

- *Mining industry demand* – the mining sector's global demand for production and extraction of mineral and energy resources drives the level of mining activity which in turn drives the demand for mining capital equipment and related consumables.

- *Global economy* – Global demand for energy and mineral resources, and the level of investment flow into mining projects are driven by economic growth. In particular, GDP growth from emerging economies such as China and India has been key drivers of mining demand over the last decade. Strong population growth, industrialisation and urbanisation, and rising wealth over the past decade in these areas have spurred the increase in industrial output and subsequently global demand for commodities.

- *Exchange rate* – Exchange rates impacts the relative price of imports and exports. The declining A$ against the US$ over the last few years have helped support the competiveness of the domestic Mining Projects Sector.

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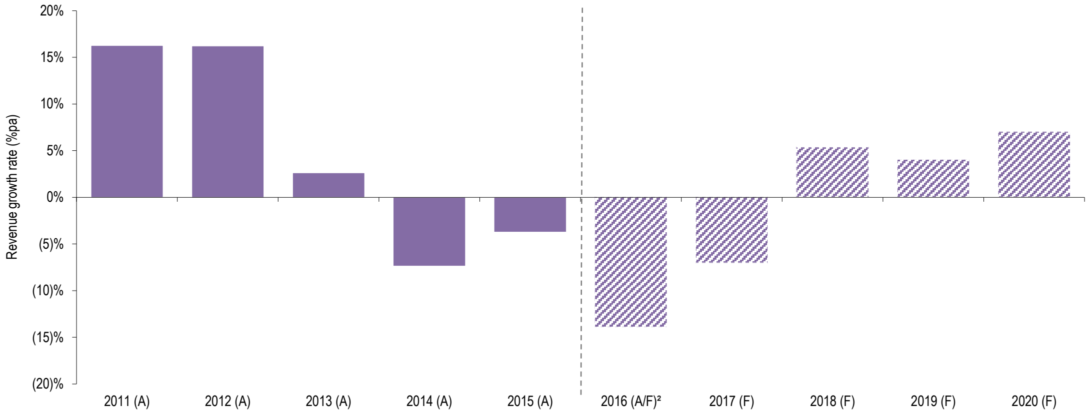
3.3 Mining Products Sector recent performance and outlook

Over the last few years, global sector[11] revenue has declined at an average annual rate of approximately 8.3% (nominal basis). Over 2016-17, sector revenue is forecast to continue to decline before increasing at an average annual growth rate of approximately 5.5% over 2018-20 as illustrated in the below graph.

Historical and forecast revenue growth for selected¹ global companies operating in the Mining Products Sector

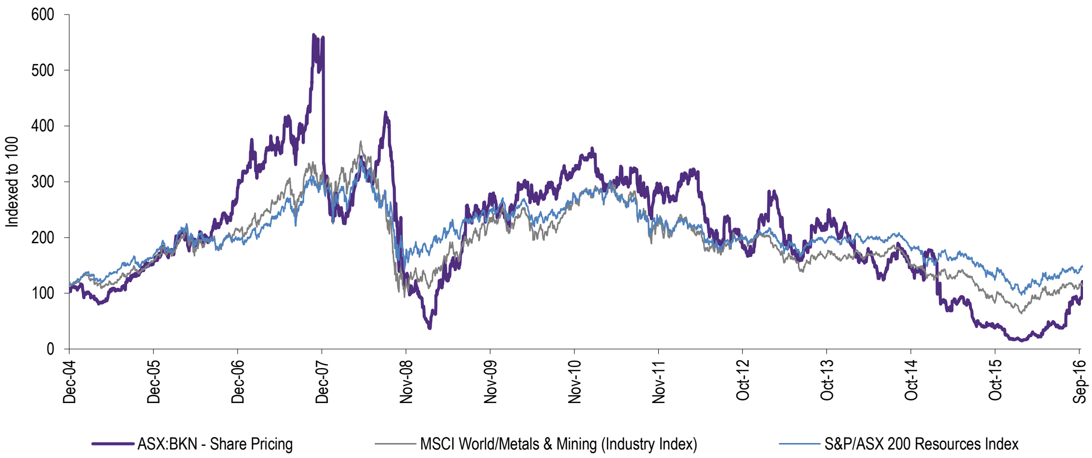


Source: S&P CapitalIQ and GTCF calculations
Note (1): The above analysis includes 27 companies operating in the global Mining Products Sector (with a combined market capitalisation of A$230 billion). Forecast revenue growth is based on available consensus broker forecast for each company over the 6 months prior to 30 September 2016.
Note (2): 2016 revenues include both actual and forecast revenues depending on the reporting dates of the selected companies.

3.3.1 Historical industry sector performance

The performance of the Mining Products Sector is strongly influenced by the performance of its key customer base – the resources sector. This is illustrated in the below graph which highlights the relatively high correlation between movements in BKN's share price, the S&P/ASX 200 Resources Index and the MSCI World Metals and Mining Index.

BKN Share price v resource indices



Source: S&P CapitalIQ and GTCF calculations

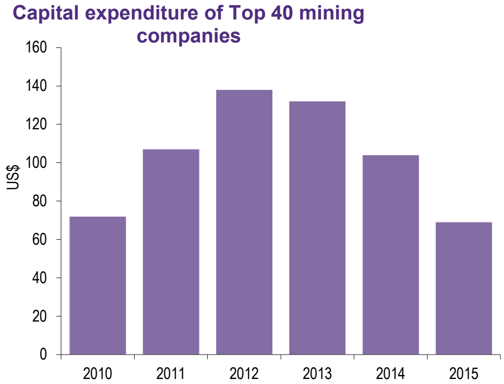
Over the last five years, the global downturn in the mining industry has negatively impacted the operations of the mining related sectors. The downturn has been largely as a result of slowing

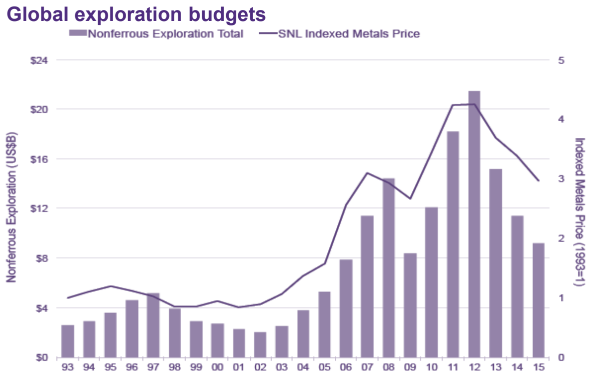
[11] Sector revenue growth analysis includes 27 companies (with a combined market capitalisation of A$230 billion) operating in the global Mining Products Sector.

growth from key emerging economies (such as China and India) and an oversupply of commodities as a result of significant mining investments made over the prior decade.

Global investment in mining capital expenditure peaked at US$138 billion in 2012, before falling significantly over recent years. Though, due to the significant time difference between the exploration, development and production phases, the increased mining output and elevated stockpiles from prior large investment decisions has continued to result in oversupply and weigh on commodity prices. Over 2016-17, the transition from investment to production continued to be well underway for several major mining projects (notably for iron ore, copper and aluminium) which will likely keep such commodity prices subdued.

The graph below illustrates the historical capital expenditure by the world's 40 largest mining companies by market capitalisation and the global budgets of exploration companies:





Source: PwC and SNL Metals & Mining

Note (1): Exploration budget fir nonferrous exploration

The decline in capital expenditure from mining companies has impacted the demand for capital equipment the most strongly, with many companies delaying new projects and/or seeking to repair existing capital equipment instead of replacing with new equipment. The demand for consumable products have continued to be supported by existing and new operating mines, however many mining companies have gradually cut production and renegotiated discounted supply contracts to reduce their cost base. Furthermore, as the capital equipment market has materially contracted, competition within the Mining Products Sector has intensified for market share in consumable products.

In response, Mining Products manufactures (including BKN) have undergone significant restructuring of their operations over the past five years. Specifically, companies in the sector have engaged in a variety of cost cutting initiatives, including plant closures, redundancies and relocating manufacturing to low-cost offshore plants. Many smaller players in the industry sector have also been forced to exit the market given the difficult trading environment and high competition from larger players for shrinking demand.

Though we note that for companies operating in the domestic Mining Products Sector, the falling A$ against the US$ over the last few years has helped to reduce the level of import penetration and improved the competiveness of exports. Nevertheless, this has only helped to provide limited support in difficult market conditions.

3.3.2 Industry sector performance outlook

As illustrated in the graph under Section 3.3, the Mining Products Sector revenue is forecast based on broker consensus to continue to decline over 2016-17 before increasing over 2018-20. The decline in the short term is expected to largely reflect slow global growth and continued oversupplied commodity markets.

In the medium term, commodity prices are anticipated to rise moderately with some recovery of growth in the global economy and reducing mining capacity, which should support the Mining Products Sector. However, it is unlikely the mining cycle will return to the highs experienced over the last decade any time soon, particularly with key emerging countries like China expecting to normalise at a lower growth rate over the medium to long term.

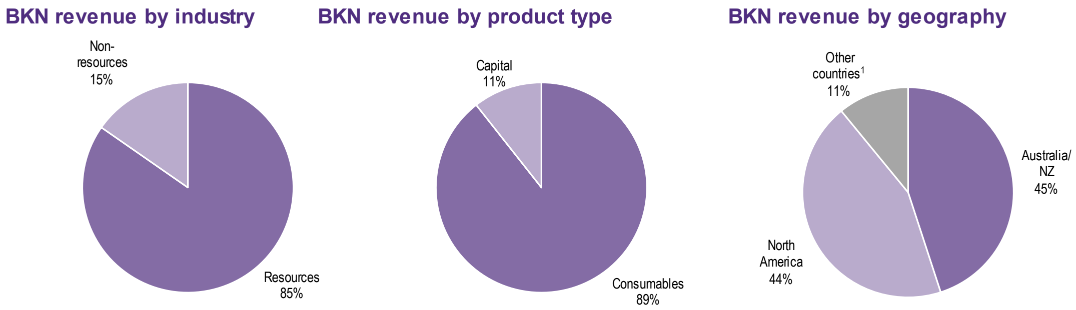
In terms of margins and profitability, the significant restructuring undertaken by the Mining Products Sector over the last few years may result in some bottom-line improvement for some companies before growth returns to revenues. However, when growth does return, the resources sector and the Mining Products Sector will likely be significantly different than in the past due to the large structural changes that have since occurred. The future success of individual companies will, amongst other factors, depend on their ability to continually differentiate their products whilst keeping costs low and acquiring new market share.

4 Profile of BKN

4.1 Introduction

BKN is primarily engaged in the manufacture and supply of capital and consumable products to mining, transport, general industrial and manufacturing industries. The Company's product portfolio includes ground engaging tools, mill liners, crusher liners, wear plates, steel castings, crawler systems, as well as machinery and fabricated components. The Company also provides maintenance services in relation to its products.

The following chart sets out the revenue contribution by industry; by product type and by geography in FY16:



Source: Company presentation
Note (1): Other countries include operations in South America, Africa, Europe, South East Asia and China

As illustrated in the above graphs, BKN has a clear focus on the manufacture and provision of mining wear/ consumable parts. In terms of geographic presence, BKN generates majority of its revenue in Australia and North America though the Company has recently expanded into other geographies, in particular South America, CIS[12] and Africa.

BKN employs more than 3,100 employees in 21 manufacturing facilities and 41 service centres across more than 11 countries.

4.2 Company History

BKN has undertaken on-going strategic initiatives to right-size the business, improve operational efficiency and reduce costs over the last few years. Notable initiatives undertaken are summarised below:

- *Consolidation and regrouping of business divisions:* In FY14, BKN operated five business divisions namely Mineral Processing; Mining Products (comprising of GET, Crawler Systems and Fixed Plant businesses); Rail; Engineered Products; and Cast Metal Services. In FY15, BKN consolidated Rail, GET and Crawler Systems to form a new division called 'Mining and Transport', and the Fixed Plant business was designated as a standalone division to allow for better divisional strategic alignment and overhead cost savings.

  In response to continual adverse conditions, BKN announced in July 2016 further restructuring of its business divisions from five to three. The Mineral Processing and Fixed Plant divisions was merged into a single 'Mining Fixed Plant' division, the Mining & Transport division was renamed 'Mobile Plant' division and the Cast Metal Services[13] division was re-characterised as an

[12] The Commonwealth of Independent States
[13] Cast Metal Services previously represented smaller businesses such as scrap processing and foundry supply business. Majority of the sales of this division were internal. The operations of this division have either been transitioned to low cost facilities or have been relocated to better performing regions (such as North America)

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internal procurement function and integrated into a cross-functional global sourcing group. A brief overview of the three business divisions is provided in Section 4.3. The new structure places focus on BKN's core markets, and improve procurement, operations and supply chain management and systems.

- *Manufacturing reorganisation:* BKN has made a number of changes to its operations to more effectively utilise lower cost capacity. The Company has progressively closed a number of its highest cost manufacturing facilities/ foundries (including those at Henderson, Cannington, Mittagong, Naval Base, Muswellbrook, Launceston and Welshpool in Australia) and transferred the work to more cost effective jurisdictions (such as its Xuzhou foundry in China). Such initiatives have also helped to reduce capital expenditure and ongoing working capital requirements. We understand the Company will continue to consider further plant network consolidations over the next couple of years if challenging market conditions persist.

- *Acquisition of Indian foundry:* In March 2016, BKN acquired a foundry in India from Larsen & Toubro for A$33.3m. The acquisition is in line with BKN's strategy to move manufacturing to low cost regions. Whilst the Indian foundry currently mainly manufactures wind turbine castings, BKN intends to transfer mill liners, coal and cement wear parts and large structural components production to the Indian foundry over the next two years.

- *Sale of non-performing and non-core businesses:* BKN is looking to exit non-core businesses as a part of its transformation initiatives to stabilise the performance of the Company. BKN has already announced the divestment of its loss making European business[14] (loss of approximately A$2.2 million in FY16).

4.3 Business divisions

We note that the restructuring into three business divisions was announced in July 2016, and full implementation of the restructuring is expected to occur over the course of FY17. A brief overview of the three business divisions is as follows:

- *Mobile Plant:* provides engineered products to mining, rail and industrial companies. Namely, this division's products include consumable wear products for earthmoving equipment, industrial cast products, freight rolling products and related maintenance services. Going forward, the division aims to focus on direct aftermarket sales of consumable products as the sales of these products have been less impacted by the market conditions.

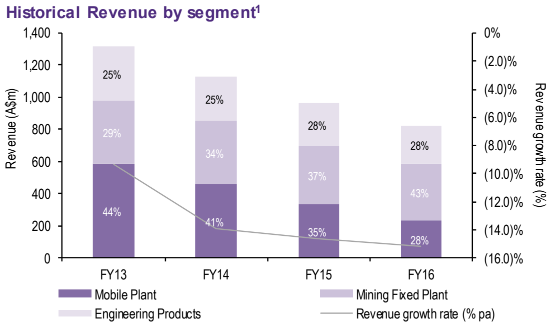
- *Mining Fixed Plant:* The division provides a range of mineral processing products for customers operating in the resources sector; including mill liners, wear plate and liner products made of ceramics, rubber or steel. Through this division, BKN also provides aftermarket support services to more than 30 countries.

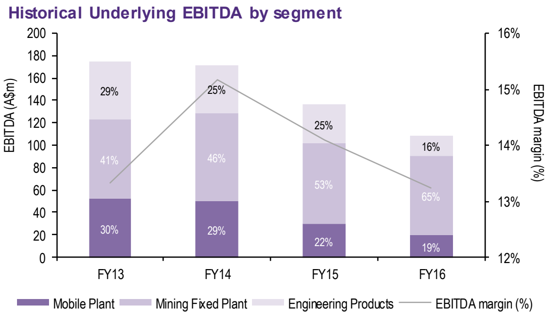
- *Engineered Products:* Based in North America, this division manufactures cast parts for energy, power plants, defence, oil & gas, industrial and rail transport industries that require specialised engineered steel castings. The division's customers include large sized OEMs and multinational companies, as well as US military and other defence organisations.

The historical financial performance of each division is discussed in detail below.

[14] Include European foundries in Scunthorpe and Darlaston

The following charts set out the contribution of each division to the sales revenue and EBITDA of BKN:

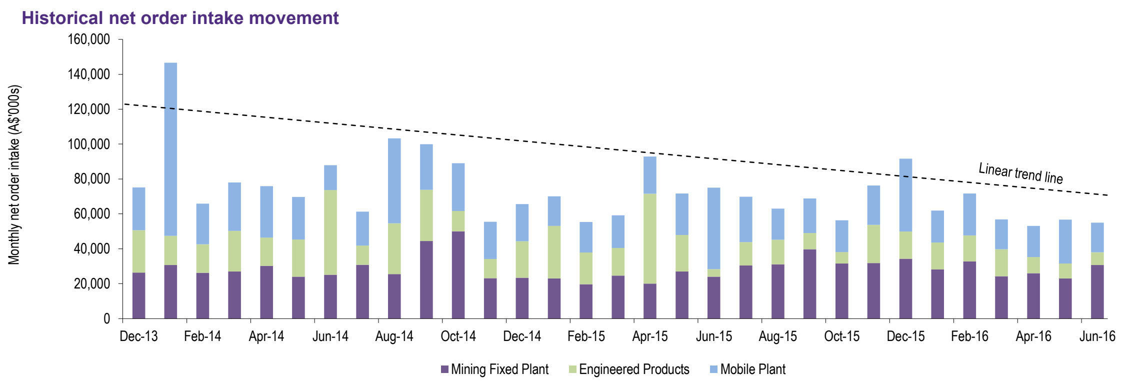




Source: Annual reports
Note: Differences may be due to rounding.
Note (1): Business divisions have been retrospectively consolidated to reflect the intended structure going forward.
Note (2): Underlying EBITDA excludes any one-off or unusual items. See Section 4.4.1 for further details.

In relation to the above, we note the following:

- Over the FY13 to FY16, total revenue and Underlying EBITDA both declined at a Compounded Annual Growth Rate ("CAGR") of approximately 15% reflecting the following:
  - The decline has mainly been driven by the Mobile Plant division (accounted for approximately 72% of the decline in revenue) with capital product sales to mining OEMs and rail wagons having been particularly impacted by the mining downturn. Though, we note that the division's direct consumable product sales have remained relatively steady.
  - The Engineered Products division has also significantly contracted over the period (accounted for approximately 21% of the decline in revenue) due to weakness in mining capital work, and reduced demand from energy markets as a result of declines in oil and natural gas prices. However, this has more recently been partly offset by increased demand from the sea-based military market.
  - The Mining Fixed Plant division (accounted for approximately only 6% of the decline in revenue) has also been adversely impacted by the loss of capital project sales, though the division has continued to make strong sales in relation to mine site wear consumable products (such as mill liners).
- The graph below further illustrates the reduction in the monthly new net order intake for each of the business divisions over the last few years.



Source: BKN Management
Note (1): Net order intake adjusted for cancelled orders
Note (2): Business divisions have been retrospectively consolidated to reflect the intended structure going forward

- In relation to BKN's order intake we note the following:

  - The value of cancelled orders has declined significantly with only approximately A$1.3 million of cancelled orders in FY16 compared to A$20.7 million in FY15.

  - In FY16, the new order intake of the Mining Fixed Plant division increased by approximately 8% reflecting stable trends in the consumable products market, and also acquisition of the new India foundry in March 2016 which sold approximately A$30 million of products into the wind generation industry.

  - The new order intake of the Mobile Plant division contracted significantly over FY13 to FY16 largely due to decline in rail capital orders and OEM sales. The current order book for the Mining Plant division now contains negligible rail capital and OEM orders and as a result, the division will likely see more stability in new orders growth going forward.

  - The Engineered Products division has continued to materially increase its order intake from the North American defence market. As announced by BKN, the North American energy and defence market will be one of the Company's core markets going forward.

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4.4 Financial information

4.4.1 Financial performance

The following table summarises the audited consolidated statements of financial performance of BKN for the financial year ended 30 June 2014 ("FY14") to FY16:

Consolidated statement of financial performance (A$'m)	Audited FY14	Audited FY15	Audited FY16
Revenue	1,137.6	968.4	820.6
Revenue growth	*(13.7%)*	*(14.9%)*	*(15.3%)*
Cost of sales	(907.6)	(784.0)	(689.8)
Gross profit	**230.0**	**184.4**	**130.8**
Gross profit margin (%)	*20.2%*	*19.0%*	*15.9%*
Operating expenses	(87.0)	(74.7)	(81.6)
Reported EBITDA	**143.0**	**109.7**	**49.2**
Reported EBITDA margin	*12.6%*	*11.3%*	*6.0%*
Depreciation & Amortisation	(65.9)	(63.4)	(44.7)
Reported EBIT	**77.1**	**46.3**	**4.5**
Reported EBIT margin	*6.8%*	*4.8%*	*0.5%*

Reconciliation of Underlying EBITDA and Underlying EBIT (A$'m)	FY14	FY15	FY16
Reported EBITDA	**143.0**	**109.7**	**49.2**
Abnormal warranty expense	-	-	19.5
Manufacturing reorganisation	21.6	50.5	28.8
Due diligence, acquisition costs and legal costs/ (recovery)	(6.8)	1.9	8.3
Gain on sale of properties	-	(26.6)	(0.8)
Loss from European operations	-	-	2.2
Other gains and losses	15.5	0.6	1.1
Total one-off/ unusual items	30.3	26	59.1
Underlying EBITDA	**173.3**	**136.1**	**108.4**
Underlying EBITDA margin	*15.2%*	*14.1%*	*13.2%*
Depreciation & Amortisation	(65.9)	(63.4)	(44.7)
Underlying EBIT	**107.4**	**72.7**	**63.6**
Underlying EBIT margin	*9.4%*	*7.5%*	*7.8%*

Source: BKN Annual Reports and GTCF calculations

We note the following in relation to the above financial statements:

- Over FY14 to FY16, the financial performance of BKN declined significantly. As discussed in detail under the previous sections, this has been driven by the mining downturn and subdued global economic growth. More specifically, BKN's capital products portfolio was most adversely impacted while BKN's consumable products portfolio has continued to receive a level of underlying demand from operating mines.

- The reported EBITDA has also been impacted over the observed period by a number of non-recurring and unusual items which have been adjusted for to arrive at the Underlying EBITDA. The key items include:

  – *Abnormal warranty expense in FY16*: relates to the cost to rectify certain delivered freight rail wagons which were identified to have pervasive manufacturing and design issues.

- *Manufacturing reorganisation and gain on sale of properties*: relates to the closure and sale of several facilities, and other internal business restructuring initiatives.

- *One-off due diligence, acquisition and legal costs*: mainly in relation to various corporate offers received by BKN that did not proceed and acquisition of the India foundry.

- *Loss from European operations*: adjustment made given that BKN has announced its intentions to exit its loss making European business.

- BKN has been able to largely support its Underlying EBITDA margins despite falling revenues and challenging market conditions. As discussed previously, strategic restructuring initiatives to re-size the business, reduce overhead costs, leverage low cost offshore capacity and re-focus resources have assisted the Company in responding to increasing competition and pricing pressure.

4.4.2 Financial performance outlook

In relation to the financial performance outlook for BKN, we note that the Company has recently provided the following key representations to the market:

- BKN has indicated that the FY17 Underlying EBITDA would likely broadly remain in line with FY16. We understand that this is based on the assumption that the current market conditions will remain mostly unchanged with further potential reduction in global capital expenditure growth largely balanced by increasing global run-of-mine output.

- BKN has initiated a new 'Transformation Program' which is anticipated to realise A$40 million to A$50 million of annual EBITDA improvement ramping up over the three years to FY19. We understand that the Transformation Program centres on the stabilisation of profits and reduction of debt through the following key initiatives:

  - Focus on fewer products in markets where expertise is valued and consider divestment of any non-core assets. Namely, BKN has identified two core markets; the Mining Wear Parts, and the North American Energy and Defence markets where the Company has continued to observe strong market fundamentals and have well recognised products.

  - Improve on internal operational efficiencies within procurement, supply chain, inventory and trade credit management. This includes the integration of the existing Cast Metal Service business into a cross-functional global sourcing group, process innovation and investment in new technology.

  - Expansion into new geographies and strengthening of key account management capability.

In summary, whilst the Company does not expect any material uplift in revenues over the next three years to FY19, underlying profits are expected to stabilise and return to growth as a result of improved margins with the implementation of the Transformation Program. As part of our valuation assessment of BKN, we have undertaken a detailed analysis of the Transformation Program (including related strategic financial model). Whilst the initiatives present reasonable improvements to the financial performance of the business, there remain significant implementation risks. In our opinion, it is unlikely that under the fair market value concept, a

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pool of potential purchasers will be prepared to recognise in full the EBITDA uplift assessed by BKN of between A$40 million and A$50 million given the high level of inherent uncertainties.

4.4.3 Financial position

The consolidated statement of financial position of BKN as at 30 June 2015 and 30 June 2016 is set out below:

Consolidated Balance Sheet	Audited	Audited
A$'000s	Jun-2015	Jun-2016
Assets		
Cash and cash equivalents	278,408	65,536
Trade and other receivables	166,647	136,052
Finance lease assets	573	645
Inventories	211,035	176,836
Current tax assets	9,857	12,379
Derivative financial instruments	1,332	4,482
Assets held for sale	13,581	14,858
Total current assets	**681,433**	**410,788**
Trade and other receivables	2,843	2,587
Finance lease assets	4,493	4,146
Property, plant and equipment	566,622	387,017
Intangible assets	233,859	167,836
Deferred tax assets	25,880	79,505
Investments accounted for using the equity method	8,683	-
Available for sale assets	-	1,532
Total non-current assets	**842,380**	**642,623**
Total assets	**1,523,813**	**1,053,411**
Liabilities		
Payables	153,844	144,997
Borrowings	54,042	7,547
RPS	63,700	-
Current tax liabilities	6,176	805
Provisions	62,712	59,377
Derivative financial instruments	5,556	2,697
Total current liabilities	**346,030**	**215,423**
Payables	9,371	8,724
Borrowings	571,514	359,306
RPS	-	64,750
Deferred tax liabilities	36,977	17,154
Provisions	21,416	51,992
Total non-current liabilities	**639,278**	**501,926**
Total liabilities	**985,308**	**717,349**
Net assets	**538,505**	**336,062**

Source: BKN Annual Reports

We note the following in relation to BKN's consolidated balance sheet as at 30 June 2016:

- Cash and cash equivalents include A$5.1m of restricted cash which is required to be maintained under the sale of receivables facility agreement with Westpac Banking Corporation. The reduction in the cash between FY15 and FY16 was due to debt repayment.
- Assets held for sale (current asset) includes various non-core manufacturing facilities which are in the process of being divested to third parties.
- Property, plant and equipment, and intangible assets have reduced materially over FY16 as a result of significant impairment expenses recognised mainly in relation to BKN's Mobile Plant and Engineered Products divisions.
- Deferred tax assets include the tax losses of $9.0 million generated in Australia and $3.8 million generated in China which are expected to be utilised over the next five years.
- Available for sale assets relate to BKN's listed investment in 3.5% of Austin Engineering Limited ("ANG"). In FY15, BKN held an equity interest of 21.7% in ANG. However, following a capital raising undertaken by ANG, in which BKN did not participate, BKN's shareholding in ANG reduced to 3.5%. As a result, BKN reclassified this investment to 'available for sale' asset from an 'investment in associate'.
- Current and non-current RPS liabilities relate to the issue of redeemable preference shares at a face value of A$70 million to a consortium of Sigdo and CHAMP in June 2015. We note that as announced to the market on 12 October 2016, the RPS will be fully converted by Sigdo and CHAMP into ordinary shares in BKN.
- Current and non-current provision of approximately A$111.4 million are mainly in relation to employee benefits (A$65.4 million), warranties (A$21.0 million) and restructuring costs (A$23.1 million). Further, we note that the warranties provision includes an A$16.6 million rail wagon claim that is expected to be settled primarily by 2018.
- The following table summarises the interest bearing debt for BKN:

Interest bearing debt A$'000s	Jun-16
Bank overdrafts	(2,453)
Current lease liabilities	(3,471)
Other loans	(1,623)
Bank loans	(75,776)
US Private Placement	(273,307)
Non-current Lease liabilities	(10,223)
Total interest bearing debt	(366,853)

Source: BKN Annual report, GTCF calculation

In relation to BKN's interest bearing liabilities we note the following:

- Bank loans include a syndicate loan with multiple A$ denominated revolving term loan facilities with a weighted average interest rate of 3.3%, and a EUR denominated revolving working capital facility with a weighted average interest rate of 5.1%.

– US Private Placement notes comprising a 7 year, 10 year and 12 year US$ tranche with a weighted average interest rate of 4.6%.

– BKN has a long term debt maturity profile with no refinancing required before July 2018 with maturities out to 2023.

However, we note that as discussed in further detail in the Executive Summary of this report and Section 10.1.1 of the Target's Statement, the Takeover Offer will trigger certain change of control provisions in BKN's financing agreements. To ensure that BKN is able to repay these amounts (if required) HCM will make available the A$450 million Bidder Facility if the Takeover Offer becomes unconditional.

4.5 Capital Structure

As at the date of this report, BKN had the following securities on issue:

- 206,027,249 BKN Shares (assuming conversion of the RPS).
- 5,821,512 Rights issued under BKN's Employee Long Term Incentive Rights Plan (see Section 4.5.5 for details).

4.5.1 Top Shareholders

The following table sets out the top ten shareholders for BKN as at the date of this report:

Top 10 shareholders (October 2016)		
Shareholder name	Number of shares	Ownership %
CHAMP Buyout III[1]	33,270,641	16.1%
Litespeed Partners	22,118,990	10.7%
Paradice Investment Mgt	13,299,464	6.5%
Sigdo Koppers[1]	7,000,000	3.4%
Other top 10 shareholders[2]	45,096,655	21.9%
Top 10 shareholders	**120,785,750**	**58.6%**
Other shareholders	85,241,499	41.4%
Total shares	**206,027,249**	

Source: Management, ASX announcements and GTCF calculations

Note (1): We note that in October 2016, CHAMP and Sigdo Koppers issued separate notices for the conversion of their (in aggregate) $70million RPS to 35 million BKN Shares.

Note (2): Not disclosed given shareholding less than 5%.

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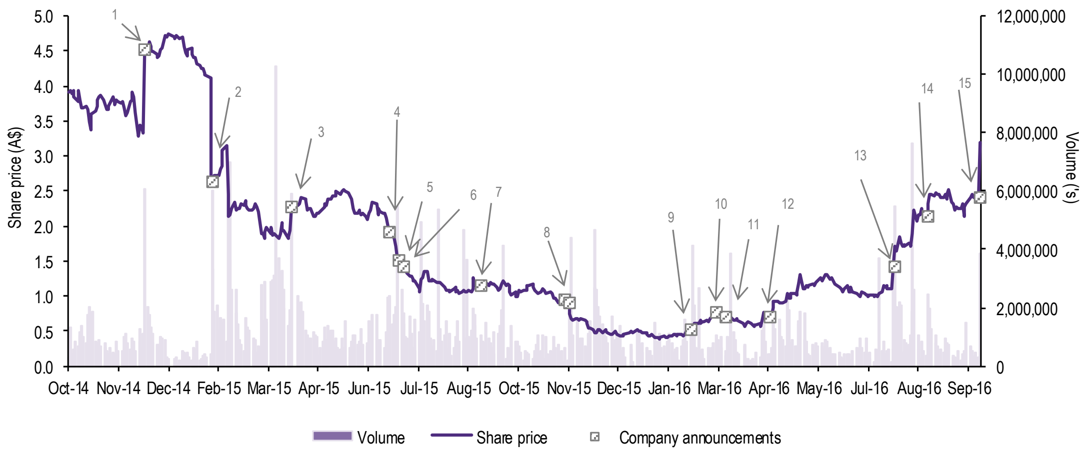
4.5.3 Historical trading analysis

The daily movements in BKN's share price, volumes and key announcements over the last two years are set out in the following chart:

Bradken's share price performance and volume



Source: S&P CapitalIQ, ASX announcements and GTCF calculations

Number	Date	Event
1	05-Dec-14	BKN received a non-binding, indicative proposal from Pacific Equity Partners ("PEP") and Bain Capital Private Equity ("BCP") for 100% of BKN's outstanding shares at A$5.10 per share in December 2014. This offer followed an indicative proposal made in August 2014 by the same consortium for $6 per share. BKN's share price closed at A$4.5/ share.
2	28-Jan-15	BKN announced the termination of the acquisition offer from PEP and BCP. BKN's share price closed at A$2.6/ share.
3	02-Apr-15	BKN received another non-binding, indicative proposal from Koch Industries and Pacific Equity Partners for a cash consideration A$2.5 per share (35% premium on announcement day's closing price). BKN's share price closed at A$2.3/ share.
4	19-Jun-15	Announced retirement of CEO. BKN's share price closed at A$1.9/ share.
5	26-Jun-15	Announced acquisition offer by Magotteaux Group for an undisclosed consideration. BKN's share price closed at A$1.5/ share.
6	30-Jun-15	BKN issued A$70 million in RPS. BKN's share price closed at A$1.4/ share.
7	31-Aug-15	BKN announced termination of the acquisition offer by Magotteaux Group. BKN's share price closed at A$1.2/ share.
8	06-Nov-15	Resignation of directors and chairman. BKN's share price closed at A$1.0/ share.
9	14-Feb-16	Appointed Paul Zuckerman as CEO. BKN's share price closed at A$0.5/ share.
10	07-Mar-16	Completed the acquisition of the Indian foundry from Larsen & Toubro. BKN's share price closed at A$0.78/ share.
11	14-Mar-16	Received an unsolicited, non-binding and conditional recapitalisation proposal from funds managed by CHAMP to subscribe for $150 million worth of BKN shares at a price between $0.75 and $1.0 per share. BKN Share price closed at $0.71/ share.
12	21-Apr-16	Announced rejecting the recapitalisation offer by CHAMP for $150m of BKN Shares. BKN Share price closed at $0.8/ share.
13	27-Jul-16	Announced restructuring of its business divisions i.e. to consolidate operations within three divisions. BKN's share price closed at A$1.4/ share.
14	23-Aug-16	Reported FY16 financial results. BKN's share price closed at A$2.1/ share.
15	03-Oct-16	Announced the Takeover Offer. BKN's share price closed at A$3.2/ share.

Source: ASX announcements

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The monthly share price performance of BKN since September 2015 and the weekly share price performance of BKN over the last 16 weeks is summarised below:

Share price history	Share Price			Average weekly
$ per share	High	Low	Close	volume ('000s)
Month ended				
Oct 2015	1.18	0.94	1.04	2,821
Nov 2015	1.00	0.50	0.55	6,397
Dec 2015	0.57	0.43	0.46	5,129
Jan 2016	0.56	0.37	0.44	3,478
Feb 2016	0.69	0.42	0.64	5,008
Mar 2016	0.83	0.57	0.65	3,719
Apr 2016	0.95	0.56	0.92	3,455
May 2016	1.37	0.91	1.22	5,029
Jun 2016	1.38	0.99	1.05	2,398
Jul 2016	1.73	0.98	1.65	5,284
Aug 2016	2.59	1.60	2.45	7,239
Sep 2016	2.53	2.11	2.31	2,630
Week ended				
17 Jun 2016	1.15	1.04	1.10	1,449
24 Jun 2016	1.18	1.05	1.05	1,998
1 Jul 2016	1.07	0.99	1.06	3,316
8 Jul 2016	1.05	0.98	1.02	2,448
15 Jul 2016	1.06	1.00	1.04	5,141
22 Jul 2016	1.18	1.03	1.11	2,832
29 Jul 2016	1.73	1.09	1.65	11,122
5 Aug 2016	1.88	1.60	1.70	6,401
12 Aug 2016	2.24	1.69	2.23	13,912
19 Aug 2016	2.32	2.03	2.19	3,224
26 Aug 2016	2.52	1.70	2.45	7,250
2 Sep 2016	2.59	2.33	2.40	3,439
9 Sep 2016	2.53	2.35	2.52	3,639
16 Sep 2016	2.49	2.20	2.25	1,617
23 Sep 2016	2.34	2.11	2.31	3,006
30 Sep 2016	2.48	2.28	2.42	2,385

Source: Capital IQ and GTCF calculations

We have considered the recent trading share prices of BKN for the purpose of our valuation of BKN. Accordingly, refer to Section 6.4 for further details and analysis on the trading share prices of BKN.

4.5.4 Dividend Policy

BKN's historical dividend distributions to ordinary shareholders over the last four years are summarised below:

Dividend on ordinary shares	FY13	FY14	FY15	FY16
Dividend on ordinary shares	$0.38	$0.26	nil	nil
Payout ratio[1]	96%	206%	-	-
Dividend yield[2]	9%	7%	-	-

Source: Annual reports

Note (1): Payout ratio has been calculated based on EPS of 12.7 cents and 39.6 cents per share in FY14 and FY13, respectively.
Note (2): Dividend yield has been calculated based on the BKN financial year end share price of A$3.8 and A$4.3 in FY14 and FY13, respectively.

We note that in FY15 and FY16, BKN did not make any dividend distributions to its shareholders as a result of declining financial performance and the need to maintain financial flexibility. In addition, we note that BKN was also restricted from making any dividend distributions to its

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ordinary shareholders under the terms of the RPS which were issued in June 2015 and will be subsequently converted in November 2016. With improved financial performance and continued pay down of existing debt, it would not be unreasonable to assume the Company would recommence dividend distributions in the medium term.

4.5.5 The Rights

BKN has 5,821,512 Rights on issue as summarised in the table below.

Share rights - Key terms	Number of rights	Grant date	Vesting period	Expiry date	Conversion basis
2014 LTI	979,270	Aug-Oct 2014	Jul 2014 to Jun 2017	Jul 2017	Share-based
2015 LTI	1,992,719	Aug 2015	Jul 2015 to June 2018	Jul 2017	Share-based
2016 LTI	2,849,523	Aug 2016	Jul 2016 to Jun 2019	Jul 2019	Cash
Total	**5,821,512**				

Source: Financial reports, Appendix 3B and GTCF calculations

Note (1): The Rights above are subject to either the market based hurdle i.e. BKN's TSR against median TSR of ASX Small Industrials Index over last 5 years, or BKN's performance hurdle i.e. based on BKN's EPS performance over 3 year period. Refer to BKN's 2016 Annual Report for further details.

We have been advised by the Management of BKN that the Rights will either:

- If the Takeover Offer lapses – vest and be exercised per their current terms.
- If the Takeover Offer becomes unconditional – we understand that the Rights Plan rules allow for early vesting in the event of a change of control and the Board has determined that all outstanding Rights will vest if the Takeover Offer becomes unconditional and HCM acquires more than 50% of BKN. The Rights will vest as follows:
  - 2014 and 2015 Share Rights will fully vest and converted into 2,971,989 BKN Shares which will be subject to the Takeover Offer.
  - 2016 Cash Rights will fully vest and converted into cash at the Offer Price (i.e. A$3.25 per share or approximately A$9.3 million in total).

5 Valuation methodologies

5.1 Introduction

In accordance with our adopted valuation approach set out in Section 2.2, our fairness assessment involves comparing the Offer Price of A$3.25 per BKN Share to the fair market value of BKN Shares on a control and fully diluted basis.

In each case, Grant Thornton Corporate Finance has assessed value using the concept of fair market value. Fair market value is commonly defined as:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

5.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets ("FME Method").
- Discounted cash flow method and the estimated realisable value of any surplus assets ("DCF Method").
- Amount available for distribution to security holders on an orderly realisation of assets ("NAV Method").
- Quoted price for listed securities, when there is a liquid and active market ("Quoted Security Price Method").
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

5.3 Methodologies selected

In our assessment of the fair market value of BKN, Grant Thornton Corporate Finance has relied on the FME Method, DCF Method and the Quoted Security Price Method as discussed below.

5.3.1 FME Method

Grant Thornton Corporate Finance has selected the EBIT and EBITDA capitalisation approach to assess the fair market value of BKN. We have adopted both the EBIT and EBITDA multiple approach due to the following key considerations:

- BKN is a capital intensive business with a large depreciation and amortisation charge which reflects the capital expenditure required to build, maintain and grow the product manufacturing side of the business. EBIT can better adjust for differences in relative capital expenditure intensity.

- However, the depreciation charge is often not fully reflective of the useful life of the underlying plant and equipment, and it could be driven by tax planning and structuring. Furthermore, we note that our selected comparable companies are located in different jurisdictions and are subject to different accounting standards. EBITDA can better adjust for such non-cash charges which may distort earnings or make comparison between companies difficult.

We are of the opinion that a capitalisation of earnings approach is an appropriate valuation methodology for BKN due to following:

- Despite recent adverse market conditions negatively impacting the performance of BKN, the Company is still a mature business with a history of profitability, which is expected to continue over the long term.

- EBIT and EBITDA multiples for manufacturers are widely used and accepted relative valuation measures.

- Availability of transactional evidence and listed comparable companies for the calculation and analysis of implied EBIT and EBITDA multiples.

The EBIT and EBITDA capitalisation approach involves the following key processes:

- Selecting an appropriate level of EBIT and EBITDA, having regard to the historical and budgeted operating results after adjusting for non-recurring items of income and expenditure, and other known factors likely to affect the future operating performance of the business; and

- Determining appropriate EV/EBIT and EV/EBITDA multiples having regard to the trading multiples of comparable companies and comparable transaction evidence, and the specific circumstances of BKN and the selected comparable companies such as market positioning, quality of earnings, future growth prospects and investment risk.

5.3.2 DCF Method

We have undertaken a DCF analysis of BKN based on three to five year projected cash flows underlying BKN's impairment models as at 30 June 2016 ("Impairment Model"), BKN's Transformation Program strategy scenario analysis model ("Strategy Model") and internal Management model ("Internal Model").

We note that the Impairment, Strategy and Internal Models have been prepared for the purpose of testing the carrying value of assets and scenario testing rather than to assess 100% of the equity value of BKN. With regard to such limitations, we have undertaken detailed discussions with and made the relevant enquires to Management to assess the reasonableness of the projection assumptions and cash flows for the purpose of our valuation assessment of BKN.

Further sensitivity analysis has been performed as set out in Section 6.3.2 to provide further robustness to our analysis.

5.3.3 Quoted Security Price Method

The Quoted Security Price Method is based on the Efficient Market Hypothesis ("EMH") which states that the share price at any point in time reflects all publicly available information and will change when new information becomes publicly available. With regards to this, we note that BKN complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about the performance of BKN. There also appears to be sufficient liquidity in BKN's Shares as required under RG111 when adopting the Quoted Security Price Method.

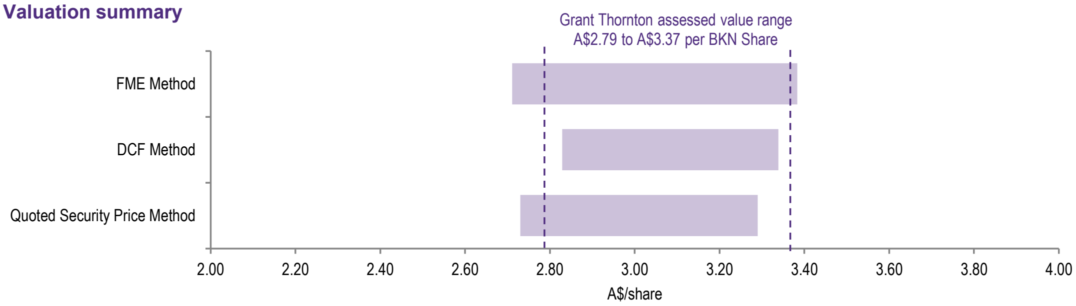
6 Valuation assessment of BKN Shares

6.1 Valuation summary

As discussed in Section 5.3, we have utilised the FME Method, DCF Method and Quoted Security Price Method for the purpose of assessing the fair market value of BKN on a control basis. We have set out in the table below a summary of our assessed valuation range.

Valuation summary (fully diluted, control basis)	*Section*	Low	High
Method	*Reference*	(A$/share)	(A$/share)
FME Capitalisation Method	*6.2*	2.82	3.49
DCF Method	*6.3*	2.83	3.34
Quoted Security Method	*6.4*	2.73	3.29
Grant Thornton selected valuation range		**2.79**	**3.37**

Valuation summary



6.2 FME Method

Set out below is our valuation assessment of BKN based on the capitalisation of maintainable earnings.

FME Method	*Section*	EV/ EBIT		EV/EBITDA	
(A$'m)	*Reference*	Low	High	Low	High
Assessed maintainable earnings	*6.2.1*	70.0	90.0	110.0	130.0
Assessed multiple	*6.2.2*	13.0 x	12.0 x	9.0 x	8.5 x
Enterprise value of core business (control basis)		**910.0**	**1,080.0**	**990.0**	**1,105.0**
Less: Net other liabilities	*6.2.3*	(55.7)	(58.0)	(56.8)	(58.3)
Enterprise value (control basis)		**854.3**	**1,022.0**	**933.2**	**1,046.7**
Less: Net debt as at 30 Sep 2016	*Note 1*	(304.4)	(304.4)	(304.4)	(304.4)
Equity value (control basis)		**549.9**	**717.6**	**628.8**	**742.3**
Number of outstanding shares ('m) (fully diluted)	*Note 2*	209.0	209.0	209.0	209.0
Value per share (A$/share) (control basis)		**2.63**	**3.43**	**3.01**	**3.55**
Grant Thornton selected valuation range			**2.82**	**to**	**3.49**

Source: GTCF Calculations

Note (1): Net debt as at 30 September as advised by Management.

Note (2): Given our assessment of BKN assumes 100% of the shares will be available for sale and the Share Rights rules allow for early vesting in the event of a change of control, we have adjusted the total number of outstanding shares to include the dilution impact from the conversion of 2,971,989 Share Rights.

6.2.1 Maintainable EBIT and EBITDA of BKN

The maintainable EBIT and EBITDA adopted for our valuation purposes is an exercise of judgement that takes into consideration the following factors:

- Historical financial performance of BKN from FY13 to FY16, as discussed in more detail in Section 4.

- Budget for FY17 and management projections ("BKN Projections") for FY18 to FY20 underlying the Impairment, Strategy and Internal Models. Whilst Grant Thornton Corporate Finance believes that the assumptions underlying the BKN Projections are reasonable and appropriate to be adopted for the purpose of our valuation, in accordance with the requirements of RG111, we have not disclosed them into our Report. In addition, the BKN Projections contain commercially sensitive information and they do not meet the requirements for presentation of prospective financial information as set out in RG170.

  In accordance with the requirement of RG 111, we have undertaken a critical analysis of the BKN Projections before relying on them for the purpose of our valuation assessment. Specifically, we have performed the following analysis:

  - Conducted high level checks of the BKN Projections, including limited procedures in relation to the mathematical accuracy.
  - Performed a broad review, critical analysis and benchmarking of the Projections with the historical performance of BKN and current trends in the industry.
  - We have held several discussions and interviews with the Management of the Company and its advisor to discuss the BKN Projections.
  - In order to test the reasonableness of BKN's Projections, we have, among other things, reviewed and benchmarked revenue growth rates and earnings margins with listed peers.

- Key industry risks, growth prospects and general economic outlook.
- Normalisation of the reported EBITDA and EBIT. This involves adjusting for non-recurring and unusual items (See Section 4.4.1 for outline of normalisation adjustments).
- Broker estimates for BKN.

Our assessment of the maintainable EBIT and EBITDA of BKN is summarised in the table below which also provides a benchmark with the historical underlying earnings.

Future maintainable Underlying EBIT and EBITDA A$m	FY13	FY14	FY15	FY16
Revenue	1,317	1,138	968	821
Underlying EBITDA	175	173	136	108
Underlying EBIT	117	107	73	64
Grant Thornton adopted Maintainable EBITDA		**110**	**to**	**130**
Grant Thornton adopted Maintainable EBIT		**70**	**to**	**90**

Source: BKN Annual Reports, Management information and GTCF analyses

In summary, in our assessment of the future maintainable EBIT and EBITDA for BKN, we have considered the following key factors:

- *BKN's financial performance has declined significantly over FY14-16:* BKN's financial performance has been adversely impacted by the continued decline in the global mining and commodity markets. Refer to Section 4.3 and 4.4 for details.

- *BKN is a mature company with a strong portfolio of well recognised products*: BKN is a mature business with a global presence and a portfolio of differentiated products which has allowed the Company to weather the mining downturn whilst smaller operators have exited the sector. Over the last few years, majority of BKN's decline in revenue has been mainly as a result of decreased demand for capital products. The demand for the Company's consumables products, which is driven by existing operating mines, has remained broadly stable.

- *Transformation Program to deliver EBITDA improvement*: Management have indicated to the market an anticipated A$40 million to A$50 million[15] of annual EBITDA improvement to be delivered under the Transformation Program over the next three years to FY19 (see Section 4.4.2 for further details). We note that we have been provided with the detailed Strategy Model which was prepared for the purpose of assessing the Transformation Program. Accordingly, we have had detailed discussions with Management around the key initiatives of the Transformation Program including, amongst other things, the timing of implementation, key risks and opportunities, and confidence levels of achieving the projections to form our own independent view of the benefits that could be delivered under the Transformation Program.

- *Industry outlook is relatively stable and supportive of medium term return to growth:* As discussed in Section 3, the general market consensus forecast is that the Mining Products Sector is in the process of stabilising and will see some moderate growth over the next five years. However, it is unlikely the mining cycle will return to the highs experienced over the last decade in the medium term, and when growth does return, the resources sector and the Mining Products Sector will likely be significantly different than in the past with the large structural changes that have since occurred. The future success of individual companies will, amongst other factors, depend on their ability to continually differentiate their products whilst keeping costs low and acquiring new market share.

- *Broker forecast for BKN in line with industry outlook*: the available broker forecast[16] for BKN over the last 6-months reflected the market sentiment on industry outlook – stabilisation in the short term with some moderate growth in the medium to long term. Though, we note that the brokers have different opinions on the timing and degree of the sector's return to growth which has resulted in divergent investment recommendations. This highlights the inherent uncertainty in such forecasts. The brokers have also considered the potential benefits from the Transformation Program with different degrees of conservatism. Though we note that the brokers did not have access to the same level of information that we have been privy to on the Transformation Program, for the purpose of the Independent expert's report.

Based on the above discussions and a review of the information available, we have assessed:

- Maintainable EBITDA between A$110 million and A$130 million.

- Maintainable EBIT between A$70 million and A$90 million.

The low-end of our range reflects the FY16 normalised performance and Management's guidance in relation to the FY17 underlying EBITDA. The high-end of the range reflects growth

[15] BKN FY16 Results presentation
[16] Only two brokers provided EPS estimates for BKN over the last 6 months.

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potential which could be driven by a more expedite recovery of the industry and potential upside from the Transformation Program.

6.2.2 Assessment of EV/EBIT and EV/EBITDA Multiples

For the purpose of assessing an appropriate multiples range to value BKN, we have had regard to:

- The trading multiples of listed comparable companies which have been attributed by share market investors.

- The multiples implied by recent transactions involving comparable companies.

Trading multiples

Summarised below are the trading multiples of the selected companies having regard to the trading prices:

Trading mutiples anlaysis			EV/EBIT[3]				EV/EBITDA[3]			
Company	Country[1]	Market Cap[2] (A$'m)	FY15 Actual[4]	FY16 Actual[4]	FY17 Forecast[5]	FY18 Forecast[5]	FY15 Actual[4]	FY16 Actual[4]	FY17 Forecast[5]	FY18 Forecast[5]
Tier 1 - Domestic & international mining products manufacturing companies										
Austin Engineering Ltd.	Australia	71	26.8x	NM[6]	NA[6]	NA[6]	6.8x	11.1x	NA[6]	NA[6]
Compania Electro Metalurgica S.A.	Chile	729	9.8x	9.5x	NA[6]	NA[6]	7.2x	7.1x	NA[6]	NA[6]
Voestalpine AG	Austria	7,901	10.4x	15.2x	11.1x	9.8x	6.1x	6.9x	5.8x	5.3x
The Weir Group PLC	United Kingdom	6,243	12.6x	21.4x	18.2x	15.6x	9.3x	13.5x	14.3x	12.8x
Metso Corporation	Finland	5,712	10.9x	13.6x	14.0x	13.0x	9.1x	11.1x	11.5x	10.8x
Joy Global, Inc.[7]	United States	3,592	7.9x	26.7x	33.5x	24.2x	6.1x	15.2x	14.6x	13.1x
Komatsu Ltd.	Japan	27,871	13.2x	13.0x	16.9x	15.3x	9.0x	8.2x	9.6x	8.9x
Sandvik AB	Sweden	18,021	14.3x	14.9x	13.7x	12.8x	10.1x	10.6x	9.7x	9.2x
Kopex S.A.	Poland	80	8.8x	NM[6]	19.0x	8.6x	3.5x	NM[6]	5.3x	4.0x
FLSmidth & Co. A/S	Denmark	2,401	11.3x	14.4x	12.7x	11.3x	7.6x	9.4x	8.1x	7.5x
Tier 1 Median		**4,312**	**11.1x**	**14.6x**	**15.4x**	**12.9x**	**7.4x**	**10.6x**	**9.6x**	**9.1x**
Tier 2 - Domestic mining services/ engineering companies										
RCR Tomlinson Limited	Australia	391	6.4x	15.9x	9.2x	7.8x	5.0x	9.1x	6.3x	5.6x
MACA Limited	Australia	404	4.4x	10.2x	7.6x	5.9x	2.5x	3.9x	3.6x	3.2x
Ausdrill Ltd.	Australia	451	17.7x	11.6x	9.0x	7.0x	6.0x	5.3x	4.5x	3.8x
AusGroup Limited	Australia	37	10.2x	NM[6]	NA[6]	NA[6]	6.2x	NM[6]	NA[6]	NA[6]
GR Engineering Services Limited	Australia	246	11.4x	8.1x	7.8x	6.2x	9.0x	7.5x	7.3x	5.9x
WorleyParsons Limited	Australia	2,067	7.0x	9.7x	10.7x	9.8x	5.5x	7.5x	8.1x	7.6x
Monadelphous Group Limited	Australia	851	4.6x	7.2x	8.8x	9.1x	4.0x	5.9x	7.0x	7.3x
Tier 2 Median		**404**	**7.0x**	**10.0x**	**8.9x**	**7.4x**	**5.5x**	**6.7x**	**6.7x**	**5.8x**
Tier 1&2 Median		**1,459**	**10.4x**	**13.3x**	**11.9x**	**9.8x**	**6.2x**	**8.2x**	**7.7x**	**7.4x**

Note (1): Country of headquarters
Note (2); Market capitalisation as at 30 September 2016
Note (3): EBIT/EBITDA calculated based on annual periods ended 30 June (i.e. instead of financial year end). EV is adjusted to exclude identified surplus assets (incl. assets held for sale and net pension liabilities)
Note (4): Underlying EBIT/EBITDA (i.e. normalised for unusual items) as reported in Annual Reports of comparable companies where available, or otherwise sourced from S&P Capital IQ
Note (5): Forecast based on consensus median of all recent broker forecasts dated within the last 6 months from 30 September 2016 sourced from S&P CapitalIQ
Note (6): NA - Not Applicable, NM - Not Meaningful
Note (7): In July 2017, Komatsu entered into a definitive agreement to acquire Joy Global for approximately US$.2.8 bn. Accordingly, the trading multiples of Joy Global already incorporates some level of control premium. See the section below for further details on the transaction.
Source: S&P CapitalIQ, comparable company Annual Reports and GTCF analysis

In relation to the comparability of the above assessed multiples, we note the following key considerations:

- The EV/EBIT and EV/EBITDA multiples presented above reflect the value of underlying companies on a minority basis and do not include a premium for control. However, we note that the trading multiple of Joy Global reflects the recent takeover offer for 100% of the company from Komatsu (see below section for details on the transaction).

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- We have selected two tiers of comparable companies. Tier 1 consists of companies focused on the manufacturing of mining and industrial capital and consumable products like BKN, and most have been identified by the Company as key competitors. However, given the limited number of domestically focused companies and the materially larger size of the majority of the companies included in Tier 1, we have also selected a second tier of comparable companies. Tier 2 consists of only domestic companies focused on the provision of mining services (rather than manufacturing) and which are more similar in size compared to BKN. We note that a wide range of comparable companies have been selected for the purpose of this analysis given the lack of perfectly comparable companies. A brief description and comparison of the comparable companies with BKN is set out in Appendix C.

- Trading multiples for mining services and engineering companies (i.e. Tier 2) are generally lower than those for the Mining Products companies (i.e. Tier 1). Other than the size difference, we note that this is also due to the higher uncertainty associated with service revenues as the major assets of mining services and engineering companies are human capital and business reputation as opposed to the relatively more tangible key assets of Mining Products companies in the form of manufacturing facilities and product patents.

- Companies with stronger historical financial performance and higher growth prospects tend to trade at higher multiples. The table below provides a summary or the historical and forecast financial performance of BKN and the selected comparable companies.

Growth and margin analysis	LTM[1]	Historical CAGR (2013-16) (% pa)		Historical Underlying EBIT		Forecast growth rate[5]	
Company	Marketcap (A$'m)	Revenue[3]	Underlying EBIT[3,4]	Average over 2014-16[3]	LTM from 30 June 16	FY17 EBIT growth rate	FY18 EBIT growth rate
BKN	**414**	**(14.6%)**	**(25.8%)**	**7.8%**	**9.1%**	**NA**	**NA**
Austin Engineering Ltd.	71	(13.3%)	(71.9%)	2.0%	9.7%	NA	NA
Compania Electro Metalurgica S.A.	729	8.6%	5.3%	10.9%	11.6%	NA	NA
Voestalpine AG	7,901	0.0%	(8.9%)	7.5%	6.9%	36.4%	13.3%
The Weir Group PLC	6,243	(7.0%)	(24.9%)	19.7%	20.1%	17.7%	16.6%
CITIC Heavy Industries Co., Ltd.	4,312	(12.3%)	(81.9%)	4.4%	9.6%	NA	NA
Metso Corporation	5,712	3.9%	(12.0%)	14.0%	14.8%	(2.9%)	7.5%
Joy Global, Inc.	3,592	(11.8%)	(45.8%)	16.8%	19.6%	(20.2%)	38.6%
Komatsu Ltd.	27,871	4.5%	1.9%	10.3%	11.4%	(23.4%)	10.6%
Sandvik AB	18,021	(4.9%)	(6.1%)	12.1%	11.9%	8.4%	7.6%
Kopex S.A.	80	(11.1%)	(244.9%)	9.8%	8.7%	(113.8%)	122.4%
FLSmidth & Co. A/S	2,401	(12.4%)	(16.5%)	7.3%	7.0%	13.2%	12.2%
Tier 1 Median (exl. BKN)	**4,312**	**(7.0%)**	**(16.5%)**	**10.3%**	**11.4%**	**2.8%**	**12.7%**
RCR Tomlinson Limited	391	0.6%	(14.8%)	7.8%	5.6%	73.2%	17.4%
MACA Limited	404	(3.2%)	(23.6%)	18.3%	15.3%	33.8%	29.8%
Ausdrill Ltd.	451	(13.0%)	(27.4%)	5.0%	11.6%	28.3%	29.9%
AusGroup Limited	37	(6.1%)	(63.2%)	3.8%	1.9%	NA	NA
GR Engineering Services Limited	246	30.6%	(144.9%)	6.1%	7.3%	3.8%	25.8%
WorleyParsons Limited	2,067	(4.1%)	(16.9%)	5.4%	5.5%	(10.0%)	9.7%
Monadelphous Group Limited	851	(19.4%)	(25.3%)	10.5%	9.7%	(18.7%)	(2.7%)
Tier 2 Median (exl. BKN)	**404**	**(4.1%)**	**(25.3%)**	**6.1%**	**7.3%**	**16.1%**	**21.6%**
Tier 1&2 Median (exl. BKN)	**1,459**	**(5.5%)**	**(24.2%)**	**8.8%**	**9.7%**	**6.1%**	**14.9%**

Note (1): LTM - last twelve months from 30 Sep 16
Note (2): LFY - last financial year
Note (3): Calculated based on annual periods ended 30 June (i.e. instead of financial year end)
Note (4): Underlying EBIT (i.e. normalised for unusual items) as reported in Annual Reports where available, or otherwise sourced from S&P CapitalIQ
Note (5): Forecast based on consensus median of all recent broker forecasts dated within the last 6 months from 30 S 2016 sourced from S&P CapitalIQ
Source: S&P CapitalIQ, comparable company financials and GTCF calculations

Based on our analysis above, we note the following:

– BKN's current EBIT margin level is lower than the median of the Tier 1 companies and higher than the median of Tier 2 companies.

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- Consensus' estimates for both Tier 1 and Tier 2 EBIT forecasts seem to indicate a marked improvement in financial performance in FY18.

- Similar to BKN, we note that the majority of the comparable companies have undertaken material restructuring initiatives over the last few years and have on-going programs in place to further align their businesses to market conditions.

- A number of the comparable companies are forecast to experience further material declines in EBIT in FY17 whilst BKN Management has provided guidance for FY17 results to be broadly in line with FY16.

Overall, whilst none of the peer companies are perfectly comparable to BKN, we believe the selected comparable companies as a whole provides a good level of guidance for the multiples applicable to BKN.

Transactional multiples

We have further considered multiples implied by historical transactions involving companies comparable to BKN. The table on the following page summarises the EV/EBIT and EV/EBITDA multiples implied by these historical transactions.

In relation to the multiples implied by comparable transactions, we note that:

- The implied transaction multiples may incorporate various levels of control premium and special values paid for by the acquirers. In particular, the multiples may reflect synergies paid which are unique to the acquirers.

- The transactions observed took place during the period between October 2013 and July 2016. Economic and market factors, including competition dynamics and commodity prices may be materially different from those current as at the valuation date. These factors may influence the amounts paid by the acquirers for these businesses.

- The transaction multiples are calculated based on the historical EBIT and EBITDA of the acquired companies (unless otherwise stated).

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The following table summarises the multiples implied by these historical transactions:

Announement Date	Target Company	Country	Target's Industry classification	Bidder Company	Stake (%)	Deal Value (A$'m)	LTM EBIT Multiple (Times)	LTM EBITDA Multiple (Times)	Status
Jul-16	Joy Global, Inc.	United States	Industrial & mining equipment	Komatsu Ltd.	100%	5,139.2	20.5 x	11.7 x	Announced
May-16	Ausenco Limited	Australia	Construction and engineering	Resource Capital Funds; Resource Capital Fund VI L.P.	60%	129.7	NA	5.9 x (1)	Closed
Jan-16	Sedgman Limited	Australia	Construction and engineering	CIMIC Group Investments Pty Limited	63%	155.3	8.7 x	5.8 x	Closed
Jul-15	Delta Industrial Valves, Inc.	United States	Industrial equipment	The Weir Group PLC	100%	63.3	NA	7.6 x	Closed
Dec-14	Resource Equipment Limited (nka:National Pump & Energy Pty Ltd.)	Australia	Mining equipment hire and mining services	Pump Services LLC	70%	108.6	NM	8.8 x	Closed
Mar-14	Campbell Mining Services Pty Ltd	Australia	Mining equipment and mining services	Mr Naymola	33%	37.8	5.3 x	4.4 x	Closed
Feb-14	Victor Technologies Group Inc	United States	Industrial & mining equipment	Colfax Corporation	100%	1,049.5	13.0 x	10.3 x	Closed
Jan-14	Diversified Mining Services Limited, COALTRAM Mining Equipment Business	Australia	Industrial & mining equipment	PPK Group Limited	100%	13.0	NA	5.7 x	Closed
Oct-13	Mancala Holdings Pty Ltd	Australia	Construction and engineering	Sapphire Corporation Limited	100%	15.0	NA	5.4 x	Closed
Oct-13	Servigrut Ltda.	Chile	Mining services	Austin Engineering Ltd.	100%	22.2	5.8 x	NA	Closed
Median						**85.9**	**8.7 x**	**5.9 x**	
Average						**673.4**	**10.7 x**	**7.3 x**	

Note (1): Ausenco transaction multiples based on forecast FY16 EBIT and EBITDA given FY15 EBIT and EBITDA are negative
Source: S&P CapitalIQ, publically available information and GTCF analysis

Regarding the multiples implied by the above transactions, we note the following in relation to the recent transactions which we also consider most comparable and relevant for the purposes of valuation of BKN:

- *Joy Global* – in July 2016, Komatsu announced the 100% acquisition of JOY for approximately US$3.7 billion in cash on a fully diluted basis. The offer price of US$28.3 per share represents a material premium of approximately 48% to the 3-month VWAP of JOY. We note the premium paid likely reflects the highly complementary nature of JOY's and Komatsu's businesses with JOY more focused on mining equipment (in particular underground equipment) and Komatsu more focused on construction and above ground mining equipment. Whilst this transaction is the most recent in the sector, we do not believe it would be unreasonable for JOY to transact at a higher multiple than BKN due to the following:

  – BKN is materially smaller than JOY and has significantly lower margins. BKN's LTM Underlying EBIT margin was 9.1% compared to JOY's margin of 19.6%.

  – JOY has materially exceeded market expectations with its recent 2Q2016 earnings, as a result of successfully implementing large cost reductions which fuelled a significant increase in its share price in early June 2016[17]. In comparison, the benefits delivered by BKN's restructuring initiatives have been robust though relatively more modest.

  We note that the transaction has not yet completed and needs to be considered with some caution.

- *Ausenco and Sedgman* – transactions involving Ausenco and Sedgman are the most recent domestic transactions in the related mining services sector. Although the companies mainly engage in the provision of construction and engineering services to the resources sector rather

[17] Joy Global's share price experienced an intra-day increase of approximately 11.5% on the day of the earnings announcement on the 2 June 2016.

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than manufacturing mining products, we consider these companies face similar business risks and market exposures as BKN on a broad level. However we note the following comparability issues for consideration:

- Ausenco's financial performance had deteriorated significantly over the last few years with underlying EBITDA declining from A$27.1 million in FY13 to negative A$13.7 million FY15. Though, it was expected that the company would return to profitability in the short term with delayed projects re-commencing and new contracts won. We also note that the offer price represented a 66.7% premium to the 3-month VWAP of Ausenco despite the limited synergies that the bidder, Resource Capital Funds (a private equity firm) was expected to be able to extract. In this regard, we note that the independent expert which opined on the transaction[18], cautioned reliance on the implied premium given the low liquidity of Ausenco shares and significant volatility in the share price over the recent period.

- Sedgman's financial performance had been highly volatile over the last few years with underlying EBITA declining from A$27.5 million in FY13 to A$3.9 million in FY14 and then increasing to A$20.5 million in FY15. Underlying EBITA increased significantly as a result of a combination of new contract wins and benefits from prior restructuring initiatives. The bidder, CIMIC Group also operates in the same sector as Sedgman and already held a 36.9% interest in Sedgman prior to the takeover announcement. The offer price represented a 26.2% premium to the 3-month VWAP of Sedgman. We note that Sedgman's significant cash position would have also contributed to the slightly lower than industry average premium offered[19].

- *Delta Industrial Valves* – manufactures and markets knife gate valves principally for customers operating in the mining and oil sands sectors. The acquisition of Delta was expected to help enhance Weir's global capability and expand its valves product offering. We note that the goodwill (can be regarded as a proxy for the premium paid) arising from the acquisition of Delta represented approximately 56% of the total consideration.

<u>EV/EBIT and EV/EBITDA multiples - Conclusion</u>

Based on the analysis of listed comparable companies and comparable transactions, Grant Thornton Corporate Finance has assessed an EV/EBIT multiple for the valuation of BKN in the range of 12.0x to 13.0x, and an EV/EBITDA in the range of 8.5x to 9.0x on a control basis mainly having regard to the following:

- The median FY16 multiples of selected Tier 1 trading companies is approximately 14.6x EV/EBIT and 10.6x EV/EBITDA, and median FY17 multiples is approximately 15.3x EV/EBIT and 9.5x EV/EBITDA on a minority basis. Though the majority of the companies are materially larger and more diversified than BKN and have historically maintained higher margins.

- The median FY16 multiples of selected Tier 2 trading companies is approximately 10.0x EV/EBIT and 6.7 x EV/EBITDA, and median FY17 multiples is approximately 8.9x EV/EBIT and 6.7x EV/EBITDA on a minority basis. Whilst the companies are relatively more similar in size to BKN, they are engaged in the provision of mining services rather than the manufacture of mining products, and generally operate at lower margins and with limited barriers to entries. In addition, the performance of the industry is more driven by capital investments rather than mining consumables and accordingly, it is currently more depressed.

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[18] Independent Expert's Report for Ausenco dated 20 July 2016, prepared by Lonergan Edwards & Associates Limited
[19] Given the 'risk-free' nature of cash (or cash equivalent) assets, such assets have low future return and synergy potential, and are therefore typically transacted at values in line with their carrying value. Accordingly, companies holding more cash assets would typically transact at lower multiples and premiums than an equivalent company with less cash assets.

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- We have incorporated a premium for control in our consideration of the EV/EBIT and EV/EBITDA multiples of the listed comparable companies. See Section 6.4.4 for further details on the control premium.

- The average historical EV/EBITDA multiples of the selected most comparable transactions is 7.7x on a control basis. We consider the average EV/EBIT multiple to not be statistically relevant given there are only two observations.

- Over the last couple of years, BKN has also received a number of unsuccessful change of control offers which implied EV/EBITDA and EV/EBIT multiples as summarised in the table below.

Previous change of control offers received by BKN						Implied premium	
Announcement date	Bidders	% sought	Offer price A$/ share	EBITDA x	EBIT x	1 week prior (%)	3 months prior (%)
Aug-14	Pacific Equity Partners; Bain Capital Private Equity	100%	$6.00	8.0x	13.0x	27.4%	50.4%
Dec-14	Pacific Equity Partners; Bain Capital Private Equity	100%	$5.10	7.1x	11.5x	27.2%	29.8%
Apr-15	Koch Equity Development; Pacific Equity Partners	100%	$2.50	5.4x	10.0x	23.8%	7.8%
Jun-15	Sigdo Koppers, CHAMP	100%	n/a	n/a	n/a	n/a	n/a
Apr-16	CHAMP (recapitalisatiion proposal)	45.9% to 46.8%	$0.91	6.0x	11.8x	121%	150%

Source: Capital IQ, GTCF research and analysis
Note (1): CHAMP's recapitalisation proposal involved the subscription of new equity to the amount of A$150 million, via two separate placements of A$0.75 per share equal to the maximum number of shares available under the Company's placement capacity and A$1.00 per share for the balance. The calculated offer price of A$0.91is based on the weighted average of the two separate placements.

However, given that none of the above offers have completed and the significant restructuring BKN has undertaken over the period, we have placed limited reliance on the above implied multiples.

6.2.3 Other net liabilities

Other net liabilities of ranging between approximately A$55.7 million and A$58.3 million consist of the following:

- Defined pension benefit liability of A$18.4 million (net of deferred tax assets) relating to two retirement plans that BKN operates in the US and Canada[20].

- Warranty provision of A$16.6 million relating to an unusually large warranty claim for delivered freight rail wagons which were identified to have pervasive manufacturing and design issues. The claim is expected to be settled primarily by FY18.

- One-off restructuring costs (post tax) budgeted to be incurred by the Company over FY17 and mainly relate to termination benefits, and costs associated with decommissioning of affected sites.

- Deferred consideration due in March 2017 for the acquisition of the Indian foundry.

[20] We note that we have adjusted for net pension assets/liabilities in our assessed trading and transaction multiples set out in Section 6.2.2. Accordingly, we are required to also adjust for the net pension liabilities of BKN.

- BKN's 3.5% investment in ANG (held as a current asset available for sale on the balance sheet as at 30 June 2016). We have assessed the fair value of this investment based on ANG's trading price as at 30 September 2016.

- Assets held for sale (including deferred proceeds payable to BKN) as at 30 September 2016.[21]

- As set out in Section 4.5.3, BKN has 2,849,523 Cash Rights. Given our assessment of BKN assumes 100% of the shares will be available for sale and the Cash Rights rules allow for early vesting in the event of a change of control, we have assumed that the Cash Rights will be settled at our assessed valuation of BKN (we note that this results in an iterative calculation) and accordingly is valued in the range of A$7.5 million and A$10.1 million.

- Transaction costs in relation to the Takeover Offer.

6.2.4 Sensitivity analysis

We have also conducted a sensitivity analysis to highlight the impact on the share price of BKN (control basis) caused by movements in the maintainable EBIT and EBITDA, and EV/EBIT and EV/EBITDA multiples.

Maintainable EBIT (A $'m)	EV/ EBIT multiple (on a control basis) 11.0 x	12.0 x	13.0 x	14.0 x
110	4.05	4.58	5.11	5.63
100	3.53	4.01	4.49	4.96
90	3.00	3.43	3.86	4.29
70	1.95	2.28	2.62	2.95
60	1.42	1.71	2.00	2.28
50	0.90	1.14	1.38	1.61

Maintainable EBITDA (A$'m)	EV/ EBITDA multiple (on a control basis) 7.50 x	8.50 x	9.00 x	10.00 x
150	3.64	4.36	4.72	5.44
140	3.29	3.96	4.29	4.96
130	2.93	3.55	3.86	4.48
110	2.21	2.74	3.00	3.52
100	1.85	2.33	2.57	3.05
90	1.49	1.92	2.14	2.57

Source: GTCF Calculations

These sensitivities do not represent a range of potential values of BKN, but they intend to show the BKN Shareholders the sensitivity of our valuation assessment to changes in certain variables.

6.3 DCF Method

For the purpose of our valuation assessment of BKN utilising the DCF method, Grant Thornton Corporate Finance developed a financial model ("GT Model") on the operating business of BKN, which was based on Grant Thornton's judgment of the following:

- *Impairment Model* – prepared for the purpose of testing the carrying value of assets as at 30 June 2016. Accordingly, the Impairment Model cash flows do not reflect any impact of the Transformation Program. The Impairment Model provides a relatively detailed build-up of the cash flows for each business division with separate assumptions for key sub-division revenue streams.

- *Strategy Model* – prepared for the purpose of assessing and scenario testing the impact of the Transformation Program. We understand the model was prepared by independent consultants and reflects the FY17 Budget. Whilst the Strategy Model contains a detailed build-up of the cash flows in relation to the Transformation Program, the model only adopts high-level broad-based assumptions for the underlying business. A number of the initiatives in the Strategy Model have also since been delayed, revised or cancelled.

[21] We note that in our assessment of the applicable EV/EBIT and EV/EBITDA multiples we have adjusted the EV for any assets held for sale of the comparable companies.

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- *Internal Model* – prepared for the purpose of internal Management analysis of the valuation of BKN. Whilst the Internal Model is relatively high-level in comparison to the Impairment Model and Strategy Model, we understand that it reflects Management's latest holistic view of the future performance of BKN together with the implementation of the Transformation Program.

- *Discussions with Management* – in accordance with the requirements of RG111, we have made enquiries with BKN Management, and its advisors to understand the basis upon which the projections have been prepared under each of the Impairment, Strategy and Internal Models.

Refer to Section 6.2.1 for our discussions on the risks underlying the projections.

The value of BKN is largely dependent on the quantum and timing of an expected recovery in the industry sector over the medium term, and the ability of the Company to extract benefits and cost savings from the Transformation Program. Given the inherent uncertainty in relation to such predictions, we have assessed the DCF value of BKN under a range of scenarios using the GT Model as summarised in the following table.

DCF Method (fully diluted, control basis)	Low	High
Scenario	(A$/share)	(A$/share)
High Scenario	3.34	3.57
Base Scenario	2.98	3.24
Low Scenario	2.63	2.83
Internal Scenario	3.12	3.35
Grant Thornton selected valuation range	**2.83**	**3.34**

Source: GTCF calculations

The key assumptions adopted in our DCF analysis to form the above scenarios are discussed below.

6.3.1 Key valuation assumptions

The key general valuation assumptions underlying our DCF analysis for each of the scenarios include:

- *FY17 starting point* – each scenario assumes as a starting point the FY17 Budget will be achieved. We note that the FY17 Budget has been prepared through a detailed budgeting process involving preparation of "ground up" budgets by the management of each business division and approved by the Board. Further, based on our understanding of the industry and BKN, analysis of year-to-date management accounts and new order intake we do not consider the FY17 Budget to be an unreasonable starting point.

- *Net corporate overhead savings* – in our valuation assessment of BKN on a 100% basis we have assumed that a pool of potential purchasers will be able to achieve at least A$3.0 million per annum (free cash flow basis) in overhead savings. We expect such savings to be mostly limited to listing costs, and a portion of head office costs and director fees[22].

- *Adjustments* – as with our assessment of BKN under the FME Method set out in Section 6.2, further adjustments have been made to reflect the cash consideration payable on the 2016 Cash Rights, transaction costs and other net liabilities. Though, we note that restructuring costs, deferred consideration for the acquisition of the Indian foundry and proceeds from

[22] We note that the estimated net corporate overhead savings are reflected in the capitalisation multiples adopted in our primary valuation assessment on a control basis.

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assets held for sale have already been incorporated in the projected cash flows and no further adjustments have been made in relation to these items.

- *Discount rate* – we have assessed the net present value of future cash flows having regard to an assessed discount rate based on the weighted average cost of capital ("WACC") in the range of 10.3% and 10.8% for BKN. We note that given we have risk adjusted the projected cash flows (see below for details); we have not applied any additional company specific risk premium in our assessment of the WACC. Refer to Appendix B for details.

- *Terminal value* – we have adopted the gordon growth model (which is a proxy for modelling the cash flows of a going concern business in perpetuity) and a long term growth rate of 2% in line with the long term forecast inflation rates for Australia and North America. Whilst the Mining Products sector is highly cyclical, given the significant uncertainty in relation to the timing and degree of the next upturn in the cycle, we consider our approach to the terminal value to be reasonable and in line with the methodology that a pool of potential purchasers would likely adopt.

The key differentiating valuation assumptions/ methodologies which form the scenarios are described below:

- *Base scenario* – the projected four year cash flows from FY17-20 have been constructed by utilising the Impairment Model projections for the underlying business and the Strategy Model projections for the cash flow impact of the Transformation Program. Based on discussions with Management and review of materials provided (including strategy report prepared by independent consultants on the Transformation Program), Grant Thornton have then made various adjustments to reflect our judgement on key assumptions. Namely, this included:

  - EBITDA margins for the underlying business were adjusted to remain largely flat over the forecast period from FY17. This assumes that current industry conditions will persist into the medium term and the Company will be able to continue to support its margins.

  - Revenue growth for the underlying business adjusted to include additional risk factors for select revenue streams that were identified during discussions as being subject to higher levels of uncertainty. We note that this was only applied to less than 5% of total revenues in FY19.

  - Applied additional 20% risk factor to Management's forecast confidence levels for each of the key initiatives forming the Transformation Program to reflect our view on potential implementation and execution risks.

  In terms of working capital and capital expenditure assumptions for the underlying business, we have adopted the Impairment Model's assumptions which are broadly consistent with the level of working capital and capital expenditure to revenue ratios in FY16.

- *Low scenario* – projected cash flows constructed as under the Base scenario with variations to the following key adjustments:

  - EBITDA margin for the underlying business was adjusted to reduce further over FY18 by approximately 0.5% before remaining largely flat. This reflects concerns that subdued industry conditions and high competitive pressures will continue to weigh on the underlying business.

– Slightly increased the additional risk factor applied in the Base scenario to Management's forecast confidence levels for each of the key initiatives forming the Transformation Program.

– The implementation of the Transformation Program is assumed to be on average delayed by 6 months. The emergence of the Takeover Offer has required significant Management attention; it would not be unreasonable to take into consideration some potential for delay to the implementation schedule.

- *High scenario* – projected cash flows constructed as under the Base scenario and adjusted for the following key assumptions:

– EBITDA margin for the underlying business was adjusted to increase in FY18 by approximately 0.5% before remaining largely flat. This reflects a more optimistic view of industry conditions over the short term.

– Sightly reduced the additional risk factor applied in the Base scenario to Management's forecast confidence levels for each of the key initiatives forming the Transformation Program.

- *Internal scenario* – the projected four year cash flows from FY17-20 have been based on the Internal Model with some update adjustments as discussed with Management. This included the inclusion of some additional sales in relation to purchase orders already won in the Engineered Products division, and slight reduction to the projected revenue growth rate for the Mobile Plant division.

The assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of similar business. We note that the assumptions are inherently subject to considerable uncertainty and there is significant scope for differences in opinion. It should be noted that the value of BKN could vary materially based on changes in certain key assumptions. Accordingly, we have conducted further sensitivity analysis below to highlight the impact on the value of BKN Shares caused by movements in certain key assumptions.

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6.3.2 Sensitivity analysis

We have also conducted certain sensitivity analysis to highlight the impact on the value of BKN Shares (Base scenario basis) caused by movements in certain key assumptions. The following table summarises our results.

Sensitvity table (Base scenario)	Low A$	High A$	Low % change	High % change
Value per BKN Share (Base scenario)	2.98	3.24	-	-
UB[1] revenue growth rate (discrete period FY18-20)				
Increased by 0.5% per annum	3.06	3.33	2.8%	2.8%
Decreased by 0.5% per annum	2.90	3.15	(2.8%)	(2.7%)
UB[1] EBITDA margin				
Increased by 0.5% per annum	3.15	3.42	5.7%	5.5%
Decreased by 0.5% per annum	2.81	3.06	(5.7%)	(5.5%)
Transformation initaitives EBITDA impact				
Increased by 10% per annum	3.07	3.34	3.1%	3.0%
Decreased by 10% per annum	2.89	3.14	(3.1%)	(3.0%)
LT growth rate				
Increased by 0.5% per annum	3.17	3.46	6.5%	6.9%
Decreased by 0.5% per annum	2.81	3.04	(5.8%)	(6.1%)
Discount rate				
Increased by 0.5% per annum	2.75	2.98	(7.8%)	(8.0%)
Decreased by 0.5% per annum	3.24	3.53	8.7%	9.0%

Note (1): 'UB' – Underlying Business (i.e. excluding impact of the Transformation Program)

Source: GTCF calculations

These sensitivities do not represent a range of potential values of BKN Shares, but they intend to show to the BKN Shareholders the sensitivity of our valuation assessment to changes in certain variables.

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6.4 Quoted Security Price Method

In our assessment of the fair market value of BKN Shares, we have had regard to the trading prices of the listed securities on the ASX. Set out in the table below is a summary of our assessed valuation range based on the Quoted Security Price Method:

Quoted Security Price Method summary	Section reference	Low	High
Selected share price range (minority basis)	6.4.3	2.10	2.35
Control premium	6.4.4	30%	40%
Selected share price range (control basis)		**2.73**	**3.29**

Source: GTCF calculations

The BKN Share price range assessed above is an exercise of professional judgement that takes into consideration the depth of the market for the listed securities, volatility of the market price, and whether or not the market value is likely to represent the underlying value of BKN. The following sections detail the analysis undertaken in selecting the share price range.

6.4.1 Liquidity analysis

To assess the liquidity of BKN Shares, we have analysed the trading volume from October 2015 to September 2016 as a percentage of the shares outstanding and free float as outlined in the table below:

Share price liquidity Month end	Volume traded ('000)	Monthly VWAP ($)	Total value of shares traded ($'000)	Volume traded as % of total shares	Cummulative volume traded as % of total shares	Volume traded as % of free float shares	Cummulative volume traded as % of free float shares
Oct 2015	12,414	1.06	13,174	7.3%	7.3%	8.6%	8.6%
Nov 2015	26,868	0.69	18,538	15.7%	23.0%	18.7%	27.3%
Dec 2015	23,594	0.48	11,339	13.8%	36.8%	16.4%	43.7%
Jan 2016	14,606	0.45	6,580	8.5%	45.3%	10.4%	54.1%
Feb 2016	21,033	0.52	10,887	12.3%	57.6%	15.0%	69.1%
Mar 2016	17,107	0.71	12,092	10.0%	67.6%	12.2%	81.2%
Apr 2016	14,510	0.77	11,226	8.5%	76.1%	11.0%	92.2%
May 2016	22,128	1.11	24,545	12.9%	89.0%	16.8%	109.0%
Jun 2016	10,551	1.15	12,148	6.2%	95.2%	8.0%	117.0%
Jul 2016	22,191	1.28	28,299	13.0%	108.2%	16.8%	133.8%
Aug 2016	33,300	1.97	65,760	19.5%	127.6%	25.2%	159.0%
Sep 2016	11,573	2.36	27,312	6.8%	134.4%	8.8%	167.8%
Min				**6.2%**		**8.0%**	
Max				**19.5%**		**25.2%**	
Average				**11.2%**		**14.0%**	
Median				**11.2%**		**13.6%**	

Source: Capital IQ and GTCF calculations

With regard to the above analysis, we note that:

- In the absence of a takeover or alternate transactions, the trading prices represent the value at which minority shareholders could realise their portfolio investment. Hence, we have undertaken the above analysis for the trading period prior to the announcement of the Takeover Offer on 3 October 2016.
- The stock is covered by three investment analysts that provide updates to the market on a regular basis.

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- The level of free float shares is approximately 77.3%[23].

- As outlined in the table above, more than the 100% shares changed hands in the last 12 months.

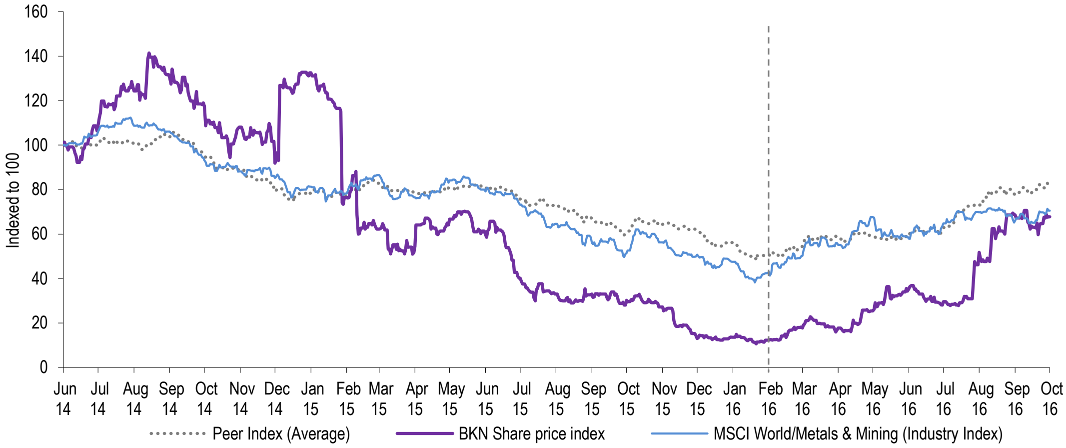
- BKN has experienced significant fluctuation in daily trading volumes over the last two years. Daily volumes reached as high as 10.3 million shares on 20 March 2015. The fluctuation in the trading prices and volume is discussed in detail below.

Based on the analysis above, we have concluded that there is sufficient liquidity in BKN's trading prices for utilisation of the Quoted Security Price Method as required pursuant to RG111.

6.4.2 Valuation assessment of BKN based on trading prices

In order to select a suitable trading share price range for the purpose of our valuation assessment, we have undertaken a detailed analysis of the movement in the BKN Share price from June 2014 to before the announcement of the Takeover Offer. To better identify and understand the key market factors and company specific factors driving the performance of the BKN Share price, we have observed the indexed movement of BKN Share prices and the average share price of our selected basket of peer companies[24] ("Peer Index") and the MSCI World Metals & Mining Index (together the "Benchmark Indexes"), as illustrated in the graph below:

Indexed share price movement of BKN and selected baskets of peer companies



Source: Capital IQ and GTCF calculations

In relation to the above, we note the following key considerations and observations:

- For the period between June 2014 and January 2016, the trading prices of BKN were highly volatile. The BKN Share price traded materially above the Benchmark Indexes in late 2014 and then traded materially below the Benchmark Indexes between early 2015 to early 2016. In our opinion, this mainly reflected the following:

  – *Growing investors' concern:* over the two years before the announcement of the Takeover Offer, BKN had been approached by a number of parties for a change of control transaction

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[23] Free Float shares exclude those owned by Company employees, individual insiders, related parties and other strategic investors.
[24] Peer index consists of selected comparable companies under our FME Method. For further details on the comparable companies within the Peer index, refer to Section 6.2.2.

which attracted significant investor speculation. A few of the parties were granted confirmatory due diligence, however a viable binding offer continued not to emerge which weighed on investor confidence. In particular, we note that the termination of the Pacific Equity Partners and Bain Capital Asia offer in January 2015, and termination of the merger proposal with Maggotteaux Group[25] in September 2015 caused significant subsequent declines in the share price. We also note that prior to the termination of the offers, the BKN share price may have incorporated some level of control premium with investors speculating on the likelihood of the offer becoming binding/ completing. The details of the takeover offers are set out in Section 6.2.2.

- *Loss of key personnel:* in 2015, BKN experienced the loss of a number of key personnel as outlined below. With challenging market conditions, ongoing restructuring initiatives requiring implementation and offer approaches from third parties, the loss of key personnel created additional significant uncertainty and distractions around the strategic direction of the business.

    i) In June 2015 BKN announced the retirement of its CEO and Managing Director[26].

    ii) In September 2015, BKN announced that the Chairman, Mr Nick Greiner AC will retire effective after the conclusion of the annual general meeting on 10 November 2015.

    iii) In November 2015, two independent directors resigned.

- *Refinancing through RPS:* In June 2015, BKN announced that Sigdo and CHAMP had agreed to invest A$70 million in BKN via the issue of the RPS. The cash raised would mainly be used to refinance existing debt facilities. Whilst the RPS provided greater financial flexibility to the Company, in our opinion, the structure and terms of the RPS also provided confirmation to the market of the challenging financial conditions faced by BKN which led to a renegotiation of the covenants, a refinancing of a component of the existing debt facility with more expensive mezzanine funding (i.e. the RPS[27]) and a restriction on future dividend payments.

- *Continued decline in the financial performance:* In August 2015, BKN announced its financial results for FY15 reporting a decrease in the underlying EBITDA of 21% and decrease in sales of 15% over the previous corresponding period. Underlying earnings per share reduced to 19.8 cents compared to 32.4 cents for FY14. The continued decline in financial performance and volatile trend in new order intakes together with the high level of gearing of BKN, likely caused further investor uncertainty for the future prospects of the Company.

- For the period between February 2016 and the Takeover Offer, the trading prices of BKN increased materially to realign with the Benchmark Indexes. In our opinion, this is likely driven by the following:

    - *New Management:* Paul Zuckerman was appointed as the CEO effective 1 March 2016. He has considerable experience within the global materials industry and is seen to have the expertise to implement strategies necessary to maximise value for investors.

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[25] Maggotteaux Group is a wholly owned subsidiary of Sigdo Koppers
[26] The CEO continued to serve until 31 December 2015.
[27] The interest rate on the RPS increases from 7.5% to 13% after 3 years.

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- *Improvement in business environment:* As outlined in the graph above, during the period, the Benchmark Indexes also increased by around 60%, indicating an improvement in the sector globally which was led by moderately improving commodity prices.

- *Stabilisation of financial performance:* BKN released its financial results for HY16 in February 2016 and financial results for FY16 in August 2016. Whilst the results showed a continued decline in financial performance from the prior period, the new order intake showed signs of stabilisation and BKN realised an improvement in performance in the second half of FY16 compared to the first half. The Company was also able to reduce its net debt from A$398.6 million in FY15 to A$352.4 million in FY16.

- *BKN's business transformation initiatives:* BKN initiated the Transformation Program which aims to realise A$40 million to A$50 million of annual EBITDA improvement ramping up over the three years to FY19.

- *Rejection of recapitalisation proposal:* In April 2016, BKN rejected an unsolicited recapitalisation proposal from CHAMP at a price per share between A$0.75 and A$1.00 per share. The rejection was motivated, among other reasons, as the Board did not believe that it reflected fair value for the Company. At the time, BKN share price was A$0.84[28].

- *Brokers' forecasts:* the uplift in the share price was also broadly in line with the change in brokers' forecasts observed over the period.

Based on the above discussion, we consider the recent trading price of BKN to provide a more appropriate base for assessing the fair market value of BKN based on the Quoted Security Price Method.

[28] VWAP 1-day prior to the announcement date of the unsolicited offer on the 21 April 2016

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6.4.3 Conclusion of the Quoted Security Price Method

We have set out in the table below the VWAP of BKN over the 9 month period before the announcement of the Takeover Offer.

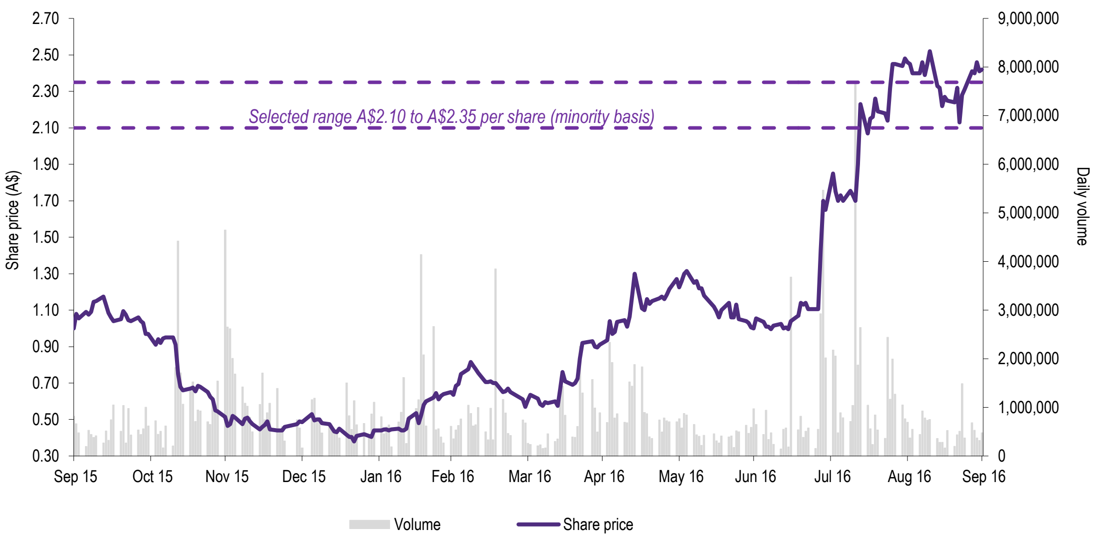
VWAP A$ per share	Low	High	VWAP
Prior to and including the announcement date (3 Oct 2016)[1]			
5 days	2.38	2.45	2.41
10 days	2.20	2.45	2.33
2 weeks	2.20	2.45	2.31
1 month	2.20	2.46	2.36
2 months	1.70	2.50	2.12
3 months	1.00	2.50	1.82
4 months	1.00	2.50	1.74
6 months	0.58	2.50	1.49
9 months	0.39	2.50	1.21

Source: CapitalIQ and GTCF Calculations
Note (1): The Takeover Offer was announced on 3 October 2016 after market closed.

Based on the discussions in section 6.4.2, we have selected a trading price range between A$2.10 and A$2.35 per share in our valuation assessment of BKN on a minority basis.

A graphical representation of our assessed range compared with the historical trading prices is illustrated below:

Historical trading prices and selected range under the Quoted Security Price Method



Source: CapitalIQ and GTCF Calculations

6.4.4 Control premium

We note that share market trading prices do not reflect the market value for control of a company as they are for portfolio holdings. A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as:

- The ability to realise synergistic benefits.

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- Access to cash flows.
- Access to tax benefits.
- Control of the board, the management team and the strategy of the company.

Evidence from studies indicates that premiums for control on successful takeovers have frequently been in the range of 20% to 40% in Australia and that the premiums vary significantly from for each transaction.

To determine an appropriate control premium to be applied to BKN Share price, we have conducted a research on the control premium paid on historical transactions within the mining, mining services and mining product sectors since January 2015. Based on the analysis, we note that the median control premium on the selected transactions was 38%, with the control premium on some of the transactions materially higher than the historical average of between 20% and 40%. We note that this may be driven by depressed and highly volatile trading prices in the context of challenging market conditions over the period. For control premiums on selected transactions, refer to Appendix D.

Based on the above analysis, we have applied a premium for control in the range of 30% to 40% to our assessed BKN trading price range for valuation assessment of BKN on a control basis.

7 Source of information, disclaimer and consents

7.1 Source of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- BIA
- Target's Statement by BKN
- Bidder's Statement by HCM
- Impairment Model
- Strategy Model
- Internal Model
- Due diligence data room accessed between 14 September to the date of this report
- BKN Audit reports
- Other financial and legal documents
- ASX announcements
- Annual reports
- Management accounts
- Monthly board presentations
- Discussions with management
- IBISWorld
- S&P Capital IQ
- Other publicly available information

7.2 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by BKN, and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by BKN through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of BKN.

This report has been prepared to assist the Directors of BKN in advising the BKN Shareholders in relation to the Takeover Offer. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Takeover Offer is fair and reasonable to the BKN Shareholders.

BKN has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by BKN, which BKN knew or should have known to be false and/or reliance on information, which was material information BKN had in its possession and which BKN knew or should have known to be material and which did not provide to Grant Thornton Corporate Finance. BKN will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

7.3 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Target's Statement to be sent to BKN Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

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Appendix A – Valuation methodology

Discounted cash flow

An analysis of the net present value of projected cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the WACC. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

The selection of the appropriate multiples to apply is a matter of judgement and involves consideration of a number of factors including:

- The stability and quality of earnings.
- The nature and size of the business.
- The financial structure of the company and gearing level.
- Future prospects of the business.
- Cyclical nature of the industry.
- The asset backing of the underlying business of the company and the quality of the assets.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Net asset backing/orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of listed securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

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Comparable transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions and/or listed trading companies to establish a value for the current transaction.

The comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

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Appendix B – Discount Rate

Introduction

The cash flow assumptions underlying the GT Model are on a nominal, ungeared and post-tax basis. Accordingly, we have assessed a range of nominal post-tax discount rates for the purpose of calculating the net present value of BKN.

The discount rate was determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the nominal WACC is calculated as follows:

$$\mathrm{WACC} = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

- Re = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- Rd = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

Required rate of return on equity capital

We have used the Capital Asset Pricing Model ("CAPM"), which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion. Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company's returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market – it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (Re) is estimated as follows:

$$R_e = R_f + \beta_e(R_m - R_f)$$

Where:

- R_f = risk free rate
- β_e = expected equity beta of the investment
- $(R_m - R_f)$ = market risk premium

Risk free rate

In the absence of an official risk free rate, the yield on government bonds (in an appropriate jurisdiction) is commonly used as a proxy. Accordingly, we have we have observed the yield on the 10-year Australian Government bond and 10-year United States Treasury bond over several intervals from a period of 5 trading days to 10 trading years. Given the volatility in the global financial markets, we have placed more emphasis to the average risk free rate observed over a longer period of time. Based on the above, we have adopted the risk free rate of 3.3%.

Market risk premium

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. However, given the inherent high volatility of realised rates of return, especially for equities, the market risk premium can only be meaningfully estimated over long periods of time. In this regard, Grant Thornton studies of the historical risk premium over periods of 20 to 80 years suggest the premium is between 5.5% and 6.0% for the US and for Australia.

For the purpose of the WACC assessment, Grant Thornton Corporate Finance has adopted a market risk premium of 6.0%.

Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

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An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity. For the purpose of this report, we have had regard to the observed betas (equity betas) of comparable companies as set out below:

Beta anlaysis Company	Country of headquarter	Market Cap $'million	Equity Beta[1]	Gearing Ratio[1]	Ungeared Beta	Regeared Beta	Regeared Beta
Tier 1 - Domestic & international mining equipment manufactu							
Austin Engineering Ltd.	Australia	71	1.48	59.8%	1.04	1.21	1.20
Compania Electro Metalurgica S.A.	Chile	729	NM	29.0%	NM	NM	NM
Voestalpine AG	Austria	7,901	1.07	55.8%	0.76	0.88	1.15
The Weir Group PLC	United Kingdom	6,243	1.55	22.3%	1.32	1.53	1.10
CITIC Heavy Industries Co., Ltd.	China	4,312	1.48	5.2%	1.43	1.66	1.62
Metso Corporation	Finland	5,712	1.35	9.9%	1.25	1.45	1.76
Joy Global, Inc.	United States	3,553	2.40	32.2%	2.02	2.34	2.34
Komatsu Ltd.	Japan	27,871	1.18	23.9%	1.03	1.19	1.63
Sandvik AB	Sweden	18,021	1.17	32.4%	0.93	1.09	0.89
Kopex S.A.	Poland	80	1.15	105.9%	0.62	0.72	0.70
FLSmidth & Co. A/S	Denmark	2,401	1.13	30.4%	0.92	1.07	1.21
Average				**30%**	**1.04**	**1.20**	**1.21**
Low				**5%**	**0.62**	**0.72**	**0.70**
High				**106%**	**2.02**	**2.34**	**2.34**
Tier 2 - Domestic mining services/ engineering companies							
MACA Limited	Australia	404	1.42	2.7%	1.40	1.62	1.50
AusGroup Limited	Australia	37	2.29	124.3%	1.22	1.42	0.99
RCR Tomlinson Limited	Australia	391	1.24	9.5%	1.16	1.35	1.25
Ausdrill Ltd.	Australia	451	1.92	134.0%	0.99	1.15	1.12
GR Engineering Services Limited	Australia	246	1.05	0.0%	1.05	1.22	0.88
WorleyParsons Limited	Australia	2,067	1.24	30.3%	1.02	1.19	1.53
Monadelphous Group Limited	Australia	851	1.83	0.0%	1.83	2.12	1.57
Average				**43%**	**1.24**	**1.44**	**1.26**
Low				**0%**	**0.99**	**1.15**	**0.88**
High				**134%**	**1.83**	**2.12**	**1.57**

Source: S&P CapitalIQ and GTCF calculations

Note: NM - Not meaningful

Note (1): Equity betas are calculated using data provided by S&P CapitalIQ. The betas are based on a five-year period with monthly observations and have been degeared based on the average gearing ratio over five years.

Grant Thornton Corporate Finance has observed the betas of the comparable companies by reference to both the local index of each company (based on country of domicile) and the MSCI index. We note that the MSCI index is more appropriate for the larger international companies given their global exposure.

It should be noted that the above betas are drawn from the actual and observed historic relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for the pre-development assets, the selection of an unsystematic equity beta requires a level of judgement.

The asset betas of the selected company are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparables, a process commonly referred as degearing. We have then recalculated the equity beta based on an assumed 'optimal' capital structure deemed appropriate for the business (regearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the degearing and regearing exercise:

$$\beta_e = \beta_a\left[1 + \frac{D}{E} \times (1 - t)\right]$$

Where:

- βe = Equity beta
- βa = Asset beta
- t = corporate tax rate

The betas are de-geared using the median gearing level over the period in which the betas were observed and then re-geared based on a gearing ratio of 20% debt to 80% equity (see Capital Structure Section below for further discussions).

Based on the analysis above, we have selected a beta between 1.40 and 1.50 for the BKN.

Specific risk premium

Specific risk premium represents the additional return an investor expects to receive to compensate for country, size and project related risks not reflected in the beta of the observed comparable companies.

We note that we have not incorporate any specific risk premium in our assessment of the WACC given we have already risk adjusted the cash flows underlying the GT Model.

Cost of debt

For the purpose of estimating the cost of debt applicable to BKN, Grant Thornton Corporate Finance has considered the following.

- The margin implicit in corporate bond yields over the US and Australian Government bond yields.
- The weighted average interest rate on credit outstanding for large businesses over the last one to five years as published by the Reserve Bank of Australia.
- The historical and current cost of debt for BKN and the comparable companies.
- Expectations of the yield curve.
- The cost of debt adopted by other independent experts.

Based on the above, Grant Thornton Corporate Finance has adopted a cost of debt of 7.0% (pre-tax).

Capital structure

Grant Thornton Corporate Finance has considered the gearing ratio which a hypothetical purchaser of the business would adopt in order to generate a balanced return given the inherent risks associated with debt financing. Factors which a hypothetical purchaser may consider include the shareholders' return after interest payments, and the business' ability to raise external debt.

The appropriate level of gearing that is utilised in determining the WACC for a particular company should be the "target" gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- The quality and life cycle of a company.
- The quality and variability of earnings and cash flows.
- Working capital.
- Level of capital expenditure.
- The risk profile of the assets.

In determining the appropriate capital structure for the purpose of this report, we have also had particular consideration to the following:

- The average gearing ratio of comparable companies over the last five year period as set out in the beta section of this report.

- The current and historic, and target gearing of BKN.

Based on the above observations, for the purpose of the discount rate assessment Grant Thornton Corporate Finance has adopted a capital structure of 20% debt and 80% equity for BKN.

WACC calculation

The discount rate is determined as set out below:

WACC calculation	Low	High
Cost of equity		
Risk free rate	3.3%	3.3%
Beta	1.40	1.50
Market risk premium	6.0%	6.0%
Specific risk premium	0.0%	0.0%
Cost of equity	**11.7%**	**12.3%**
Cost of debt		
Cost of debt (pre tax)	7.0%	7.0%
Tax	30%	30%
Cost of debt (post tax)	**4.9%**	**4.9%**
Capital structure		
Proportion of debt	20%	20%
Proportion of equity	80%	80%
	100%	100%
WACC (post tax)	**10.30%**	**10.78%**
Grant Thornton selected WACC range	**10.30%**	**10.80%**

Source: GTCF calculations

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Appendix C – Trading comparable company descriptions

Company	Description
Tier 1 - Domestic & international mining products manufacturing companies	
Austin Engineering ("ANG")	ANG manufactures repairs, overhauls, and supplies mining attachment products, general steelwork structures, and other associated products and services for the industrial and resources-related business sectors. ANG is significantly smaller than BKN but has a similar level of geographic segmentation to BKN. We note that BKN also holds an 11.8% investment in ANG as at the date of this report.
Compania Electro Metalurgica ("CEM")	CEM only sourced approximately 60% of total LTM revenues from the manufacturing of industrial products. The remaining 40% of revenues related to the manufacturing of glass products, wine making, and the provision of media and communication services. This diversified portfolio of businesses has enabled CEM to continue to grow its underlying EBIT at a CAGR of 5.3% over FY13-16[29] whilst all other companies in Tier 1 have experienced a contraction.
Voestalphine ("VOE")	VOE is focused on the manufacture of steel products and competes with BKN mainly in terms of BKN's Engineered Products division. VOE's key customer sectors include automotive, aviation, rail and building supplies, in comparison to BKN which sources the majority of its revenues from the resource sector. VOE also sources majority of its revenues from Chile.
Weir Group ("Weir")	Weir is focused on the design and manufacture of highly-engineered products and services and competes with BKN mainly in terms of BKN's Engineered Products division. Weir's has historically maintained margins materially above those of its competitors, including BKN, as the company specialises in operation-critical equipment used in extreme environments (e.g. high abrasion, temperature or pressure) which creates a significant barrier to entry given downtime is often costly for Weir's customers.
Metso Corporation ("Metso")	Metso has a strong focus on the manufacturing of mineral processing equipment like BKN. However, we note that Metso also sources a significant proportion of its revenues (approximately 40% of LTM revenue) from the provision of higher-margin, and relatively resilient service offerings (including expert and life-cycle services) which have helped to support profit margins with poor performance of its manufacturing business. Metro has also recently divested its Process Automation Systems division in FY15 for approximately €340 million which has reduced the company's gearing[30] to only approximately 5% compared to BKN's gearing of approximately 72% as at 30 September 2016. This offers Metso materially more balance sheet flexibility to pursue any growth opportunities/ investments.
Joy Global ("JOY")	JOY operates in two segments, Underground Mining Machinery and Surface Mining Equipment, and competes with BKN mainly in terms of BKN's Mobile Plant division. JOY has a stronger focus on OEMs/ capital products than BKN and has been relatively more adversely impacted by the current mining market conditions. However, in the recent 2Q16, JOY significantly outperformed market expectations as a result of the successful implementation of a number of restructuring initiatives. This together with some observed stabilisation of the commodity prices fuelled a strong uplift in the share price of the company in early June. We also note that JOY holds a significant market share of the mining and construction products manufacturing sector in Australia (approximately 21% in 2015 per IBISWorld).
Komatsu Ltd ("Komatsu")	Komatsu engages in the development, manufacture, marketing, and sale of various industrial-use products and services worldwide. In comparison to BKN, Komatsu's product and services portfolio is significantly larger and more diverse with a strong focus on construction and industrial machinery. As a result, the company has been relatively less impacted by the downturn in the mining sector than BKN and has continued to achieve moderate revenue growth over the last three years.
Sandvik AB ("SAND")	SAND operates as an engineering company in tooling, materials technology, mining, and construction industries worldwide. The company only sourced approximately 25% of its FY15 revenue from the provision of mining capital and consumable products, with the balance being sourced from the provision of construction and industrial products. Similar to BKN, SAND is also pursuing ongoing cost saving initiatives which is expected to be a key driver of underlying profit growth in the short term. We also note that SAND holds a significant market share of the mining and construction products manufacturing sector in Australia (approximately 19% in 2015 per IBISWorld).
Kopex S.A. ("KPX")	KPX together with its subsidiaries, manufactures and supplies machineries and equipment for the mining industry in Poland and internationally. The company has particular specialisation in the provision of equipment and parts for underground mines which accounted for 40% of KPX's revenue in FY15. The company also sources a material proportion of its revenue (22% in FY15) from the provision of mining serves (including repair and rental services). Due to KPX's significant exposure to the mining sector, the company has been more adversely impacted by the recent mining downturn than BKN.
FLSmidth & Co. A/S ("FLS")	FLS supplies engineering, equipment, and services to the minerals and cement industries worldwide with a particular specialisation in cement equipment. Recent declines in financial performance of the company have mainly been driven by underperformance in its Minerals division; however we note that the company's cement product sales have also been adversely impacted by the subdued economic growth over the last few years.

29 In terms of financial year ended 30 June.
30 Gearing calculated based on the latest net debt data reported divided by the market capitalisation of the company as at 30 September 2016.

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Company	Description
Tier 2 - Domestic mining services/ engineering companies	
RCR Tomlinson Limited ("RCR")	RCR, a multi-disciplinary engineering and infrastructure company, together with its subsidiaries, provides integrated engineering solutions to the resources, energy, mining, and infrastructure sectors in Australia and internationally. The company also provides switchboards, enclosures and frames, and high voltage mining substations, high voltage switchgear products, and transformers; materials handling equipment, including apron feeders, belt reelers, belt feeders, stackers and conveyors, and trommels; sizing and screening equipment; crushing and screening plants; and mobile mining equipment.
MACA Limited ("MLD")	MLD operates as a mining, civil construction, and road infrastructure company in Australia and Brazil. The company offers loading and hauling services; and drilling and blasting services, including production drilling and blasting for surface mining operations or quarries, pre-split drilling, contour drilling and pioneering, blast hole sample drilling, probe drilling, pre-split and final wall blasting, drill and blast design, blasting solutions for civil construction, and controlled blasting.
Ausdrill Ltd. ("ASL")	ASL operates as an integrated mining and energy services company worldwide. It operates through Drilling Services Australia, Contract Mining Services Africa, Equipment Services & Supplies, and All Other segments. The company is involved in the reverse circulation, diamond drilling, rotary air blast, and air core drilling; geochemical and precious metals analysis; production and monitoring of bores, as well as depressurization and dewatering, and surface hole drilling; and procurement and supply of exploration equipment, parts, and consumables.
AusGroup Limited ("AGL")	AGL, an investment holding company, provides asset maintenance, fabrication and manufacturing, and construction services to the natural resources sectors in Australia, Singapore, and Thailand. The company operates through Projects, Fabrication and Manufacturing, Maintenance Services, and Port & Marine Services segments. It offers complex, heavy, and precision fabrication services; structural, piping, mechanical, and installation services to the mineral resources, and oil and gas markets; offshore construction services for oil and gas installation contractors; and integrated services, such as mechanical, welding and boiler making, pipe spooling, electrical and instrumentation, rope access, scaffolding and rigging, offsite fabrication, refractory, shutdown support, industrial insulation, sheet metal fabrication, roof and wall cladding, fireproofing, painting and protective coatings, onsite installation and erection, and hydrotesting services.
GR Engineering Services Limited ("GNG")	GR Engineering Services Limited provides process engineering design and construction services to the mining and mineral processing industries in Australia and internationally. The company operates through Mineral Processing, and Oil and Gas segments. Its services cover various aspects of the projects from the initial evaluation and study phase through to design, construction, commissioning, and operational support. The company's services include the design and construction of minerals processing facilities and associated infrastructure for complete greenfield or brownfield projects, including plant modifications, upgrades, and expansions.
WorleyParsons Limited ("WOR")	WorleyParsons Limited provides professional services to the resources, energy, and industrial sectors in Australia and internationally. The company provides engineering design and project delivery services, including providing maintenance, reliability support services, and advisory services. It operates through Hydrocarbons; Minerals, Metals & Chemicals; and Infrastructure segments.
Monadelphous Group Limited ("MND")	MND, an engineering group, provides construction, maintenance, and industrial services to the resources, energy, and infrastructure sectors in Australia. It operates through Engineering Construction; and Maintenance and Industrial Services divisions. The company offers large-scale multidisciplinary project management and construction services, including construction management and execution; civil and electrical construction packages; turnkey design and construction; structural steel, tankage, mechanical works, and process equipment and piping fabrication and installation; fabrication and procurement; modularization and off-site pre-assembly; plant commissioning; demolition and remediation works; and offshore construction services of plant and infrastructure.

Source: S&P CapitalIQ

Appendix D – Target company descriptions

Target Company	Description
JOY	JOY manufactures and services mining equipment for extraction of coal, copper, iron ore, oil sands, gold and other minerals and ores worldwide. It operates in two segments, Underground Mining Machinery and Surface Mining Equipment. The company sells its products and services directly to mining companies through a network of sales and marketing personnel. JOY is headquartered in Wisconsin, US.
Ausenco Limited ("Ausenco")	Ausenco is a diversified engineering, construction, and project management company providing services in Minerals & Metals, Process Infrastructure, Program Management, Environment & Sustainability and Oil & Gas. Ausenco is headquartered in South Brisbane, Australia.
Sedgman Limited ("Sedgman")	Sedgman provides mineral processing and associated infrastructure solutions to the resources industry in Australia, Canada, Chile, Mozambique, and internationally. The company operates in two segments, Projects and Operations. The Projects segment is involved in the project assessment, development, and definition activities and provides services across process, mechanical, civil, structural, and electrical and controls sectors. The Operations segment owns and operates coal handling and preparation plants, and ore crushing and screening plants. This segment also provides support and maintenance services and operations consultancy services. The company is headquartered in Milton, Australia and operates as a subsidiary of CIMIC Group Investments Pty Ltd.
Delta Industrial Valves ("Delta")	Delta manufactures and markets knife gate valves. Its products are used in steel mills industries for water treatment, blast furnace slurry and gas, and coke plant applications; paper mills markets for liquor service, hi-density pulp stock, and cleaner boxes applications; power plants industries for fly ash, pulverized coal, and FGD applications; and chemical plants for powdered chemical conveyance, hopper dump valves, and mixer tanks applications. The company is based in Michigan, US and operates as a subsidiary of Weir Group PLC.
National Pump & Energy Pty Ltd. ("NPE")	NPE provides pumping, power generation, and compressed air equipment for hire and sale. It offers submersible, sludge and slurry, clean water, bore, high head and high flow, pontoon, and silenced pumps; generators; air compressors and associated equipment used in various industries. The company also provides various services and solutions in the areas of bore-field, dewatering, disaster recovery management, assisted evaporation systems, flood management, hydro-mining, labor hire, pipelines and construction, site support, system audits, and water management systems, as well as engineering, design and construction. NPE is headquartered in Birtinya, Australia.
Campbell Mining Services Pty Ltd. ("Campbell Mining")	Campbell Mining is a mining contracting company, engaged in dewatering operations, pumping solutions design and construction, and disaster recovery operations solutions. The company engages in the design and construction of water management systems and provides disaster recovery management services. In addition, it offers labour hire services and sells and hires pump. The company is headquartered in Mackay, Australia and operates as a subsidiary of Ramps Australia Pty Ltd.
Victor Technologies Group Inc. ("Victor")	Victor manufactures and supplies cutting, welding, and gas control equipment for use in various fabrication, construction, and manufacturing applications worldwide. Until May 2012, the company was known as Thermadyne Holdings Corp. The company is headquartered in Missouri, US and operates as a subsidiary of Colfax Corporation.
Diversified Mining Services Limited ("DMS")	DMS provides services and equipment for the operation, maintenance, and support of open cut and underground mining. The company fabricates and installs ventilation devices; methane gas drainage equipment for surface and underground applications; underground and purpose built secondary support drill rigs; a fleet of mining equipment ranging from underground loaders and man transporters to graders; and high-tolerance machined products. It also offers engineering and maintenance services. The company serves open-cut and underground mining and mineral processing industries, prime contractors, and original equipment manufacturers in Australia and internationally. DMS is based in Toowong, Australia and operates as a subsidiary of Mastermyne Group Limited.
Mancala Holdings Limited ("Mancala")	Mancala is an investment holding company that offers mining services. The company is based in Cayman Islands and operates as a subsidiary of Sapphire Corporation Limited.
Servigrut Ltda. ("Servigrut")	Servigrut supplies heavy equipment lifting, transportation and site services to the mining and industrial markets in Chile. The company is based in Antofagasta, Chile and operates as a subsidiary of Austin Engineering Ltd.

Source: S&P CapitalIQ

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Appendix D – Control premium

Set out below is the summary of control premiums paid on successful takeovers in the resource and mining services sectors since January 2015.

Announcement date	Target Company	Transaction Value (A$m)	Target Stock premium 1 day prior (%)	Target Stock premium 1 week prior (%)
21-Jul-16	Joy Global, Inc.	5,139	20%	21%
19-Jun-16	TTS Group ASA	190	65%	65%
02-May-16	Ausenco Limited	130	54%	54%
18-Apr-16	Karoon Gas Australia Ltd	4	9%	16%
26-Jan-16	Terex Corporation	6,951	107%	114%
13-Jan-16	Sedgman Limited	155	35%	25%
15-Dec-15	IPE Group Limited	387	55%	41%
07-Dec-15	Broadspectrum Limited	1,563	76%	75%
27-Oct-15	Armour Energy Limited	8	35%	35%
26-Oct-15	Golden Cross Resources Ltd	5	42%	42%
14-Oct-15	Coffey International Limited	200	136%	150%
14-Sep-15	Cardno Limited	121	38%	49%
18-Aug-15	Kazakhstan Potash Corporation Limited	14	75%	75%
21-Jul-15	Nkwe Platinum Limited	31	30%	41%
30-Jun-15	Strike Resources Limited	3	49%	49%
19-Jun-15	EVERDIGM Corp.	110	38%	51%
10-Apr-15	Pan Pacific Petroleum NL	9	11%	22%
12-Feb-15	Cue Energy Resources Limited	20	11%	15%
03-Feb-15	Senqcia Corporation	310	36%	38%
21-Jan-15	DMG Mori AG	926	20%	25%
08-Jan-15	Saracen Mineral Holdings Limited	16	62%	78%
Low			**9%**	**15%**
Average			**48%**	**52%**
Median			**38%**	**42%**
High			**136%**	**150%**

Source: S&P Global, Grant Thornton Corporate Finance calculations

Appendix E – Glossary

$ or A$	Australian dollar
ANG	Austin Engineering Limited
ASIC	The Australian Securities and Investment Commission
ASX	Australian Securities Exchange
BIA	Bid Implementation Agreement
BKN	BKN or the Company
Bidder Facility	A$450 million unsecured credit facility
Board	Board of BKN
CAGR	Cumulative Annual Growth Rate
CAPM	Capital Asset Pricing Model
Cash Rights	2,849,523 of outstanding performance rights excisable into cash
CHAMP	CHAMP Private Equity
DCF	Discounted cash flow
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
EBIT	Earnings before Interest and Tax
EV	Enterprise value
FIRB	Foreign Investment Review Board
FME	Future Maintainable Earnings
FSG	Financial Services Guide
FY	Financial year ended
GDP	Gross domestic product
GET	Ground Engaging Tools
GTCF	Grant Thornton Corporate Finance Pty Ltd
GST	Goods and services tax
HCM	Hitachi Construction Machinery Co., Ltd. or the Bidder
Impairment Model	BKN's impairment model as at 30 June 2016
Internal Model	Internal Management model
LFY	Last Financial Year
LTM	Last Twelve Months
LTI	Long term incentives
NA	Not available
NM	Not Meaningful
NAV	Net Asset Value
OEMs	Original Equipment Manufacturers
Offer Price	The offer price of $3.25 per share for 100% of Bradken Shares
R_f	Risk free rate
RG 111	ASIC Regulatory Guide 111 "Content of expert's reports"
RG 112	ASIC Regulatory Guide 112 "Independence of experts"
Rights	5,823,015 of outstanding performance rights
RPS	Redeemable Preference Shares
Sigdo Koppers	Sigdo Koppers S.A
Share Rights	2,971,989 of outstanding performance rights excisable into BKN Shares
Strategy Model	BKN's Transformation Program strategy scenario analysis model
S&P	Standard & Poors
Takeover Offer	HCM's Offer to acquire all of BKN Shares for $3.25 cash per Share
Target's Statement	Statement by BKN in response to the Takeover Offer
The Directors	The Directors of BKN
UB	Underlying business
USPP	US Private Placement
VWAP	Volume weighted average price
WACC	Weighted average cost of capital