

Wednesday, 26 October 2016

## **2016 Annual General Meeting**

### **Transcript of CEO's Address**

The following is a transcript of the Chief Executive Officer's address at the 2016 Annual General Meeting of the Company held on Wednesday, 26 October 2016 at the Company's Global Corporate Centre, 20 McIntosh Drive, Mayfield West, New South Wales.

The transcript has been prepared to align with the slide presentation delivered at the meeting, which is available on the ASX and Bradken websites.

#### **Paul Zuckerman, CEO**

Thank you Mr Chairman and welcome everyone. While fiscal year 2016 will be recorded as a down year when compared to the prior year in terms of both revenue and net profit, I believe it will be remembered as a key turning point for the business. I'd like to discuss this in more detail.

As reported during our full year results in August, Sales revenue for the year was \$819m, down 15.2% from \$966m of revenue in 2015. Despite good cost control efforts, this impacted underlying net profit after tax, which was \$29.5m, down 13% on prior year. The revenue declines were attributed to continued weakness in capital mining investment and industrial activity, specifically related to the building of rail wagons. We built 625 wagons in 2015 and only 49 in 2016, leading to a drop in revenue of over \$70m.

Weak commodity and industrial markets also negatively impacted our Engineered Products Division based in North America. Sales into mining, rail, industrial and energy markets all declined and accounted for the \$40m reduction in revenue from 2015 for the business. Rounding out the narrative, revenue in for our Mining Fixed Plant business, comprising mill liners and wear surfaces, was flat year on year, at \$350m.

Despite, these seemingly negative headlines, Bradken achieved many positive results and I'd like to share some of these with you.

Our safety performance continues to improve. We remain firmly committed to the ethos that all injuries can be prevented, and we will continue to make changes to the business to

achieve this goal. Our total injury frequency rate improved slightly from 13.9 to 13.3 in 2016 and the total number of actual recordable injuries decreased from 111 to 82, down 26%. Many of our sites achieved new safety milestones and we highlighted them in our 2016 annual report.

Despite the Company's sales revenue fall, the business set ambitious targets to control costs and improve cash flow to pay down debt. I am happy to report that real cash overheads were reduced by \$19 million in 2016, an 11.6% reduction over 2015. This reduction, along with strong cash generation from reductions in working capital and the sale of surplus assets, helped us achieve free cash flow of \$60.9m in 2016 and overall debt was reduced from \$399m down to \$352.4 million. Asset sales accounted for \$17m and working capital reductions were \$56m for the year.

A number of other strategic activities were completed during the year which had both an immediate and a longer term benefit. Back in February we completed the acquisition of the L&T Foundry in India. This foundry already sells \$20 million worth of cast wind turbines and with its available capacity, will provide us with a low cost, high quality production facility to service our global markets going forward.

In the second half of the year we completed a strategic review of the business. I spoke about this review in depth during the full year results announcement in August, so I will just summarise the key points now. The review found that we could expect ongoing long term growth in the global hard rock mining and North American energy and defence markets. We already participate in these markets, but will now focus more of our resources and future investment on them going forward. We also confirmed that the consumable wear parts sectors of both our mining fixed plant and mobile equipment businesses, including consumable rail parts, are markets that have good growth opportunities and where we can compete vigorously and offer excellent value to our customers. The management team used this information to develop a series of focused, deliberate projects to first stabilise the business, and then to quickly move into reinvestment and growth initiatives, all in one integrated "Bradken Way". We will continue to execute on this plan and regularly report our progress during the year.

I would now like to update you on how we are trading after the first quarter of fiscal 2017. Overall, the business is performing in line with our plan. Sales revenue of \$186 million has been achieved, which is down slightly from last year's first quarter of \$193 million. Engineered Products sales were lower, while Mobile Plant and Mining Fixed Plant are running a little ahead of last year. Gross margin is slightly ahead of last year, at 34.5% and cash costs continue to be tightly controlled. Our order book remains consistent with total backlog of \$358 million.

Given the results that we achieved so far this year, and assuming a continuation of current market conditions, we retain our guidance for fiscal 2017, as stated in August during our full



year results presentation. To be clear, Bradken expects Fiscal 2017 underlying EBITDA to be in line with reported underlying EBITDA for Fiscal 2016. Concentration on debt reduction and an improved balance sheet remains paramount. Bradken expects to reduce net debt by a further \$50 million to \$60 million in Fiscal 17 driven by continued focus on cost control and cash conversion. This net debt reduction target is in addition to any change in our debt position caused by the conversion of debt into equity, through the Redeemable Preference Shares conversion announced by Champ and Chilean company Sigdo Koppers, earlier this month.

The last 12 months have been a very busy, yet highly productive period. I want to take this opportunity to say thank you to our employees, our customers and all of our shareholders, who have been very supportive during this transitional period. Our people have made material improvements to the business and we have positioned Bradken for improved results, regardless of the company's ownership structure going forward. We remain focused on delivering excellent service and value to our customers, and on maintaining a safe and rewarding workplace for our employees.