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ASX Market Announcement Office
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BRADKEN ENHANCES BALANCE SHEET FLEXIBILITY, PROVIDES MARKET UPDATE AND ANNOUNCES A MERGER APPROACH

Investment to enhance balance sheet flexibility and successful covenant amendment

Bradken announced today that a consortium of Sigdo Koppers and CHAMP Private Equity (the “Consortium”) has agreed to an investment of approximately \$70 million in Bradken, by way of Redeemable Convertible Preference Securities (“RPS”) issued by a wholly owned subsidiary of Bradken. Proceeds from the issue of the RPS will be used to pay-down current debt and increase operating flexibility for the business. Key terms of the RPS are included as an attachment to this announcement.

After a review of alternate funding options, the Board determined to proceed with the RPS as its preferred funding route to provide the Company with additional flexibility. The terms of the RPS allow the securities to be excluded for purposes of Bradken's gearing calculations under the terms of its finance documents. The RPS are redeemable at the election of Bradken in certain circumstances.

Bradken has also successfully completed covenant amendment discussions with its senior lenders and USPP note holders who have agreed to a revised Net Debt¹ / EBITDA² covenant of 3.5x for the trailing twelve months periods ending 30 June 2015 and 31 December 2015. The covenant reduces to 3.25x for the twelve months ending 30 June 2016 and reverts back to 3.0x for subsequent periods. Under the terms of the covenant amendment, the Company will be restricted from paying dividends on its ordinary shares until after confirmation of compliance with the covenant for the 31 December 2016 reporting date. The covenant amendment reflects the strong support of the lending group in relation to the Bradken credit and business model.

In line with corporate governance best practice, an Independent Board Committee was established to lead the negotiations with the Consortium, comprising Peter Richards, Phillip Arnall, and Gregory Laurie.

Commenting on the investment, the Chairman of the Independent Board Committee, Mr Peter Richards said, “Sigdo Koppers is a well-regarded diversified global conglomerate with significant interests in mining consumable-related industries. CHAMP Private Equity is one of the leading private equity groups in Australia and understands the Bradken business well. We welcome the investment by the Consortium and look forward to its support as Bradken continues to evolve and position itself to deal with the current market outlook. Following this investment and the covenant amendment, Bradken will have an appropriate level of balance sheet flexibility to operate effectively in the current market environment.”

¹ Total debt less cash, cash equivalents, subordinated debt and derivative contracts used for hedging.

² Underlying EBITDA excluding significant items.



Market Update

Bradken's end market continues to be impacted by the slowdown in mining activity, driven by the decline in commodity prices, which has dampened demand for capital equipment. Operationally, miners have cut costs by deferring maintenance and are pursuing cost reductions from suppliers. Bradken has responded by restructuring its operations including foundry closures in high cost locations and reducing overheads to mitigate this effect and maintain its quality of earnings. The Company's Rail, Industrial, Ground Engaging Tools and Crawler Systems businesses, which use common manufacturing facilities, have been restructured into a Mining and Transport Division, which is now of a similar size to the Mineral Processing and US based Engineered Products Divisions, thereby further reducing overheads in FY16.

Given the challenging market environment, Bradken expects FY15 EBITDA³ to be approximately \$136-\$138 million and reported Net Debt⁴ to be approximately \$420 million as at 30 June 2015, prior to the investment by the Consortium. For the purposes of Bradken's financial covenant calculation the RPS is not considered debt, with pro-forma Net Debt⁴ expected to be approximately \$350 million.

On this basis, after adjusting for the \$70 million investment by the Consortium, Bradken's Net Debt⁴ / EBITDA³ as at 30 June 2015 would be approximately 2.6x. This provides Bradken with the flexibility required to position itself to navigate the current slowdown and benefit from any opportunities that may become available when the cycle stabilises.

Bradken expects to incur a non-cash impairment charge as at 30 June 2015, primarily relating to goodwill and other intangible assets, in the range \$135 to \$145 million. Most of this is in the newly formed Mining and Transport division. The impairment has resulted from continued lower trading conditions, such as the reduction in cast parts for mobile plant sold to OEMs and rail wagon volume. Bradken continues to believe in the inherent value of these businesses, but the current charge is required due to the challenges in forecasting the timing of a return of the capital mining products cycle.

Revenue in the first half of FY16 is expected to be similar to the current half. Margins are expected to improve mainly due to product mix with no lower-margin rail wagons forecast to be manufactured in this period. Cash overhead costs are expected to be \$11 million lower in FY16 after adjusting for the sale and leaseback of a site in Western Australia and additional overhead from the Indian foundry following completion of its purchase in the first half of FY16. Coupled with this, the Company plans to complete the sale of further surplus properties with a resulting cash inflow of approximately \$20 million, largely offsetting the Indian foundry purchase. The Company expects 1H16 EBITDA to be slightly above the current second half.

Merger Approach

The Consortium has also approached the Bradken Board regarding a possible merger between Bradken and Sigdo Koppers' wholly-owned subsidiary, the Magotteaux Group.

The Magotteaux Group supplies a wide range of products (including grinding media and castings), services and systems to global industries including mining, cement, quarrying, recycling and dredging. Total revenue for the Magotteaux Group is approximately A\$1 billion.

³ Underlying EBITDA excluding significant items.

⁴ Total debt less cash, cash equivalents, subordinated debt and derivative contracts used for hedging.



The parties have agreed to work together during a 60 day exclusivity period to review the strategic and financial merits of a merger of Bradken and the Magotteaux Group and, if appropriate thereafter, to determine whether a mutually acceptable transaction in the interests of both sets of shareholders can be developed.

Any such merger would result in a combined group with a diversified global footprint both from an end market and geographic standpoint. The increased scale and operational flexibility would position the combined group to benefit from market opportunities. Should a merger be consummated, Bradken would be expected to remain listed and headquartered in Australia.

Any such merger is expected to require the approval of Bradken shareholders.

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About Bradken

Bradken is the leading supplier of differentiated consumable and capital products to the global resources, energy and freight rail industries. The Company employs almost 4,000 people in 34 manufacturing facilities and more than 30 sales and service centres across Australia, New Zealand, USA, Canada, the United Kingdom, Indonesia, Malaysia, South Africa, South America and China. The Company which became a publicly listed company in August 2004 has been in business for over 90 years and operates four market-focused divisions and a separate business.



Key Terms of RPS

Bradken Limited (“**Company**”), Bradken RPS Pty Limited (“**Issuer**”) and the Investors entered into an Investment Agreement on 26 June 2015 (“**Investment Agreement**”) under which each Investor has agreed to subscribe for, and the Issuer has agreed to issue to each Investor, redeemable convertible preference shares in the capital of the Issuer (“**RPS**”).

An outline of the key terms of the Investment Agreement and the RPS is set out below and a copy of the Investment Agreement is attached.

Item	Details															
1 Issuer	Bradken RPS Pty Limited, a wholly owned subsidiary of the Company.															
2 Guarantee	The Company guarantees the Issuer’s performance of its obligations under or in connection with the Investment Agreement and the terms of issue of the RPS.															
3 Securities and subscription price	<p>Sigdo Koppers S.A. (“SK”) will subscribe for 140,000 RPS and pay an aggregate subscription price of A\$14,000,000. Funds advised by CHAMP III Management Pty Limited (“CHAMP Investors”) will subscribe for 560,000 RPS and pay an aggregate subscription price of A\$56,000,000.</p> <p>The Issuer will pay to SK and the CHAMP Investors (together, the “Investors”) (in aggregate) a fee of A\$2,100,000 at completion of the subscription and issue of the RPS.</p>															
4 Conditions precedent	<p>Completion is conditional on:</p> <ul style="list-style-type: none"> (a) the Investors obtaining Foreign Investment Review Board approval for their subscription; (b) before completion of the issue there having been no material breach of the exclusivity arrangements between the Investors and the Company; (c) before completion of the issue the Company not having exercised the fiduciary carve out to the exclusivity arrangements between the Investors and the Company; and (d) no “material adverse change” having occurred between the date of the Investment Agreement and completion of the issue. 															
5 Distributions	<p>Distribution entitlement</p> <p>Each holder of RPS will receive semi-annual dividends in cash, although for the first 2 dividend periods following the issue of RPS the Issuer may satisfy the dividend payment by issuing additional RPS to the holders of the RPS (“PIK”).</p> <p>The dividend rate for each RPS is set out in the table below.</p> <table border="1"> <thead> <tr> <th>Period</th> <th>Rate (PIK) (per annum)</th> <th>Rate (cash) (per annum)</th> </tr> </thead> <tbody> <tr> <td>< 12 months</td> <td>8%</td> <td>7.5%</td> </tr> <tr> <td>12 to 24 months</td> <td>N/A</td> <td>9%</td> </tr> <tr> <td>24 to 36 months</td> <td>N/A</td> <td>11%</td> </tr> <tr> <td>> 36 months</td> <td>N/A</td> <td>13%</td> </tr> </tbody> </table> <p>If all of the RPS are not redeemed on or before the date that is the earlier of:</p> <ul style="list-style-type: none"> (a) the date that is 5 business days after the last settlement date of any broad based capital raising; and (b) 30 June 2020, <p>the dividend rate for each distribution period commencing after that time will be increased by 5% per annum above the corresponding rate set out in the table above.</p>	Period	Rate (PIK) (per annum)	Rate (cash) (per annum)	< 12 months	8%	7.5%	12 to 24 months	N/A	9%	24 to 36 months	N/A	11%	> 36 months	N/A	13%
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Dividend restrictions

Each of the Company and the Issuer may only pay a dividend, or make any other type of distribution, on any class of its shares (in the case of the Company) or its non RPS shares (in the case of the Issuer) if, prior to any such payment, the Company has procured that all RPS dividend amounts that are due and payable prior to the proposed dividend payment date are paid in priority to the payment of the dividend to the holders of ordinary shares or non RPS Shares (as applicable).

If all of the RPS are not redeemed or converted on or before the date of the 5% distribution step up referred to above, the Company must not pay or announce the payment of a dividend on its ordinary shares before the date on which all of the RPS are redeemed.

6 Conversion right	<p>Each Investor has the right to convert the RPS for ordinary shares in the capital of the Company in the period between the date of termination of merger discussions between the Company and SK and the later of 18 months from the date of issue of RPS and 12 months from the date of termination of merger discussions. Any such conversion is based on a conversion price of A\$2.00. The conversion price is subject to adjustment based on customary anti-dilution provisions.</p> <p>The obligation on the Company to issue ordinary shares in the capital of the Company is conditional on either:</p> <ul style="list-style-type: none"> (a) the Company having placement capacity to do so without obtaining shareholder approval under ASX Listing Rule 7.1; or (b) the Company obtaining shareholder approval for the issue of the ordinary shares. <p>To the extent the Company requires, but does not obtain, shareholder approval for an issue of ordinary shares to an Investor on a conversion, the conversion will be cash settled for an amount calculated in accordance with the terms of the Investment Agreement.</p>
7 Financial covenants	None
8 Term	Perpetual, with the redemption rights set out below.
9 Redemption	<p>The Issuer has the right (but not the obligation) to redeem all of the RPS:</p> <ul style="list-style-type: none"> (a) at any time after the termination of merger discussions between the Company and SK, in which case the redemption amount will be equal to 102% of the issue price plus accrued but unpaid distributions; (b) if the Company undertakes a broad based capital raising; (c) if any 1 or more of an Investor or an affiliate or associate of an Investor acquires control of the Company through a change of control transaction, in which case the redemption amount will be equal to 102% of the issue price plus accrued but unpaid distributions; (d) after 30 June 2020; and (e) on any other date agreed between the Issuer and the holders of the RPS. <p>The Issuer also has the right (but not the obligation) to redeem RPS where an Investor proposes to transfer the RPS to a vulture fund or any other entity that principally invests in 'loan to own' debt.</p> <p>Other than as specified above, the redemption amount for an RPS is equal to the issue price plus accrued but unpaid distributions.</p> <p>Under the first 2 redemption events above the holder of the RPS has the opportunity to convert the RPS (if entitled to do so) before the redemption takes effect.</p>
10 Dealing with RPS	<p>An Investor may only transfer RPS it holds:</p> <ul style="list-style-type: none"> (a) to an affiliate of an Investor or to another Investor;

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- (b) to a vulture fund or any other entity that principally invests in 'loan to own' debt if on receipt from an investor of a notice of intention to transfer RPS to such a fund or entity, the Issuer has the right to redeem the RPS or find an alternative acquirer within 10 business days (with such alternate transaction to be able to complete in accordance with its terms within such 10 business day period);
 - (c) to any other person, if the relevant Investor has first consulted with the Company for a period of at least 10 business days prior to the date of the transfer; or
 - (d) to any person at any time while a defined "event of default" is subsisting or following the delivery of a conversion notice by that Investor.

An Investor must not transfer its RPS to any person while negotiations between the Investors and the Company in respect of the proposed merger are subsisting.

11 Alternate proposal

If a recommended takeover offer or scheme of arrangement is announced in the period between the date of the Investment Agreement and the date that is 6 months after the termination of merger discussions between the Company and SK, the Investors must (and must procure that each of their respective affiliates):

- (a) either:
 - (i) in the case of a takeover offer, accept, or procure the acceptance of, the takeover offer in respect of all of the ordinary shares in the capital of the Company which it then holds as a result of a conversion on or before the date which is 8 days before the last day of the initial offer period for the takeover offer, whether or not that date is within 6 months after the termination of merger discussions; or
 - (ii) in the case of a scheme of arrangement, vote, or procure the voting of, all of the ordinary shares in the capital of the Company which it then holds as a result of a conversion in favour of that scheme of arrangement and any related resolutions which are required in connection with the implementation of the scheme of arrangement, whether or not that vote is held within 6 months after the termination of merger discussions; and
- (b) not take any action that could frustrate the completion of the takeover offer or scheme of arrangement (as applicable).

If prior to the required date for acceptance of the takeover offer, the board of the Company receives a superior proposal which is capable of acceptance by holders of ordinary shares, each Investor and their affiliates may accept the superior proposal in respect of all the ordinary shares which it then holds as a result of a conversion.

The above obligations do not apply if a defined "event of default" is subsisting.
