Presenters

BRIAN HODGES – Managing Director

STEVE PERRY – Chief Financial Officer

Bradken Limited – 2015 Full Year Results

Tuesday, 11th August 2015

2015 Full Year Results

1. Key Outcomes	**Brian Hodges**
2. Financial Review	Steve Perry
3. Operational Review	Brian Hodges
4. Strategy and Outlook	Brian Hodges

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Key Outcomes

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

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Underlying Performance

A$ Millions	12 Months to:		% Change to
	Jun-15	**Jun-14**	**Jun-14**
Sales	**965.9**	1,135.2	(14%)
Underlying EBITDA	**136.1**	173.3	(19%)
Underlying NPAT	**33.9**	55.1	(38%)
EBITDA/Sales	**14.1%**	15.3%	
Underlying EPS (cents)	**19.8**	32.4	(39%)
DPS (cents)	**-**	26.0	
Free Cash Flow	**38.7**	99.2	(18%)
Net Debt	**398.6**	364.7	13%

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Market Thematics

- The rate of decline in the resources industry capital expenditure is expected to slow in F16. Suppliers able to ensure product quality and reliability will be better placed as miners increasingly focus on life-cycle costs.
- A **Copper** surplus is forecast over the short term, with the market expected to move back into deficit within 4-5 years as major mines struggle to grow current production levels due to aggressive ore quality degradation.
- Global **Gold** production growth has remained relatively strong despite increasing cost pressures and tightening margins from lower prices. However, with slowing exploration rates and project spending cuts, output growth in the short-term is expected to be 1-2% p.a.
- **Iron ore** markets will continue to rebalance as high cost suppliers fall away and new investments are delayed.
- Global metallurgical and thermal **Coal** volumes are forecast to grow at 2-3% p.a. over the short to medium term with Australian coal exports continuing to set new records despite a weaker market.

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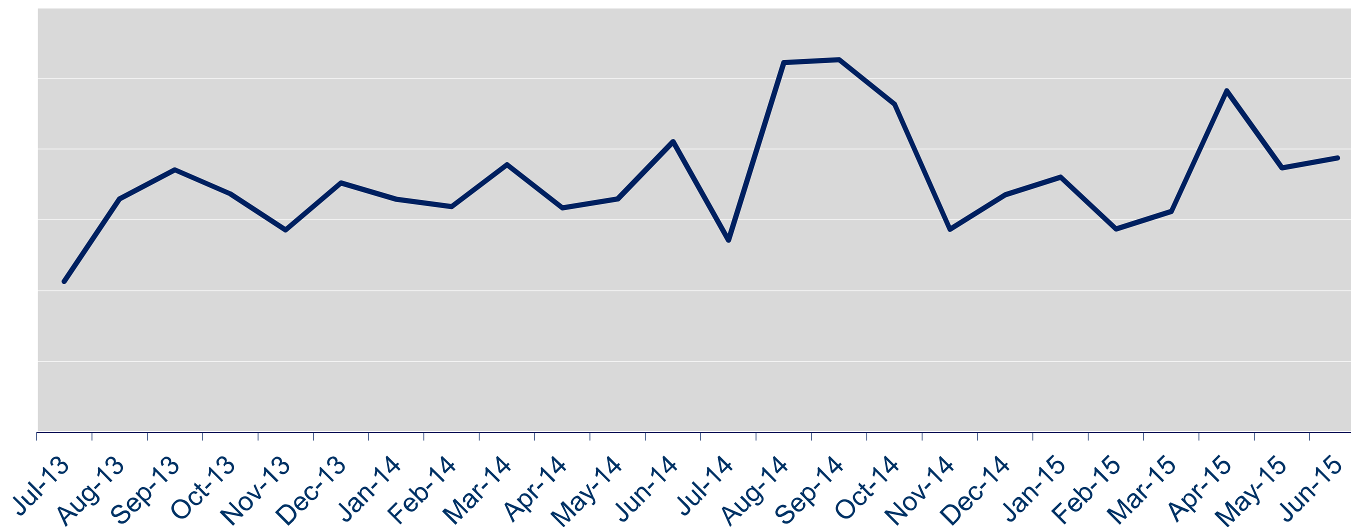
Order Intake Trend

- Order intake levels for FY15 reduced in November when iron ore and oil prices fell but appear to have again stabilised.



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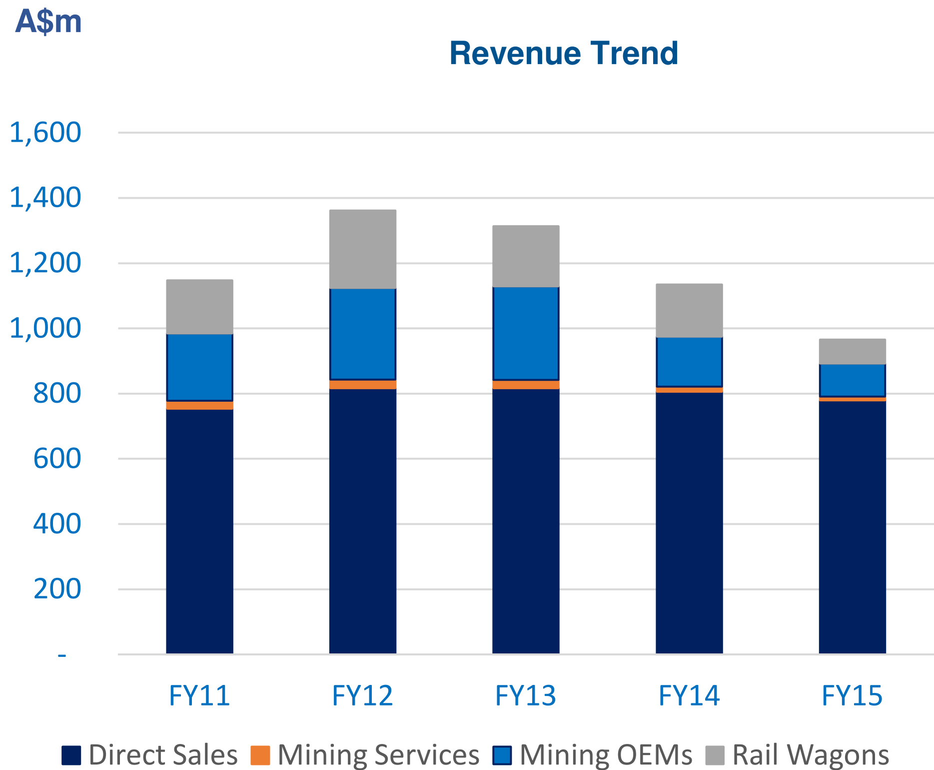
Stable Base Revenue Stream – A Key Strength



Sales & Margin Trend by Customer Category

- Direct sales, which comprise primarily consumable products continued to provide a stable $800 million solid revenue base in F15.
- Since the peak in F12, sales to mining OEMs (mostly capital products) have decreased 57% and rail wagon sales have decreased 74%.

* Sales adjusted for abnormal GET stock sales in 2012 (includes Norcast acquisition)

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Financial Performance

A$ Millions	12 Months to: Jun-15	Jun-14	% Change to Jun-14
Sales	965.9	1,135.2	(15%)
Underlying EBITDA	**136.1**	**173.3**	**(21%)**
Unadjusted EBITDA	109.7	143.0	(23%)
Depreciation	(52.1)	(52.9)	(2%)
Equity accounting loss (ANG)	(9.1)	(0.1)	
Amortisation	(11.3)	(13.0)	
Impairment of ANG	(36.0)	0.0	
Impairment of PPE	(55.8)	(19.5)	
Impairment of Intangibles	(167.2)	0.0	
Net Finance Costs	(33.0)	(29.4)	12%
Tax Benefit / (Expense)	13.5	(6.6)	(305%)
Unadjusted NPAT	**(241.3)**	**21.5**	
Underlying NPAT	**33.9**	**55.1**	**(38%)**

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Reconciliation of Underlying Profit

Reconciliation of Underlying Profit	FY15		FY14	
	EBITDA	NPAT	EBITDA	NPAT
Underlying profit	**136.1**	**33.9**	**173.3**	**55.1**
Adjustments:				
Gain on sale of properties	26.6	18.6		
Cost recovery associated with Pala legal case			13.3	13.3
Insurance gain	2.2	1.5		
Manufacturing restructure	(50.5)	(52.7)	(21.6)	(15.1)
Due diligence, acquisition costs & legal costs	(1.9)	(1.3)	(6.5)	(4.6)
Inventory valuation adjustment	(1.3)	(0.9)		
Loss on disposal of PPE	(0.9)	(0.6)		
FX losses	(0.6)	(0.4)	(15.5)	(10.8)
ANG loss and impairment		(45.1)		
Impairment of PPE		(21.7)		(19.5)
Impairment of intangibles		(167.2)		
Deferred tax adjustment		(5.3)		3.1
	(26.5)	(275.2)	(30.3)	(33.6)
Unadjusted profit	**109.7**	**(241.3)**	**143.0**	**21.5**

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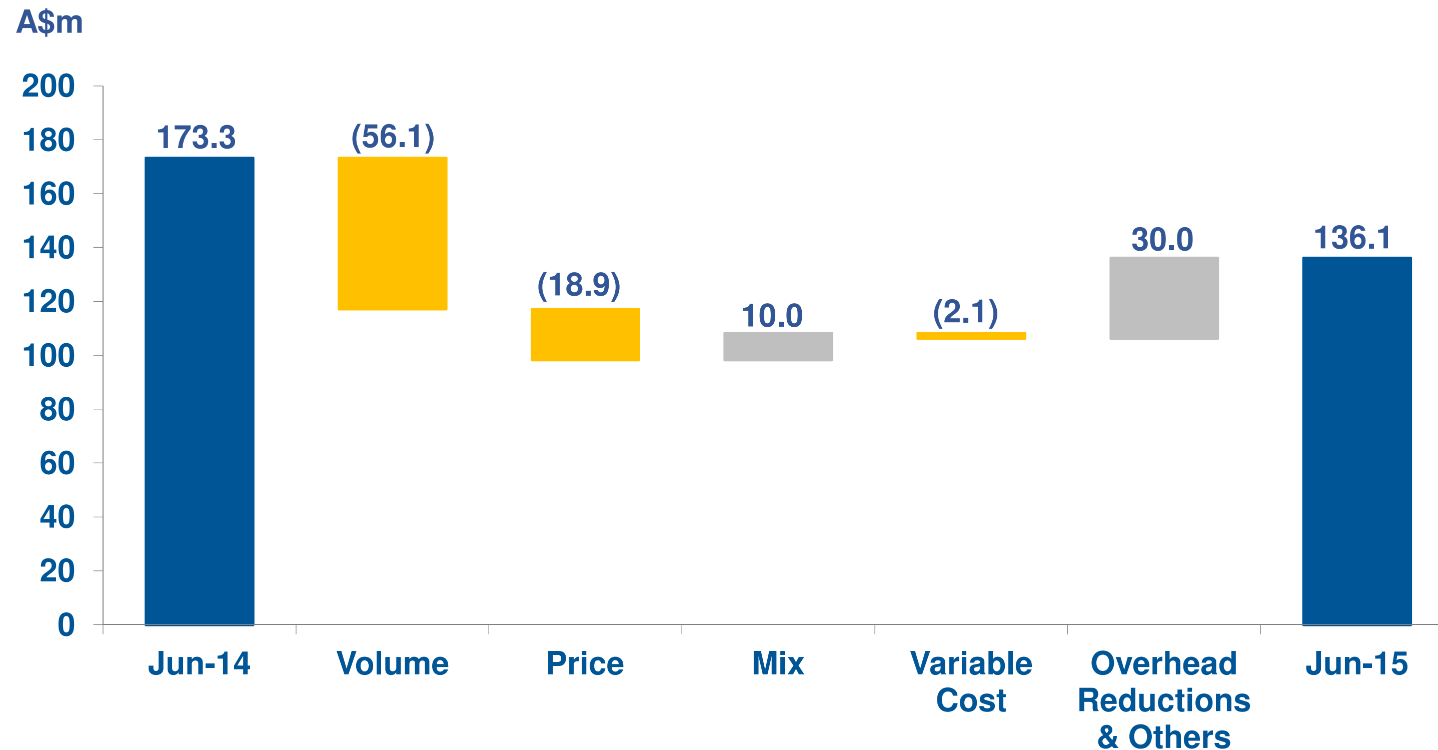
EBITDA Movements

- The largest impact on EBITDA was due to the reduction in sales volume of rail wagons, crawler systems and energy products.
- Average price reductions of 2% were made to maintain and grow market share.
- Variable costs were reduced in line with volume reductions with some lag due to high levels of inventory particularly in GET and Crawler Systems with higher historic costs.



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Divisional Sales

- Sales revenue fell 15% when compared to the previous year as a result of decreased rail car sales ($85m), lower sales of crawler shoes ($44m) and into the energy sector ($29m).

	12 Months to:		% Change to
	Jun-15	Jun-14	Jun-14
Sales			
Mining & Transport	**328,694**	**449,632**	(27%)
Mineral Processing	**217,803**	**231,916**	(6%)
Fixed Plant	**135,459**	**149,426**	(9%)
Engineered Products	**267,488**	**277,525**	(4%)
CMS	**16,417**	**26,741**	(39%)
Total Sales	965,861	1,135,240	(15%)

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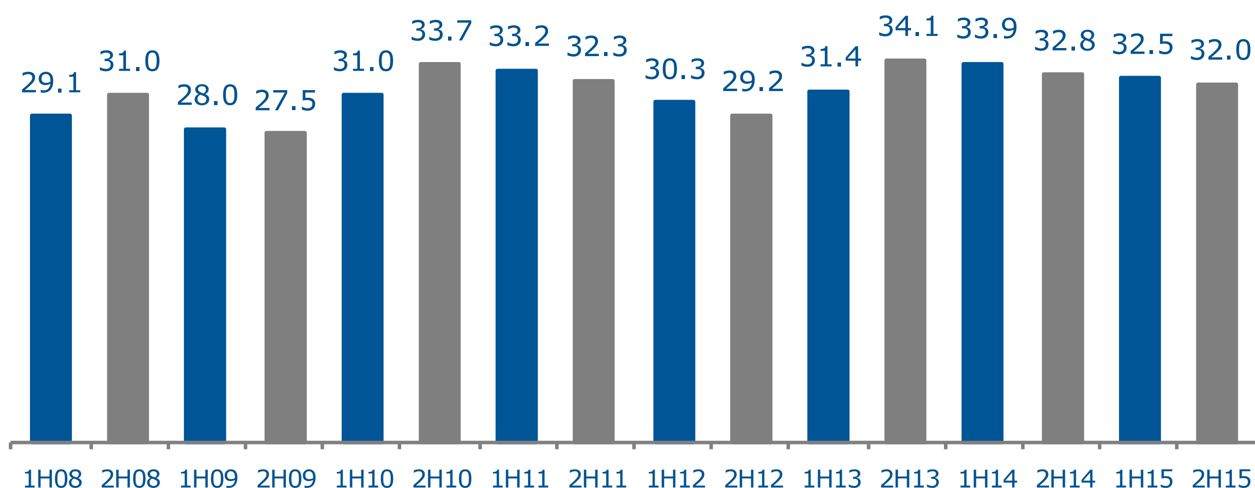
Divisional Margins

	12 Months to:			
	Jun-15		Jun-14	
Gross Margin		% to sales		% to sales
Mining & Transport	**84,668**	25.8%	**124,999**	27.8%
Mineral Processing	**75,049**	34.5%	**84,102**	36.3%
Fixed Plant	**47,775**	35.3%	**59,116**	39.6%
Engineered Products	**85,913**	32.1%	**92,301**	33.3%
CMS	**16,488**	100.4%	**17,589**	65.8%
Total Margin	**309,893**	32.1%	**378,107**	33.3%



Historical Gross Margin Percentage to Sales

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Free Cash Flow

- Although operating cash flow before restructuring costs was significantly lower than the prior year, cash flow in the second half increased to $55 million from $27 million in the first half.

A$ Millions	12 months to: Jun-15	12 months to: Jun-14
Underlying EBITDA	136.1	173.3
Working Capital	(15.3)	29.2
Interest & Borrowing Costs	(27.9)	(25.8)
Income tax payments	(11.7)	(9.1)
Operating Cash Flow (before restructure)	**81.2**	**167.6**
Restructuring Costs	(26.8)	(12.5)
Proceeds from Sale of PPE	40.4	1.7
Capital Expenditure	(56.1)	(57.6)
Free Cash Flow	**38.7**	**99.2**

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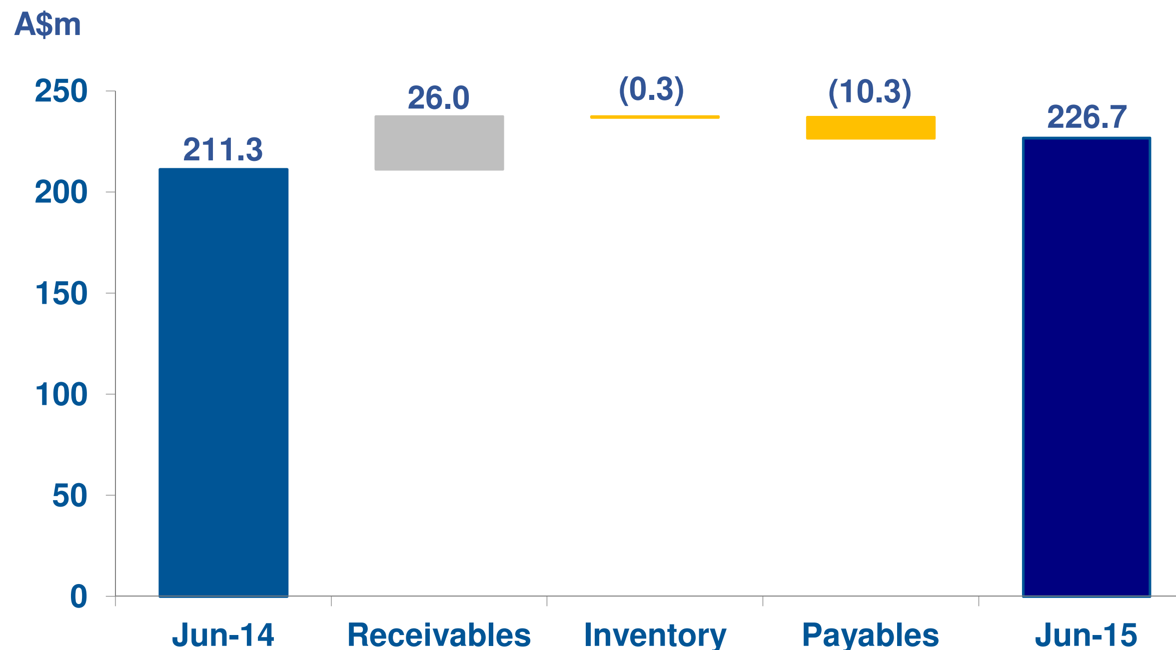
Working Capital Movements

- The increase in receivables is largely due to high sales in May and June and the change in mix away from rail project work, which was generally paid in advance.
- Inventory remained flat with reductions in fixed plant of $14 million offset by increases in US based inventory due to FX translation.
- Finished inventory in ground engaging tools and crawler systems reduced in the second half by $13 million with further substantial reductions forecast for 2016.
- Although remaining flat year on year, inventory levels were reduced by $26 million in the second half with $13 million of the reduction achieved in the GET and Crawler Systems businesses.



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Capital Expenditure

- Overall, net capex spend for the year was $56.1 million compared with $57.6 million for the previous corresponding period.
- Although new capex was largely restricted, there were a number of cost reduction and product relocation projects completed in F15:
  - ✓ Tooling for China foundry due to product movements from Australia - $7.5 million.
  - ✓ Increased machining capabilities for the Energy Business in Tacoma - $3.2 million.
  - ✓ New equipment for rubber/ceramic products manufacture for the Fixed Plant Business - $3.2 million.
  - ✓ Cost reduction capex for Mineral Processing manufacturing facilities - $2.1 million.
  - ✓ New Ground Engaging Tools designs and tooling - $6.7 million.
  - ✓ Deposit payment for the new foundry in India - $5.7 million.
  - ✓ Stay in Business Capex - $27.7 million (2.9% of sales).
- Capex in F16 includes $17 million for the purchase of the Indian foundry, otherwise primarily stay in business capex.

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Capital Management – Key Measures

	12 Months to:	
	Jun-15	Jun-14
Net Bank Debt (exc. Leases / Inc. RPS)	398.6	364.7
Shareholder Equity	538.5	729.8
Working Capital	226.7	211.3
Covenant Agreement Gearing		
Covenant (Net Debt / Underlying EBITDA)	< 3.5	< 3.0
Actual Gearing (Net Debt / Underlying EBITDA)	2.5	2.1
Interest Cover (Underlying EBITDA / Borrowing Costs)	4.5	6.6
Accounting Gearing		
Gearing (Net Debt / Net Debt + Equity)	42.5%	33.3%
Gearing (Net Debt / EBITDA)	2.9	2.1
Interest Cover (EBITDA / Borrowing Costs)	4.1	5.9

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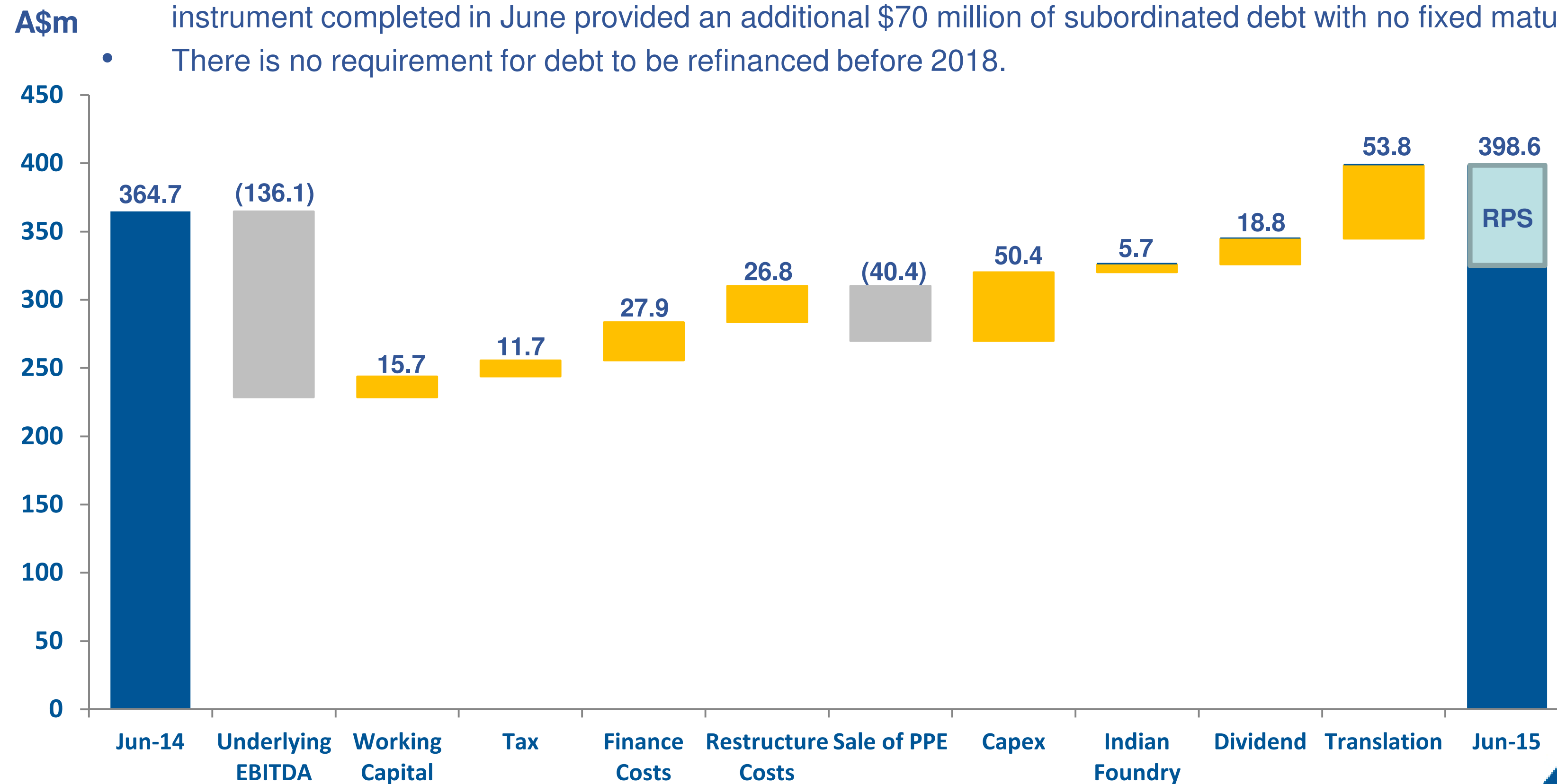
Net Debt

- Net USD denominated debt has been reduced from $235 million at June 2014 to $54 million at July 2015.
- Sale of properties including the sale and leaseback of the Bassendean site generated $40 million.
- Surplus properties totalling $20 million are planned to be sold during 2016.
- Bradken has senior debt facilities of $829 million with $431 million of headroom at year end. In addition, the RPS instrument completed in June provided an additional $70 million of subordinated debt with no fixed maturity date.
- There is no requirement for debt to be refinanced before 2018.



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Operational Overview

- 35 sites were Lost Time Injury (LTI) free for FY15, which is an increase of 11 on the previous corresponding period and global Lost Time Injury Frequency Rate (LTIFR) for FY15 was 3.4 down from 4.1 in FY14.
- Significant employment downsizing in FY15 from 4,970 to 3,650 occurred, which included the closure of the Welshpool and Chehalis foundries along with significant reductions in manning and overheads as we reshaped our workforce in line with market conditions.
- Bradken continued to close high cost facilities and in the latter half of F15 restructure into five focussed divisions, to create stable, focussed businesses capable of responding when the market turns.
- Production capacity has been generally retained in newer, larger, low-cost manufacturing facilities.
- The first half of F16 will see the end of restructuring as the Indian foundry acquisition is completed.
- Emphasis is now centred on winning more market share for our lower cost manufacturing facilities while limiting capex and reducing working capital to improve gearing.

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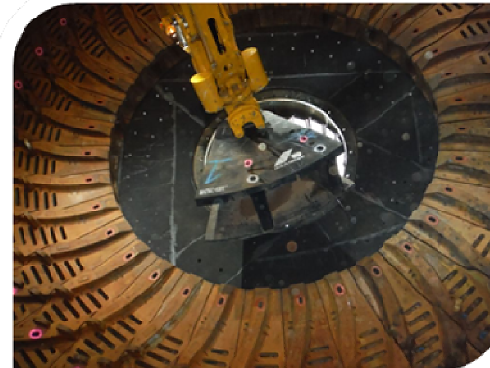
Operational Review

- The **Mineral Processing Division** primarily manufactures mill liners for copper and gold mines globally and is a major global player having been significantly enhanced by the integration and improvement of the Norcast assets since 2012.
- Sales of $216 million were down 6% on the previous year due to reduced operations of large mines in Indonesia and Africa, commissioning delays in other regions, all of which are now resolved and returning to normal ordering patterns.
- The Division's key manufacturing strategy continues to focus on the relocation of work to lower cost manufacturing facilities, with the transfer to India planned to begin in the first quarter of F16.

Grinding Mill, Cadia Mine, Australia.



Installation of SAG Mill Discharge End.

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Operational Review

- The **Mining & Transport Division** has replaced the Rail, Industrial, GET & Buckets and Crawler Systems businesses.
- Sales of $328 million were down 27% on the previous corresponding period primarily due to lower rail wagon sales, the restructuring has reduced fixed cash overheads by $15 million.
- Lower commodity prices had a significant impact on mining capital expenditure and deferment of maintenance and consumable product spend as miners moved to higher utilisation of larger, more efficient equipment.
- GET products manufacturing now moved to lower cost facilities.
- GET and Crawler Systems products growing market share.
- Development of the African and North American markets continues.

On-site inspection of Bradken Dragline bucket and Rigging Chain.

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Operational Review

- The **Fixed Plant Division** had sales of $136 million, down 8.7% on the previous corresponding period.
- Lower iron ore and oil prices had a significant impact on mine spending with most mines utilising existing consumable stock and becoming more stringent in their general consumable use.
- Ceramics manufacturing plant in China was fully commissioned.
- Process improvements at our Edmonton manufacturing facility has lowered costs of wear piping products.

Train Load-out units being refurbished and relined.

Expansion barrels for the transport of oil sands.

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Operational Review

- The **Engineered Products Division** is a stand-alone capital products business based in the USA and has undergone significant restructuring including the closure of the Chehalis foundry.
- Sales revenue of $267 million was down 4% on FY14, reflecting continued softness throughout the year in the capital mining market.
- The release of deferred military projects, notably submarine builds, are expected to benefit the division in F16 as well as translation of the US dollar.

Transbay Structural Ground Level Node (11 tonne)

Riser Basket for Offshore Oil Platform (7 tonne)

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Operational Review

- The **Cast Metal Services Business** is a foundry consumables provider primarily supplying Bradken's foundries, but also progressively growing sales in external offshore markets.
- Sales were up 7% on the previous corresponding period from the net effect of significant new sales in North America offsetting a 15% reduction of sales in Australia due to contracting market conditions and domestic foundry closures.
- New plant and equipment for the business in Xuzhou, China has been commissioned and is proving a catalyst for low cost refractories and coatings manufacture for promotion and sales globally.

Sand Core Flow Coating (Water Based Refractory Coatings)

CMS CAST 48LC Application- Heat Treatment Oven block

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Corporate Actions

- On 26 June 2015, Bradken announced that a consortium, comprising a Chilean company, the SK Group and CHAMP Private Equity had approached the company regarding some form of merger between Bradken and Magotteaux, a wholly owned subsidiary of the SK Group.
- The parties agreed to work together during a 60 day exclusivity period to review the strategic and financial merits of a merger, which is currently scheduled to expire on 29 August 2015.
- No financial proposal has been provided by the consortium at this stage. Both groups must see a mutual benefit to their shareholder base for a merger to be superior to the underlying potential for the individual companies. A Market update will be provided when appropriate.

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Outlook

- Restructure of manufacturing to materially lower costs is close to completion. This well-positions the Company to gain volume when the market improves.
- The foundry in India will contribute to further cost reductions in F17 and will recover any lost capacity as a result of the prior plant closures.
- The Company's short-term strategy is to focus on growing high margin revenue through market share for consumable products and product development in preparation for an eventual uplift in global mining demand.
- Forecasting results in the current environment remain challenging; a further smaller reduction in volume and price is possible, to be offset by:
  - An additional $10 million EBITDA from full year run-rate savings of the restructuring program.
  - $9 million of EBITDA (based on current FX rates) due to higher translation of the US based business which provides more than 50% of the Company's profits.
- Gearing is forecast to reduce significantly in the second half of F16 due to:
  - Very low translation exposure to any further reductions in the AUD/USD exchange rates.
  - Continued inventory reductions especially in the GET and Crawler System product lines given that the relocation of manufacturing will be complete.
  - Sale of surplus properties and continued capex restrictions.
- Completion of the RPS, an increase in the key banking covenant (Net Debt / EBITDA) and substantially reduced exposure to USD denominated debt will continue to protect the balance sheet.

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Thank You