

ASX RELEASE



30 OCTOBER 2015

Company Announcements Office
Australian Stock Exchange Limited
Level 4
20 Bridge Street
Sydney NSW 2000

Dear Sir,

Attached is a copy of the Chairman's Address to be delivered to shareholders of Ausdrill Limited at the Annual General Meeting of the Company to be held today.

Yours faithfully

DOMENIC SANTINI
Company Secretary

**BRINGING MORE
TO MINING**

CHAIRMAN'S ADDRESS – 2015 AGM

Ladies and Gentlemen

Shareholders will have received the Company's Annual Report with accompanying financial statements. It goes without saying that the year under review has been another very disappointing one for the Company and, indeed, for the whole mining industry, other than the Australian gold sector about which I will say more later.

Obviously the fall in commodity prices has had a significant impact on everyone in our industry. Not only have mining service contractors experienced a significant downturn in activity in the areas in which they operate, but they have also experienced heavy pressure from clients to reduce their costs. This, combined with competitors cutting their prices, has inevitably impacted on margins.

These pressures are starkly illustrated by the reduction in the Company's EBITDA dropping from \$173.7 last year to \$114.7 this year and a consequent drop in operating net profit to \$2.1m, with the result being impacted by a significant bad debt of \$7.5m following the collapse of Western Desert Resources. The profit was also lower because of an unrealised foreign exchange loss of \$7.7m. Additionally, the results were impacted by the poor performance of our water well and energy drilling businesses, as well as our equipment hire and parts business.

The statutory loss reported resulted from another impairment charge on assets due to lower equipment utilisation and lower margins being experienced in certain parts of the business. Determining the impairment involves – among other things – forecasting cash flow a few years out, which itself requires an assessment of likely future contracts. In the current environment, forecasting future contracts and cash flow can only be based on the information known and assumptions made at the time.

The great bulk of the equipment which has been impaired remains in the Company's fleet and is of course available for use when it is required. Indeed, in Ghana, some of the equipment which was idle and has been impaired is now back at work.

On the positive side, our financial position remains strong with cash reserves of \$77.9m and a reduction of secured debt by an amount of \$100.1m to \$47.9m at year end. Since 30 June, the amount of secured debt owing under the bank facility has been reduced to zero. During the year we realised there was not a need for the full facility, so the revolving bank facility was reduced from \$300m to \$125m. That reduced facility remains in place, giving the Company the ability to take advantage of opportunities that arise in the period ahead.

It is worth repeating something I said last year, that is, that all the fundamentals that have made your Company the great business that it is over the past 26 years are still in place:

- We have an outstanding team of people, doing great work for our customers, and guided by a very strong leadership group.
- We have a proven strategy of providing services right across the mining lifecycle, which experience has taught is what our customers want.
- We have strong, long-standing client relationships. Many of them have been working with Ausdrill for a decade or more.
- And we have an enviable track record. I would add that we have had more than 20 years' experience in Africa, a region in which there is currently a lot happening.

In other words – we are here to stay.

Having said that, the tough times we are experiencing have been hard for everyone – shareholders, staff, directors and especially the people the Company has been forced to retrench in the last two years. In the last year alone, our headcount across the Company reduced by 498 people to 4,080, on top of the reductions in previous years. Of that group, the bulk of the retrenchments, namely 384, were in Australia. These

are never easy decisions for the Company to make, and shareholders can be assured that we have done everything we can to keep our people busy because we are well aware of the ramifications of our actions for employees and their families.

In addition, there have been no general increases to employee salaries this year, and our wages personnel have agreed to the annual service bonus being made at the Company's discretion. This brings them in line with the salaried staff in Australia who have not received the bonus since 2013. These measures will result in annualised savings of approximately \$7 million per annum.

Further, the salary of the Managing Director and the fees of the Directors were reduced by 10% from 1 July 2015.

On the positive side, we have been able to retain a core group of long standing employees who have been the backbone of the Company and who have the skills and experience to take the Company through this difficult period.

OPERATIONS

I would like to say a few words about our operations. Although the environment has been difficult, the Company has continued to roll over existing contracts and also win new work. The following is a list of some of the new work the Company has won over the past year:

- a contract with Peabody Energy Australia to hire and maintain 68 pieces of mining equipment for its Hunter Valley and Bowen Basin coal mines;
- a contract to mine an additional pit for Perseus Mining at its Edikan project in Ghana;
- a contract with Piacentini Group to provide drill and blast services at the Alcoa Willowdale and Huntley mines in WA;
- a contract with Macmahon to provide drill and blast services at the AngloGold Tropicana mine in WA;
- a contract with Thiess to provide drill and blast services at the Rocky's Reward mine in WA;

- a contract with Ghana Manganese to hire and maintain mining equipment at its mine in Ghana; and
- a contract with Nordgold to hire and maintain mining equipment at its Bissa and Taparko mines in Burkina Faso.

Shareholders may have seen the recent announcement that Ausdrill's subsidiary, African Mining Services, has been appointed the preferred contractor for the establishment of its Tulu Kapi project in Ethiopia. The appointment is for the estimated 10 year life of the mine. The contract which is worth approximately US\$300m is subject to completion of formal documentation.

In addition, we have received a three year extension for our contract with Goldfields at St Ives which could be extended further under two by one year options. We have already worked at St Ives for 19 years with Goldfields and its predecessor, Western Mining. Pivotal in our success have been the lake rigs, specially designed and built by Ausdrill for work on the lakes in the area. These rigs remove the cost for the mining company of building, and later removing, causeways to enable drilling on the lakes to be undertaken. The rigs are mounted on 2.2 metre tracks which stop them sinking into the mud. The support trucks are similarly equipped.

Ausdrill designed and built specialised equipment has been an important factor in the longevity of Ausdrill at the Superpit in Kalgoorlie. Ausdrill has developed a probe drill which works on an excavator arm and which drills ahead of the rig, thus exposing any unmapped cavities and avoiding rigs falling down unmapped voids.

Ausdrill has also designed and built the Rock Commander suite of rigs. These work on an excavator base which can rotate. These rigs can rotate and drill several blast holes without moving, thus saving time and reducing costs. The rigs are particularly suited to uneven ground. Rock Commanders are now used at the Superpit, Sunrise Dam, Tropicana, Rocky's Reward in the Goldfields and at Iduapriem in Ghana.

The probe rigs, the lake rigs and the Rock Commanders are outstanding innovations by Ausdrill and their development is a great credit to our Engineering Department.

OUTLOOK

As a result of the depreciation of our dollar against the US dollar, the Australian dollar gold price has increased significantly despite the fall in the gold price. This has provided a shot in the arm for the Australian gold mining industry. Not only are the larger companies looking for gold in Australia, but also many of the junior miners are in the field. It is likely that some mines will flow from this work and we expect to win our share of the drill and blast work. Gold has been a central part of the Ausdrill story since day one, and we therefore expect to benefit from these developments.

Exploration for other minerals in Australia is subdued. It is difficult to see when the situation might improve, however we are seeing an increase in gold exploration.

As a result of the weaker iron ore price, there has been a focus on reducing costs as a result of which the Company has experienced a reduction of work in exploration in this sector.

On the other hand, we do see significant potential opportunities in Africa. Africa is still a significant mining region and relatively unexplored compared to Australia. Our work there is very production focussed and we are bidding for work with tender activity being at quite reasonable levels. Although there are some complexities with some of the work we are bidding for in Africa, such as some of the proposed projects not proceeding as the costs could be higher than the mining companies and/or their bankers expected, we are cautiously optimistic that we will win our fair share of the work we are bidding for.

Our experience and track record in Africa gives Ausdrill a significant advantage when it comes to winning new work. The Company enjoys an excellent reputation for the quality of its work and its professionalism. For many of the companies operating in Africa, our subsidiary, African Mining Services, is the contractor of choice. Because of its potential, we will continue to focus on Africa.

PEOPLE

Ausdrill has an excellent team, many of whom have been with us for many years – in some cases, decades – and we have been fortunate to have retained most of the

people who have built the Company over the years. Their experience and dedication will be vital in getting the Company through the current downturn.

At this time I want to publicly acknowledge our Managing Director and the staff of the Group and thank them for their untiring efforts during another difficult year.

CONCLUSION

Finally I would like to reiterate that the results over the past two years have been disappointing. However, shareholders can be assured that the entire Ausdrill team has been working very hard to improve the position. Regrettably we can give no guarantee that things will improve in the short term, although we do remain optimistic for the future.

We have been through tough times before, and as a company we always emerge stronger from these periods of adversity. That's the Ausdrill character.

It is certainly our hope that the few green shoots we are seeing are an indication that the worst is over, and that this time next year I will be commenting on an improved performance.



TERENCE O'CONNOR
Chairman
Ausdrill Limited