Media / Market Release

BRADKEN

Tuesday, 16 February 2016 For immediate release

BRADKEN REMAINS FOCUSED ON CURRENT STRATEGY

	Dec 2015	Dec 2014	Change
NPAT	($168.1m)	($92.6m)	(81%)
EBITDA	$13.7m	$14.5m	(6%)
Underlying NPAT	$7.1m	$13.8m	(49%)
Underlying EBITDA [1]	$51.9m	$72.3m	(28%)
Sales Revenue	$404.5m	$495.4m	(18%)
Operating Cash Flow	$26.6m	$16.8m	58%
Underlying Earnings per Share (based on weighted average number of shares)	4.2 cents	8.3 cents	(49%)
Basic Earnings per Share	(98.3 cents)	(54.1 cents)	(82%)
Dividend per Share	0 cents	0 cents	
LTIFR [2]	2.9	4.1	

Notes:
1. Underlying EBITDA represents statutory EBITDA before; significant items, $2.2 million foreign exchange losses (Dec 2014 $0.4 million loss) and the $1.5 million loss incurred by the Group's UK operations which are currently being divested.
2. Lost time injury frequency rate (LTIFR) is the number of occurrences of injury divided by the total number of hours worked by all workers, for each one million hours worked.

Acting Managing Director, Mr Phil Arnall said, "It has been a trying first half, however the company remains focused on its strategic intent of generating surplus cash to pay down its debt. We have been doing this in a planned way and it is bearing fruit. During the period, cash costs were reduced a further 8% to $78 million and we have closed or announced the closure of several foundries and plans are underway to migrate products from these locations to lower cost facilities."

"There is a way to go in this exercise, however clear plans are in place and the Company can see a further reduction of $8 million per half in cash overheads progressively over the next 12 months, together with operating cost improvement from the foundry rationalisation initiative."

"It is pleasing to see that order intake of our base mining consumables business has remained stable over the past four quarters and this is the basis on which we are expecting an improved result in the second half."

Operational Review

Mining related consumable products sales were in line with the previous period, with ground engaging tool product sales increasing slightly. Rail capital sales were negligible when compared to the $25 million in the previous period. Australia and New Zealand industrial product sales were also significantly down reflecting lower economic activity in these markets. Right-sizing the operations of the newly formed Mining & Transport Division continues with the announced closure of Launceston and Acacia Ridge foundries and material reduction in Selling, General and Administrative cash costs taking effect.

In the Mineral Processing Division, sales remained strong throughout the period with significantly higher levels of order intake and a closing order book of $114 million, up 12% on HY15. Margins remained healthy over the period as a result of restructuring efforts and favourable movements in other determinants of costs such as foreign exchange translation. The business continues to be successful in winning work in key developing mining regions including Africa, South America and Indonesia. Acquisition of the Indian foundry expected to complete in March 2016 will provide this business with further low cost capacity over time.

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In the Engineered Products Division, sales revenue was down 12% compared with the June 2015 half, reflecting further reductions in the capital mining markets, coupled with softening in the energy and transport markets. These decreases were partially offset by increases in military projects, principally components for submarine builds, which will continue into 2017. Overall, order intake for the period remained low although improved demand from the military and locomotive markets is expected in the second half. The business has undergone significant restructuring including the closure of the Chehalis foundry in 2015 and a production line in the Atchison foundry in early 2016. Actions to right-size the business to the current order intake levels will continue.

In the Fixed Plant Division, sales decreased 7% compared with the June 2015 half due to lower capital related project activity in the iron ore and oil sands markets. However replacement and maintenance parts sales increased by 10% improving the overall margin mix. In the Pilbara region, the business has been successful in providing customers with engineered solutions which have significantly reduced their operating costs and this initiative is now being successfully replicated in the oil sands region in Canada. Market activity in the period was strong with order intake higher than sales levels. The business was also successful in winning significant new maintenance work in Canada.

Financial Overview

Underlying EBITDA was $51.9 million, a reduction of 19% on the June 2015 half, largely due to the fall in revenue but cushioned by increased gross margins and overhead reductions of $7 million compared to the previous period.

Net Profit after Tax was a loss of $168.1 million and was after the following major one-off items:

- restructuring costs of $17.9 million before tax related to the manufacturing reorganisation and restructuring of the overhead cost base;
- impairment of plant and equipment of $116.9 million and of intangibles of $64.1 million. Although a full assessment for impairment was completed in June 2015, further impairment has been required in the Mining & Transport and Engineered Products Divisions reflecting the uncertainty in the speed of recovery in capital mining products; and
- impairment of the investment in Austin Engineering of $5.5 million.

Operating Cash Flow (before restructuring costs) was strong at $41 million aided by lower inventory levels and lower tax payments. This equates to an EBITDA to cash conversion rate of 78%, slightly higher than the previous five year average of 67%. Capex reduced 71% from the previous period to $8 million, being mostly for stay-in-business purposes. The sale of surplus properties including the Henderson and Cannington sites generated $6 million.

If the effects of foreign exchange translation are excluded, free cash flow for the period would have reduced net debt 6% or $24 million. Following a substantial reduction in exposure to USD denominated debt, no translation impact has been recorded since the end of July 2015 and no further material translation impact is forecast. A 10% devaluation of the AUD against the USD would now give rise to $6 million in translation. Bradken has a long-term debt maturity profile with no refinancing required before July 2018 and maturities out to 2023.

Human Resources

The Global Lost Time Injury Frequency Rate (LTIFR) for the period was 2.9, which is a reduction of 17%, down from 3.5 in the previous half year period.

Business restructuring and employment downsizing continued throughout the first half as the market downturn impacted the Company's business operations, with the most significant reductions occurring in the Xuzhou, China fabrication operations.

Bradken remains committed to continuing its endeavours to build and maintain a strong business culture with employee recognition programs and HR systems development.

Strategy Scorecard and Outlook

In reviewing progress to date, Mr Arnall said, "We have achieved positive outcomes in all of the strategic actions we implemented over the period. This is a work in progress and further activity on these initiatives can be expected going forward."

Strategic Actions	Outcomes
1. Right-size overheads to current operating level	• Reduced cash overheads a further 8% ($7 million) during the period.
2. Consolidate manufacturing footprint and focus on lowering variable costs	• Commenced closure of Launceston, Acacia Ridge and Adelaide manufacturing facilities. • Announced planned divestment of European business including Darlaston and Scunthorpe manufacturing facilities. • Acquisition of low cost Indian plant to be completed in March 2016.
3. Focus on free cash flow to reduce level of net debt	• Achieved free cash flow of $24 million.
4. Appointment of new CEO	• Appointed Mr Paul Zuckerman as CEO to commence on 1 March 2016.
5. Refresh Board	• Commenced with the appointment of Mr Rupert Harrington on 1 December 2015.

"Consumable products sales will continue to dominate future operating levels and our plans have no reliance on a resurgence of capital product sales," Mr Arnall added.

Bradken will continue the migration of work from higher cost to lower cost foundries including the ramp-up of the new Indian foundry over the next 18 months which will continue to improve our competitive position and deliver further margin improvement.

The business will target an additional reduction of 10% to $140 million of cash overheads for fiscal 2017.

Further improvements to free cash flow generation are expected due to a continued focus on reduction in inventory levels, lower cash overheads costs, low capex spend, and sale of surplus properties including the European assets. The target is for annual free cash flow of $60 million.

A reduction in net debt over the next 12 months to a gearing level (for covenant purposes) of around 2.2 times EBITDA is targeted.

"Finally, on behalf of the Board of Bradken, I welcome Mr Paul Zuckerman to the Company in his role as Chief Executive Officer," said Mr Arnall.

Ends

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