Results Release –Year Ended 30 June 2016

Slide 1 – Ryan Stokes

Opening Slide

Good morning.

Welcome to the SGH results presentation for the year ended 30 June 2016. I am Ryan Stokes, Managing Director and CEO. With me today is Richard Richards, our Chief Financial Officer.

Let's go to slide 2.

Slide 2 – Ryan Stokes

Disclaimer

This is our standard disclaimer. On to slide 3.

Slide 3 – Ryan Stokes

Group Overview: Our Businesses

This table provides an overview of our businesses and their strategic positioning.

WesTrac, Coates Hire and Seven West Media are the market leaders in the areas they operate and compete. The Group's energy interests are well positioned in the current environment.

More on this later as we go through the operational reviews.

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Slide 4 – Ryan Stokes

Group Overview: Highlights

Building on the strong foundations laid by all the businesses over the last three years, I am pleased to deliver a full year result that is ahead of the guidance that we provided at this time last year.

We achieved underlying EBIT of $303 million, whilst down 4 per cent on the prior year, is 6 per cent ahead of guidance. Statutory NPAT of $198 million represents a $557 million turnaround on the prior year.

The overall result is a positive one for the company and reflects the demand for equipment and maintenance as the resource production cycle remains strong. The momentum of change from the cost structure refinements that we started three years ago can also be seen today across our businesses.

This year Western Australia achieved our strongest mining market share result since 2012. Overall construction equipment market shares were up significantly and close to our highest levels. Both WA and New South Wales benefitted from strong improvement in used equipment sales, which is an important aspect to the value proposition for CAT equipment.

Cash flow generation is central to the way we do business and it continues to be a strength with an underlying EBITDA to operating cash flow conversion rate for the year of 112 per cent, well up on the 99 per cent in the prior year.

Coupled with our balance sheet flexibility and access to liquidity, we can report that the Group is in a strong financial position and ready for opportunities and initiatives that will enhance shareholder value.

Today we have declared an unchanged final fully-franked ordinary dividend of 20 cents per share. Our buy-back initiatives to date have created value for our shareholders and today we announce the broadening of our capital management program with the buy-back of up to 10 per cent of the TELYS4 shares on issue, subject to trading volumes and market conditions.

Slide 5 – Ryan Stokes

Safety Focus

At SGH we believe our people and safety is an important focus at every level of our organisation. Our safety record has improved considerably over the past two years as part of our organisational changes. We are not just investing in systems and processes but also ensuring the well-being of our people.

Bringing in senior management from other industries and businesses has helped to drive our safety culture. At WesTrac, they introduced the Ten Life Saving Rules, which you can see here, while Coates Hire has recently implemented the DuPont safety leadership program.

Running an efficient business also means running a safe business, and for our employees and our customers, safety is paramount to our success.

We are not yet at best practice, but highlighting our statistics here for the first time shows our commitment to further improvement.

Slide 6 – Ryan Stokes

Key Financials

There are a few points I would like to highlight on the key financials.

Our Group revenue of $2.8 billion was up 2 per cent on the prior year.

Underlying EBIT for the period was $303 million, down 4 per cent on last year but ahead of guidance.

The full year dividend of 40 cents per share represents a 71 per cent payout ratio on underlying earnings of 56 cents per share.

On a statutory basis, net profit after tax of $198 million is a turnaround of $557 million from last year with no significant impairments undertaken this year.

Richard will now take you through the Group's financials.

Slide 7 – Richard Richards

Profit & Loss

Thanks, Ryan, and good morning.

Slide 7 provides a summary of both the statutory and underlying net profit after tax for the year and I refer you to the Financial Statements within the Annual Report for the detailed statutory presentation and reconciliation of Significant Items.

Underlying EBIT of $303 million was down 4 per cent reflecting refinements to our cost structure and the strength of the recurrent revenue generated by our industrial services business through this production cycle.

Consolidated revenue increased by 2 per cent to $2.8 billion. Product sales revenue increased 9 per cent on last year, with strong demand for low hour used equipment, particularly in the general construction market in NSW; the deliveries for Roy Hill in WA; and completion of a power generation project in China.

Product support revenue declined by 1 per cent, as major miners reduced critical spares inventory to release working capital coupled with margin compression on parts and service.

Ryan will discuss each segments specific financial result later in his presentation.

Other income reduced, principally as a result of the recognition of $38 million relating to the SWM CPS in the prior year ceasing on conversion. Correspondingly, our share of equity accounted profits increased by 12 per cent as a result of this increased SWM shareholding.

Expenses, excluding depreciation and amortisation increased by $53 million of which $51 million was due to cost of sales increases with other SG&A effectively remaining flat.

Depreciation and amortisation decreased by 39 per cent, or $24 million due to intangibles in WesTrac China being fully amortised in the prior year and the amortisation and depreciation of the Group's energy assets decreasing by $8 million, as no depreciation was recognised in the current year on the Group's Longtom wells with production being suspended.

Net financing costs increased by $6 million, however, if you eliminate the $11 million of Nexus interest recognised in the prior year, it reflects an underlying decrease in interest due to lower margins being secured on refinancing partially offset by increased drawn debt as a result of the share buy-back and net investments. A similar reduction in funding cost is expected to be realised in FY17.

The Group's underlying effective tax rate was 14 per cent reflecting the proportion of franked dividends within underlying income and was 2 per cent higher than the prior year, due to the increased profit contribution from China.

Slide 8 – Richard Richards

Significant Items

Consistent with prior years, Significant Items reflect potentially non-recurrent items that arose during the year and contributed a net profit after tax of $14 million to the Group's statutory result. Thus, we are effectively reporting a lower underlying result than Statutory NPAT.

Significant Items primarily relate to property gains of $37 million relating to the development of the Kings Square project totalling $23 million and the proportionate profit on the sale of one of the three buildings in Pyrmont of $14 million, offset by our share of SWM and Coates Hire significant items of $20 million, Group restructuring costs of $10 million and mark-to-market gains on derivatives of $4 million.

The tax benefit of $10 million within Significant Items is mostly due to the satisfactory resolution of a number of legacy tax issues with both domestic and foreign revenue authorities.

Please note the Group's early adoption of AASB9 will result in gains and losses on the investment portfolio being recognised in Other Comprehensive Income.

Slide 9 – Richard Richards

Earnings Summary

To facilitate analysts recalibrating their models and enhance transparency, slide 9 details the Underlying EBIT result across each operating segment with an allocation of Significant Items from slide 8, providing a reconciliation back to statutory EBIT.

Slide 10 – Richard Richards

Cash Flow

Slide 10 highlights the strong operating cash flows being generated by our businesses through the cycle, with working capital efficiency continuing to be the key focus for the Group. This is best represented by the 112 per cent EBITDA cash conversion up from the 99 per cent recorded in the last two years. We will continue to focus on debtor collection, parts turn and realising slow moving inventory.

Collectively these measures have reinforced what is already a strong balance sheet and have supported further net investments.

Financing cash outflows included $141 million in dividends paid on the ordinary and TELYS4 shares, $72 million on the share buy-back offset by $68 million increase in borrowings.

It is noted that the cash on hand at year end will be used to repay USPP tranches maturing in August.

Slide 11 – Richard Richards

Consolidated Balance Sheet

A summary consolidated balance sheet is detailed on slide 11.

The Group's net assets decreased $142 million to $2.7 billion with the reduction predominantly due to unfavourable mark-to-market movements on the Group's listed investment portfolio and its investment of $251 million in Beach Energy.

Trade and other receivables increased by $54 million, with the movement being timing driven by the practical completion of the China power generation contract and amounts receivable from CAT resulting from the return of slow moving inventory.

Inventories decreased by $104 million. Contributing to the improvement was a $22 million reduction in WesTrac Australia's spare parts with new and used equipment also decreasing by $40 million. However, parts exchange increased by $25 million reflecting a build-up in components to support the 300 strong fleet of 793F trucks coming up to their first major maintenance events over the next 18 months.

The decline in investments is largely due to mark-to-market movements of the Group's listed portfolio and Beach Energy investment. On 20 July 2016, Ryan joined the board of Beach Energy; and, consequently, the Group will recognise its investment in Beach Energy as an equity-accounted investee in the coming financial year.

Intangible assets increased $29 million partially due to an increase in the carrying value of the US Dollar denominated WesTrac China CAT distribution network of $10 million with the balance reflecting the Group's continued investment in SAP HANA via the business transformative S3 Program.

Provisions decreased by $31 million primarily due to the utilisation of Crux restoration provisions to fund the successful completion of the plug and abandonment campaign.

Net tax liabilities have decreased by $51 million, which principally relates to the mark-to-market adjustments of listed securities and the release of $10 million tax provision due to the resolution of a number legacy tax issues previously discussed.

The $58m increase in derivative financial instruments principally relates to gains on cross currency swaps used to hedge various tranches of USPP notes.

The Group's net debt has increased by $23 million, which relates to the FX revaluation of the USPP notes, which is offset by the increase in derivative financial instruments.

Slide 12 – Richard Richards

Consolidated Debt Maturity Profile

Slide 12 presents our debt maturity profile.

At year end, SGH had $2.7 billion in total facilities with $955 million currently available to be drawn and $366m in available cash. Our weighted average debt duration was 5.3 years.

The short-term facilities relate to OEM financing and China facilities which are largely undrawn; and are reported as current, these facilities have historically been consistently renewed. In addition, there is a $101 million tranche of the USPP notes that matures in August 2016. This will be financed out of the existing cash reserves.

The extension of $850 million of the Corporate Syndicated facility for a further year at current pricing together with the extension of the $431 million OEM facility for another four years demonstrates the strong credit support for the Group through the cycle.

The large undrawn facilities, cash reserves and the listed portfolio provide significant liquidity and balance sheet flexibility, providing the Group with the tools to overcome new challenges whilst also the ability to take full advantage of opportunities that may present.

The Group's leverage is effectively 31 per cent after adjusting for debt related derivatives or 18 per cent taking into account the investment portfolio.

Slide 13 – Richard Richards

Capital Management

The Group has declared a final unchanged fully franked dividend of 20 cents per share, in line with its policy of maintaining the dividend through the cycle. The full-year dividend represents a payout ratio of 71 per cent of the underlying earnings but more importantly only 42 per cent of the free cash flow per share.

From a yield perspective the dividend represents an attractive pre-tax yield on 30 June closing price of 6.7 per cent or 9.5 per cent grossed up for franking credits.

During the year, the Group bought-back approximately 14.9 million shares at a cost of $72 million or an effective price of $4.83 per share providing a return of 24 per cent given the closing share at 30 June of $6.01 or 38 per cent on yesterday's closing price of $6.67. Of the buy-back capacity of 16.6 million shares which was refreshed at the half-year, 16.3 million remains outstanding demonstrating our commitment to disciplined capital management to enhance shareholder value.

Today we announce the extension of recent capital management initiatives with the buy-back of up to 10 per cent of the TELYS4 shares on issue, allowing value to be captured should its price fall below what we believe to be its intrinsic value. This demonstrates our commitment to all participants in our capital structure.

Now I'll hand you back to Ryan to provide his insight into the operating performance of each division

Slide 14 – Ryan Stokes

CAT 793F Trucks

Thank you, Richard.

Here we show some of the 793F trucks that we delivered to the Roy Hill iron ore project and special pink trays for their initiative to support breast cancer.

This was the only major greenfield mining project that installed new fleet during the year. We are proud to be involved with a project of this scale and importance to the Australian economy, just as we are proud of our people who make it possible.

On to slide 15.

Slide 15 – Ryan Stokes

WesTrac Australia Overview

Our cover slide stated the words “Agility Meeting Change” and an example of this within the Group is WesTrac’s efforts to bring new product technology to our customers.

Our customers are leading the way with technology enabled solutions and we are helping drive this with the CAT Autonomous Haulage Solution (AHS), where fully autonomous trucks are working in sites in the Pilbara region and setting new global benchmarks in productivity and performance.

Nev Power, CEO at FMG last week specifically noted the 20 per cent productivity improvement being achieved via AHS.

Working closely with CAT and leveraging our Parts Distribution Centre, we are also finding ways to improve the velocity and cost of delivering parts, which allows our major customers to reduce their inventory of critical spares and place greater reliance upon WesTrac.

Our service capabilities are also enabling our customers to achieve world class performance in coal mining. The longwall at the Narrabri Mine, Whitehaven’s underground mine in NSW, is regarded by CAT as the most productive of its type in the world, and consistently produces above nameplate capacity.

The message here is the mining production cycle remains strong. Iron ore exports continue to grow; and coal exports remain near record highs. This level of activity requires our customers to push productivity, and with that, demand parts and maintenance, especially with ageing fleets. With the investments that we have made, coupled with our highly skilled technicians, we are better placed in delivering the level of service and value-add required by our customers.

Moving to slide 16.

Slide 16 – Ryan Stokes

WesTrac Australia Results

WesTrac Australia delivered EBIT of $165 million, slightly down on the prior year.

Trading revenue was up 2 per cent year-on-year, with a 22 per cent increase in Product Sales revenue, offset by a 5 per cent decline in Product Support revenue.

The increase in Product Sales was driven by improvements in both new and used equipment sales which were up 21 and 51 per cent, respectively. New equipment sales were boosted by deliveries for the Roy Hill project and the growing infrastructure demand in NSW.

Product Support remains an important opportunity for WesTrac as mining fleet productivity is pushed harder and the average age of the active fleets extends. The competition for ongoing maintenance work remains robust in this market with some customers deciding to insource activity. Our market share for parts remains strong, and while unit volume and activity is up, the revenue result reflects margin pressure.

The impact of the change in sales mix, together with margin compression, was partially offset by continued cost reduction programs including a headcount reduction of 178 FTEs over the period. The resulting EBIT margin of 7.7 per cent was slightly down from 8 per cent last year.

On to slide 17.

Slide 17 – Ryan Stokes

Back-Up Power for Data Centres

For WesTrac China, the economic transition from infrastructure to consumption-led growth required a continued commitment during the year to reshaping the organisation's branches and workforce. While the Hydraulic Excavator industry has continued to contract this year, we have been able to grow our market share to new record levels.

The image here is the largest bank-owned data centre in the world. It is the global data processing and storage base for China Construction Bank in Beijing. WesTrac China successfully engineered and installed standby power with 48 CAT C175 gen sets, delivering almost 100 megawatts of back-up power, with CAT quality and reliability being critical differentiators.

Slide 18 – Ryan Stokes

WesTrac China Results

WesTrac China had a pleasing result, growing EBIT by 21 per cent to US$ 24 million for the year and improving EBIT margin to 5.4 per cent compared to 4.2 per cent achieved last year. This growth occurred through a period of declining revenue as we continued to refine our operating model and structure.

Product sales were down 10 per cent year on year. This reflected our increased market share in an excavator market that declined 32 per cent. Our product support revenue increased by 13 per cent as the service business begins to mature.

Continued productivity improvements saw headcount reduce by 20 per cent to 871 FTEs during the period.

In addition to growing our product support and used equipment markets, the team continues to explore new revenue opportunities including areas such as power systems and selling excavator undercarriages to other OEM's for specialised applications.

Slide 20 – Ryan Stokes

Coates Hire Results

Coates Hire is Australia's market leading equipment hire company with a focus on the construction and infrastructure sectors across the country.

Revenue for the year was down 5 per cent, however, in the second half revenue was down less than 1 per cent on the prior comparative period. This reflects our efforts to go after market share and to sustain our price position. That focus will continue into FY17.

The growth of the NSW and Victorian construction driven markets only partly offsets the decline in the mining dominated markets of Queensland, and in particular, WA.

In response, the company has redeployed $50 million of equipment from WA to the eastern states; reduced fleet by $268 million at original cost; closed 14 branches; and reduced headcount by 200 FTEs over the year. Further work on increasing fleet velocity has seen improvements in time utilisation to 57 per cent along with reduction in redline.

Disciplined financial management has resulted in $75 million of senior debt being repaid in FY16 and the team continues to focus on working capital management to further enhance cash flow.

We recently announced that Michael Byrne has resigned. Michael was employed to improve productivity and to make Coates a more agile business given the significant industry change following the resources investment boom; and he successfully implemented a number of initiatives in this regard.

Importantly, and as a tribute to the strength of the executive team at Coates Hire, Jeff Fraser, the existing CFO has been chosen to replace Michael. Jeff's focus will be to expand on the positive actions to date with specific emphasis on costs and leading revenue and price recovery strategies.

Slide 22 – Ryan Stokes

SWM Results

Seven West Media has enjoyed 10 years of ratings dominance and 2016 has been one of the most successful years to date which is testimony to the team at SWM. The last six months have seen SWM establish the largest ever lead in ratings across all key demographics.

The reduction in operating costs of 2 per cent year on year, while increasing its ratings dominance, partially offset the decline in revenue resulting in EBIT down 11 per cent for the year. Underlying profit after tax of $207 million was down 1 per cent.

SWM will continue to focus on delivering ratings leadership and cost efficiencies; however, assuming a revenue market of negative 2 per cent, it will see the FY17 EBIT result down 15-20 per cent year-on-year. SWM will be focused on actions to help address that revenue market outlook and promote the power of TV through initiatives such as Think TV.

Slide 23 – Ryan Stokes

SWM Strategy

Free to air television remains the best way to build brands and influence outcomes; it is the largest aggregation of audiences of any medium, and initiatives such as Think TV promote this strength.

SWM has taken the lead in the delivery of the content beyond the television screen, making momentous moves into new forms of content delivery and engagement with audiences across any device.

SWM has also delivered on its digital strategy and is the #1 live-streaming broadcaster and the number 1 commercial catch-up service delivering extensive coverage of live events 24/7 across all channels, delivering over 65 million streams to date.

Slide 25 – Ryan Stokes

Energy Results and Asset Overview

From an energy perspective, the Group has exercised patience in terms of further investments. While there was no significant revenue contribution during the year, we are confident in the value of these assets and our ability to deliver a return.

The dynamics of the East Coast gas market are becoming increasingly attractive for gas suppliers. Demand is set to rise significantly over the next two years, driven by LNG exports. To put this into perspective, NSW consumes 140 petajoules of gas annually. On average, each LNG train in Gladstone will require 250 petajoules, and six trains will be operating by the end of the year.

At Longtom, we would be able to supply gas into the East Coast market by early 2018. There is very little uncontracted gas available in the market today, and we can deliver 80 petajoules at a time when demand is high and prices are attractive. We are exploring various commercialisation options for Longtom and we are prepared with major items of equipment delivered and in storage.

At Crux, Shell continues to make progress towards concept selection in an environment where development costs are coming down substantially. Crux is a long-dated asset that is well positioned as a backfill option for multiple projects. We believe there will be various points along that pathway for us to maximise value and return.

At Bivins Ranch, the focus is on optimising production from existing wells and limiting our capital outlay on new drilling.

Slide 26 – Ryan Stokes

Energy: Beach Energy

We are pleased with our investment in Beach Energy as the company takes its first steps on a new growth trajectory. The merger with Drillsearch was completed in February and will deliver more than $40 million in annual pre-tax synergy benefits.

The company has new leadership through the Board, and with Matt Kay as the new CEO we look forward to Beach Energy establishing itself as the leading mid-cap E&P in Australia.

Beach Energy's Western Flank oil assets are performing well and it is positioned as the lowest cost operator in the Cooper Basin. The company has a strong balance sheet with approximately $550 million in cash and undrawn facilities, giving it the flexibility to explore new opportunities in other basins.

The focus has been on preserving capital and generating positive cash flow which suits the current market environment. It is also pleasing to see that Beach Energy has announced a renewed focus on taking costs out of its JV operations in the Cooper Basin.

Slide 28 – Ryan Stokes

Property and Listed Portfolios

EBIT for the Investment Segment grew by 9 per cent over the year mainly due to profit from the development and sale of 25 lots at Seven Hills / Dianella which contributed $4.7 million over the year. Further lot sales are expected in FY17.

The Group recorded a $37 million pre-tax profit from the realisation of its property assets which is reflected as a Significant Item.

Dividend income on listed shares was down $6 million on the prior year as some investee companies reduced their dividend in period.

We transferred our investment in Beach Energy from the investment portfolio to the Energy Segment with effect from 1 July 2015, reflecting the strategic nature of this holding for SGH.

During the period, the market value of the portfolio declined by $96 million, leaving the portfolio with a market value of $621 million at 30 June 2016, including cumulative unrecognised gains of $173 million. The value of the portfolio has increased by $22 million since year end.

Slide 29 – Ryan Stokes

Outlook: Key Takeaways and Questions

The momentum of change continues across our businesses as we compete to retain and grow market share through innovation, productivity improvements and technology enhancements.

We continue to focus our efforts in all the factors that we can control and to build resilience in our businesses through tight cost control, capital management, and competing for revenue opportunities

Our confidence in the continued free cash flow generation supports the unchanged dividend and the announcement today to extend our capital management program to include the on market buy-back of up to 10 per cent of the TELYS4 shares.

The second half of FY16 was robust and we consider overall market conditions to be stabilising allowing us to provide guidance that FY17 underlying EBIT is expected to be in line with FY16.

To finish, we leave you with our theme “Agility Meeting Change” and the words from Nev Power that are a testament to our people who are driving great customer outcomes.

Thank you. We would be pleased to take your questions at this time.