Bradken Limited

ACN 108 693 009

Interim financial report - 31 December 2005

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 30 June 2005 and any public announcements made by Bradken Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* .

Directors' Report

The directors present their report together with the consolidated financial report for the period from 1 July 2005 to 31 December 2005 and the review report thereon.

Directors

The directors of the company at any time during or since the end of the period are:

Name	Period of directorship
Nick FH Greiner Non Executive Chairman	Appointed 13 April 2004
Brian W Hodges Managing Director	Appointed 13 April 2004
Phil J Arnall Non Executive Director	Appointed 13 April 2004
Vince J O'Rourke Non Executive Director	Appointed 8 August 2004
Greg R Laurie Non Executive Director	Appointed 24th February 2005

Commentary on results and review of operations

Financial Overview

	HY06 $m	Pro-forma HY05* $m	Variance %
Sales	271.1	227.7	19.1
EBITDA	37.8	26.4	43.0
NPAT	16.1	9.7	65.6
Earnings per share **	15.4	9.5	62.1
Cashflow ***	28.2	21.9	28.8
Cashflow****	22.4	NA	
ROFE (EBITA)	25.4%	19.1%	
ROE	26.8%	19.7%	

** HY04 numbers are pro-forma as if the group had traded for the full six months normalised, adjusted for AIFRS*

*** Earnings per share calculation based on shares at end of period*

**** Net operating and investing cash flows before borrowing costs & income tax*

***** Net operating and investing cash flow*

Financial Highlights

- **Sales revenue of $271.1m, up 19.1% on HY05**
- **EBITDA of $37.8m, up 43%**
- **NPAT of $16.1m, up 65.6%**
- **Net operating and investing cashflow of $22.4m**
- **Interim dividend of 9.5 cents per share fully franked, payable on 30 March 2006**

Sales revenue for the six months to December 2005 of $271.1m was $43.4m or 19.1% higher than for the six months to December 2004. Mineral Processing revenue increased by 122%, Mining showed strong revenue growth of 29%, Industrial was flat while Rail's revenue was down by 10%. Trading from the Henderson acquisition (March 2005) and the new Mackay facility (January 2005) accounted for $21m of the revenue growth.

EBITDA of $37.8m was achieved, $11.4m or 43% higher than the corresponding period. Growth in EBITDA was achieved via higher volumes and improved margins. The EBITDA to sales margin of 13.9% was well up on the corresponding period of 11.6%, and a 0.9% increase on the six months to June 2005.

Net profit after tax attributable to ordinary equity holders (NPAT) of $16.1m was $6.4m or 65.6% ahead of the corresponding period, resulting in earnings per share of 15.4 cents (based on number of shares at 31 December 2005).

The Directors have declared an interim, fully franked, dividend of 9.5 cents, compared to 5.1 cents in the corresponding period last year, payable on the 30 March 2006 with a record date of 9 March 2006..

Cash generation continues to be strong, supported by the profit growth, with net operating and investing cash flow for HY06 of $22.4m. Net debt of $127.7m compares to $122.9m in December 2004 and $143.0m at June 2005.

Commentary on results and review of operations (continued)

Business Summary

Mining

- **Sales revenue of $105.7m, up $23.5m or 29% on HY05**

Continued strong demand from the mining sector, due to increased Australian mining production volumes, underpinned strong growth in mining consumables such as ground engaging tools and wear plate and block. Crawler shoe systems, which are mainly exported, also benefited from the world wide increase in demand for mining consumables. A higher level of maintenance and refurbishment revenue was also reported with revenue from the new Mackay facility included in the HY06 results.

Increased prices covered cost increases and along with increased volume provided some margin improvement in the period.

Mineral Processing

- **Sales revenue of $52.7m, up $29m or 122% on HY05**

The Henderson foundry business was purchased in March 2005 and provided $18.6m of sales in the HY06. On a like for like business basis (excluding Henderson) sales of $34.1m were $10.4m or 43.9% higher than HY05.

The demand for mining consumables such as mill liners and crusher liners was strong during the period, and pricing initiatives as well as synergies in other plants following the Henderson acquisition, provided margin improvement compared to HY05.

Rail

- **Sales revenue of $82.4m, down $9.4m or 10% on HY05**

Reduced sales of bogies, and lower demand from Pacific National for wagons, offset higher wagon sales to Rio Tinto when comparing HY06 to HY05. Due to the sales mix, pricing and cost initiatives a substantial increase in gross margin offset reduced sales volume.

Demand for new rolling stock, particularly for iron ore, continues to be strong following the continued expansion of mining activity in Australia.

Industrial

- **Sales revenue of $30.3m, up $0.3m or 0.9% on HY05**

Sales volume was down slightly, with higher prices holding the revenue line at similar levels to HY05. The largest impact on volume was reduced exports of balls and rings in HY06. Pricing strategies implemented, to recover cost increases, resulted in strong margin growth.

Outlook

Bradken, through its leading market position as a supplier to the Australian resources and freight rail industries, is well placed to continue to benefit from the growth in these consumable markets, while the markets for our capital products such as rail wagons, continue to add production capacity and remain at buoyant levels.

The Company continues to invest in additional capacity ahead of forecast demand in the coming years and to look for acquisitions to further complement the current product offering and improve the quality of earnings.

Based on the strength of Bradken's key underlying markets and our current order book the Company is expecting EBITDA growth for the full year to be approximately 20% to 25%, up from previous guidance of 15% to 20%.

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Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Bradken Limited

As lead auditor I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ending 31 December 2005 there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Bradken Limited and the entities it controlled during the period.

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PricewaterhouseCoopers

D A Turner

D A Turner | Sydney

Partner | 23 February 2006

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 30 are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Bradken Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

BW Hodges
Managing Director

Sydney
23 February 2006

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Independent review report to the members of Bradken Limited

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of Bradken Limited (the Company) for the half-year ended 31 December 2005 included on Bradken Limited's web site. The Company's directors are responsible for the integrity of the Bradken Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Bradken Limited:

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the Bradken Group (defined below) as at 31 December 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for the Bradken Group (the consolidated entity), for the half-year ended 31 December 2005. The consolidated entity comprises both Bradken Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel/the responsible entity's personnel, and
- analytical procedures applied to financial data.

Our procedures include reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001* .

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D A Turner

D A Turner | Sydney
Partner | 23 February 2006

	Half-year 2005 $'000	Half-year 2004 $'000
Revenue	**271,074**	227,691
Cost of sales	**(219,837)**	(205,252)
Gross profit	**51,237**	22,439
Other income	**870**	4,455
Selling and technical expenses	**(11,508)**	(10,065)
Administration expenses	**(11,351)**	(10,478)
Finance costs	**(6,316)**	(6,884)
Profit before income tax	**22,932**	(533)
Income tax expense	**(6,846)**	8,366
Profit for the half-year	**16,086**	7,833
Profit attributable to members of Bradken Limited	**16,086**	7,833
Earnings per share for profit attributable to the ordinary equity holders of the company:		
Basic earnings per ordinary share: (cents per share)	**$ 0.156**	$ 0.150
Diluted earnings per ordinary share: (cents per share)	**$ 0.155**	$ 0.150

The above consolidated income statement should be read in conjunction with the accompanying notes.

	31 December 2005 $'000	30 June 2005 $'000
Current assets		
Cash and cash equivalents	**18,044**	1,157
Receivables	**50,844**	66,219
Inventories	**77,505**	75,191
Other	**859**	1,127
Total current assets	**147,252**	143,694
Non-current assets		
Receivables	**2,132**	8
Property, plant and equipment	**144,545**	138,686
Intangible Assets	**37,153**	39,312
Deferred tax assets	**20,092**	21,310
Other	**3,396**	4,013
Total non-current assets	**207,318**	203,329
Total assets	**354,570**	347,023
Current liabilities		
Payables	**43,403**	53,600
Interest-bearing liabilities	**3,041**	9,531
Current tax liabilities	**11,448**	6,539
Provisions	**27,924**	27,822
Derivative financial instruments	**735**	-
Other	**-**	36
Total Current Liabilities	**86,551**	97,528
Non-current liabilities		
Interest-bearing liabilities	**142,721**	134,657
Deferred tax liabilities	**2,262**	2,222
Provisions	**2,795**	4,504
Total non-current liabilities	**147,778**	141,383
Total liabilities	**234,329**	238,911
Net assets	**120,241**	108,112
Equity		
Contributed equity	**77,767**	71,962
Reserves	**(735)**	(430)
Retained profits	**43,209**	36,580
Total equity	**120,241**	108,112

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

	Half-year 2005 $'000	Half-year 2004 $'000
Total equity at the beginning of the half-year	**108,112**	20,177
Adjustment on adoption of AASB132 and AASB139, net of tax:		
Reserves	**(610)**	-
Cash flow hedges, net of tax	**182**	-
Exchange differences on translation of foreign operations	**123**	(75)
Net income recognised directly in equity	**(305)**	(75)
Profit for the half-year	**16,086**	7,833
Total recognised income and expense for the year	**15,781**	7,758
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs (note 5)	**5,805**	70,833
Dividends provided for or paid (note 4)	**(9,457)**	-
	(3,652)	70,833
Total equity at the end of the half-year	**120,241**	98,768
Total recognised income and expense for the half-year is attributable to:		
Members of Bradken Limited	**15,781**	7,758
	15,781	7,758

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Half-year 2005 $'000	Half-year 2004 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**310,863**	269,213
Payments to suppliers and employees (inclusive of goods and services tax)	**(273,915)**	(251,221)
Cash generated from operations	**36,948**	17,992
Interest received	**111**	116
Interest paid	**(5,338)**	(6,063)
Income taxes paid	**(494)**	(6,816)
Net cash inflow from operating activities	**31,227**	5,229
Cash flows from investing activities		
Payment for property, plant and equipment	**(9,143)**	(5,238)
Proceeds from sale of property, plant and equipment	**297**	1,524
Net cash (outflow) from investing activities	**(8,846)**	(3,714)
Cash flows from financing activities		
Proceeds from issue of shares	**-**	73,319
Transaction costs from issue of shares	**-**	(14,460)
Payment of finance lease liabilities	**(1,573)**	(1,436)
Repayment of borrowings	**-**	(152,300)
Proceeds from borrowings	**-**	145,000
Return of capital to equity holders	**-**	(54,265)
Dividends paid to company's shareholders	**(3,939)**	-
Net cash (outflow) from financing activities	**(5,512)**	(4,142)
Net increase / (decrease) in cash and cash equivalents	**16,869**	(2,627)
Cash and cash equivalents at the beginning of the half-year	**1,157**	-
Effects of exchange rate changes on cash and cash equivalents	**18**	-
Cash and cash equivalents at the end of the half-year	**18,044**	(4,807)

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.
This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 30 June 2005 and any public announcements made by Bradken Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

(a) Basis of preparation of half-year financial report
The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Application of AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards
This interim financial report is the first Bradken Limited interim financial report to be prepared in accordance with AIFRSs. AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.
Financial statements of Bradken Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Bradken Limited interim financial report for the half year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005.
Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 7.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss and investment property.

Comparatives
The comparatives for the income statement, statement of changes in equity and cashflow statement are for the period 1 July 2004 to 31 December 2004 due to the reverse acquistion under AIFRS which results in the consolidated entity being treated as a continuation of the existing business. Refer Note 7 for further details.

(b) Principles of consolidation
(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bradken Limited (''company'' or ''parent entity'') as at 31 December 2005 and the results of all subsidiaries for the half year then ended. Bradken Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.
Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.
Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.
The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(i)).
Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.
Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(c) Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

1 Summary of significant accounting policies (continued)

(d) Foreign currency translation

(i) Functional currency and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Bradken Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non monetary items, such as equities classified as available for sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings forming part of the net investments are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable net of the amount of goods and services tax (GST) payable to the taxation authority. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

(ii) Contract revenue

Contract revenue and expenses are recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, costs to date can be clearly identified, and total contract revenue and costs to complete can be reliably estimated.

The stage of completion is measured by reference to an assessment of total labour hours and other costs incurred to date as a percentage of costs for each contract.

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that the cost will be recovered, revenue is recognised to the extent of costs incurred. Where it is probable that a loss will arise on a contract, the excess of total costs over revenue is recognised immediately as an expense.

(iii) Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(iv) Sale of non-current assets

The gain or loss on disposal of non-current assets is included as revenue or expense at the date control passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

1 Summary of significant accounting policies (continued)

(v) Royalties
Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(vi) Dividends
Dividend revenue is recognised net of any franking credits.
Revenue from distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities.
Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and not recognised in revenue.

(f) Goods and services tax
Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.
Receivables and payables are stated with the amount of GST included.
The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.
Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(g) Income tax
The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.
Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.
Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.
Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.
Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation
The company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries.
The head entity recognises all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intragroup transactions).
The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for current tax assets and liabilities and movements in deferred tax balances arising from external transactions during the year.

(h) Leases
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.
Lease income from operating leases is recognised in income on a straight line basis over the lease term.

1 Summary of significant accounting policies (continued)

(i) Acquisition of assets
The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(t)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.
Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(j) Impairment of assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(k) Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.
Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(m) Inventories
(i) Raw materials and stores, work in progress and finished goods
Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on either standard or average basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale such as expenses of marketing, selling and distribution to customers.

(ii) Construction and service contract work in progress
Construction and service contract work in progress is carried at cost plus profit recognised to date based on the value of work completed, less progress billings and less provision for foreseeable losses. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under other liabilities.
Cost includes variable and fixed costs directly related to specific contracts, those costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract. Costs expected to be incurred under penalty clauses and rectification provisions are also included.

(iii) Stock Obsolescence
All inventory items are reviewed on a regular basis during the year and a provision raised for products which have not been sold for one year.

1 Summary of significant accounting policies (continued)

(n) Investments and other financial assets

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the period ended 30 June 2005.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held to maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

From 1 July 2005

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available for sale financial assets, comprising principally marketable equity securities, are non derivatives that are either designated in this category or not classified in any of the other categories. They are included in non current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available for sale are recognised in equity in the available for sale investments revaluation reserve. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

1 Summary of significant accounting policies (continued)

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.
Investments in controlled entities are recorded in the Group's financial statements at the lower of cost and recoverable amount.

(o) Derivatives

From 1 July 2004 to 30 June 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the period ended 30 June 2005.

Adjustments on transition date: 1 July 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

From 1 July 2005
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).
The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.
Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.
When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(p) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

1 Summary of significant accounting policies (continued)

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.
The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(q) Property, plant and equipment
All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.
Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.
Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. Assets are depreciated or amortised from the date of acquisition, or in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

	Period Ended 30 June 2005
Property, plant and equipment	
Buildings	66 years
Plant and equipment	1 to 20 years
Patterns	1 to 40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(r) Intangible assets
(i) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Licences
Licences have a finite useful life and are carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated using the straight line method to allocate the cost of the licences over their estimated useful lives, which varies according to the period over which the expected benefits will arise. The remaining useful lives of licences varies between two and five years.

1 Summary of significant accounting policies (continued)

(iii) Research and development
Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.
Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over the period of the expected benefit, which varies from 3 to 5 years.

(s) Trade and other payables
These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

(t) Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.
Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.
Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the shorter of the period of the loan or 5 years.

(u) Borrowing costs
Borrowing costs are incurred for the acquisition of any qualifying asset. Other borrowing costs are expensed.
Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs in connection with arrangement of borrowings, foreign exchange differences net of hedged amounts on borrowings, including trade creditors and lease finance charges.

(v) Provisions
A provision is recognised in the accounts when there is a present legal or constructive obligation as a result of past event; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(i) Warranties
Products are warranted against faulty workmanship and in some cases these are specifically extended to periods up to seven years or hours used depending on the type of product and contract in place. Rectification claims are settled in cash or by repair of the item, at the discretion of the consolidated entity. Provision for warranty claims are made for claims received and claims expected to be received in relation to sales made prior to reporting date adjusted for specific information arising from internal quality assurance processes. Significant uncertainties relate to estimates for construction provisions as these depend on circumstances particular to each site.

(w) Employee Benefits
(i) Wages, salaries, annual leave, sick leave, rostered days off and non-monetary benefits
Liabilities for annual leave, accumulating sick leave and rostered days off, including non monetary benefits, expected to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Liabilities for unpaid wages and salaries up to the reporting date are recognised in current payables.

(ii) Long service leave
The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

1 Summary of significant accounting policies (continued)

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Bonus plans
A liability for employee benefits in the form of bonus plans is recognised in current provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iv) Employee share and rights plans
Share based compensation benefits are provided to employees and directors via the Performance Rights Plan ('PRP') and the Non-Executive Director Share Acquisition Plan ('NEDSAP') respectively.
The fair value of rights granted under the PRP are recognized as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the rights. The fair value of rights granted are measured using the Black & Scholes Pricing Model, taking into account the terms and conditions attached to the rights. The amount recognized as an expense is adjusted to reflect the actual number of rights that vest except where forfeiture is due to market related conditions.
The fair value of shares issued under the NEDSAP are recognized as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date.

(v) Superannuation plan
The consolidated entity contributes to several accumulation superannuation plans. Contributions are recognised as an expense as they are payable.

(x) Contributed equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or rights are shown in equity as a deduction, net of tax, from the proceeds.

(y) Dividends
A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

(z) Earnings per share
(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the half year, adjusted for bonus elements in ordinary shares issued during the period.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(aa) Financial instrument transaction costs
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous Australian GAAP (AGAAP) in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the Group was immaterial.

(ab) Rounding of amounts
The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

2 Segment information

Primary reporting - Business segments

Half-year 2005	Industrial	Mining	Mineral Processing	Rail	Consolidated
	$'000	$'000	$'000	$'000	$'000
Total segment revenue	30,271	105,717	52,694	82,392	271,074
Unallocated revenue					870
Total revenue and other income					271,944
Segment result	9,242	33,756	12,981	18,487	74,466
Unallocated revenue less unallocated expenses					(51,534)
Profit before income tax					22,932
Half-year 2004					
Total segment revenue	30,010	82,233	23,686	91,762	227,691
Unallocated revenue less unallocated expenses					4,455
Total revenue and other income					232,146
Segment result	7,442	24,983	5,046	4,009	41,480
Unallocated revenue less unallocated expenses					(42,013)
Profit before income tax					(533)

3 Earnings per share

	Half-year 2005 Shares	Half-year 2004 Shares
Weighted average number of shares used as the denominator		
Number for basic earnings per share		
Ordinary shares	103,437,555	52,076,146
Number for diluted earnings per share		
Ordinary shares	103,437,555	52,076,146
Effect of Performance Rights on issue	406,394	50,887
	103,843,949	52,127,033

The weighted average number of ordinary shares reported above for the 2004 half year reflects the period from 13 April 2004 to 31 December 2004. Further details of share numbers on issue during the period are contained in Note 5 below.

4 Dividends

	Half-year 2005 $'000	Half-year 2004 $'000
Ordinary shares		
Dividends provided for or paid during the half-year	9,457	-
Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 9.5 cents per fully paid ordinary share (2004 - 5.2 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 30 March 2006 out of retained profits at 31 December 2005, but not recognised as a liability at the end of the half-year, is	9,935	5,220

5 Equity securities issued

	Half-year 2005 Shares	Half-year 2004 Shares	Half-year 2005 $'000	Half-year 2004 $'000
Issues of ordinary shares during the half-year				
Shares issued on incorporation	-	3	-	-
Shares issued for cash pursuant to a prospectus	-	102,080,000	-	70,000
Exercise of rights issued under the Bradken Limited Performance Rights Plan	56,287	-	239	-
Issue of shares under the Bradken Limited Non-Executive Director Share Acquisition Plan	10,490	-	31	-
Issued for no consideration:				
Dividend reinvestment plan issues	1,740,216	-	5,518	-
Employee share scheme issues	6,448	270,400	17	833
	1,813,441	102,350,403	5,805	70,833

6 Contingent liabilities

Product Warranty Claim
As disclosed in the 30 June 2005 Annual Report a subsidiary of the company was a party to a joint warranty claim relating to the supply of railway bogies in 2002 and 2003 to Queensland Rail. An agreement has now been reached between all parties to this dispute. The directors believe the provision recognised at 30 June 2005 and still carried at 31 December 2005 is adequate to meet all costs in relation to this agreement.

7 Explanation of transition to Australian equivalents to IFRSs

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the end of the last half year reporting period under previous AGAAP: 31 December 2004

	Notes	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		$'000	$'000	$'000
Current assets				
Cash and cash equivalents		14	-	14
Receivables		50,750	-	50,750
Inventories		61,110	-	61,110
Other financial assets at fair value through profit or loss		-	-	-
Other		1,286	-	1,286
Derivative financial instruments		-	-	-
Total current assets		113,160	-	113,160
Non-current assets				
Receivables		4	-	4
Other financial assets		4,494	-	4,494
Property, plant and equipment	(b),(c)	132,047	(13,328)	118,719
Intangible Assets	(b),(e)	165,259	(130,316)	34,943
Deferred tax assets	(e)	9,482	11,414	20,896
Other		-	-	-
Total non-current assets		311,286	(132,230)	179,056
Total assets		424,446	(132,230)	292,216
Current liabilities				
Payables		47,235	-	47,235
Interest-bearing liabilities	(c)	11,463	3,128	14,591
Current tax liabilities	(b)	1,616	14	1,630
Provisions	(g)	14,510	4,324	18,834
Derivative financial instruments		-	-	-
Other		-	-	-
Total Current Liabilities		74,824	7,466	82,290
Non-current liabilities				
Interest-bearing liabilities	(c)	105,709	2,587	108,296
Deferred tax liabilities	(e)	1,815	(829)	986
Provisions	(g)	6,200	(4,324)	1,876
Total non-current liabilities		113,724	(2,566)	111,158
Total liabilities		188,548	4,900	193,448
Net assets		235,898	(137,130)	98,768
Equity				
Contributed equity	(b),(d),(e)	231,528	(160,695)	70,833
Reserves		(75)	-	(75)
Retained profits	(f)	4,445	23,565	28,010
Total equity		235,898	(137,130)	98,768

7 Explanation of transition to Australian equivalents to IFRSs (continued)

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

	Notes	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		$'000	$'000	$'000
Current assets				
Cash and cash equivalents		1,157	-	1,157
Receivables		66,219	-	66,219
Inventories		75,191	-	75,191
Other financial assets at fair value through profit or loss		-	-	-
Other		1,127	-	1,127
Derivative financial instruments		-	-	-
Total current assets		143,694	-	143,694
Non-current assets				
Receivables		8	-	8
Other financial assets		-	-	-
Property, plant and equipment	(b),(c)	151,625	(12,939)	138,686
Intangible Assets	(b),(e)	163,161	(123,849)	39,312
Deferred tax assets	(e)	11,113	10,197	21,310
Other		4,013	-	4,013
Total non-current assets		329,920	(126,591)	203,329
Total assets		473,614	(126,591)	347,023
Current liabilities				
Payables		53,600	-	53,600
Interest-bearing liabilities	(c)	7,269	2,262	9,531
Current tax liabilities	(b)	6,504	35	6,539
Provisions	(g)	20,925	6,897	27,822
Derivative financial instruments		-	-	-
Other		36	-	36
Total Current Liabilities		88,334	9,194	97,528
Non-current liabilities				
Interest-bearing liabilities	(c)	130,861	3,796	134,657
Deferred tax liabilities	(e)	1,952	270	2,222
Provisions	(g)	11,401	(6,897)	4,504
Total non-current liabilities		144,214	(2,831)	141,383
Total liabilities		232,548	6,363	238,911
Net assets		241,066	(132,954)	108,112
Equity				
Contributed equity	(b),(d),(e)	232,575	(160,613)	71,962
Reserves		(430)	-	(430)
Retained profits	(f)	8,921	27,659	36,580
Total equity		241,066	(132,954)	108,112

7 Explanation of transition to Australian equivalents to IFRSs (continued)

(2) Reconciliation of profit under previous AGAAP to profit under Australian equivalents to IFRSs (AIFRS)

(a) Reconciliation of profit for the period ended 31 December 2004

	Notes	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		$'000	$'000	$'000
Sales revenue		159,262	68,429	227,691
Cost of sales	(b),(c)	(135,941)	(69,311)	(205,252)
Gross profit		23,321	(882)	22,439
Other revenue from ordinary activities		4,311	144	4,455
Selling and technical expenses	(c)	(7,365)	(2,700)	(10,065)
Administration expenses	(a),(b),(c),(d)	(9,975)	(503)	(10,478)
Borrowing costs	(c)	(4,136)	(2,748)	(6,884)
Profit before income tax		6,156	(6,689)	(533)
Income tax expense	(b),(c),(e)	(1,711)	10,077	8,366
Profit for the half-year		4,445	3,388	7,833
Net Profit attributable to members of Bradken Limited		4,445	3,388	7,833

(b) Reconciliation of profit for the period ended 30 June 2005

	Notes	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		$'000	$'000	$'000
Sales revenue		416,661	68,429	485,090
Cost of sales	(b),(c)	(347,584)	(69,104)	(416,688)
Gross profit		69,077	(675)	68,402
Other revenue from ordinary activities		5,204	144	5,348
Selling and technical expenses	(c)	(18,047)	(2,641)	(20,688)
Administration expenses	(a),(b),(c),(d)	(26,347)	5,203	(21,144)
Borrowing costs	(c)	(9,513)	(2,996)	(12,509)
Profit before income tax		20,374	(965)	19,409
Income tax expense	(b),(c),(e)	(6,233)	8,839	2,606
Profit for the half-year		14,141	7,874	22,015
Net Profit attributable to members of Bradken Limited		14,141	7,874	22,015

7 Explanation of transition to Australian equivalents to IFRSs (continued)

(3) Reconciliation of cash flow statement for the period ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Goodwill
Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.
In respect of acquisitions prior to transition date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under Australian GAAP, adjusted for reclassifications of other assets and liabilities to align with the AIFRS recognition criteria. No reclassifications have occurred.
Goodwill is stated at cost less any accumulated impairment losses. Under AGAAP goodwill was amortised hwevwe is no longer amortised under AIFRS. Goodwill will be allocated to cash generating units and tested annually for impairment. There have been no adjustments required for impairment in the current period.

Balance sheet impact
(i) At 31 December 2004
The effect on Goodwill is discussed below at (b) Reverse Acquisition and (e) Deferred tax liabilities / deferred tax assets.

(ii) At 30 June 2005
The effect on Goodwill is discussed below at (b) Reverse Acquisition and (e) Deferred tax liabilities / deferred tax assets.

Income statement impact
(i) For the period ended 31 December 2004
Goodwill amortisation decreases by $2,193,000.

(ii) For the period ended 30 June 2005
Goodwill amortisation decreases by $5,205,000.

(b) Reverse Acquisition
Under AGAAP the acquisition of the Bradken Holdings Pty Limited Group by Bradken Limited on 20 August 2004 was recognised in the consolidated entity at cost, being the fair value of the assets acquired. This resulted in an increase in the value of Licences, Land, Buildings and Goodwill recognised in the Bradken Limited Consolidated Statement of Financial Position compared to the carrying amounts previously recognised by the Bradken Holdings Group.
The structure of the acquisition was such that Bradken Limited was incorporated to issue equity instruments in order to effect a business combination and as such AASB3 paragraph 22 applies and treats the transaction as a reverse acquisition. As a result the consolidated financial statements represents a continuation of the existing business and the financial statements of the Bradken Holdings Group (the legal subsidiaries of Bradken Limited) for the whole of the comparative period (1 July 2004 to 31 December 2004). Also as a result the uplift in fair value of assets previously recognised in the consolidated Statement of Financial Position under AGAAP is not available under AIFRS. The effect is:

Balance sheet impact
(i) At 31 December 2004
The value of the Licences decrease by $25,691,000, Land and Buildings decrease by $18,822,000 and Goodwill decreases by $104,625,000. This is offset by a reduction in equity of $165,621,000 and an increase in retained profits of $16,483,000. This results in an increase in Deferred tax assets of $7,707,000 (refer note (e)) and an increase in Current tax liabilities of $14,000.

(ii) At 30 June 2005
The value of the Licences decrease by $22,944,000, Land and Buildings decrease by $18,756,000 and Goodwill decreases by $102,004,000. This is offset by a reduction in equity of $165,621,000 and an increase in retained profits of $21,917,000. This results in an increase in Deferred tax assets of $6,883,000 (refer note (e)) and an increase in Current tax liabilities of $35,000.

7 Explanation of transition to Australian equivalents to IFRSs (continued)

Income statement impact

(i) For the period ended 31 December 2004

Amortisation of licences and depreciation of land and buildings decreases by $2,019,000 and $48,000 respectively. Income tax expense decreases by $7,693,000 as a result of the fair value uplift of assets no longer being amortised or depreciated. Transactions for the period from 1 July 2004 to the date of the business combination on 20 August 2004 results an increase in revenue of $68,429,000, an increase in Cost of Sales of $69,483,000 an increase in other income of $144,000, an increase in Selling and technical expenses of $2,759,000, an increase in administration expense of $3,858,000 an increase in finance costs of $2,532,000 and a decrease in income tax expense of $2,786,000.

(ii) For the period ended 30 June 2005

Amortisation of licences and depreciation of land and buildings decreases by $4,766,000 and $114,000 respectively. Income tax expense decreases by $6,848,000 as a result of the fair value uplift of assets no longer being amortised or depreciated. Transactions for the period from 1 July 2004 to the date of the business combination on 20 August 2004 results an increase in revenue of $68,429,000, an increase in Cost of Sales of $69,483,000 an increase in other income of $144,000, an increase in Selling and technical expenses of $2,759,000, an increase in administration expense of $3,858,000 an increase in finance costs of $2,532,000 and a decrease in income tax expense of $2,786,000.

(c) Leased Assets

At the date for transition to AIFRS leases are classified as operating leases or finance leases on the basis of circumstance existing at inception of the lease. Under Australian GAAP certain leases were classified as operating leases, in accordance with prescribed quantitative measures, however are classified as finance leases under AIFRS.
The effect is:

Balance sheet impact

(i) At 31 December 2004

There is an increase in property, plant and equipment of $5,494,000, an increase in current interest-bearing liabilities of $3,128,000, an increase in non-current interest-bearing liabilities of $2,587,000 and a decrease in retained profits of $221,000. Deferred tax assets increase by $70,000 and retained earnings increase by $65,000.

(ii) At 30 June 2005

There is an increase in property, plant and equipment of $5,817,000, an increase in current interest-bearing liabilities of $2,262,000, an increase in non-current interest-bearing liabilities of $3,796,000 and a decrease in retained profits of $241,000. Deferred tax assets increase by $78,000 and retained earnings increase by $65,000.

Income statement impact

(i) For the period ended 31 December 2004

There is a net decrease in cost of sales, selling and technical expenses and administration expenses of $124,000, $59,000 and $24,000 respectively. Borrowing costs increase by $216,000. Income tax expense decreases by $6,000.

(ii) For the period ended 30 June 2005

There is a net decrease in cost of sales, selling and technical expenses and administration expenses of $265,000, $118,000 and $53,000 respectively. Borrowing costs increase by $464,000. Income tax expense decreases by $14,000.

(d) Share based payments

Employee Gift Offer
Under Australian GAAP no expense was recognized for shares issued to employees under an Employee Gift Offer.
Under AIFRS, the fair value of the Gift Offer must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date at the closing market price on that date.

Performance Rights Plan
Under Australian GAAP no expense was recognized for Performance Rights or Rights issued to employees.
Under AIFRS, the fair value of Rights granted is recognized as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the Rights. The fair value of Rights granted is measured using the Black & Scholes Pricing Model, taking into account the terms and conditions attached to the Rights. The amount recognized as an expense will be adjusted to reflect the actual number of Rights that vest except where forfeiture is due to market related conditions.

7 Explanation of transition to Australian equivalents to IFRSs (continued)

Non-Executive Director Share Acquisition Plan
Under Australian GAAP an expense is recognized for shares issued under the Non-Executive Director Share Acquisition Plan. Under AIFRS, the fair value of shares issued under the Non-Executive Director Share Acquisition Plan is recognized as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date.
As total Director's remuneration (including the fair value of the shares) was expensed, for the financial period ended 30 June 2005 there is no affect on expense and retained profits.

Balance sheet impact

(i) At 31 December 2004

Contributed equity increases by $833,000 associated with the Employee Gift Offer and $48,000 associated with the Performance Rights Plan. There is a corresponding decrease in retained earnings of $881,000.

(ii) At 30 June 2005

Contributed equity increases by $833,000 associated with the Employee Gift Offer and $130,000 associated with the Performance Rights Plan. There is a corresponding decrease in retained earnings of $963,000.

Income statement impact

(i) For the period ended 31 December 2004

Administration expense increases by $833,000 representing the employee benefit expense associated with the Employee Gift Offer and $48,000 representing the employee benefit expense associated with the Performance Rights Plan.

(ii) For the period ended 30 June 2005

Administration expense increases by $833,000 representing the employee benefit expense associated with the Employee Gift Offer and $130,000 representing the employee benefit expense associated with the Performance Rights Plan.

(e) Deferred tax liability and deferred tax assets

Under previous AGAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of AIFRS has resulted in a change in accounting policy. The application of AASB 112 *Income Taxes* has resulted in the recognition of deferred tax liabilities and deferred tax assets on revaluations of non current assets. The effects are as follows:

Balance sheet impact

(i) At 31 December 2004 and at 30 June 2005

The effects on the deferred tax liability of the adoption of AIFRS are as follows (tax rate of 30%):

	Notes	31 December 2004 $'000	30 June 2005 $'000
Adjustments arising from adoption of AASB 112		(829)	270
Increase in deferred tax liability		(829)	270

The effects on the deferred tax assets of the adoption of AIFRS are as follows (tax rate of 30%):

	Notes	31 December 2004 $'000	30 June 2005 $'000
Adjustments arising from adoption of AASB 112		3,637	3,236
Application of AASB 112 to adjustments arising from adoption of other AASB's			
Reverse acquisition	(b)	7,707	6,883
Leases assets	(c)	70	78
Increase in deferred tax asset		11,414	10,197

As a result of the above effect on deferred tax assets / liabilities there is a net increase in retained earnings of $829,000 at 31 December 2004.
As a result of the above effect on deferred tax assets / liabilities there is a net increase in retained earnings of $829,000 and an increase in goodwill of $1,099,000 at 30 June 2005.

7 Explanation of transition to Australian equivalents to IFRSs (continued)

Income statement impact

(i) For the period ended 31 December 2004

For the Group this has increased income tax expense by $408,000.

(ii) For the period ended 30 June 2005

For the Group this has increased income tax expense by $809,000.

(f) Retained earnings

The effect on retained earnings of the changes set out above are as follows at 31 December 2004 and 30 June 2005:

	Notes	31 December 2004 $'000	30 June 2005 $'000
Reverse acquisition	(b)	16,483	21,917
Leased assets	(c)	(156)	(176)
Share based payments	(d)	(881)	(963)
Taxation	(b),(c),(d),(e)	8,119	6,881
Total adjustment		23,565	27,659
Attributable to:			
Equity holders of the parent		23,565	27,659

(g) Provisions

Under previous AGAAP provisions for long service leave were classified as non current in accordance with when they were expected to be paid. The adoption of AIFRS has resulted in a change in accounting policy. The application of AASB 101 *Presentation of Financial Statements* has resulted in the recognition of long service leave as a current provision to the extent where the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. The effect is:

Balance sheet impact

(i) At 31 December 2004

There is an increase in Current Provisions of $4,324,000 and a decrease in Non Current Provisions of $4,324,000.

(ii) At 30 June 2005

There is an increase in Current Provisions of $6,897,000 and a decrease in Non Current Provisions of $6,897,000.

Corporate directory

Directors

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Chairman

Brian W Hodges
Managing Director

Phil J Arnall

Greg R Laurie

Vince J O'Rourke

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Mr Bruce D Arnott

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Stock Exchange
The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.