

Media / Market Release

Tuesday, 12 February 2013

For immediate release

	December 12	December 11	Change
NPAT	\$46.7m	\$43.0m	Up 9%
EBITDA	\$105.1m	\$98.9m ²	Up 6%
EBITDA Margin	15.5%	14.5%	
Sales Revenue	\$680.5m	\$683.2m	Steady
Operating Cash Flow	\$70.8m	\$10.7m	
Earnings per Share (based on weighted average number of shares)	27.6 cents	26.2 cents	Up 5%
Dividend per Share	20.0 cents	19.5 cents	Up 3%
LTIFR ¹	4.3	4.2	

- Notes: 1. Lost time injury frequency rate (LTIFR) is the number of occurrences of injury divided by the total number of hours worked by all workers, for each one million hours worked.
2. Due to a change in accounting treatment from recording dividend income to equity accounting, EBITDA for December 2011 has been reduced by \$1.2 million to be comparable with the current period.

Bradken Limited (ASX: BKN) today reported a net profit after tax for the half year ended 31 December 2012 of \$46.7 million, a 9% increase over the previous period. EBITDA increased by 6% to \$105.1 million on steady sales revenue. Earnings per share increased by 1.4 cents, up 5% to 27.6 cents per share.

“Despite low iron ore and coal prices, and subdued market conditions, demand for Bradken’s non-rail consumable products and capital goods grew by 6% over the previous corresponding period. Although the Rail division’s sales were down 20% for the period, the order book for the 2013 calendar year is looking strong. The market slowdown appears to have bottomed and we expect the next market movement to be positive,” Managing Director, Brian Hodges said.

The Directors have declared a fully franked interim dividend of 20.0 cents per share, a half of a cent increase on the previous corresponding period. The Company’s dividend reinvestment plan remains active and the dividend payments will be fully funded by cash and payable on 14 March 2013 with a record date of 22 February 2013.

Operational Review of HY13

Sales revenue for the Mining Products Division of \$209 million was up 15% on the previous corresponding period, with improved margins of 33.7%. Ground engaging tools and buckets sales revenue was up 35% with growth derived from increased market penetration although a slowdown in the Australian coal market had a negative impact. Crawler Systems sales revenue increased by 15% on higher demand from OEM customers. Fixed Plant sales revenue increased 15% in spite of capital project activity reducing in the Western Australian iron ore market over the period. The Mining Products Division’s geographical expansion strategy continued building both sales and distribution networks and exploiting a global manufacturing base.

The Mineral Processing division which derives its sales primarily from copper and gold mines was largely unaffected by the mining market slowdown. Sales revenue of \$110 million was down 5% on the corresponding period, with higher sales achieved in the Americas through strong market conditions and increased output from the Mont Joli, Canada foundry being offset by lower sales in Australasia and Africa due to product mix and timing of customer reline schedules. Market fundamentals for copper and gold remain very positive and demand is forecast to increase.

Sales revenue for the Rail Division was \$132 million, down 20% on the previous period. There were 934 wagons produced in the first half, which was in line with our previous forecast. The business completed and delivered the final wagons related to the low margin contracts and is returning to normal levels. Margins were up 3% on the previous period. The project nature of this business has seen limited production between December 2012 and February 2013. Manufacture is now commencing on 1,000 wagons currently in the order book. In the second half, we expect some 700 wagons to be completed with revenues similar to the first half and continuing margin improvement. The business has continued to improve over the period, lowering its costs due to global sourcing and manufacturing efficiencies.

The US based Engineered Products Division's sales revenue was \$165 million, up 7% on the previous corresponding period, although this was down on 1H13 due to a slowdown in mining capital parts orders and a capacity constraint in high integrity welding in the Energy business, both of which have now been overcome. The Division's current order book is still strong and is in excess of \$250 million. Management's focus on quality of earnings has seen a margin increase over the period and an emphasis will continue to be put on improving margins and cost management during the current downturn.

The Australian domestic Industrial Division's sales were up 2.2% on the corresponding period despite a contraction in some traditional market sectors, in particular from capital mining OEMs, reflecting the uncertainty in the Australian industrial marketplace. Completion of the acquisition of the Hillside Foundry, Dunedin in December 2012 will add low cost capacity and provide a broader manufacturing capability.

Sales for CMS, the Company's foundry consumables business were down 4% with a reduction in orders following the closure of a number of Australian foundries and steel mills. Global expansion of the business in Malaysia, China, USA and the United Kingdom is progressing and continued global sourcing is enabling further margin expansion of key foundry consumables supported by the addition of new product lines. The acquisition of the Coinda Ceramics business in Victoria in October 2012 has provided the Company with the technology required to manufacture extruded, pressed and cast ceramic shapes, adding a new product to its global strategy.

Installation and commissioning of plant and equipment for Stage 1 of the low cost Xuzhou Foundry in China is now complete and delivery of the first castings took place in January 2013. This is a major milestone for Bradken and demonstrates the Company's ability to undertake organic growth on a global scale. When fully operational, the foundry will have the capacity to produce 20,000 tonnes per annum. The facility is currently transitioning onto two shifts and planning to increase this to three shifts. Close to \$25 million in sales of mineral processing and crawler shoes consumables will be produced in the second half. A new facility to house the machine shop, induction hardening facility for crawler shoes and CMS manufacturing centre and warehouse is progressing well and is due for completion in late 2013.

Financial Performance

Net profit grew 9% to \$46.7 million on flat sales. The increase in profit was driven by the better quality of earnings, with the EBITDA margin increasing by 1.1% to 15.5% over the previous corresponding period. All businesses with the exception of the Rail business increased their margins with improved efficiencies, cost reductions and increased mix towards consumables. Below the EBITDA line, an increase in profit from investment activities was offset by an increase in amortisation charges.

Operating cash flow increased substantially to \$70.8 million from \$10.7 million in the previous corresponding period, reflecting tight working capital management and a conversion of EBITDA to cash. Capital expenditure for the period was \$53.9 million primarily focused on the new foundry in Xuzhou.

The Company's gearing measured as Net Debt to Net Debt plus Equity remained unchanged from June 2012 at 38%. Net Debt also remained unchanged at 2.0 times EBITDA and with the Xuzhou foundry nearing completion, this demonstrates the Company's ability to execute large capital projects from free cash flow while maintaining comfortable gearing levels.

Gearing is not expected to increase in the second half and there is no debt maturing until April 2014.

Human Resources

The global Lost Time Injury Frequency Rate (LTIFR) increased slightly to an annualised rate for H13 of 4.3 lost time injuries per million person hours worked, which while a slight increase on the previous corresponding period, was a decrease on the previous period.

The total employment in the group fell from 6,500 to 6,000 over the period to balance with workload as the market slowed. This flexibility is vital for Bradken to enable it to protect its margins in times of reduced market activity.

Bradken continues to build a common culture as the business expands globally by introducing the CEO leadership program base level training to all North American locations during the period.

“Developing our metallurgical expertise continues to be a primary focus for Bradken and we have continued to enhance our metallurgical capability in Australia by employing a number of experienced metallurgists,” said Mr Hodges.

Strategy and Outlook

Bradken’s business strategies remain unchanged, with the focus on key strengths in the design, global manufacture and supply of consumable products to the mining, energy and rail industries.

“The Company’s order books have stabilised and there is evidence to suggest that we have reached the bottom of the current cycle,” said Mr Hodges.

“With rail margin improvements and the low cost Xuzhou foundry coming on line, we expect to Company’s margins to remain strongly defensible and may improve in the period.”

“Continued focus on working capital and capex at around \$35 million in the second half will ensure a conservative balance sheet.”

“With the capacity that has been installed over the prior years and the increasing production from the Xuzhou foundry, the business is well positioned to respond to any market demand increases.”

Ends

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More about Bradken

Bradken is the leading supplier of differentiated consumable and capital products to the resources, energy and freight rail industries. The Company employs over 6,200 people in 34 manufacturing facilities and more than 30 sales and service centres across Australia, New Zealand, USA, Canada, United Kingdom, Indonesia, South Africa, South America and China.

Bradken, which has been in business for over 90 years and became a publicly listed company in August 2004, has four market-focused divisions.

The **Mining Products Division** is a global business which manufactures and supplies ground engaging tools, wear plate and liner products, crawler systems and associated refurbishment and maintenance services. These products are primarily consumable wear parts for mobile and fixed plant used extensively throughout the mining industry.

The **Mineral Processing Division** is a global business which manufactures and supplies mill liners, crusher liners and associated refurbishment and maintenance services. Mill liners and crusher liners are consumable products, which are regularly replaced by operators of mills and crushers in the mining and quarrying industries.

The **Rail Division** designs, manufactures and supplies rail freight rolling stock, cast and general spares, and provides rolling stock maintenance and refurbishment services. Its product and service offering, as in all Bradken's divisions, is customised to meet specific customer requirements.

The **Engineered Products Division** is a leading North American based supplier of large (greater than 4,500kg), highly engineered steel castings to the high growth global energy, mining and rail markets. Headquartered in Atchison, Kansas, the Division employs approximately 2,500 people across five steel foundries and three machine shops in North America.

Other businesses of Bradken include Industrial products, Cast Metal Services (CMS) and the Metal Recycling.

- The **Industrial business** manufactures and supplies iron and steel cast products, mainly consumables, directly to end users for use in their process plants or manufacturing processes. The products can vary from products manufactured to the client's specification, customised products and products based on Bradken's proprietary designs.
- **CMS** is a global business which manufactures and distributes consumable steelmaking and foundry industries, the metal recycling business, which support the Company's foundry business and the corporate activities of the Bradken Group.
- The **Metal Recycling business** sources mild steel, stainless steel and alloy scrap steel largely from mine sites and industrial operations to supply the Company's foundry operations.

For further information about Bradken visit bradken.com