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DEPARTMENT OF INDUSTRY, SCIENCE AND RESOURCES

MS24-001662

To: Minister for Industry and Science (For Information only)

WHYALLA STEELWORKS - UPDATE AND NEXT STEPS

Timing: Routine

Recommendation:

s 34

Noted / Please Discuss

Minister: Date:

Comments:

Clearing Officer:	Lucas Rutherford	General Manager, Industry Policy	Ph: s 22 Mob: s 22
Contact Officer:	s 22	A/g Manager, Industry Investment and Transition	Ph: s 22 Mob: s 22
For Parliamentary Services' use only. Date Submitted to the Minister's office in PDMS:			4/12/2024

Key Points:

s 34

Worker and community support

3. DISR and the Department of Workplace Relations (DEWR) are working closely with SA Departments of State Development and Premier and Cabinet to identify the roles and potential gaps in Commonwealth and SA programs and services available to support affected workers and the community in Whyalla.

4. This gap analysis will inform on-the-ground activity now occurring by employment facilitators from Workforce Australia through the Local Jobs Program, AusIndustry's Regional Manager, and SA, and form the basis for any future Commonwealth and SA community and worker support packages and delivery mechanisms.

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Engagement with South Australian Government

9. We are continuing to work closely with the South Australian Government, meeting regularly at a working level with the SA Steel Taskforce and at senior levels with the Department of Premier and Cabinet.

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Sensitivities and Handling:

10. Recent positive developments on the restart of the blast furnace and offer of a $150 million loan facility appear to have eased the immediate risks of external administration. GFG's Whyalla-based businesses nonetheless remain under financial pressure, with future negative events due to financial distress or asset failure seemingly inevitable in the medium-to-long term. There have also been recent reports of GFG extracting funds from its Australian operations to support its global business. Attachment A: Background provides more detail.

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Data referenced: N/A

Consultation: YES

15. Finance, DEWR, DFAT, EFA, Treasury, DITRDCA, NZEA, DCCEEW, Business Grants Hub, AusIndustry, Industrial Net Zero Transformation Branch, Strategic Policy Division.

Attachments:

A: Background

B: Path forward on ERC outcomes

ATTACHMENT A

BACKGROUND

Update on GFG and Whyalla Steelworks

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- The blast furnace at the Steelworks is understood to now be operational, having been offline since 19 September. Steelmaking is understood to have commenced on 2 December, with the rolling mill expected to recommence operation in the week commencing 9 December.
- GFG announced on 19 November that it had negotiated A$153 million (US$100 million) funding "offer" from an unnamed international source. While a positive step, risks remain that the facility will not complete or be delayed.
  - We understand that the "offer" has been made to Tahmoor Coal (which is part of the Liberty Primary Metals Australia group alongside the Steelworks and Whyalla-based iron ore mines) and secured against Tahmoor Coal assets, with GFG stating that funding is to be completed by the end of the year.
  - GFG has stated that "part of the proceeds will be used to provide critical capital into the Whyalla steel and mining operations to support its suppliers, employees and the ongoing maintenance work at its blast furnace".
- In recent weeks, various parts of the supply chain have suspended services in Whyalla.
  - Diesel provider to GFGs iron ore mines stopped delivering diesel.
  - Since mid-October, Goldings contractors at iron ore mines have been on-site, but not working, as part of ongoing negotiations around payment of debts outstanding.
  - Aurizon (since late-October) and Pacific National (since mid-November) have halted some rail haulage services between the mines, Steelworks and port.
  - CSL, provider of transhipment services at the Whyalla Port, suspended ongoing services two weeks ago, but is providing services upon pre-payment.
- There have also been recent reports of GFG extracting significant funds (up to $430 million to date) from its Australian operations, including the Steelworks, to service intercompany loans across its global group.
  - *The Australian* is expected to report on 4 December, evidence of GFG extracting a further $342 million this financial year.

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- There will be a disruption in gas supply to the Steelworks in end January/ early February due to planned maintenance by Epic Energy. GFG is working with the gas supplier and SA government on the approach to managing this outage.
- Globally, GFG is continuing to face significant financial and legal risks.
  - On 26 November, the UK High Court appointed an administrator to Liberty Steel East Europe (Holdco) – a holding company for a cluster of entities controlling six of Mr Gupta's eight continental European steelworks.
    - GFG has stated that "this legal process is at a holding company level and has no effect on any of our operations or production."
    - The appointment follows GFG's failure to pay a €140 million (A$225 million) debt to ArcelorMittal, following a High Court judgement in February 2023.
  - On 20 November, a winding up hearing for Specialty Steels UK, a subsidiary of Liberty Steel, was adjourned pending the outcome of a vote on a restructuring plan.
    - UK Business and Trade has confirmed that closure of Specialty Steels UK would affect 75% of GFG's UK workforce.
- The UK High Court has previously given GFG until 13 January 2025 to complete debt repayment talks with White Oak Global Advisors over almost $US200 million ($300 million) owed by UK-based Liberty Commodities.
  - White Oak has stated that it will not consent to any further adjournment and will seek to wind-up Liberty Commodities if a repayment plan is not settled by that date.
- Previous work by Poynton Stavrianou for the department did not establish a direct linkage between these companies and operations in Australia, but this escalation in activity does indicate continued extreme financial distress in GFGs European assets.
  - Each of these, if not resolved favourably for GFG and Mr Gupta, have the potential to have knock-on impacts to the rest of the group, including Australia, through cross guarantees and cross default provisions. The level of risk of contagion to Australian assets is not clear however due to the complex and opaque nature of GFG.

- Workforce Australia has an existing employment facilitator in the region that is providing on-the-ground workforce support for all workers recently made redundant in Whyalla, whether from GFG, its suppliers or other businesses.
- The AusIndustry Regional Manager is working with RDA Eyre Peninsula and Tactic to provide on-the-ground support to affected supply chain businesses. Over 100 people attended a Tactic event in Whyalla on 14 November.

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DEPARTMENT OF INDUSTRY, SCIENCE AND RESOURCES

MS24-001562

To: Minister for Industry and Science (For Decision)

WHYALLA STEELWORKS: APPROVAL TO RELEASE COORDINATION FINAL

Timing: Important. ERC is scheduled to consider this item on s 34

Recommendation:			
s 34			
Minister:		Date:	
Comments:			
Clearing Officer:	Tara Oliver	Head of Division, Industry & Manufacturing	Ph: s 22 Mob: s 22
Contact Officer:	James Flick	General Manager, Industry Policy Branch	Ph: s 22 Mob: s 22
For Parliamentary Services' use only. Date Submitted to the Minister's office in PDMS:			xday/xmonth/2024

Key Points:

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Data referenced:

9. The submission references a wide range of data, much of which has been compiled by Analysis and Insights Division and/or drawn from information from the SA Government.

Consultation: South Australian Government. *DISR*: Minerals and Resources, Analysis and Insights, Supply Chains and Sovereign Capability, Strategic Policy. *Cwlth*: Prime Minister and Cabinet (including NZEA), Treasury, Finance, Employment and Workplace Relations,

Climate Change, Energy Environment and Water, and Infrastructure, Transport, Regional Development, Communications and the Arts.

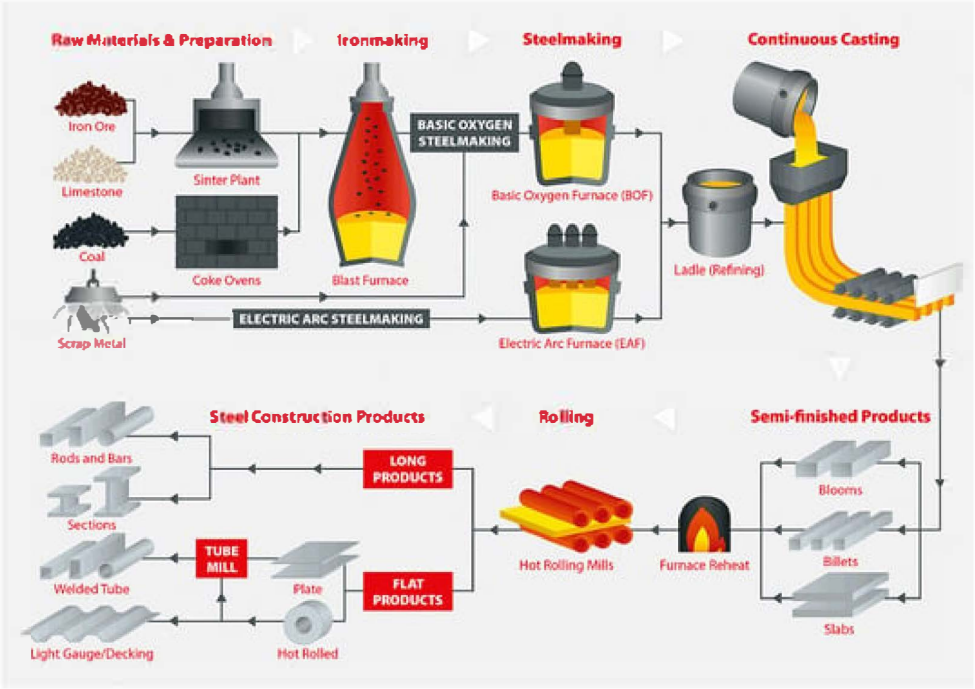
ATTACHMENTS

A: Submission - Whyalla Steelworks – Further Considerations
B: Whyalla Strategy Overview
C: Whyalla Steelworks Background
D: Poynton Stavrianou Report Assessment of Whyalla Steelworks
E: Path to Modernisation
F: Negotiating Approaches
G:
H:
s 34
I: Exposure Draft Comment Summary

Background: Steelmaking and the Whyalla Steelworks

Steelmaking 101

- Steel is an alloy of iron and carbon. The primary production of steel requires the transformation of iron ore into iron, and then iron into steel.
    - Steel is also produced from recycled steel. Steel scrap is sourced from steel mills, manufacturers, and other commercial and household waste.
- The traditional, highly emissions intensive method of steelmaking combines the production of iron and steel in an integrated steelworks ('steel mill'). These sites commonly feature a blast furnace, blast oxygen furnace, and rolling mill.
- The blast furnace heats purified coal ('coke'), limestone, and iron ore to produce molten pig iron. Oxygen is blown over the liquid iron to produce liquid steel, which is casted into solid form and rolled into finished shapes.



Australian Steel Industry

- Australia generates less than 1% of global steel production. DISR Resources & Energy Quarterly June 2024 analysis finds that most steel consumed in Australia is produced domestically. In 2023 Australian steelworks produced 5.5Mt and imported 2Mt crude steel equivalent.
- Australia is the largest global producer and exporter of iron ore. China is the largest importer of iron ore, accounting for 76% of global imports according to the REQ June 2024.
- The dominant iron ore mined and produced in Australia is hematite ore in the Pilbara. However, Australia also has large reserves of magnetite ore, including in South Australia.

- Expansion of magnetite ore production in South Australia is an underpinning objective of the SA Government's Green Iron and Steel Strategy, announced in June 2024.

Green Steelmaking

- Green steelmaking aims to produce steel with reduced or zero emissions, using an electric arc furnace (EAF).
  - EAF is a furnace that heats material by means of an electric arc.
  - EAF commonly rely on scrap steel as feedstock to produce new steel products.
- Green steel is produced when green hydrogen is used to reduce the iron and renewables are used to power an EAF.
  - In green steelmaking, iron ore is 'reduced' into Direct Reduced Iron with the aid of a reducing gas. Oxygen is added to the molten iron in an EAF to produce steel.
- Traditional steelmaking using a blast furnace is compatible with iron derived from both hematite and magnetite iron ore. However, green steelmaking using an electric arc furnace can only use iron derived from magnetite ore, due to the impurities present in hematite ore.

GFG and the Whyalla Steelworks

Whyalla Steelworks was purchased by GFG in 2017 after Arrium entered voluntary administration in 2016.

- Liberty Primary Metals Australia (LPMA), a subsidiary of Gupta Family Group (GFG) Alliance, includes OneSteel Manufacturing (which owns the Whyalla Steelworks and nearby Middleback Ranges Iron Ore Mines), the Whyalla Port, and coal assets (Tahmoor Coal and Bargo Colleries).
- Australian GFG assets outside LPMA include InfraBuild, Liberty Bell Bay manganese smelter (Tasmania), and Ferretti International (steel fabricator in Whyalla).

In 2019 GFG divided its Australian assets associated with the Whyalla Steelworks to establish InfraBuild – a vertically integrated steel manufacturer spanning scrap metal recycling, steel manufacturing and downstream distribution, which is now a significant secured creditor to LPMA. InfraBuild is structurally separate from LPMA but is the largest GFG group entity in Australia.

- InfraBuild consists of the Laverton Steel Mill (VIC), the Sydney Steel Mill, the Newcastle Rod and Wire Mills (NSW) and a national network of steel recycling and distribution businesses.

There are growing concerns about the financial viability of LPMA and the Steelworks. There is a strong likelihood that LPMA will fully or partially shut down and/or scale back operations at the Steelworks, with a possibility that the entity (LPMA or OneSteel) will enter into voluntary administration and/or close operations in the near term.

Poytnon Stavrionou advise that GFG has been improving the legal and financial position of its other Australian assets away from the Steelworks in recent years. In addition to separating InfraBuild from LPMA, GFG has attempted to separate the iron ore mines from

the Steelworks, registered security interests in respect of related party loans to the Steelworks, and released guarantees provided by other entities to the Steelworks.

Structural and operational pressures

Whyalla Steelworks' technology is old, poorly maintained and structurally uncompetitive. There has been no substantial capex to modernise or improve since GFG purchased it from administration in 2017. Poynton Stavrianou report that in 2020, PwC had identified three necessary upgrades required as part of GFG's Whyalla Transformation Plan, each costing more than US$500 million. To date, none of these upgrades have been substantially progressed.

The Whyalla Steelworks system uses an integrated blast furnace, blast oxygen furnace, and rolling mill. Coal to fire the blast furnace is sourced from GFG's coal assets, and magnetite iron ore feedstock is sourced from GFG's Middleback Ranges iron ore mines.

The Steelworks has long been a high-cost steel business relative to global cost curves. GFG owner Sanjeev Gupta claimed in a public media release that the Steelworks has lost $1.312 billion since 2017. LPMA's mining and coal operations have historically subsidised the Steelworks.

The Whyalla Steelworks is unusual in that the blast furnace is supplied with magnetite iron ore from LPMA's South Middleback Ranges iron ore mines, rather than hematite ore. Magnetite ore is more expensive to process.

GFG has announced plans to transition the steelworks to low carbon production ('green steelmaking'). This involves transitioning from blast furnace steelmaking to electric arc furnace, with coal being replaced by natural gas, and eventually by hydrogen.

- GFG is unlikely to be able to fund the transition to green steel, despite funding commitments from the Commonwealth and State Governments.

Legal and financial pressures

GFG has purchased a suite of distressed metals businesses around the world, with limited success in turning a profit. Several of GFG's European steelworks have been placed into liquidation and entered insolvency proceedings in recent years.

GFG and its Executive Chair and shareholder, Sanjeev Gupta, face significant legal, regulatory and financial pressures internationally. This includes fraud and money laundering investigations in the UK and France, and a recent prosecution by the UK's business register for failing to file accounts.

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Doc 2 (Attachment D)

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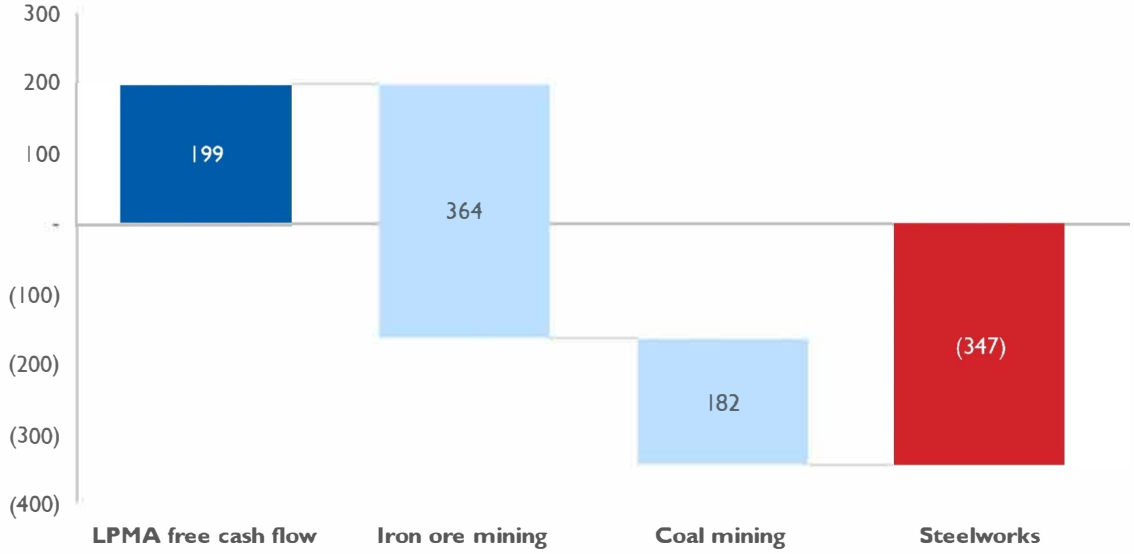
Current situation

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Profitability of the Whyalla group has reduced

It is reported that Whyalla steelworks is operating at approximately a A$1m cash loss per day, this is in line with our high-level, indicative analysis which suggests the iron ore and coal divisions remain profitable and subsidising the steelworks.

Estimated Whyalla FY23 cash flow including capex and financing (A$m) – Illustrative only



Assumptions

Iron ore segment

- 2022 SIMEC[1] reporting indicates that a total of ~10.3Mt of ore was processed in 2022, predominantly from the South Middleback Ranges (SMR, 8.2Mt) and supplemented by Iron Knob (0.6Mt) and Iron Baron (1.5Mt) – we have assumed a conservative 8Mt ore processed for 2023, decreased as SMR progresses towards end of life
- We have assumed a conservative US$30/t cash margin on iron ore sold, in line with junior iron ore mining peers

Coal mining segment

- GFG reported 1.345Mt of saleable coal in 2020 – we have assumed 2.0Mt saleable coal for 2023, with the increase due to mining at Tahmoor South commencing in October 2022
- We have assumed a US$60/t margin on coal produced, in line with the spot price at ~US$160/t and Wood Mackenzie estimates for Tahmoor cash costs of ~US$100/t

Key takeaways

- LPMA was highly cash flow generative through FY2023, believed to be supported by the performance of the iron ore and/or coal mining operations
- It is understood that Whyalla steelworks operates at a cash flow deficit of approximately A$1m per day
- Based on limited public information regarding LPMA's financials, and unavailable segment-specific financials, we have undertaken highly indicative analysis to understand the cash flow contribution of each of the segments of LPMA
- Our high-level analysis indicates a cash flow contribution of an A$347m loss from the steelworks segment – this is in line with the understanding of an approximate A$1m loss per day
- The illustrative analysis also highlights the profitability of the iron ore and coal mining operations, indicating that there may be value left in those assets
- However, this high-level analysis is based on limited public information and should not be used to form a definitive view on valuation
- The following page considers the company economics in greater detail, including the short-run and long-run costs

Source: S&P Capital IQ, Wood Mackenzie, Rothschild Strategic Roadmap, [illegible]
Notes: (1) OneSteel Manufacturing Pty Ltd trading as SIMEC Mining, per documents provided to the [illegible]

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PROTECTED CABINET

Current situation

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Illustrative economics of the steelworks

It is reported Whyalla was "losing $1m per day". Operations may have been short-run profitable, but at an accounting loss (prior to the recent outage) which generates cashflow but does not allow for reinvestment nor payment of financing costs

Variable costs
- A Iron ore
- B Coke
- C Energy
- D Other variable inputs

Fixed costs
- E Staff
- F Capital costs
- G Financing costs

Non-cash expenses
- H Rehabilitation provisions
- I Employee obligations

Revenue
- R Steel price x volume

Steel products (HRS & billets)

Sum of (A B C D E) = Short run marginal cost (SRMC)

Sum of (A B C D E F G) = Long run marginal cost (LRMC)

Where SRMC > R
- Every unit of steel output will be costing more than it earns
- Rapid and substantial cashflow losses
- Closure is high in consideration of stakeholders, the only reason not to close will be dependencies of other profitable assets and triggering long-term liabilities (e.g. rehab and employees)

Where SRMC < R < LRMC

Expect Whyalla have been operating here
- Every unit of steel output will be earning cash in the short-term
- Capital works, debt repayment and returns to equity will all suffer or be subsidized by other units
- Limited operating headroom to provide buffer for any operational problems
- Closure will be delayed to wait for a return to favourable market conditions, attempt to secure other assets
- Unable to adequately provide for non-cash expenses (H + I)

Where R > LRMC
- Cashflow and accounting profitable
- Able to provide for non-cash expenses (H + I)

The Whyalla operations (excluding the mining exports) appear to have been operating at an accounting loss but generating cashflow. With little profit being generated, investment in the plant has suffered. With marginal to negative profitability, the operations are significantly challenged by the prolonged outage this year. Capital investments by Whyalla and payment of Whyalla debt would have historically been subsidised by the non-Whyalla mining operations.

Current situation

History of the Whyalla business

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Whyalla steelworks has been operational in Australia since 1965. The company suffered financial distress in 2016 and again in 2021 but steps to resolve financial distress did not resolve the underlying structural problems.

Whyalla's recent history

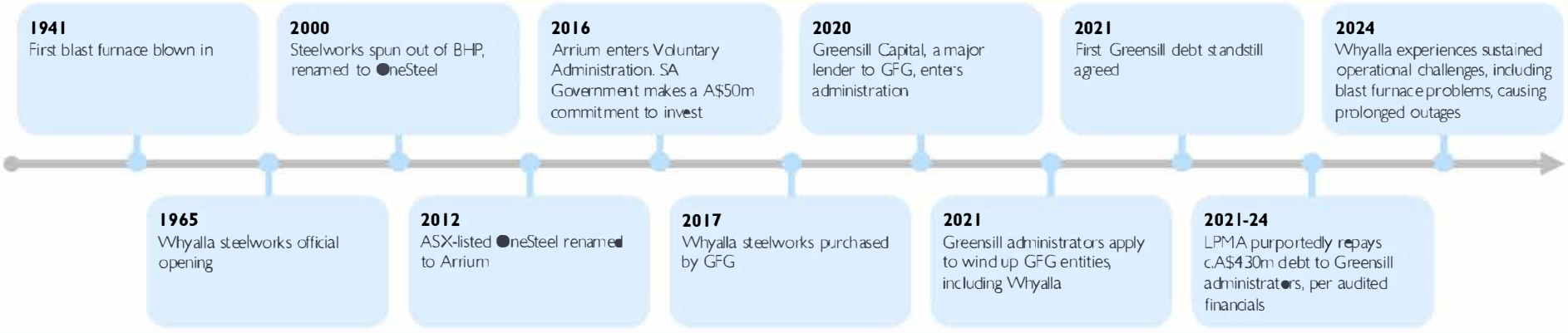
- Whyalla has been financially challenged in recent years, first evidenced by the voluntary administration of the Arrium Group in 2016
- That administration resulted in a separation of the assets, with MolyCop, the grinding media business, sold for A$1.6bn, followed by a sale of the Whyalla steel businesses to GFG in 2017
- Low iron ore prices in 2017 supported the steelmaking operations at Whyalla and permitted the establishment of InfraBuild in 2019
- However, in 2020 the administration of Greensill a major lender to GFG, resulted in further concerns about acceleration of debts outstanding and Greensill creditors pursuing GFG and Whyalla
- Supported by strong cash flows from the Whyalla iron ore business, and more recently coal prices, GFG was able to agree a standstill with the Greensill administrators and to refinance / repay the Greensill debt from the Australian entities, although actual payments to the UK administrators is unclear and disputed and there may still be debt outstanding
- The structural issues at Whyalla's steelworks remain due to a lack of investment

Current situation

- As at October 2024, the Whyalla business is now facing new operational and market challenges due to:
  - Its blast furnace being offline for much of 2024;
  - Downward pressure on steel prices due to Chinese economic slowdown and regulatory change;
  - Downward pressure on coal and iron ore prices; and
  - The end of historically profitable hematite (iron ore) reserves
    - In recent years Whyalla steelworks has shifted from using hematite as feed to magnetite, leaving the hematite to export

Whyalla's financial position is increasingly parlous, it needs substantial financial support to keep operating. GFG and InfraBuild have been taking steps to separate from Whyalla (described following)

The history of Whyalla operations – from 1941 to today



Source: GFG website, KordaMentha report to Arrium creditors dated 26 Oc

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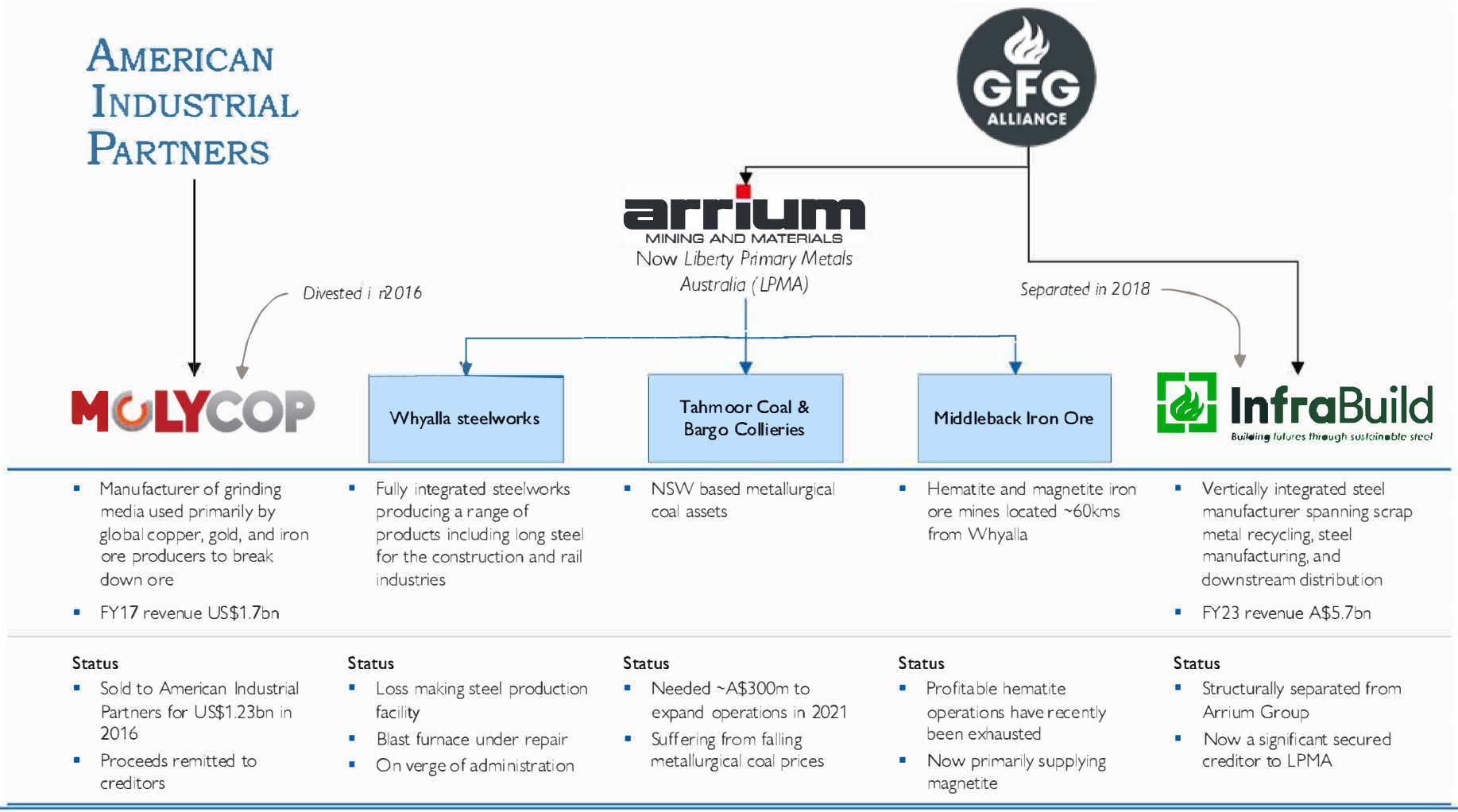
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Current situation

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There are fewer ancillary assets available to subsidise the steelworks

The profitable businesses, which historically financially supported Whyalla, have been selectively structurally migrated away from the Whyalla steelworks since the first administration in 2016.



Source: GFG website, KordaMentha report to Arrium creditors dated 26 Oc

Current situation

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Corporate actions taken to minimise GFG's exposure to LPMA

Hematite mining at Middleback Ranges, which has historically supported LPMA, is nearing the end of its life. GFG has taken steps in the previous 18 months to limit its exposure to LPMA.

	Action	Implications
I	Repayment of the Greensill debt has removed the previous first-ranking security interest	▪ LPMA has paid over A$400m to eliminate its debt to Greensill Capital and release the security interest, which extended to LPMA's UK holding company ▪ This repayment was agreed as part of a broader negotiation with its financiers for a far larger debt position ▪ However, UK administrators are reportedly still pursuing GFG Alliance for this debt, and claim moneys are still owed, so this is unclear ▪ With this security interest released, **related parties may emerge as highly-ranking secured creditors in an administration process**
II	Amendment of supply agreements with InfraBuild on less favourable terms for LPMA	▪ In 2023, the Whyalla Billet Supply Agreement was amended to allow LPMA to import billet to meet its supply obligations, and for InfraBuild to pass through costs incurred above the Whyalla Billet Supply Agreement equivalent pricing through to LPMA as an advance payment of revenue. As a result, **there may be large, likely secured, interest accruing under this agreement** ▪ As of 7 August 2024, the supply agreements for hot rolled structural steel (HRS) and flat iron were being renegotiated. By now, these may have been **renegotiated on terms potentially as unfavourable as the amended billet supply agreement** *Further information on these agreements can be found on in Appendix C.*
III	Revocation of the Deed of Cross Guarantee for coal assets	▪ In July 2023, the Deed of Cross Guarantee of LPMA was modified, separating the subsidiaries holding the coal assets ▪ This could be the first step taken to begin **separating these assets from the LPMA group,** and enforcement against these excluded assets would be complex
IV	Related parties have registered security interests, some very recently	▪ Several related parties have registered security interests in OneSteel Manufacturing Pty Ltd, the primary trading entity of LPMA. Some were registered as recently as 3 October 2024, while some date back to 2016 ▪ These security interests **position GFG as the secured creditor, able to appoint a receiver in the event LPMA enters administration**

Several of the above steps, and where they fit in the relevant components of the corporate structure, are shown in detail in Appendices A and C.

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The importance of LPMA to other Australian entities

InfraBuild is the largest associated entity of LPMA. It currently sources ~24% of its steel billet requirements (a critical input for its Manufacturing division) from Whyalla. However, it has been actively proving up alternative international supply.

InfraBuild
(Liberty InfraBuild Ltd)

InfraBuild (wholly-owned GFG subsidiary) is Australia's only vertically integrated electric arc furnace (EAF) steel long products manufacturer and Australia's largest distributor of steel long products. Whyalla provides steel billets to InfraBuild for manufacturing, and HRS for distribution.

4,680	A$5.7b	~70%	17,655
Employees[3]	FY23 Revenue	Market share[4]	Active customers

Liberty Bell Bay
(Liberty Bell Bay Pty Ltd)

Formerly TEMCO, Liberty Bell Bay (a wholly-owned GFG subsidiary) was purchased in 2021 as a distressed asset and is a smelter facility in northern Tasmania with four submerged arc furnaces, including a sinter plant for the production of high carbon ferromanganese and silicomanganese, used in the production of steel.

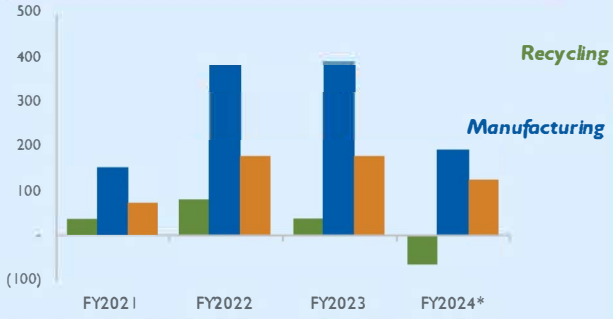
250	~A$180m	270Ktpa
2020 employees	Revenue[Δ]	Capacity[5]

Ferretti International
(Ferretti International Ottoway Pty Ltd)

Ferretti International (a wholly-owned GFG subsidiary) is a diversified engineering and fabrication company specialising in specialist pipe welding and bending, and site installation and maintenance services across defence, energy, oil & gas and infrastructure. Workshops located near Port Adelaide and Whyalla.

~20	A$24m	2
Employees[Δ]	FY23 Revenue	Major workshops

Relative segment earnings (Adj. EBIT, A$m)



*InfraBuild expect a **A$20-30m decrease in earnings for FY25 due to Whyalla outage & repairs** (full production not expected to be reached in FY25)*

Supply dependence on Whyalla

Recycling
- InfraBuild's Recycling segment produces Ferrous and Non-Ferrous scrap, to be turned into billets by the EAFs
- No dependence on Whyalla steel supply

Manufacturing
- InfraBuild's manufacturing segment is split into 3 units – Rod & Bar (~87% by volume[1]), Tubular (~6%) and Mesh (~8%)
- Mesh unit has no dependence on Whyalla steel supply
- Tubular unit is "predominantly supplied by BlueScope" – unclear as to the dependence on Whyalla, likely minimal
- Rod & Bar unit sources ~24% of the billet required from Whyalla
  - Newcastle Rod Mill sources ~76% of billet from Whyalla, no other facility sources more than 11% from Whyalla[2]

Distribution
- Split into Steel & Tube, Steel-in-Concrete and Wire units
- Whyalla supplies HRS equating to ~10% of total products sold by the distribution segment (Hot Rolled Structural steel, HRS)

Security of supply

- Supply is sourced from a network of 30 sites (26 in Australia) primarily from scrap brokers and dealers (42%), end-market suppliers (21%), major scrap suppliers (17%) and the waste management industry (12%)

- Through FY21 and FY22 InfraBuild decided to "prove-up" alternative international sources of billet supply
- Supply agreement was amended to allow for imports, unsure what proportion of the 24% has been sourced externally
- Imported 200kt billet in FY22 (~20% of total billet requirement)
- Tubular unit predominantly supplied by BlueScope
- Volume of billet supplied by Whyalla underpinned by contractual volume commitments, may inflate dependence

- Volume of HRS supplied by Whyalla underpinned by contractual volume commitment of 95% of InfraBuild's HRS requirements, may inflate dependence

I InfraBuild's estimates suggest a small, but not immaterial financial impact from a Whyalla shutdown

II The key dependency is billet, with Whyalla supplying ~24% of InfraBuild's total requirement – one facility is highly dependent

III Contractual volume commitments may show inflated dependency on Whyalla, and InfraBuild has proven international suppliers

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Appendix C: About Liberty Primary Metals Australia

Liberty Primary Metals Australia
Overview

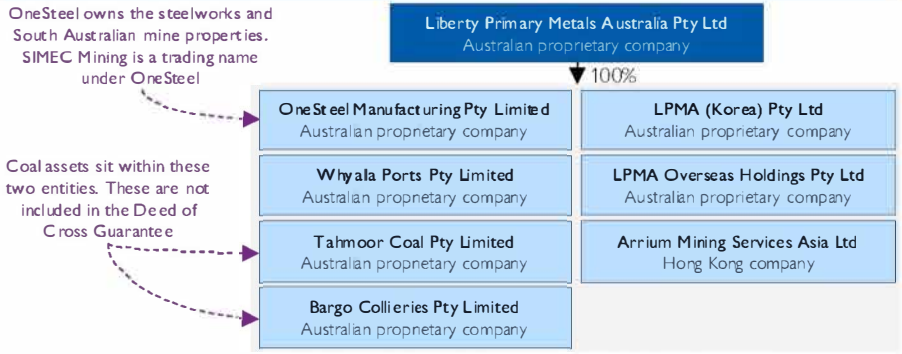
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Liberty Primary Metals Australia includes the Whyalla steelworks, as well as the associated iron ore, coal, and port assets.

Overview

- Liberty Primary Metals Australia Pty Ltd ("**LPMA**") is the group of companies within the GFG Alliance which own the Whyalla steelworks, Whyalla Port, and iron ore, coking coal and dolomite mining operations
- Whyalla steelworks, which produces steel billet and hot rolled steel ("**HRS**") supplies InfraBuild, the Australian group of companies considered to be 'crown jewel' in Sanjeev Gupta's GFG Alliance
- Since the acquisition of several Arrium assets, LMPA has been reorganised to interact with related parties in complex ways
- The blast furnace at the Whyalla steelworks has faced operational issues and has been offline for many months of 2024

Relevant entities



See page 31 for further information on corporate structure.

Asset portfolio



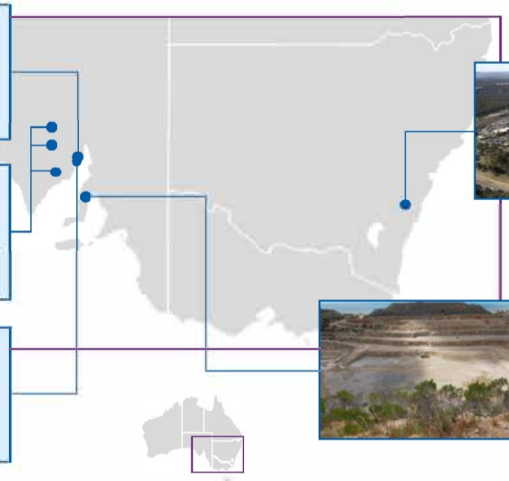
Whyalla steelworks
Integrated steelmaking business capable of producing 1.2 million tonnes of cast steel and 475kt of hot rolled steel products per annum



Middleback Ranges iron ore operation
Several mining areas and processing infrastructure 60km from the Whyalla steelworks. Supplies the Whyalla steelworks and exports



Whyalla Port
Deep-sea port which handles the import and export of key commodities, including steel products, coking coal and iron ore





Tahmoor
Underground coking coal mine in NSW, 95km south west of Sydney, producing ~2 million tonnes per annum

Ardrossan Dolomite Mine
Supplies dolomite flux, an essential ingredient to the steelmaking process, to the Whyalla steelworks

Source: GFG Alliance websites, press, Mining Compliance Reports filed with

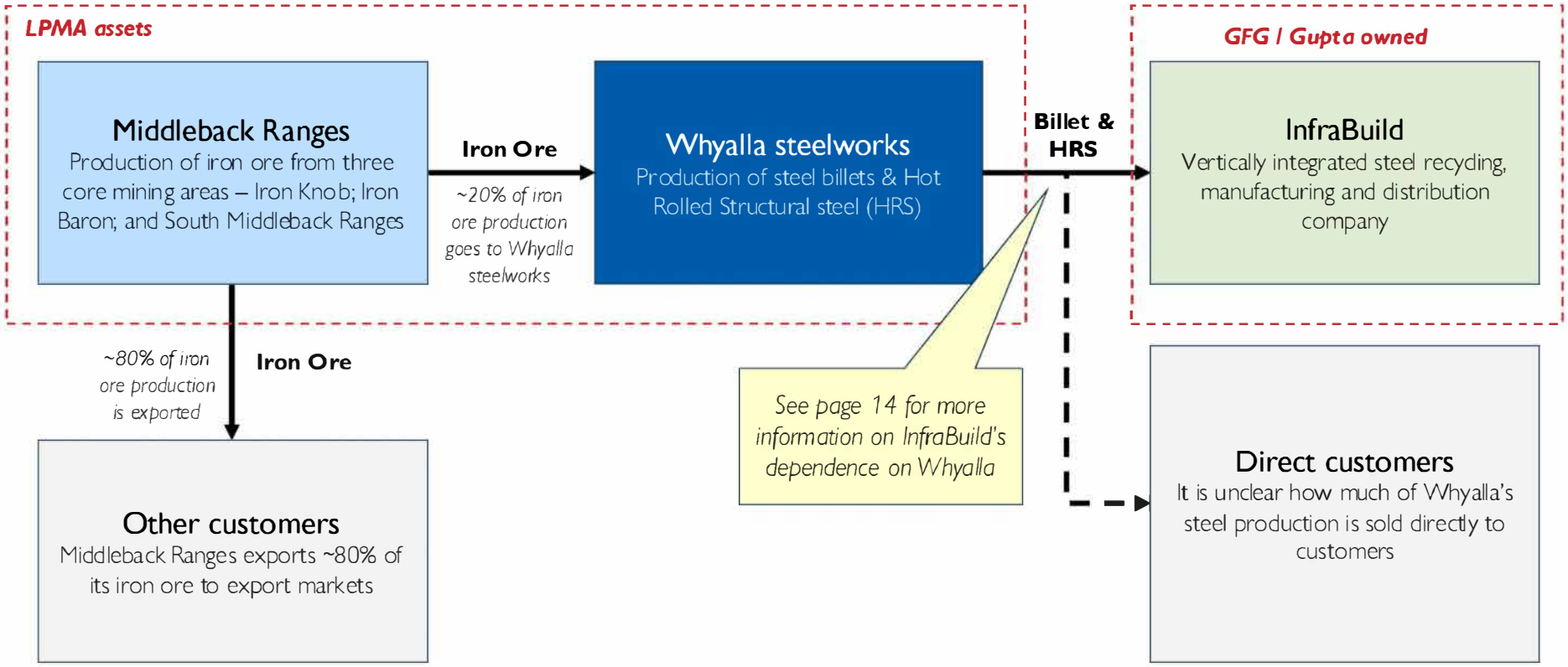
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Operations – High-level supply chain

LPMA sources the iron ore required by Whyalla steelworks internally from the Middleback Ranges mines, before selling predominantly to InfraBuild and occasionally exporting to other customers.



Doc 2

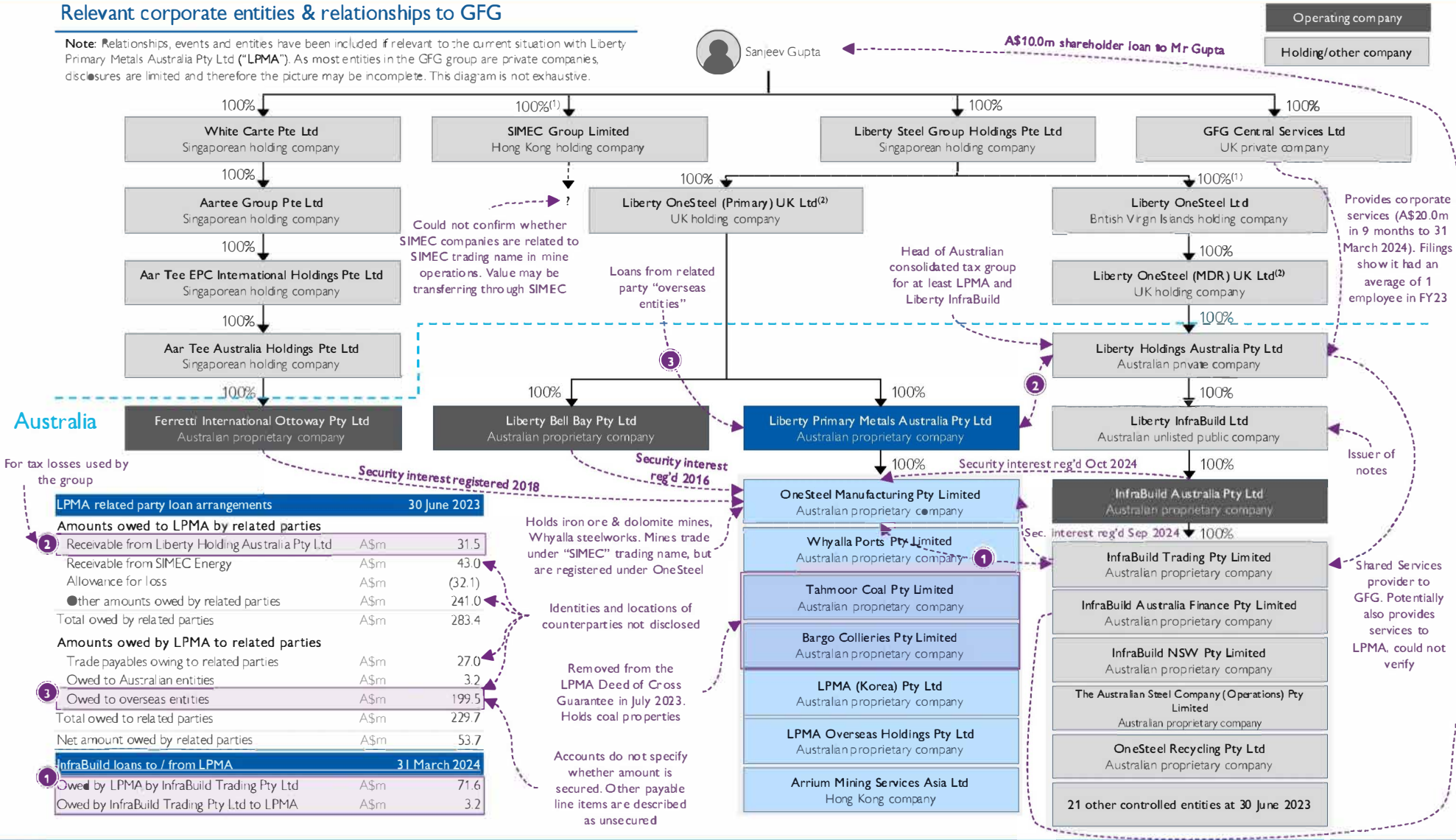
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Related party interactions (excluding physical supply)

Relevant corporate entities & relationships to GFG

Note: Relationships, events and entities have been included if relevant to the current situation with Liberty Primary Metals Australia Pty Ltd ("LPMA"). As most entities in the GFG group are private companies, disclosures are limited and therefore the picture may be incomplete. This diagram is not exhaustive.



LPMA related party loan arrangements		30 June 2023
Amounts owed to LPMA by related parties		
(2) Receivable from Liberty Holding Australia Pty Ltd	A$m	31.5
Receivable from SIMEC Energy	A$m	43.0
Allowance for loss	A$m	(32.1)
Other amounts owed by related parties	A$m	241.0
Total owed by related parties	A$m	283.4
Amounts owed by LPMA to related parties		
Trade payables owing to related parties	A$m	27.0
Owed to Australian entities	A$m	3.2
(3) Owed to overseas entities	A$m	199.5
Total owed to related parties	A$m	229.7
Net amount owed by related parties	A$m	53.7

InfraBuild loans to / from LPMA		31 March 2024
(1) Owed by LPMA by InfraBuild Trading Pty Ltd	A$m	71.6
Owed by InfraBuild Trading Pty Ltd to LPMA	A$m	3.2

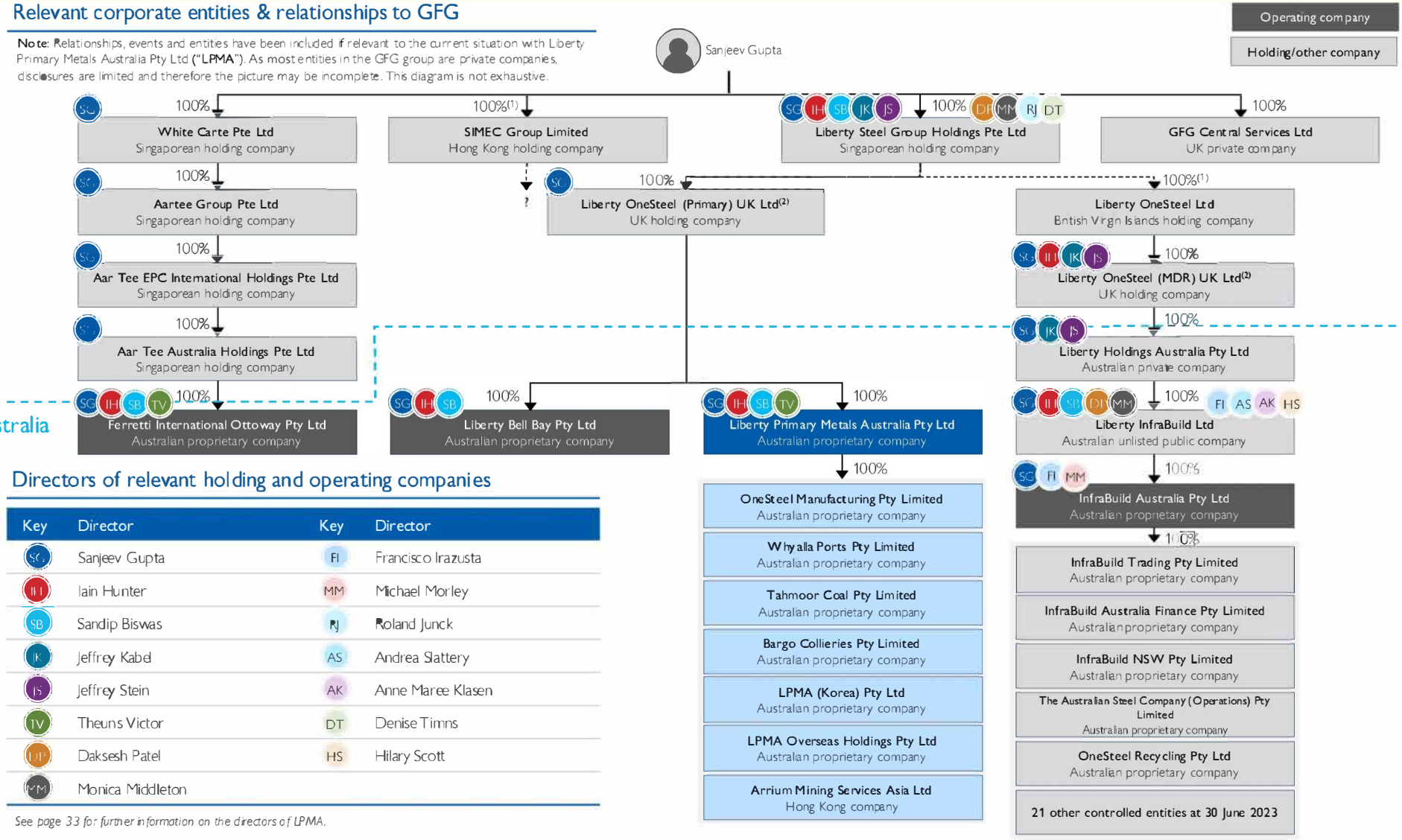
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Liberty Primary Metals Australia
Directorships

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Relevant corporate entities & relationships to GFG

Note: Relationships, events and entities have been included if relevant to the current situation with Liberty Primary Metals Australia Pty Ltd ("LPMA"). As most entities in the GFG group are private companies, disclosures are limited and therefore the picture may be incomplete. This diagram is not exhaustive.



Directors of relevant holding and operating companies

Key	Director	Key	Director
SG	Sanjeev Gupta	FI	Francisco Irazusta
IH	Iain Hunter	MM	Michael Morley
SB	Sandip Biswas	RJ	Roland Junck
JK	Jeffrey Kabel	AS	Andrea Slattery
JS	Jeffrey Stein	AK	Anne Maree Klasen
TV	Theuns Victor	DT	Denise Timms
DP	Daksesh Patel	HS	Hilary Scott
MM	Monica Middleton		

See page 33 for further information on the directors of LPMA.

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Liberty Primary Metals Australia

Board of Directors

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The directors of LPMA are listed below.



Sanjeev Gupta

GFG Alliance – Executive Chairman

- Sanjeev Gupta established Liberty House Group and has grown the GFG Alliance into a large global empire. When his father retired in 2023, he assumed control of SIMEC Group
- Mr Gupta, and certain companies of which he is the ultimate shareholder, are currently under investigation in the United Kingdom and France. Mr Gupta, as an officer of Liberty House, is involved in Indian legal proceedings under the Indian Insolvency and Bankruptcy Code 2016
- According to filings with ASIC, Mr Gupta resides in Sydney and was born in India.



Iain Hunter

LIBERTY Steel Group – Chief Governance Officer

- Mr Hunter was previously the CEO of Wyelands Bank plc from 2015 to 2020. He has also held several senior leadership roles at CIT Bank Limited, including CEO and Chief Risk Officer
- Iain was recently fined ~120 thousand pounds by the Bank of England for failing to ensure Wyelands Bank had adequate systems and controls
- According to filings with ASIC, Mr Hunter resides in Dubai and was born in the United Kingdom



Sandip Biswas

GFG Alliance – Chief Investment Officer

- Appointed in 2022, Sandip Biswas is responsible for commercial and investment performance and playing a role in debt structuring and transformation plans
- Mr Biswas previously held senior and board level positions at Tata Steel over 17 years, most recently as Chairman of Tata Steel UK
- According to filings with ASIC, Mr Biswas resides in Dubai and was born in India



Theuns Victor

GFG Alliance – CEO Europe Upstream

- Theuns Victor was responsible for the operations of the Whyalla steelworks as Executive Director from 2011 to 2022
- He joined Arrium in 2006 as the Manager Steelmaking. Prior to this he worked for Arcelor Mittal South Africa for 20 years
- According to filings with ASIC, Mr Victor resides in Dubai and was born in South Africa

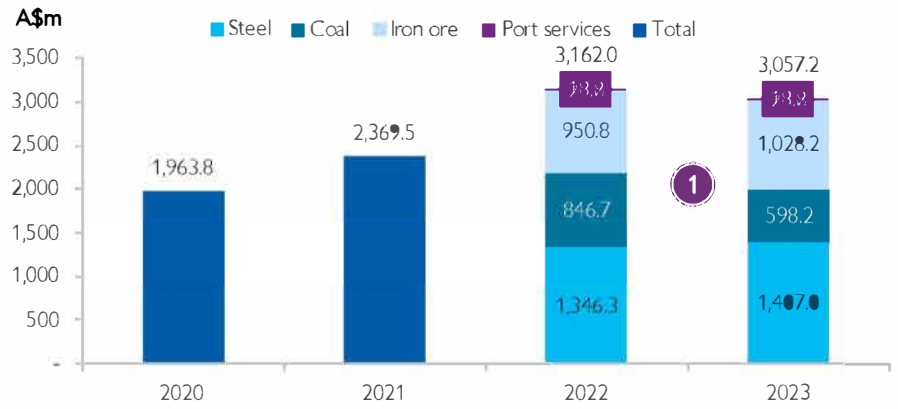
Liberty Primary Metals Australia

Financial history

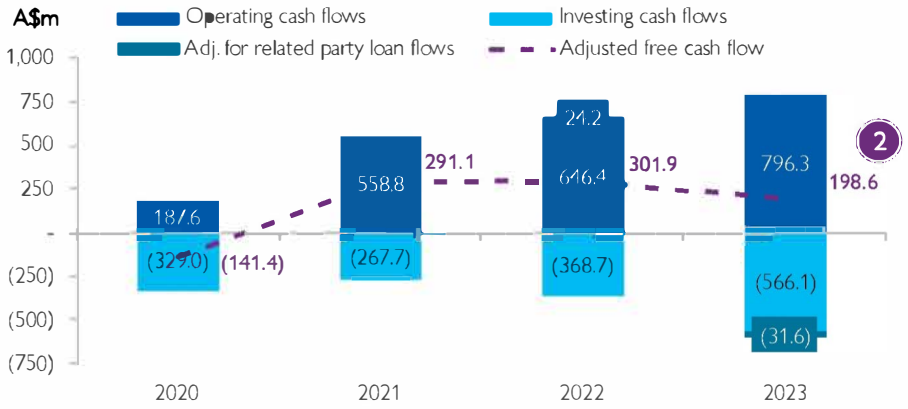
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LPMA has generated substantial free cash flows in recent prior years. LPMA has engaged in material lending and borrowing to and from related parties, essentially acting as a bank for the other.

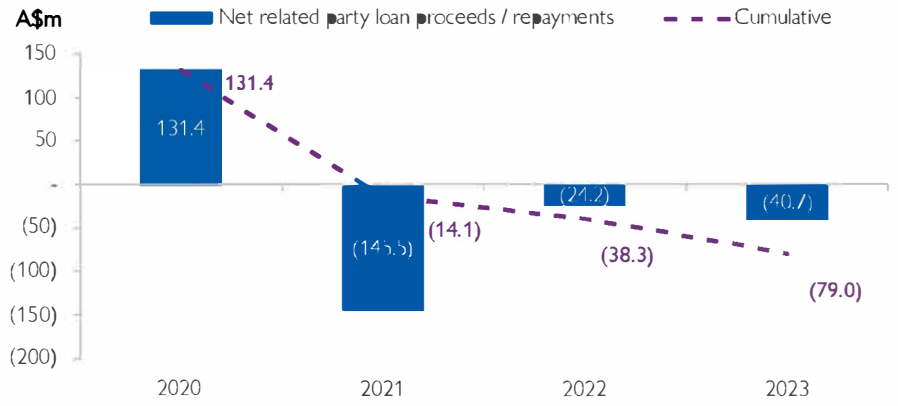
Segment revenue – year ended 30 June(1)



Free cash flows – year ended 30 June(2)



Related party loan cash flows – year ended 30 June



1 Iron ore and coal revenues have been significant

Sales of iron ore and coal have generated more than half of LPMA's revenue in FY22 and FY23

2 Free cash flow generation has been substantial

In the two years ended 30 June 2023, LPMA generated cumulative adjusted free cash flows of over A$500m(2)

3 LPMA has been used as a source of funds for related parties

Since LPMA was incorporated in January 2019 and its subsidiaries were acquired from other entities within GFG in June 2019, a net amount of A$79.0m has been loaned out to related parties. Further, a loss allowance of A$32.1m has been recognised against amounts owed by related parties in 30 June 2023

Source: Filings with the Australian Securities and Investments Commission (ASIC)
Notes: (1) Segment revenue not disaggregated in FY20 or FY21. (2) Free cash flows are defined as operating cash flows [illegible] adjusted to remove the impact of lending to and from related parties which was reported within investing cash flows.

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Liberty Primary Metals Australia

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Operations – Middleback Ranges iron ore operation

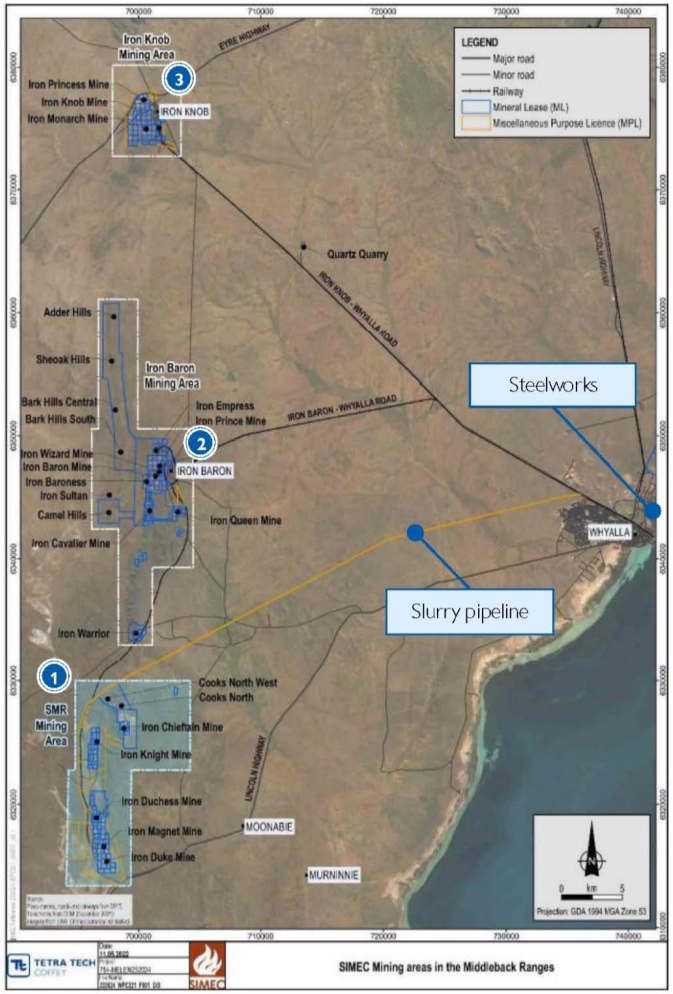
The economic hematite resource is being depleted and is close to the end of its life. A history of successful magnetite export suggests there may be substantial value in these iron ore properties.

Overview

- The Middleback Ranges consists of three mining areas:
  1. South Middleback Ranges
  2. Iron Baron
  3. Iron Knob
- The operations produce both hematite (higher-grade iron ore, generally suitable for steelmaking without further processing) and magnetite (lower-grade iron ore, which requires further processing prior to export or steelmaking). The Middleback Ranges provide iron ore for use in the Whyalla steelworks. Historically, hematite was preferred due to its direct usability in blast furnaces without requiring beneficiation. As the ore quality has declined and the resource has been depleted, magnetite has become the source of iron for the steelworks. Magnetite is processed into a slurry at the mine site, then pumped via pipeline to the steelworks site for dewatering and pellet production
- The Middleback Ranges operations have historically produced 6-10Mtpa of hematite ore for export and 2.3Mtpa of magnetite. Of the magnetite resource, approximately 1.3Mtpa is used in the steelworks and the remainder is exported. GFG is **seeking to expand magnetite production from 2.3Mtpa to ~7.5Mtpa, extending mine life by over 20 years**

> **"There is not many places in the world which have the potential which Whyalla has to develop large scale magnetite. Whyalla could just simply be an exporter of high-quality, low-cost magnetite at a large scale. But that is not our ambition."** – Sanjeev Gupta, 2022(1)

Resources & Reserves (Mt)(2)			
Mining area	South Middleback Ranges	Iron Baron	Iron Knob
Date provided	2019	Not provided	n.m.
Resources			
Measured	41.7	4.6	n.m.
Indicated	105.8	31.6	n.m.
Inferred	91.3	11.7	n.m.
Total	238.9	47.9	n.m.
Reserves			
Proved	33.6	0.5	n.m.
Probable	28.4	13.8	n.m.
Total	62.0	14.4	n.m.
Estimated mine life in 2022	~10 years	~2 years	~4 years



Source: Mining Compliance Reports filed with Energy and Mining South Aus[illegible]he Environment and Water
Notes: (1) GFG Website – Whyalla magnetite expansion plans. (2) As a private company, public reserve[illegible]ded together, and rounding may affect totals. Data for Iron Knob was outdated (some information was from 2013) and had material gaps. An estimate for mine[illegible]

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Liberty Primary Metals Australia

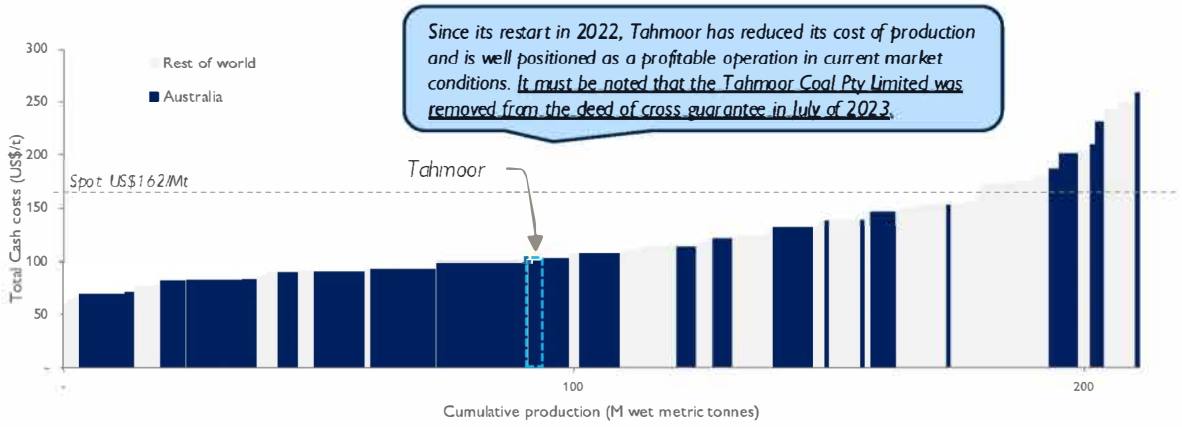
Operations – Other

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LPMA's portfolio also includes Tahmoor, Ardrossan and Whyalla Port. Historically, Tahmoor has been a strong cash generator for the group. Competitive production costs and an extended mine life suggests substantial value.

Tahmoor

- Tahmoor Coal Pty Ltd and Bargo Collieries Pty Ltd form part of the Tahmoor hard coking coal operation in the Southern Coalfields of New South Wales
  - The assets were acquired by GFG in 2018 from Glencore for an undisclosed sum
  - Previous owners: BP Coal and Minerals 1984 -1989, CRA Limited 1989 – 1997, Austral Coal 1997 – 2010, Xstrata/Glencore (merged in 2013) 2010 – 2017
- The operation is an underground longwall operation which has been producing ~2Mtpa of hard coking coal that is predominantly exported to steel producers in the Asian market
  - A portion of production is supplied to OneSteel Manufacturing / Whyalla steelworks as an input in the iron smelting process
- In 2021, it received approval for a 10-year mine life extension, to commence mining in an area known as Tahmoor South Domain, amid anticipated depletion of reserves
- Related to the Whyalla steelworks, there was an issue in the supply of coking coal that led to the group sourcing from BlueScope and internationally – details surrounding the cause of the shortage are undisclosed



Ardrossan

- SIMEC[1] operates a dolomite quarrying, crushing and ship loading facility at Ardrossan, South Australia
- The mine supplies dolomite flux for the Whyalla steelworks, to BlueScope Steel's Port Kembla operation and overseas customers, notably in Japan
  - Approximately 25% of production is exported
- Production capacity is 550kt per annum
- Employees approximately 40 people
- Mine life through to 2031 – currently seeking to extend the life of the Ardrossan Mine operation (+100 years) by securing approvals to develop a northern pit

Whyalla Port

- The port in Whyalla is privately owned and operated by SIMEC[1] consisting of:
  - Inner harbour – three berths to handle iron ore, coal, dolomite, limestone, coke and finished steel products
  - Outer harbour – channel and berth used for loading iron ore
  - Offshore anchorages for large, deep drafted vessels
- Infrastructure has been progressively upgraded over recent years. In 2020 the second mobile harbour installed, doubling the port's capacity
- The port serves as the export facility for Middleback Ranges iron ore mines and the Whyalla steelworks

Source: S&P Capital IQ, Wood Mackenzie, Rothschild Strategic Roadmap, [illegible]
Notes: (1) SIMEC is a trading name, not a company. Relates to Onesteel Manufacturing Pty Ltd. (2) [illegible]

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Liberty Primary Metals Australia

Related party supply agreements

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There are several material related party supply agreements between LPMA and InfraBuild. It has not yet been determined if these would be considered commercial and at arms length by third parties.

Whyalla Billet Supply Agreement

- The Whyalla Billet Supply Agreement, referred to in recent related party disclosures, sets out the terms under which InfraBuild procures most of its external billet requirement
- The contract is with OneSteel Manufacturing Pty Ltd, a subsidiary of LPMA
- The Whyalla Billet Supply Agreement commenced 1 July 2019 and is set to expire 31 March 2025. It was amended in 2023 to allow Whyalla steelworks to import billet to deliver into the contract
- **Important terms**:
  - InfraBuild have a minimum 12-month purchase commitment volume;
  - Pricing is based on the FOB Black Sea price, with a premium applied for specialty products;
  - Where Whyalla imports to meet minimum requirements, costs above an equivalent parcel of Whyalla-produced billet will be treated as an advance payment, or a debt in certain circumstances
  - InfraBuild can "settle invoices early or make advance payments with agreed terms against future deliveries" without Board approval

Flat iron – Purchase and Sale Contract

- The Flat Iron – Purchase and Sale Contract is the agreement under which InfraBuild purchases flat iron from LPMA
- The agreement commenced December 2020 and has formally expired but is still being delivered into. As of 7 August 2024, it was being renegotiated
- **Important terms**:
  - Approximately A$443 per metric tonne

HRS Supply Agreement

- The Whyalla Steelworks – HRS Supply Agreement is the agreement under which InfraBuild purchases all or most of its hot rolled structural steel
- The contract is with OneSteel Manufacturing Pty Ltd, a subsidiary of LPMA
- The agreement commenced 1 July 2019 and is also set to expire 31 March 2025. As of 7 August 2024, this agreement was being renegotiated to allow LPMA to import to meet its HRS obligations under the contract, and to allow InfraBuild to import whenever LPMA fails to deliver
- **Important terms**:
  - InfraBuild has a minimum volume purchase commitment of 95% of its HRS requirements
  - Initial term of five years with an extension option

Other less material supply contracts

- Carbon – LPMA supplies 93% of total requirements nut coke and coke breeze. Agreement expired September 2024, were testing alternative supply
- Calcined Dolomite – LPMA supplies 6% of calcined dolomite requirements

Total disclosed contract values – 30 June FY end

Disclosed amounts paid to LPMA for supply[1]		FY2022	FY2023	Q3FY2023	Q3FY2024
Billet Supply Agreement	A$m	304.3	459.6	347.5	274.4
HRS Supply Agreement	A$m	228.3	208.0	154.3	142.2
Nut coke and coke breeze (carbon)	A$m	16.9	22.6	17.5	9.8
Calcined dolomite	A$m	1.4	1.8	1.5	0.5
Total of disclosed amounts	A$m	550.9	692.0	520.8	426.9

Liberty Primary Metals Australia

Financial statements

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Balance sheet – as reported

Statement of financial position (A$m)	30 June 2023	30 June 2022
Current assets		
Cash and cash equivalents	92.8	78.6
Trade and other receivables	283.4	396.1
Inventories	519.7	674.0
Other financial assets	52.4	56.7
Other current assets	14.4	10.5
Total current assets	962.7	1,215.9
Non-current assets		
Trade and other receivables	12.8	15.0
Other financial assets	25.0	-
Property, plant and equipment	805.7	928.5
Right of use assets	140.9	202.3
Mine development expenditure	567.3	228.0
Intangibles	18.3	18.2
Loans to related parties	187.8	210.7
Deferred tax assets	-	22.5
Total non-current assets	1,757.8	1,625.2
Total assets	2,720.5	2,841.1
Current liabilities		
Trade and other payables	430.6	534.8
Loans from related parties	-	3.2
Interest-bearing liabilities	-	150.3
Lease liabilities	57.5	56.5
Provisions	118.8	110.6
Total current liabilities	606.9	855.4
Non-current liabilities		
Loans from related parties	202.7	191.4
Lease liabilities	96.1	158.0
Deferred tax liabilities	20.8	-
Provisions	156.5	141.1
Total non-current liabilities	476.1	490.5
Total liabilities	1,083.0	1,345.9
Equity		
Share capital	112.0	112.0
Retained earnings	784.2	641.9
Reserves	741.3	741.3
Total equity	1,637.5	1,495.2

Income statement – as reported

Income statement (A$m)	30 June 2023	30 June 2022
Revenue	3,038.5	3,109.7
Cost of sales	(2,418.3)	(2,083.9)
Gross profit	620.2	1,025.8
Finance income	28.4	23.9
Other income	12.9	22.9
Operating expenses	(368.2)	(396.7)
Impairment reversal/(expense)	(55.5)	3.7
Finance costs	(46.6)	(55.5)
Profit before income tax	191.2	624.1
Total income tax expense	(48.9)	(189.9)
Profit for the year	142.3	434.2

Source: 2023 annual financials filed with the Australian Securities and Inves

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Appendix D: About InfraBuild

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InfraBuild

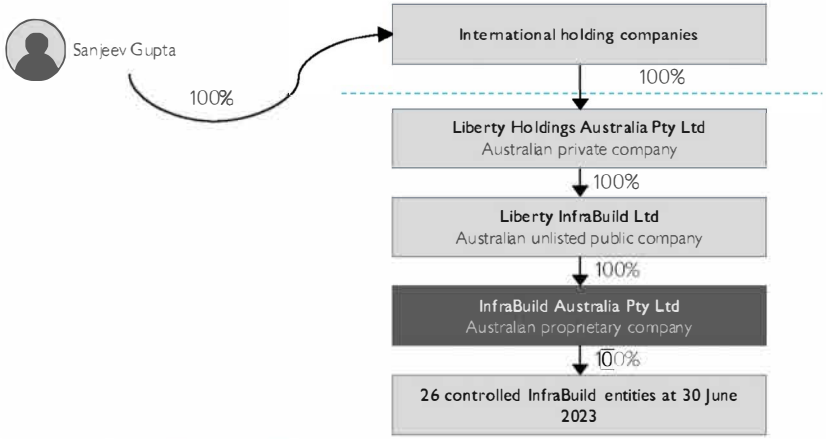
Company overview

InfraBuild, GFG's primary Australian asset, is a vertically integrated steel recycler, manufacturer and distributor – operating electric arc furnaces independent of Whyalla.

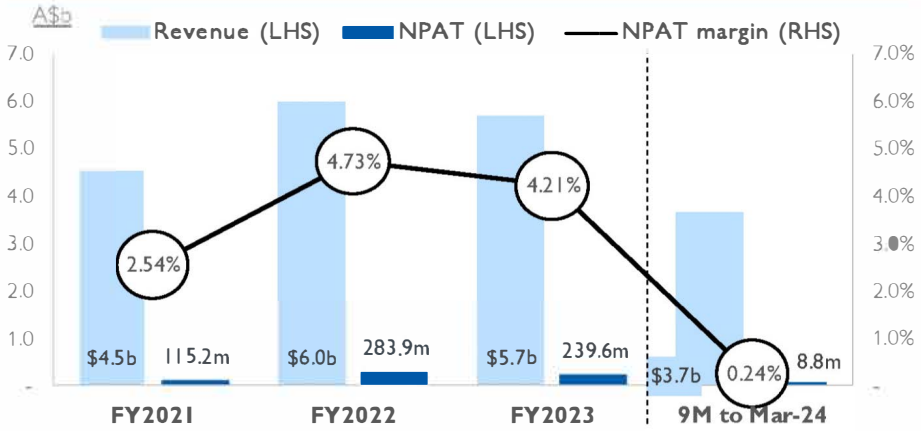
Overview

- Liberty InfraBuild Ltd ("InfraBuild") is Australia's only vertically integrated EAF steel long products manufacturer, Australia's largest distributor of steel long products and the Australian market's largest recycler of scrap metals
- GFG, the ultimate parent of InfraBuild, created InfraBuild through the purchase of the steel and mining business of Arrium Group in 2017, which was under voluntary administration. The assets were originally established as part of BHP Group over 100 years ago and demerged as OneSteel Limited and listed on the ASX
- InfraBuild primarily produces steel products for the construction markets (~80% of sales by revenue), where its key products are reinforcing bar & rod and mesh (45% and 18% of InfraBuild steel volume sold, and ~73% and ~70% market share in Australia respectively for the 12 months to Q3 2024)

Group corporate structure



Summary financial profile (A$)



Integrated business segments

A$22.2m EBITDA loss Q3 2024	55% of Group EBITDA Q3 2024	45% of Group EBITDA Q3 2024
Recycling	Manufacturing	Distribution
	Rod & Bar	Wire
	Tubular	ARC (SiC)
	Mesh	InfraBuild Reinforcing (SiC)
		Steel & Tube

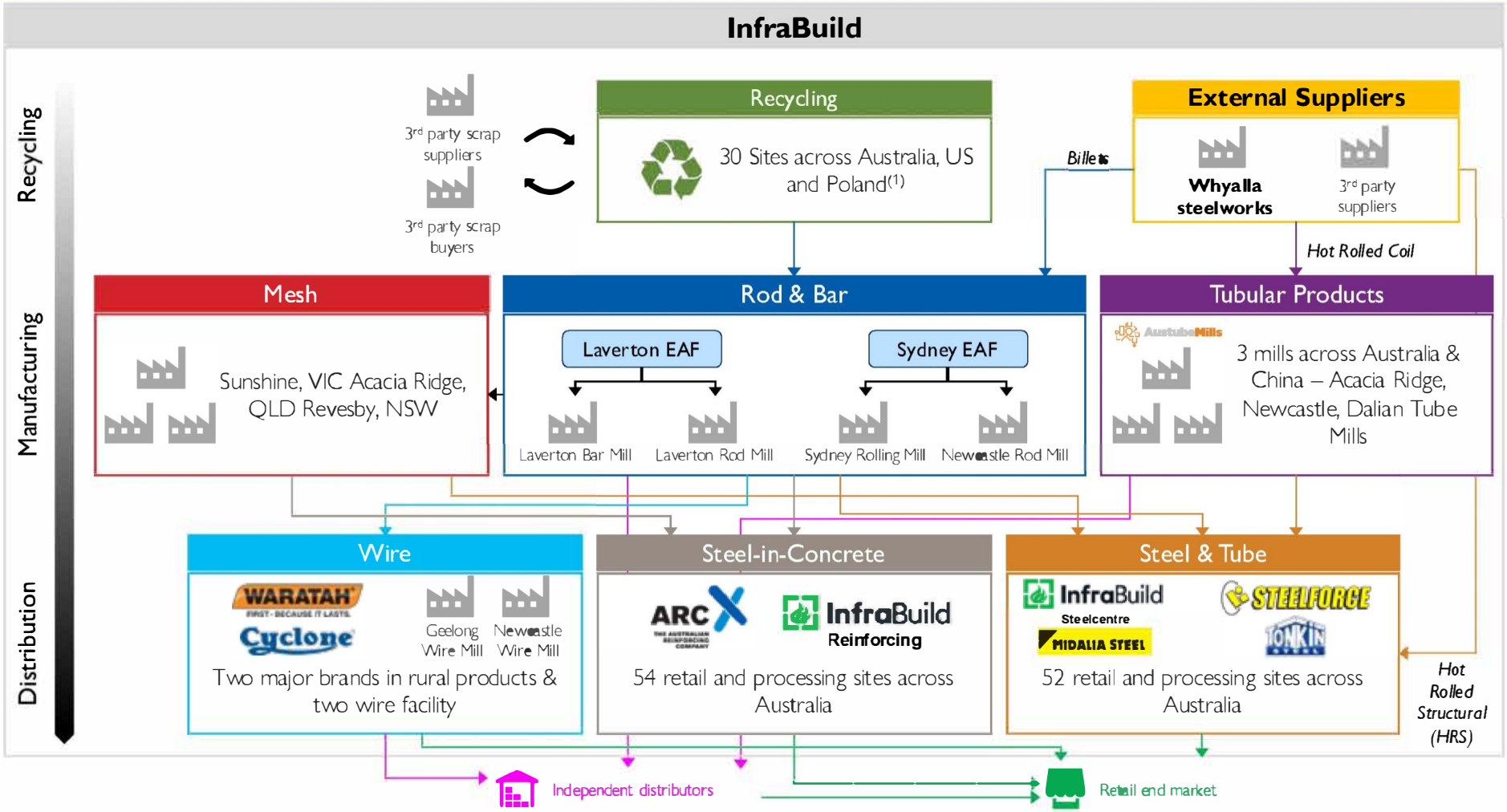
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InfraBuild

Integrated business structure

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InfraBuild's vertically integrated structure is outlined below.



InfraBuild

Segment breakdown

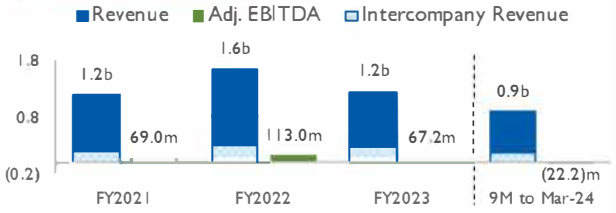
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InfraBuild has three primary segments, recycling, manufacturing, and distribution.

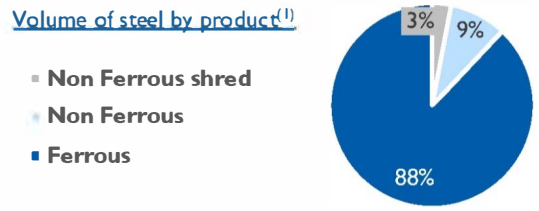
Recycling

Generates its income from collecting, recycling and trading ferrous and non-ferrous scrap in Australia and internationally. Serves two functions – to supply InfraBuild's EAFs and to generate revenue through global brokerage operations with external parties

Summary financials (A$)



Volume of steel by product[1]



Key suppliers

External Australian suppliers from a network of 26 brokerage and processing sites across NSW, VIC, QLD and SA

International external suppliers

Key customers

InfraBuild Manufacturing segment

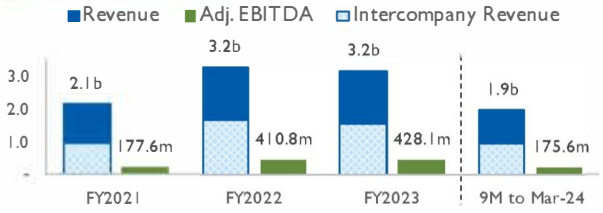
Domestic market through CFFs (inc. Whyalla)

International exports

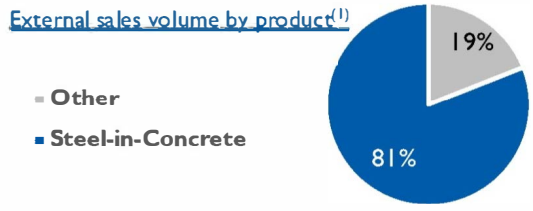
Manufacturing

Generates revenue from the sale of steel long products that it converts from steel billets, produced in the EAFs and from external suppliers (e.g. Whyalla). Split into three segments – Rod & Bar, Tubular and Mesh

Summary financials (A$)



External sales volume by product[1]



Key suppliers

InfraBuild EAFs

Whyalla

External

Key customers

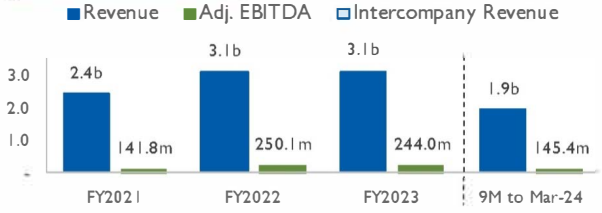
InfraBuild Distribution segment

Wholesale customers

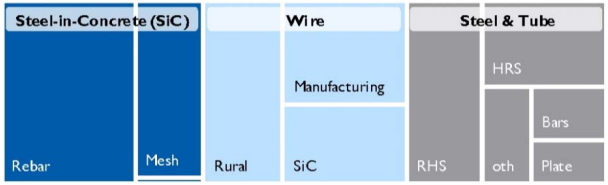
Distribution

Operates a network of 108 distribution, retail and processing sites across Australia, servicing a customer base of over 17,655 active customers in the wholesale and retail channels. Sells both internally-manufactured and 3rd party products

Summary financials (A$)



Sales volume by business unit and product group[1]



Key suppliers

InfraBuild Manufacturing segment

3rd party products

Key customers

Retail customers

Wholesale customers

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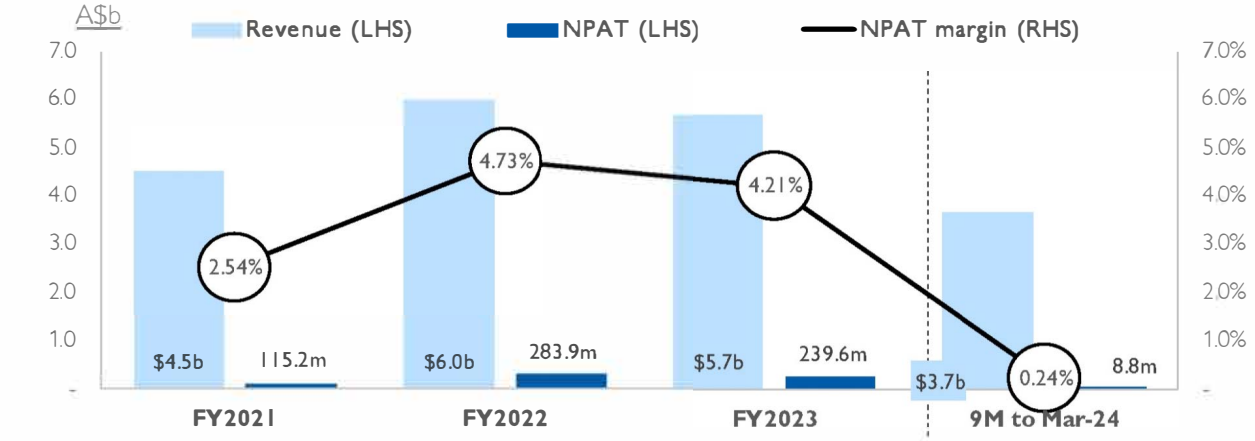
InfraBuild

Financial performance

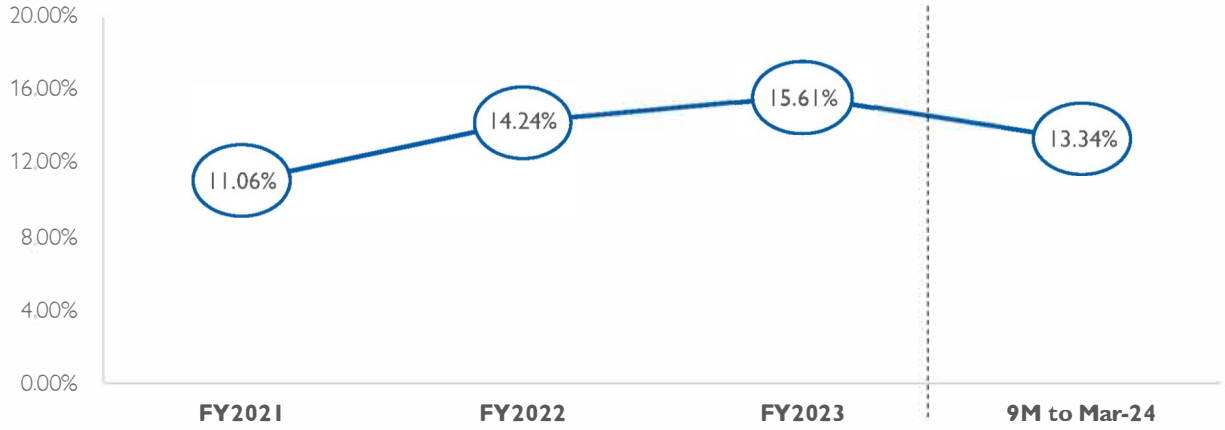
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Historically, InfraBuild's financial performance has been strong. However, the 9 months to March 2024 showed a downturn in earnings.

Revenue & NPAT over time (A$)



Gross profit margin over time



Key takeaways

- InfraBuild has historically been very profitable, recording NPAT of A$239.6m in FY2023
- However, the 9 months to March 2024 outline a downward trend in its profitability
- NPAT margin has deteriorated from 4.21% to 0.24% whilst gross profit margin remains healthy, increasing from 11.06% to 13.34%, from FY2021 to the 9 months to March 2024 respectively
- The aforementioned can largely be attributed to increasing overheads (from A$309m in FY2021 to A$386m in the 9 months to March 2024) and debt servicing, with financing outflows increasing from A$17.9m to A$76.2m over the same period
- The underlying business remains profitable and operating cash flow generative, although weighed down by an underperforming Recycling segment
- A downturn in the broader market and increased cost of borrowing (highlighted by the recent bond issuance priced at ~14.5% yield) due to governance risks have been the major drivers for the downturn in profitability

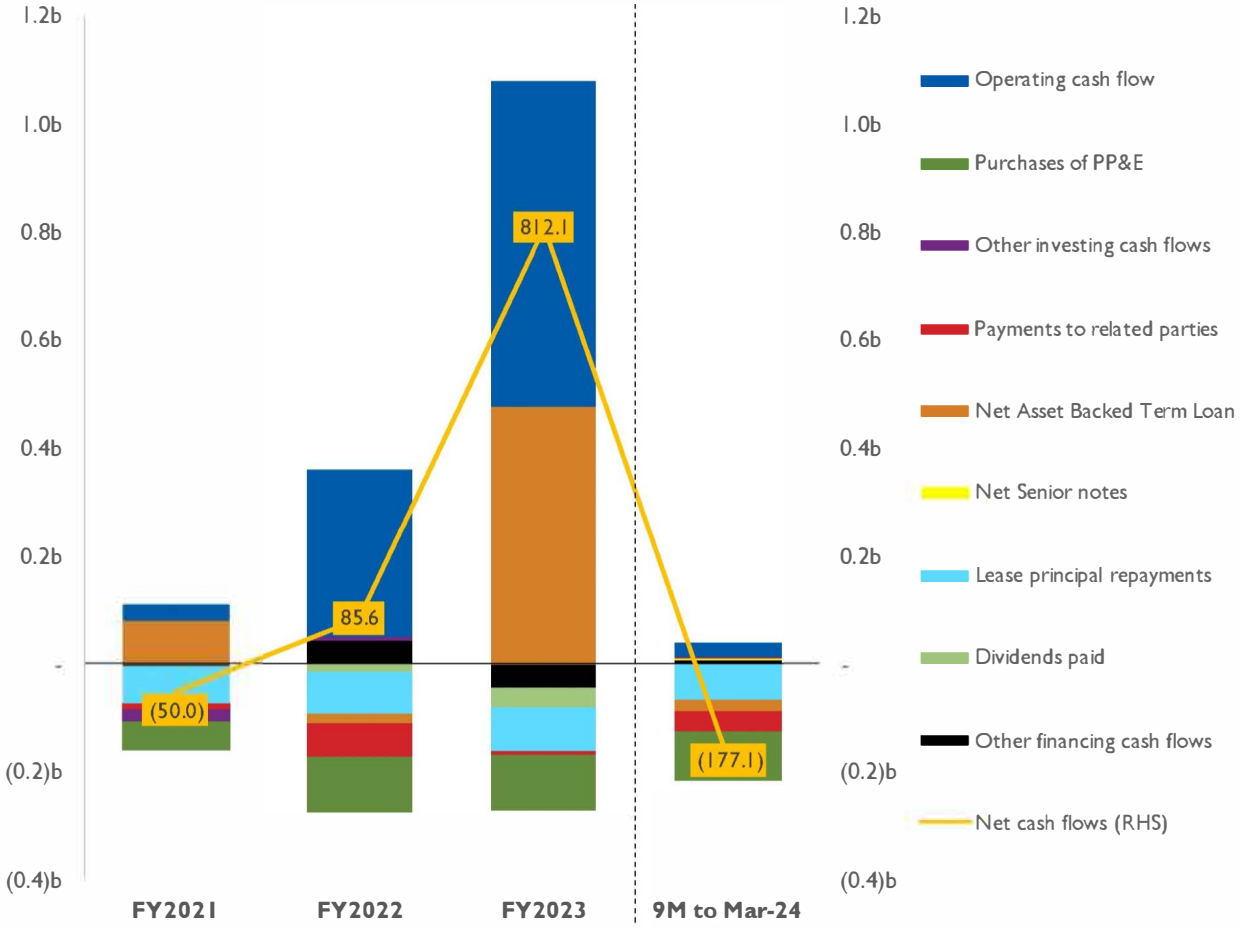
InfraBuild

Cash flow build-up

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While cash flow negative, InfraBuild remains cash flow generative at an operating cash flow line – increasing financing costs due to governance risks, and broader market dynamics have been weighing on financial performance.

Cash flow build-up (A$)



Key takeaways

- InfraBuild completed the issuance of an additional aggregate of US$350m of senior secured notes due for repayment in 2028, priced at 14.5% yield
- The recent issuance took the total aggregate principal amount of the notes to US$550m
- InfraBuild has been operating cash flow generative from FY2021 through the 9 months to March 2024, however debt servicing and investment have largely weighed on cash flows in the latter period
- Purchases of property, plant and equipment for the 9 months to March 2024 totalled A$92.7m, whilst total financing cash outflows totalled A$76.2m over the same period
- With the backdrop of a broader market downturn (expected to be limited to the short-term), InfraBuild remains a valuable business which is currently subject to unfavourable conditions due to governance risks

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InfraBuild

Facilities overview (1/2)

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InfraBuild has facilities across New South Wales and Victoria, with capability in long steel, rod & bar, tubular, and mesh manufacturing.

Rod & Bar manufacturing unit - Australian facilities						
Facility	Nameplate (ktpa)	Run-rate (FY23 ktpa)	Utilised (FY23 ktpa)	Whyalla supply	Inputs	Outputs
Laverton EAF	784	779	725	-	- 50% Ferrous scrap (Recycling segment) - 44% Ferrous scrap from external suppliers (inc. Sims) - 6% Ferrous scrap internally generated and reused	- 150mm square billet
Sydney EAF	656	568	582	-	- 4.7% Ferrous scrap internally generated and reused - 95.3% Ferrous scrap sourced through CFF Supply Agreement	- 130mm square billet
Newcastle Rod Mill	800	679	581	76%	- 24% billet from Sydney EAF - 76% billet from Liberty Primary Steel (Whyalla)	- Rod for mesh - Wire feed - Reinforcing bar coil - High carbon rods
Laverton Rod Mill	499	391	383	11%	- 89% billet from Laverton EAF - 11% billet from Liberty Primary Steel (Whyalla)	- Rod for mesh - Wire feed - Reinforcing bar coil
Laverton Bar Mill	497	439	349	-	- 100% billet from Laverton EAF	- Reinforcing bar - Large angles - Channels
Sydney Rolling Mill	470	465	427	3%	- 97% billet from Sydney EAF - 3% billet from Liberty Primary Steel (Whyalla)	- Reinforcing bar - Formwork bar - Equal and unequal angles - Flats - Engineering rounds - Square bar - Strata support products
Total	3,706	3,321	3,047	16%		

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InfraBuild

Facilities overview (2/2)

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InfraBuild has facilities across New South Wales and Victoria, with capability in long steel, rod & bar, tubular, and mesh manufacturing.

Tubular manufacturing unit

Facility	Nameplate (ktpa)	Run-rate (FY23 ktpa)	Utilised (FY23 ktpa)	Whyalla supply	Inputs	Outputs
Newcastle ATM	258	109	101	unknown	- Coil feed stock almost all externally sourced (unknown suppliers)	- Various hollow sections - Rail and silo tube
Acacia Ridge ATM	155	92	68	unknown	- Coil feed stock almost all externally sourced (unknown suppliers)	- Various hollow sections - Pipe - Rail and silo tube
Dalian Steelforce	84	47	33	unknown	- Coil feed stock almost all externally sourced (unknown suppliers)	- Various hollow sections - Pipe - Rail and silo tube
Total	**497**	**248**	**202**	-		

Mesh manufacturing unit

Facility	Nameplate (ktpa)	Run-rate (FY23 ktpa)	Utilised (FY23 ktpa)	Whyalla supply	Inputs	Outputs
Revesby Mesh	153	100	87	-	- Rod/wire feedstock almost all sourced from internal sources	- Various sizes of reinforcing mesh and mine mesh
Acacia Ridge Mesh	90	62	55	-	- Rod/wire feedstock almost all sourced from internal sources	- Various sizes of reinforcing mesh
Sunshine Mesh	264	140	125	-	- Rod/wire feedstock almost all sourced from internal sources	- Various sizes of reinforcing mesh
Total	**507**	**302**	**267**	-		

InfraBuild

Material sales contracts

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InfraBuild provides steel products for major public and private construction and infrastructure projects – with a large volume of Steel-in-Concrete produced for construction.

Project/company	Name	Contract start	Completion	Supply	Value
WEST GATE TUNNEL PROJECT	Melbourne West Gate Tunnel	21 December 2018	Project completion (expected ~2025)	▪ 95kt manufactured steel products & steel reinforced bar	Not disclosed
METROTUNNEL	Melbourne Metro Rail	12 September 2019	Project completion (expected ~2025)	▪ 27kt processed bar ▪ 18kt mill direct stock bar	A$60m
METRONET	Stage 1: Yanchep Road extension & Thornlie-Cockburn link	February 2021	October 2024	▪ 25kt reinforcing steel products	A$60m
sydney METRO	Eastern Tunnelling Project	13 March 2024	December 2025	▪ 8.7kt reinforcing steel products	A$18m
sydney METRO	Western Tunnelling Project	1 March 2024	June 2025	▪ 7kt reinforcing steel products	A$15m
NORTH EAST LINK	Primary Package (Tunnels)	30 January 2024	Project completion (expected ~2029)	▪ 51kt reinforcing bar	A$100m
JOHN HOLLAND	M7-M12 Integration supply	Mid 2024	2026 / 2027	▪ 14kt bar and mesh product	A$30m
dexus	Waterfront Brisbane	August 2024	July 2027	▪ 18kt processed reinforcement & mesh product	A$45m

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Appendix E: Industry and macroeconomic drivers

Macroeconomic environment

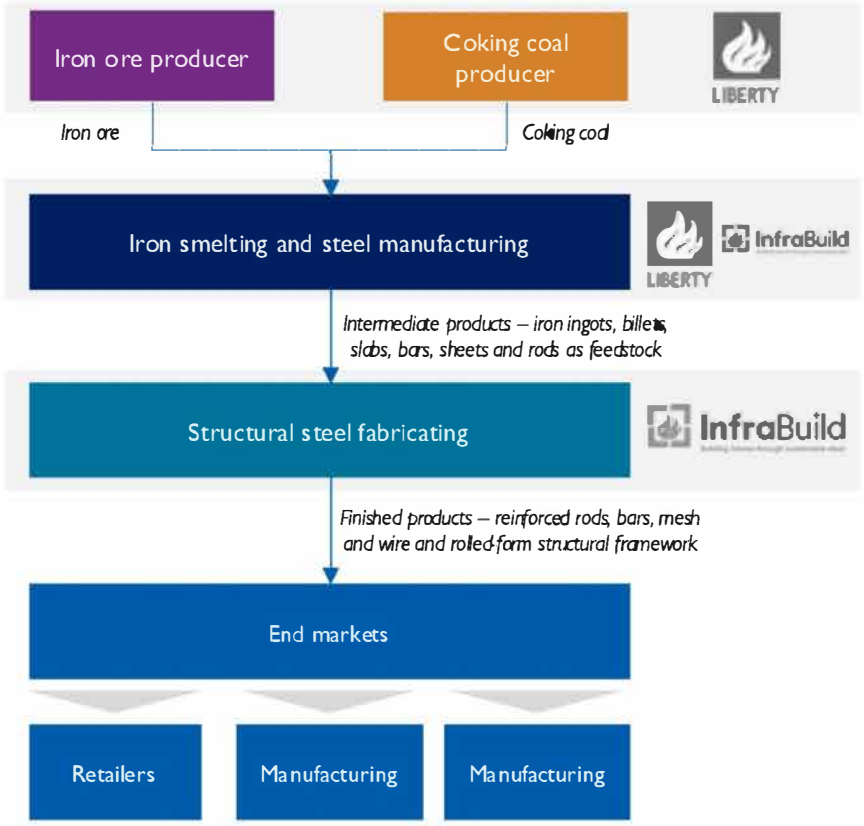
Australian steelworks industry

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Australian steelworks is a A$28bn industry comprised of several subset industries including iron smelting and steel manufacturing and structural steel fabricating.

Overview of the Australian steelworks industry

Operational flowchart *GFG involvement*



I Iron smelting and steel manufacturing in Australia

The Australian iron smelting and steel manufacturing industry comprises players who:

- manufacture refined iron ore into basic products such as iron ingots, billets and slabs
- convert steel into primary shapes such as sheets, bars and rods
- produce carbon and stainless steel

II Structural steel fabricating in Australia

The structural steel fabricating industry comprises players structural steel components that are used in buildings and other structures. Some manufacture include:

- reinforcing rods and bars
- reinforcing mesh and wire
- rolled-formed structural framework

Source: IBISWorld: Iron Smelting and Steel Manufacturing in Australia, IBIS

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Macroeconomic environment

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1 Australian steelworks: Iron smelting and steel manufacturing

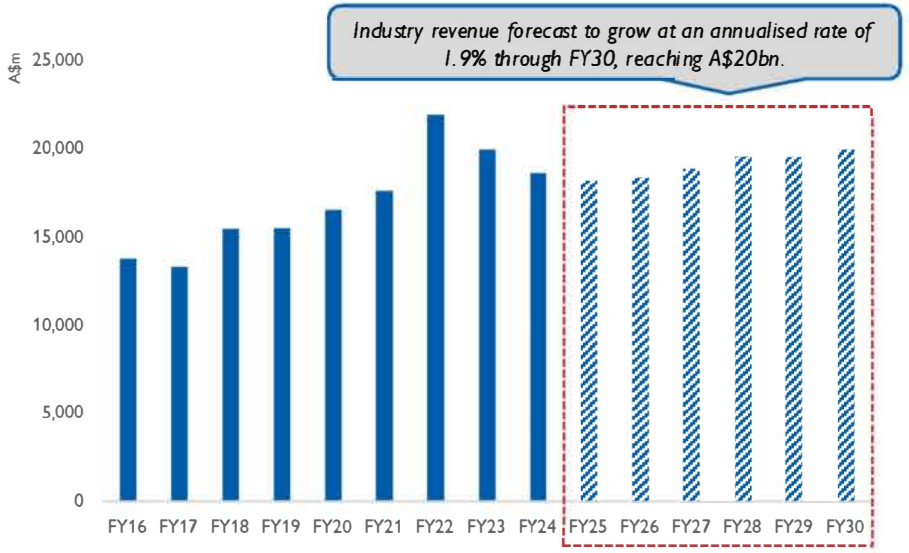
Iron smelting and steel manufacturing is a subset of Australian steelworks and is an A$18bn industry, dominated by a few major players. Industry growth is driven by demand from end industry, import competition, exchange rates and commodity prices.

Overview – industry size

A$18bn
FY25 Revenue

17,240
FY25 Employees

A$2.6bn
FY25 Wages



Major players

BlueScope

InfraBuild

LIBERTY

Industry drivers

Demand from end industries	▪ The industry is highly dependent on the demand from downstream industries such as the structural steel fabricating which in turn is dependent on demand from end industries, mainly construction ▪ Construction is commonly split into engineering, residential and non-residential construction ▪ See page 52 for more information
Import competition	▪ Alternative supply can be sourced internationally from countries like China and India which can be cheaper due to lower production costs ▪ Despite lower costs of imports, concerns around quality reliability and lead times exists
Exchange rate	▪ As the Australian dollar depreciates against the US dollar, imports become relatively more expensive, increasing the demand for locally produced steel ▪ See page 54 for more information
Iron ore prices	▪ A key input in the manufacturing process of steel ▪ As a result, industry performance is directly correlated to these commodity prices ▪ See page 53 for more information
Coking coal prices	
Structural steel prices	▪ The world price of steel directly impacts the competitiveness of domestic steel producers ▪ Higher world steel prices means imported steel is more expensive, raising domestic demand local produced steel

Source: IBISWorld: Iron Smelting and Steel Manufacturing in Australia

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II Australian steelworks: Structural steel fabricating in Australia

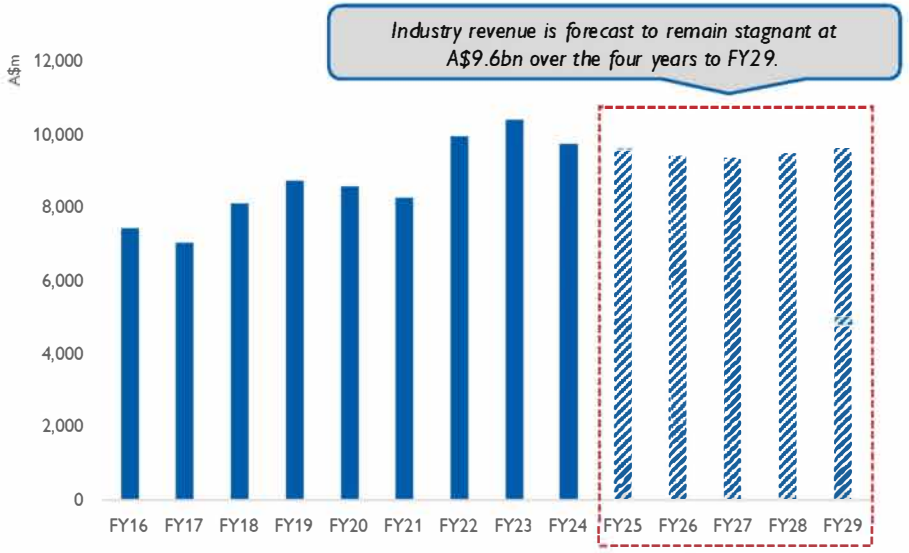
Structural steel fabricating is a subset of Australian steelworks and is a $9.6bn industry. Industry growth is driven largely by demand from end industries, import competition, substitute products and input cost fluctuations.

Overview – industry size

A$9.6bn
FY25 Revenue

20,554
FY25 Employees

A$1.7bn
FY25 Wages



Major players

BlueScope

InfraBuild

CIMIC

Industry drivers

Demand from end industries	▪ As the structural steel fabrication industry is predominantly involved in the production of finished building materials, impacts from demand fluctuations end industries are magnified – Residential and non-residential construction – Engineering construction – Other – mining, agriculture etc. ▪ See page 52 for more information
Import competition	▪ Alternative supply can be sourced internationally from countries like China and India which can be cheaper due to lower production costs ▪ Despite lower costs of imports, concerns around quality and reliability exists ▪ The exchange rate also impacts the level of import competition – see page 54
Substitute products	▪ The industry remains exposed to substitution by alternative materials such as aluminium, concrete, composites plastic and fabricated timber ▪ Steel is superior to many of its alternatives but can be substituted in situations where its full range of benefits isn't needed
Cost fluctuations	▪ As the structural steel fabricating industry is dependent on feedstock of billets, ingots, sheets, bars and other intermediate products, prices of inputs such as iron ore and coal are highly correlated to industry performance

Source: IBISWorld: Structural Steel Fabricating in Australia

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Macroeconomic environment

End industry demand: Construction

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The construction industry, comprising engineering, residential, and non-residential sectors, is the largest end customer of the Australian steelworks industry. Fluctuations in demand greatly impact the financial performance of Australian steelworks.

Construction industry

- Australia's construction industry is one of the largest growth sectors in the national economy, representing approximately A$259b of construction work completed in Q32024 LTM
- Materials commonly used include construction steel, concrete and aggregate products, flat metal, plastic and metal pipes and structural timber
- Historically, the three construction end markets which require construction steel have risen and fallen at different times
  - This diversification of market cycles provides a degree of stability for the industry

Engineering

- The engineering construction end market refers to construction work undertaken as part of major public and private infrastructure projects (roads, railways, bridges etc)
- Industry revenue forecast to increase from A$79bn in FY23 to A$89bn by FY28 representing a CAGR of 2.3%
- Key drivers of the anticipated future growth of the industry, is the large pipeline of major funded private and public infrastructure projects to support expected population growth
  - In its 24/25 budget, the Federal Government committed to >A$64.5bn of transportation and communication infrastructure spending over the next four years

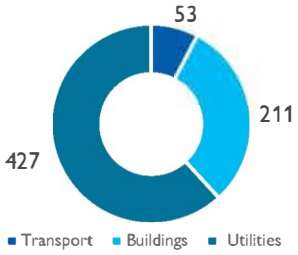
Residential

- The residential construction industry refers to expenditure relating to the construction of residential houses, units and townhouses
- Home commencements are expected to increase from ~172,000 in FY23 to ~258,000 by FY28, a CAGR of 8.4%
- Industry activity is supported by fundamentals in expected net migration into the country. Australia has one of the fastest growing populations in the developed world, and is expected to continue to grow at a CAGR of 1.5% from CY22 through to CY28
- The level of sustained population growth requires new housing infrastructure expenditure to expand the capacity and efficiency of Australia's infrastructure network

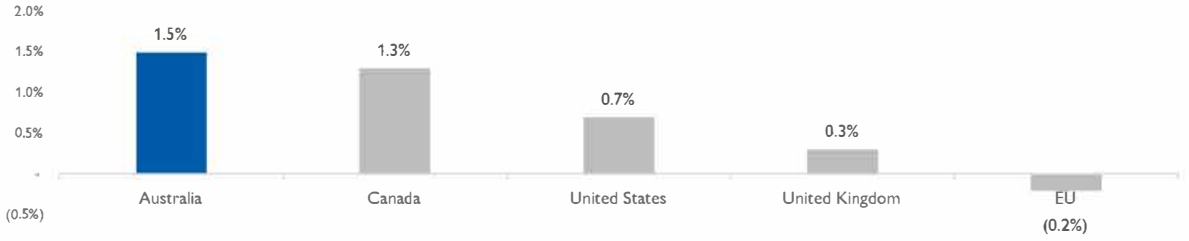
Non-residential

- The non-residential construction industry comprises a range of sub-sectors including office, education, retail, health and aged care, industrials and entertainment related construction
- Industry revenue is expected to increase from ~A$53bn in FY2023 to an estimated A$63bn by FY2028
- In recent years, growth has persisted across multiple industries. Key drivers include:
  - suburban offices: growth in white collar jobs from increased population growth
  - education: increase in foreign student migration
  - hotels: recovering tourism post-COVID

FY23 - FY28: Public infrastructure expenditure (A$b)



Population CAGR (2022 - 2028)



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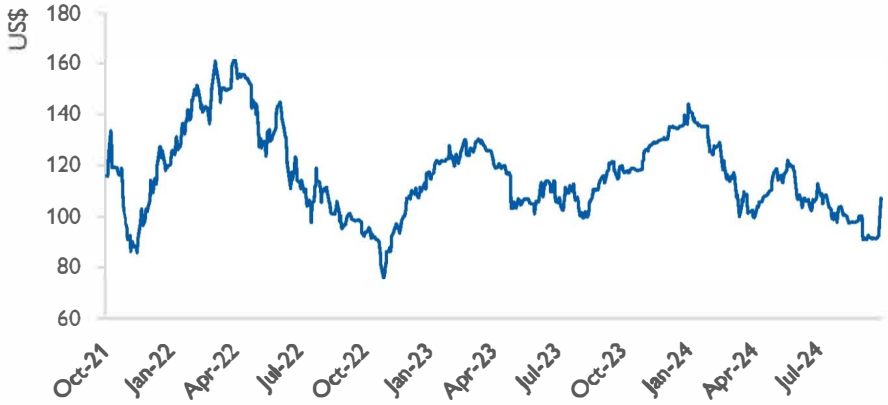
Macroeconomic environment

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Commodity inputs – Iron ore and metallurgical coal

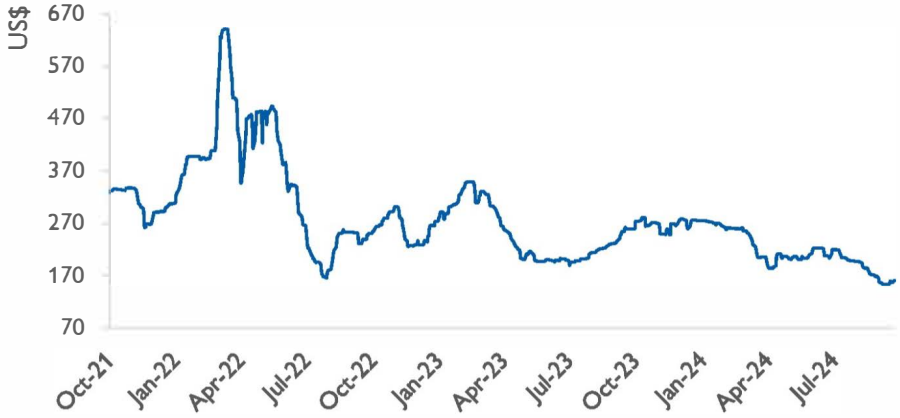
Iron ore and metallurgical coal prices, key inputs in the production of steel at Whyalla, have decreased significantly from 3-year highs.

Iron ore price – S&P Platts 62%Fe



- Iron ore is a key input that impacts the competitiveness of the operation in OneSteel Manufacturing / Whyalla steelworks as such, fluctuations in the commodity price directly
- As iron ore prices rise, the cost of manufacturing steel rises increases
- Historically, Middleback Ranges, the iron ore operations of Liberty Primary Metals Australia, has kept the group afloat through greater revenues realised through exports
- With the hematite resource almost completely depleted, the Group becomes more sensitive to price rises as it is unable to profit from higher prices
- The price of iron ore has decreased from a high of ~US$160/t in 2022

Metallurgical coal price – TSI Hard Coking Coal Australia Export FOB East Coast Port



- Metallurgical coal is a critical input for steelmaking at facilities which use blast furnaces, like Whyalla steelworks
- The price of coal has decreased significantly from a high of ~US$880/t in March 2022 to now. Coal price is at its lowest point in the last 3 years of ~$US235/t
- The Group benefits from a higher coal price through increased export revenues from its Tahmoor Coal mines
- The performance of Whyalla steelworks is directly influenced by fluctuations in coal prices
- The net group exposure to coal prices is unclear

Source: S&P Capital IQ
Market data as at 4 October 2024

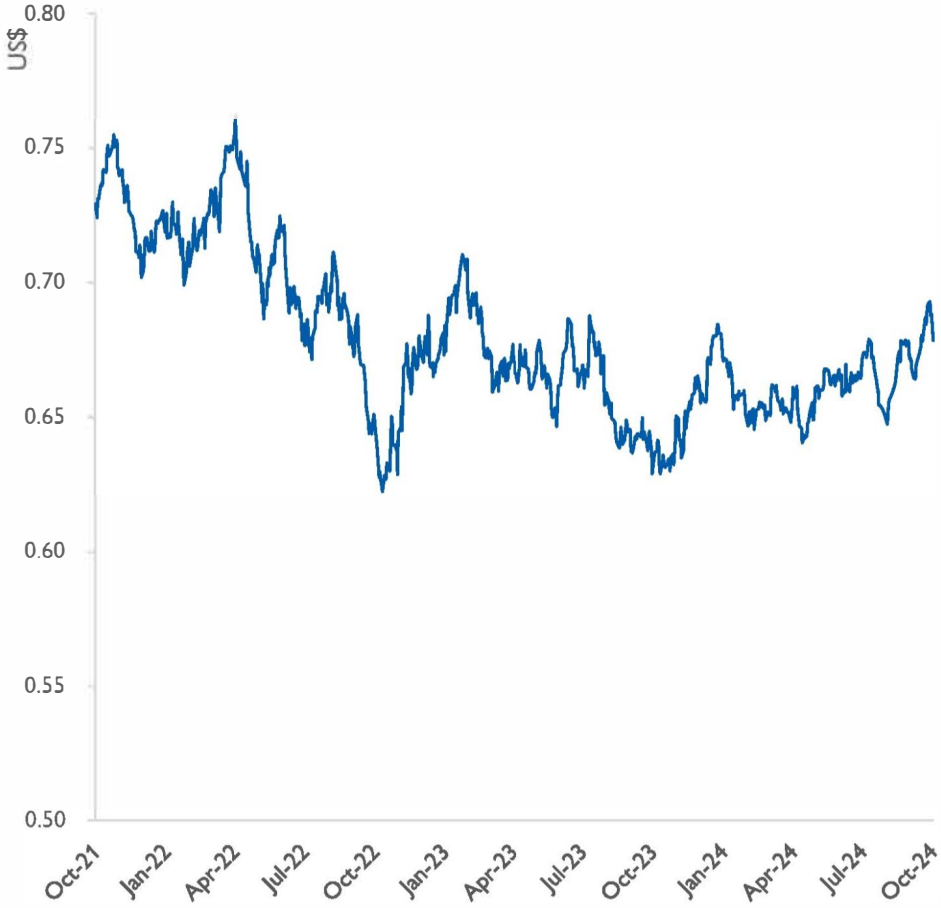
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Macroeconomic environment

AUD:USD

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Historical analysis of the exchange rate between the Australian dollar and US dollar.



Commentary

- The Australian dollar has weakened against the US dollar in the last three years
  - High: US$0.76 in April 2022
  - Low: US$0.62 in October 2022
  - Current: US$0.68
- The exchange rate between the Australian dollar and the US dollar has a direct correlation to the amount of import competition of Whyalla's intermediate structural steel products
- As the Australian dollar weakens against the US dollar, the relative cost of imported competing products increases, enhancing the competitive position of Whyalla's offering

Source: S&P Capital IQ
Market data as at 4 October 2024

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Macroeconomic environment

Upper Spencer Gulf green steel tailwinds

Stakeholders at all levels – from corporate entities within GFG to the South Australian and Federal Governments – have announced commitments to support the development of a green steel supply chain in South Australia.

Growing supply and demand-side support for green steel

- Currently, iron and steel manufacturing is the most carbon intensive industry in the world
- Demand for green steel is forecast to surge over the short and long term as the world seeks to decarbonise(1)
- The federal and state governments, and private companies have announced plans to support the transition of steelmaking infrastructure in the Upper Spencer Gulf to green energy production facilities
- The SA Govt. predict that once viability of green hydrogen has been realised and integrated with the steelworks, there is potential to produce up to 1.5 million tonnes of green steel per annum – a 50% increase in production capacity, supporting over 2,500 jobs

Key enablers of the transition to green steel

1. **Secure supply of magnetite iron ore** – SA has ~18.8b tonnes of magnetite resources
2. **Installation of a Direct Reduction Iron (DRI) plant**
   - Whyalla to transition from traditional blast furnaces powered by metallurgical coal to a low-carbon EAF
3. **Access to a clean fuel source** that replaces metallurgical coal e.g. green hydrogen

Recent commitments supporting the Upper Spencer Gulf

Federal Government – Future Made in Australia 2024

- Streamlining approvals and foreign investment: **A$170.6m**
- Support of the commercialisation of critical net-zero technology: **A$4.9b**
- Production incentives: **A$2 / kg** of renewable hydrogen produced

South Australian Government – State Prosperity Project

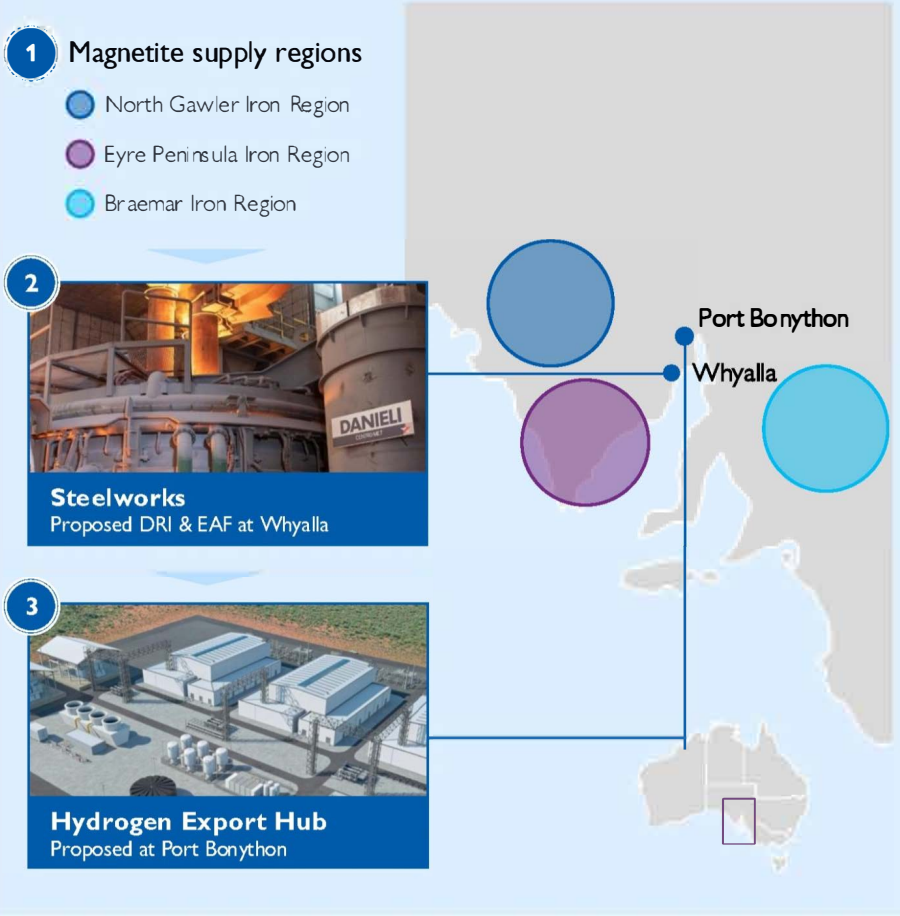
- Commitment to develop infrastructure of Port Bonython Hydrogen Export Hub: **A$100m**

GFG Alliance – Liberty Primary Metals Australia

- Commitment to electric arc furnace: **A$485m** *(note total announced cost of EAF varies)*
  - Supply contract with Danieli has not materialised

The Upper Spencer Gulf's green steel transition

Existing & proposed green steel supply chain infrastructure



Source: SA Govt – Energy and Mining; Magnetite South Australia, SA Govt – Australia: Future Made in Australia Bill 2024, GFG company announcement – April 2023

Notes: (1) According to SA Govt – State Prosperity Project, Parliament of Australia: Future Made in Australia

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DEPARTMENT OF INDUSTRY, SCIENCE AND RESOURCES

MS24-001440

To: Minister for Industry and Science (For Decision)

WHYALLA STEELWORKS SUBMISSION: EXPOSURE DRAFT

Timing: Urgent. Timely release of the submission for Exposure Draft comments by **21 October** will ensure the submission can be lodged for the s 34 ERC.

Recommendations:

s 34

Minister: Date:

Comments:

Clearing Officer:	Tara Oliver	Head of Division, Industry & Manufacturing	Ph: s 22 Mob: s 22
Contact Officer:	James Flick	General Manager, Industry Policy	Ph: s 22 Mob: s 22
For Parliamentary Services' use only. Date Submitted to the Minister's office in PDMS:			21/10/2024

Key Points:

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Data referenced:

8. The submission references a wide range of data, which has largely been compiled by Analysis and Insights Division; drawn from the SA Government; and prepared by our commercial advisors, Poynton Stavrianou.

Consultation: YES

9. South Australian Government.

10. Prime Minister and Cabinet (including NZEA), Treasury, Department of Finance, Department of Foreign Affairs and Trade, Department of Employment and Workplace Relations, Department of Climate Change, Energy, the Environment and Water, Department of Infrastructure, Transport, Regional Development, Communications and the Arts, Export Finance Australia.

11. DISR: Minerals and Resources, Analysis and Insights, Supply Chains and Sovereign Capability, AusIndustry, Strategic Policy, Chief Counsel and Integrity.

ATTACHMENTS

A: Whyalla Steelworks – Further Consideration

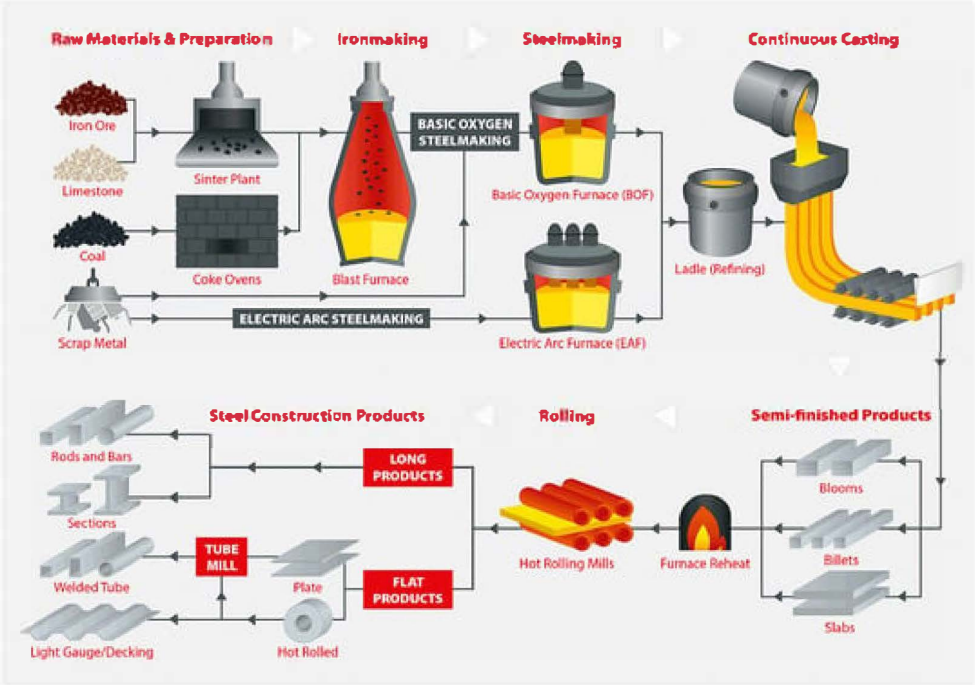
Attachments to Submission:
A1: Whyalla Steelworks Background
A2: Poynton Stavrianou Report
A3: s 34
A4: Path to Modernisation
[A5: *Negotiating mandate and approach to potential pathways - Not provided for Exposure Draft]*

Attachment A1

Background: Steelmaking and the Whyalla Steelworks

Steelmaking 101

- Steel is an alloy of iron and carbon. The primary production of steel requires the transformation of iron ore into iron, and then iron into steel.
    - Steel is also produced from recycled steel. Steel scrap is sourced from steel mills, manufacturers, and other commercial and household waste.
- The traditional, highly emissions intensive method of steelmaking combines the production of iron and steel in an integrated steelworks ('steel mill'). These sites commonly feature a blast furnace, blast oxygen furnace, and rolling mill.
- The blast furnace heats purified coal ('coke'), limestone, and iron ore to produce molten pig iron. Oxygen is blown over the liquid iron to produce liquid steel, which is casted into solid form and rolled into finished shapes.



Australian Steel Industry

- Australia generates less than 1% of global steel production. DISR Resources & Energy Quarterly June 2024 analysis finds that most steel consumed in Australia is produced domestically. In 2023 Australian steelworks produced 5.5Mt and imported 2Mt crude steel equivalent.
- Australia is the largest global producer and exporter of iron ore. China is the largest importer of iron ore, accounting for 76% of global imports according to the REQ June 2024.
- The dominant iron ore mined and produced in Australia is hematite ore in the Pilbara. However, Australia also has large reserves of magnetite ore, including in South Australia.

- Expansion of magnetite ore production in South Australia is an underpinning objective of the SA Government's Green Iron and Steel Strategy, announced in June 2024.

Green Steelmaking

- Green steelmaking aims to produce steel with reduced or zero emissions, using an electric arc furnace (EAF).
  - EAF is a furnace that heats material by means of an electric arc.
  - EAF commonly rely on scrap steel as feedstock to produce new steel products.
- Green steel is produced when green hydrogen is used to reduce the iron and renewables are used to power an EAF.
  - In green steelmaking, iron ore is 'reduced' into Direct Reduced Iron with the aid of a reducing gas. Oxygen is added to the molten iron in an EAF to produce steel.
- Traditional steelmaking using a blast furnace is compatible with iron derived from both hematite and magnetite iron ore. However, green steelmaking using an electric arc furnace can only use iron derived from magnetite ore, due to the impurities present in hematite ore.

Whyalla Steelworks is owned by Liberty Primary Metals Australia (LPMA), a subsidiary of Gupta Family Group (GFG) Alliance.

- LPMA includes OneSteel Manufacturing (which owns the Whyalla Steelworks and nearby Middleback Ranges Iron Ore Mines), the Whyalla Port, and coal assets (Tahmoor Coal and Bargo Colleries).
- Australian GFG assets outside LPMA include InfraBuild, Liberty Bell Bay manganese smelter (Tasmania), and Ferretti International (steel fabricator in Whyalla).

There are growing concerns about the financial viability of LPMA and the Steelworks. There is a strong likelihood that LPMA will fully or partially shut down and/or scale back operations at the Steelworks, with a possibility that the entity (LPMA or OneSteel) will enter into voluntary administration and/or close operations in the near term.

GFG and the Whyalla Steelworks

Whyalla Steelworks was purchased by GFG in 2017 after Arrium entered voluntary administration in 2016.

In 2019 GFG divided its Australian assets associated with the Whyalla Steelworks to establish InfraBuild – a vertically integrated steel manufacturer spanning scrap metal recycling, steel manufacturing and downstream distribution, which is now a significant secured creditor to LPMA. InfraBuild is structurally separate from LPMA but is the largest GFG group entity in Australia.

- InfraBuild consists of the Laverton Steel Mill (VIC), the Sydney Steel Mill, the Newcastle Rod and Wire Mills (NSW) and a national network of steel recycling and distribution businesses.

GFG has been improving the legal and financial position of its other Australian assets away from the Steelworks in recent years. In addition to separating InfraBuild from LPMA, GFG

has attempted to separate the iron ore mines from the Steelworks, registered security interests in respect of related party loans to the Steelworks, and released guarantees provided by other entities to the Steelworks.

Structural and operational pressures

Whyalla Steelworks' technology is old, poorly maintained and structurally uncompetitive. There has been no substantial capex to modernise or improve since GFG purchased it from administration in 2017. Poynton Stavriano report that in 2020, PWC had identified three necessary upgrades required as part of GFG's Whyalla Transformation Plan, each costing more than US$500 million. To date, none of these upgrades have been substantially progressed.

The Whyalla Steelworks system uses an integrated blast furnace, blast oxygen furnace, and rolling mill. Coal to fire the blast furnace is sourced from GFG's coal assets, and magnetite iron ore feedstock is sourced from GFG's Middleback Ranges iron ore mines.

The Steelworks has long been a high-cost steel business relative to global cost curves. GFG owner Sanjeev Gupta claims that the Steelworks has lost $1.312 billion since 2017. LPMA's mining and coal operations are profitable and have historically subsidised the Steelworks.

The Whyalla Steelworks is unusual in that the blast furnace is supplied with magnetite iron ore from LPMA's South Middleback Ranges iron ore mines, rather than hematite ore. Magnetite ore is more expensive to process.

GFG has announced plans to transition the steelworks to low carbon production ('green steelmaking'). This involves transitioning from blast furnace steelmaking to electric arc furnace, with coal being replaced by natural gas, and eventually by hydrogen.

- GFG is unlikely to be able to fund the transition to green steel, despite funding commitments from the Commonwealth and State Governments.

Legal and financial pressures

GFG has purchased a suite of distressed metals businesses around the world, with limited success in turning a profit. Several of GFG's European steelworks have been placed into liquidation and entered insolvency proceedings in recent years.

GFG and its Executive Chair and shareholder, Sanjeev Gupta, face significant legal, regulatory and financial pressures internationally. This includes fraud and money laundering investigations in the UK and France, and a recent prosecution by the UK's business register for failing to file accounts.

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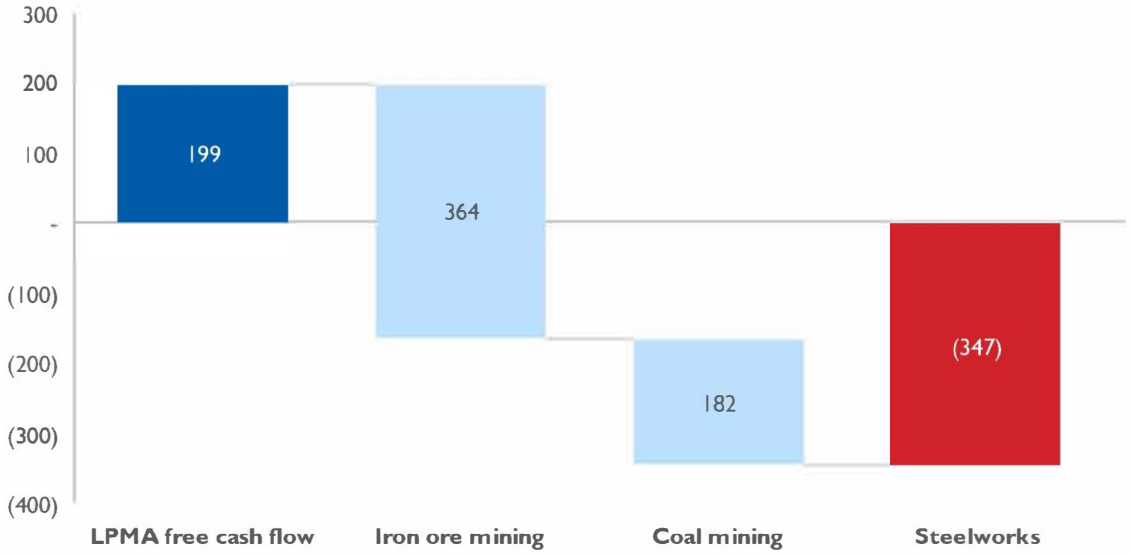
Current situation

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Profitability of the Whyalla group has reduced

It is reported that Whyalla steelworks is operating at approximately a A$1m cash loss per day, this is in line with our high-level, indicative analysis which suggests the iron ore and coal divisions remain profitable and subsidising the steelworks.

Estimated Whyalla FY23 cash flow including capex and financing (A$m) – Illustrative only



Key takeaways

- LPMA was highly cash flow generative through FY2023, believed to be supported by the performance of the iron ore and/or coal mining operations
- It is understood that Whyalla steelworks operates at a cash flow deficit of approximately A$1m per day
- Based on limited public information regarding LPMA's financials, and unavailable segment-specific financials, we have undertaken highly indicative analysis to understand the cash flow contribution of each of the segments of LPMA
- Our high-level analysis indicates a cash flow contribution of an A$347m loss from the steelworks segment – this is in line with the understanding of an approximate A$1m loss per day
- The illustrative analysis also highlights the profitability of the iron ore and coal mining operations, indicating that there may be value left in those assets
- However, this high-level analysis is based on limited public information and should not be used to form a definitive view on valuation
- The following page considers the company economics in greater detail, including the short-run and long-run costs

Assumptions

Iron ore segment

- 2022 SIMEC[1] reporting indicates that a total of ~10.3Mt of ore was processed in 2022, predominantly from the South Middleback Ranges (SMR, 8.2Mt) and supplemented by Iron Knob (0.6Mt) and Iron Baron (1.5Mt) – we have assumed a conservative 8Mt ore processed for 2023, decreased as SMR progresses towards end of life
- We have assumed a conservative US$30/t cash margin on iron ore sold, in line with junior iron ore mining peers

Coal mining segment

- GFG reported 1.345Mt of saleable coal in 2020 – we have assumed 2.0Mt saleable coal for 2023, with the increase due to mining at Tahmoor South commencing in October 2022
- We have assumed a US$60/t margin on coal produced, in line with the spot price at ~US$160/t and Wood Mackenzie estimates for Tahmoor cash costs of ~US$100/t

Source: S&P Capital IQ, Wood Mackenzie, Rothschild Strategic Roadmap, Acil Allen Economic Analysis, GFG company website.
Notes: (1) OneSteel Manufacturing Pty Ltd trading as SIMEC Mining, per documents provided to the South Australian Resources Information Gateway. (2) AUD/USD 0.66 assumed.

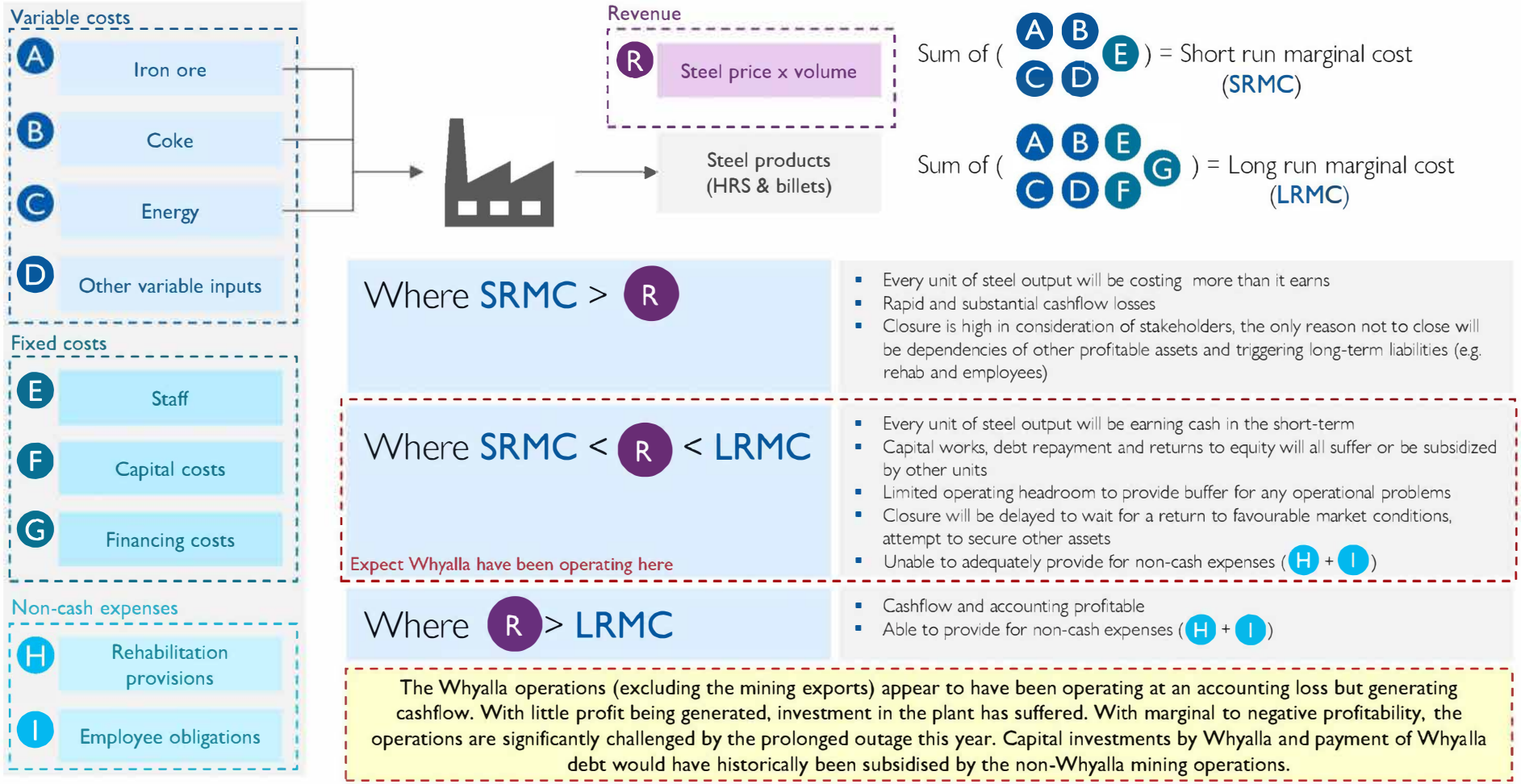
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Current situation

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Illustrative economics of the steelworks

It is reported Whyalla was "losing $1m per day". Operations may have been short-run profitable, but at an accounting loss (prior to the recent outage) which generates cashflow but does not allow for reinvestment nor payment of financing costs



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Current situation

History of the Whyalla business

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Whyalla steelworks has been operational in Australia since 1965. The company suffered financial distress in 2016 and again in 2021 but steps to resolve financial distress did not resolve the underlying structural problems.

Whyalla's recent history

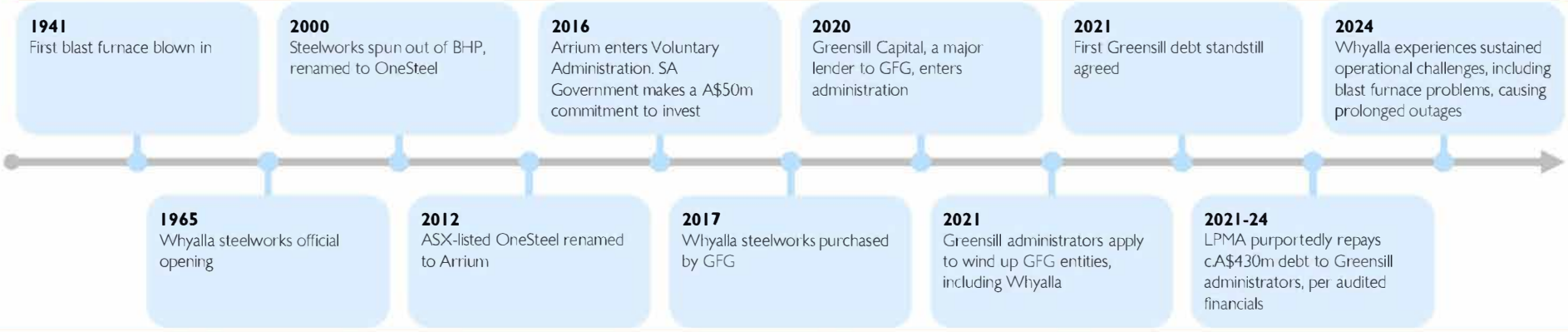
- Whyalla has been financially challenged in recent years, first evidenced by the voluntary administration of the Arrium Group in 2016
- That administration resulted in a separation of the assets, with MolyCop, the grinding media business, sold for A$1.6bn, followed by a sale of the Whyalla steel businesses to GFG in 2017
- Low iron ore prices in 2017 supported the steelmaking operations at Whyalla and permitted the establishment of InfraBuild in 2019
- However, in 2020 the administration of Greensill a major lender to GFG, resulted in further concerns about acceleration of debts outstanding and Greensill creditors pursuing GFG and Whyalla
- Supported by strong cash flows from the Whyalla iron ore business, and more recently coal prices, GFG was able to agree a standstill with the Greensill administrators and to refinance / repay the Greensill debt from the Australian entities, although actual payments to the UK administrators is unclear and disputed and there may still be debt outstanding
- The structural issues at Whyalla's steelworks remain due to a lack of investment

Current situation

- As at October 2024, the Whyalla business is now facing new operational and market challenges due to:
  - Its blast furnace being offline for much of 2024;
  - Downward pressure on steel prices due to Chinese economic slowdown and regulatory change;
  - Downward pressure on coal and iron ore prices; and
  - The end of historically profitable hematite (iron ore) reserves
    - In recent years Whyalla steelworks has shifted from using hematite as feed to magnetite, leaving the hematite to export

Whyalla's financial position is increasingly parlous, it needs substantial financial support to keep operating. GFG and InfraBuild have been taking steps to separate from Whyalla (described following)

The history of Whyalla operations – from 1941 to today



Source: GFG website, KordaMentha report to Arrium creditors dated 26 October 2016, filings with the Australian Securities and Investments Commission (ASIC)

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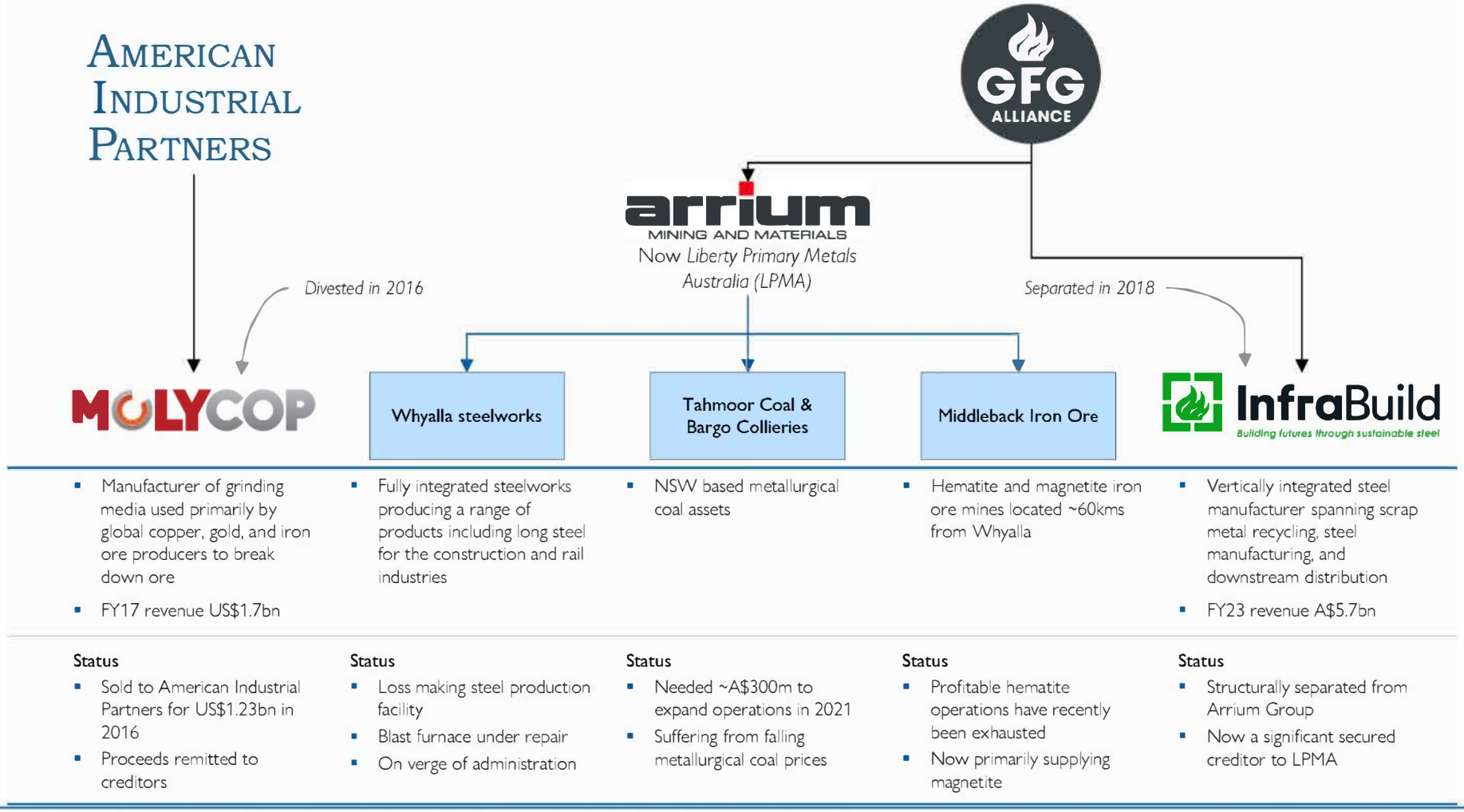
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Current situation

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There are fewer ancillary assets available to subsidise the steelworks

The profitable businesses, which historically financially supported Whyalla, have been selectively structurally migrated away from the Whyalla steelworks since the first administration in 2016.



Source: GFG website, KordaMentha report to Arrium creditors dated 26 October 2016, filings with the Australian Securities and Investments Commission (ASIC)

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Current situation

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Corporate actions taken to minimise GFG's exposure to LPMA

Hematite mining at Middleback Ranges, which has historically supported LPMA, is nearing the end of its life. GFG has taken steps in the previous 18 months to limit its exposure to LPMA.

	Action	Implications
I	Repayment of the Greensill debt has removed the previous first-ranking security interest	▪ LPMA has paid over A$400m to eliminate its debt to Greensill Capital and release the security interest, which extended to LPMA's UK holding company ▪ This repayment was agreed as part of a broader negotiation with its financiers for a far larger debt position ▪ However, UK administrators are reportedly still pursuing GFG Alliance for this debt, and claim moneys are still owed, so this is unclear ▪ With this security interest released, **related parties may emerge as highly-ranking secured creditors in an administration process**
II	Amendment of supply agreements with InfraBuild on less favourable terms for LPMA	▪ In 2023, the Whyalla Billet Supply Agreement was amended to allow LPMA to import billet to meet its supply obligations, and for InfraBuild to pass through costs incurred above the Whyalla Billet Supply Agreement equivalent pricing through to LPMA as an advance payment of revenue. As a result, **there may be large, likely secured, interest accruing under this agreement** ▪ As of 7 August 2024, the supply agreements for hot rolled structural steel (HRS) and flat iron were being renegotiated. By now, these may have been **renegotiated on terms potentially as unfavourable as the amended billet supply agreement** *Further information on these agreements can be found on in Appendix C.*
III	Revocation of the Deed of Cross Guarantee for coal assets	▪ In July 2023, the Deed of Cross Guarantee of LPMA was modified, separating the subsidiaries holding the coal assets ▪ This could be the first step taken to begin **separating these assets from the LPMA group,** and enforcement against these excluded assets would be complex
IV	Related parties have registered security interests, some very recently	▪ Several related parties have registered security interests in OneSteel Manufacturing Pty Ltd, the primary trading entity of LPMA. Some were registered as recently as 3 October 2024, while some date back to 2016 ▪ These security interests **position GFG as the secured creditor, able to appoint a receiver in the event LPMA enters administration**

Several of the above steps, and where they fit in the relevant components of the corporate structure, are shown in detail in Appendices A and C.

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The importance of LPMA to other Australian entities

InfraBuild is the largest associated entity of LPMA. It currently sources ~24% of its steel billet requirements (a critical input for its Manufacturing division) from Whyalla. However, it has been actively proving up alternative international supply.

InfraBuild
(Liberty InfraBuild Ltd)

InfraBuild (wholly-owned GFG subsidiary) is Australia's only vertically integrated electric arc furnace (EAF) steel long products manufacturer and Australia's largest distributor of steel long products. Whyalla provides steel billets to InfraBuild for manufacturing, and HRS for distribution.

4,680	A$5.7b	~70%	17,655
Employees[3]	FY23 Revenue	Market share[4]	Active customers

Liberty Bell Bay
(Liberty Bell Bay Pty Ltd)

Formerly TEMCO, Liberty Bell Bay (a wholly-owned GFG subsidiary) was purchased in 2021 as a distressed asset and is a smelter facility in northern Tasmania with four submerged arc furnaces, including a sinter plant for the production of high carbon ferromanganese and silicomanganese, used in the production of steel.

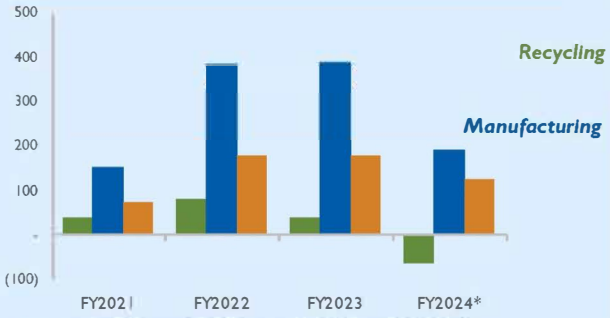
250	~A$180m	270Ktpa
2020 employees	Revenue[Δ]	Capacity[5]

Ferretti International
(Ferretti International Ottoway Pty Ltd)

Ferretti International (a wholly-owned GFG subsidiary) is a diversified engineering and fabrication company specialising in specialist pipe welding and bending, and site installation and maintenance services across defence, energy, oil & gas and infrastructure. Workshops located near Port Adelaide and Whyalla.

~20	A$24m	2
Employees[Δ]	FY23 Revenue	Major workshops

Relative segment earnings (Adj. EBIT, A$m)



InfraBuild expect a A$20-30m decrease in earnings for FY25 due to Whyalla outage & repairs (full production not expected to be reached in FY25)

Supply dependence on Whyalla

Recycling
- InfraBuild's Recycling segment produces Ferrous and Non-Ferrous scrap, to be turned into billets by the EAFs
- No dependence on Whyalla steel supply

Manufacturing
- InfraBuild's manufacturing segment is split into 3 units – Rod & Bar (~87% by volume[1]), Tubular (~6%) and Mesh (~8%)
- Mesh unit has no dependence on Whyalla steel supply
- Tubular unit is "predominantly supplied by BlueScope" – unclear as to the dependence on Whyalla, likely minimal
- Rod & Bar unit sources ~24% of the billet required from Whyalla
  - Newcastle Rod Mill sources ~76% of billet from Whyalla, no other facility sources more than 11% from Whyalla[2]

Distribution
- Split into Steel & Tube, Steel-in-Concrete and Wire units
- Whyalla supplies HRS equating to ~10% of total products sold by the distribution segment (Hot Rolled Structural steel, HRS)

Security of supply

- Supply is sourced from a network of 30 sites (26 in Australia) primarily from scrap brokers and dealers (42%), end-market suppliers (21%), major scrap suppliers (17%) and the waste management industry (12%)
- Through FY21 and FY22 InfraBuild decided to "prove-up" alternative international sources of billet supply
- Supply agreement was amended to allow for imports, unsure what proportion of the 24% has been sourced externally
- Imported 200kt billet in FY22 (~20% of total billet requirement)
- Tubular unit predominantly supplied by BlueScope
- Volume of billet supplied by Whyalla underpinned by contractual volume commitments, may inflate dependence
- Volume of HRS supplied by Whyalla underpinned by contractual volume commitment of 95% of InfraBuild's HRS requirements, may inflate dependence

I InfraBuild's estimates suggest a small, but not immaterial financial impact from a Whyalla shutdown

II The key dependency is billet, with Whyalla supplying ~24% of InfraBuild's total requirement – one facility is highly dependent

III Contractual volume commitments may show inflated dependency on Whyalla, and InfraBuild has proven international suppliers

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Appendix C: About Liberty Primary Metals Australia

Liberty Primary Metals Australia
Overview

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Liberty Primary Metals Australia includes the Whyalla steelworks, as well as the associated iron ore, coal, and port assets.

Overview

- Liberty Primary Metals Australia Pty Ltd ("**LPMA**") is the group of companies within the GFG Alliance which own the Whyalla steelworks, Whyalla Port, and iron ore, coking coal and dolomite mining operations
- Whyalla steelworks, which produces steel billet and hot rolled steel ("**HRS**") supplies InfraBuild, the Australian group of companies considered to be 'crown jewel' in Sanjeev Gupta's GFG Alliance
- Since the acquisition of several Arrium assets, LMPA has been reorganised to interact with related parties in complex ways
- The blast furnace at the Whyalla steelworks has faced operational issues and has been offline for many months of 2024

Relevant entities



See page 31 for further information on corporate structure.

Asset portfolio



Whyalla steelworks
Integrated steelmaking business capable of producing 1.2 million tonnes of cast steel and 475kt of hot rolled steel products per annum



Middleback Ranges iron ore operation
Several mining areas and processing infrastructure 60km from the Whyalla steelworks. Supplies the Whyalla steelworks and exports



Whyalla Port
Deep-sea port which handles the import and export of key commodities, including steel products, coking coal and iron ore



Tahmoor
Underground coking coal mine in NSW, 95km south west of Sydney, producing ~2 million tonnes per annum



Ardrossan Dolomite Mine
Supplies dolomite flux, an essential ingredient to the steelmaking process, to the Whyalla steelworks

Source: GFG Alliance websites, press, Mining Compliance Reports filed with Energy and Mining South Australia in 2022, filings with the Australian Securities and Investments Commission (ASIC).

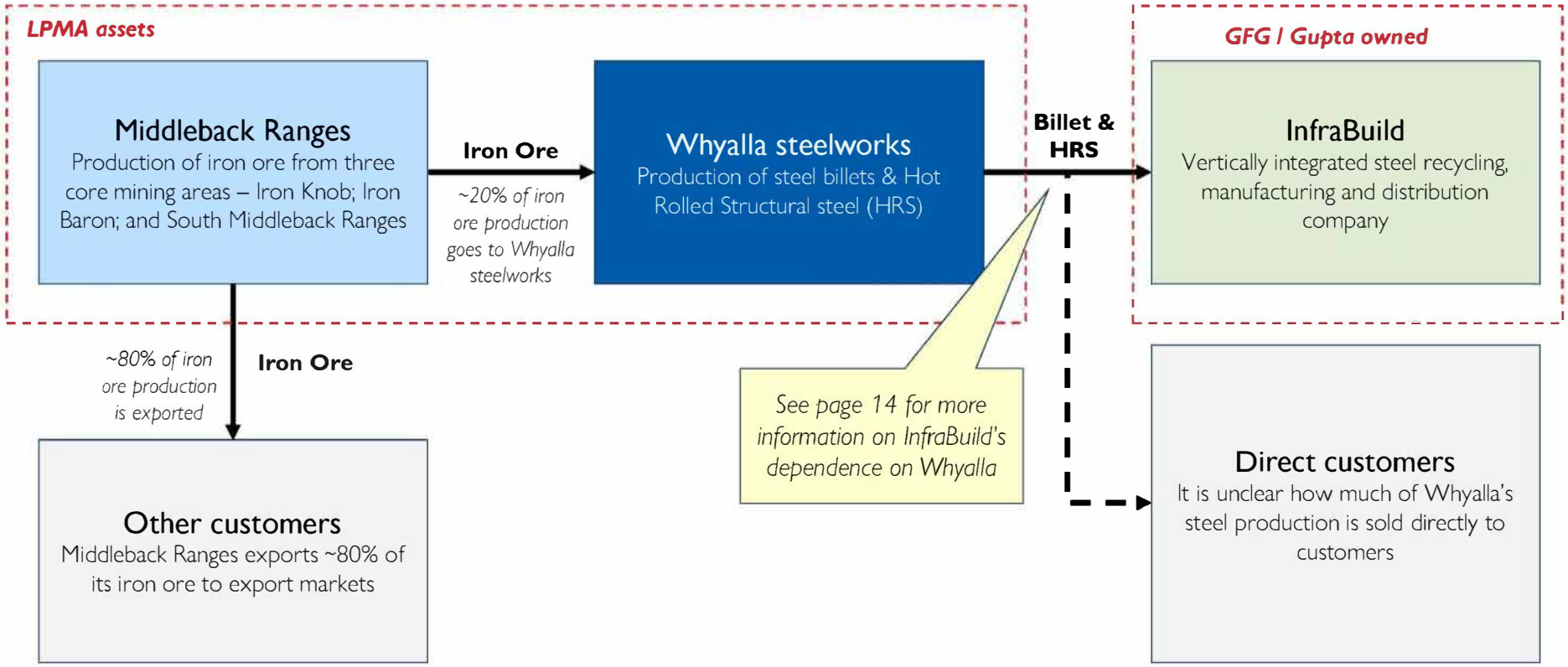
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Liberty Primary Metals Australia

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Operations – High-level supply chain

LPMA sources the iron ore required by Whyalla steelworks internally from the Middleback Ranges mines, before selling predominantly to InfraBuild and occasionally exporting to other customers.



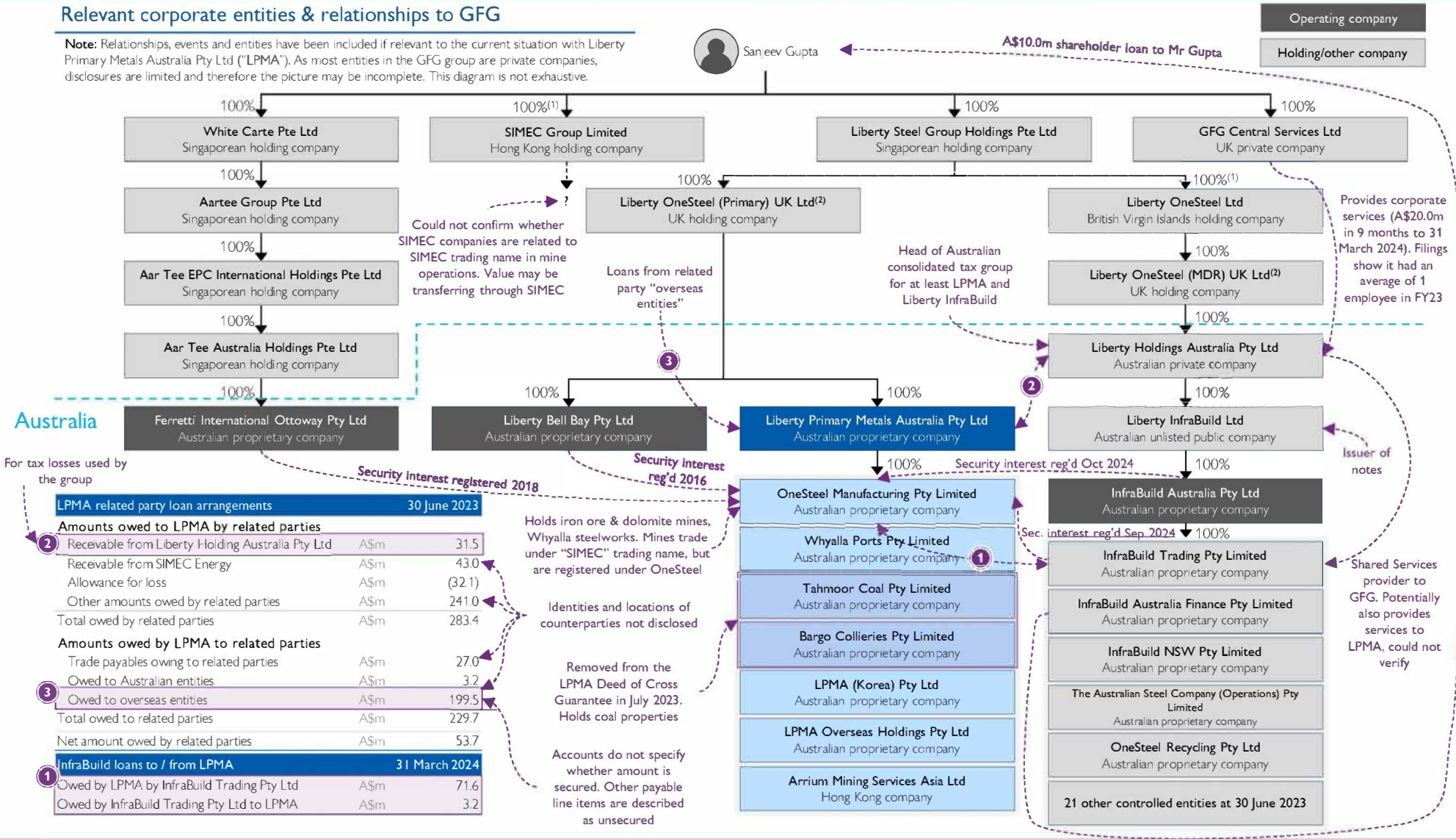
Liberty Primary Metals Australia

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Related party interactions (excluding physical supply)

Relevant corporate entities & relationships to GFG

Note: Relationships, events and entities have been included if relevant to the current situation with Liberty Primary Metals Australia Pty Ltd ("LPMA"). As most entities in the GFG group are private companies, disclosures are limited and therefore the picture may be incomplete. This diagram is not exhaustive.



LPMA related party loan arrangements		30 June 2023
Amounts owed to LPMA by related parties		
(2) Receivable from Liberty Holding Australia Pty Ltd	A$m	31.5
Receivable from SIMEC Energy	A$m	43.0
Allowance for loss	A$m	(32.1)
Other amounts owed by related parties	A$m	241.0
Total owed by related parties	A$m	283.4
Amounts owed by LPMA to related parties		
Trade payables owing to related parties	A$m	27.0
Owed to Australian entities	A$m	3.2
(3) Owed to overseas entities	A$m	199.5
Total owed to related parties	A$m	229.7
Net amount owed by related parties	A$m	53.7

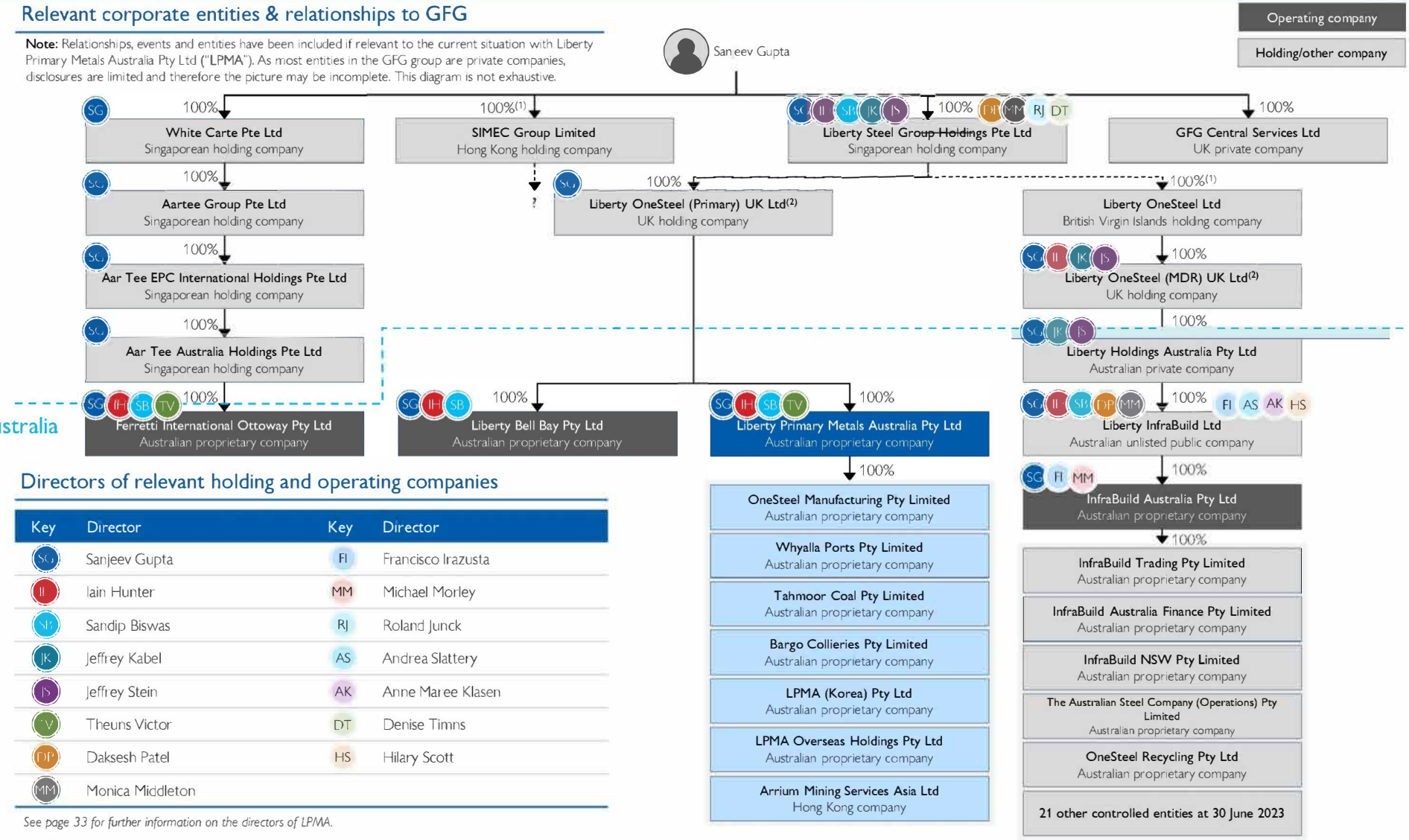
InfraBuild loans to / from LPMA		31 March 2024
(1) Owed by LPMA by InfraBuild Trading Pty Ltd	A$m	71.6
Owed by InfraBuild Trading Pty Ltd to LPMA	A$m	3.2

Liberty Primary Metals Australia
Directorships

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Relevant corporate entities & relationships to GFG

Note: Relationships, events and entities have been included if relevant to the current situation with Liberty Primary Metals Australia Pty Ltd ("LPMA"). As most entities in the GFG group are private companies, disclosures are limited and therefore the picture may be incomplete. This diagram is not exhaustive.



Directors of relevant holding and operating companies

Key	Director	Key	Director
SG	Sanjeev Gupta	FI	Francisco Irazusta
II	Iain Hunter	MM	Michael Morley
SB	Sandip Biswas	RJ	Roland Junck
JK	Jeffrey Kabel	AS	Andrea Slattery
JS	Jeffrey Stein	AK	Anne Maree Klasen
TV	Theuns Victor	DT	Denise Timms
DP	Daksesh Patel	HS	Hilary Scott
MM	Monica Middleton		

See page 33 for further information on the directors of LPMA.

Liberty Primary Metals Australia

Board of Directors

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The directors of LPMA are listed below.



Sanjeev Gupta

GFG Alliance – Executive Chairman

- Sanjeev Gupta established Liberty House Group and has grown the GFG Alliance into a large global empire. When his father retired in 2023, he assumed control of SIMEC Group
- Mr Gupta, and certain companies of which he is the ultimate shareholder, are currently under investigation in the United Kingdom and France. Mr Gupta, as an officer of Liberty House, is involved in Indian legal proceedings under the Indian Insolvency and Bankruptcy Code 2016
- According to filings with ASIC, Mr Gupta resides in Sydney and was born in India.



Iain Hunter

LIBERTY Steel Group – Chief Governance Officer

- Mr Hunter was previously the CEO of Wyelands Bank plc from 2015 to 2020. He has also held several senior leadership roles at CIT Bank Limited, including CEO and Chief Risk Officer
- Iain was recently fined ~120 thousand pounds by the Bank of England for failing to ensure Wyelands Bank had adequate systems and controls
- According to filings with ASIC, Mr Hunter resides in Dubai and was born in the United Kingdom



Sandip Biswas

GFG Alliance – Chief Investment Officer

- Appointed in 2022, Sandip Biswas is responsible for commercial and investment performance and playing a role in debt structuring and transformation plans
- Mr Biswas previously held senior and board level positions at Tata Steel over 17 years, most recently as Chairman of Tata Steel UK
- According to filings with ASIC, Mr Biswas resides in Dubai and was born in India



Theuns Victor

GFG Alliance – CEO Europe Upstream

- Theuns Victor was responsible for the operations of the Whyalla steelworks as Executive Director from 2011 to 2022
- He joined Arrium in 2006 as the Manager Steelmaking. Prior to this he worked for Arcelor Mittal South Africa for 20 years
- According to filings with ASIC, Mr Victor resides in Dubai and was born in South Africa

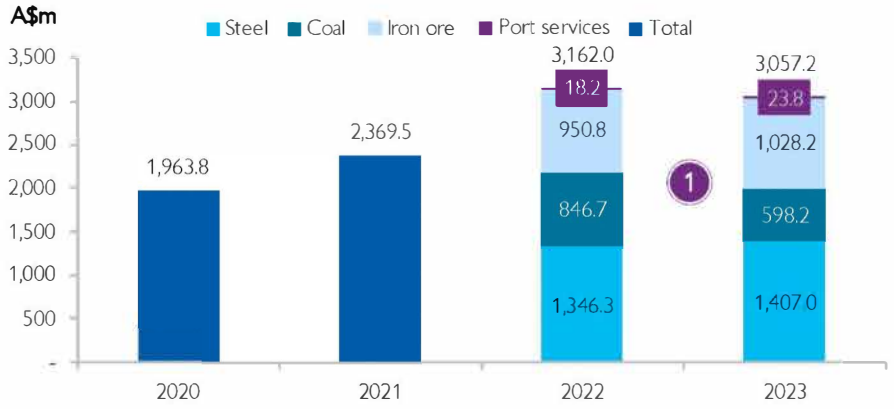
Liberty Primary Metals Australia

Financial history

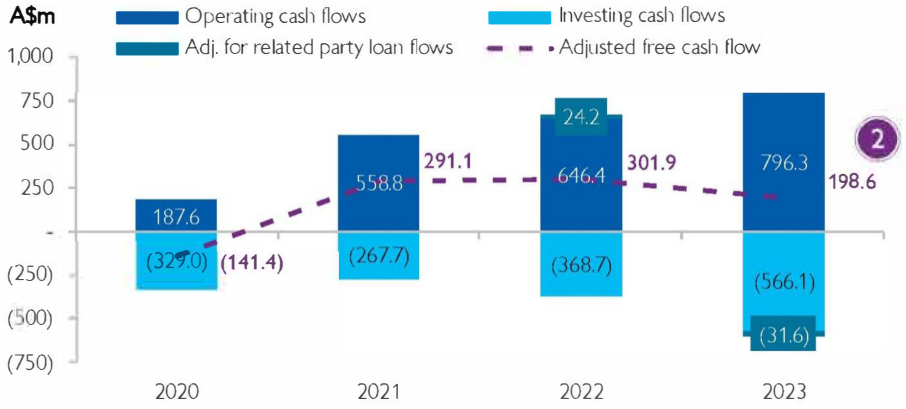
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LPMA has generated substantial free cash flows in recent prior years. LPMA has engaged in material lending and borrowing to and from related parties, essentially acting as a bank for the other.

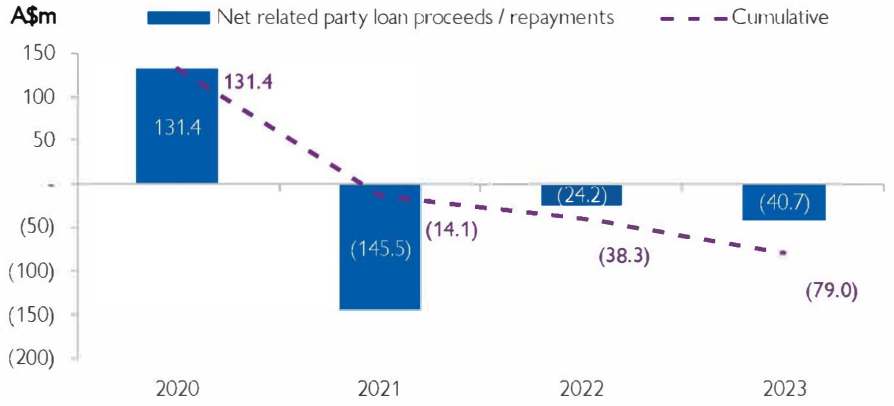
Segment revenue – year ended 30 June(1)



Free cash flows – year ended 30 June(2)



Related party loan cash flows – year ended 30 June



1 Iron ore and coal revenues have been significant

Sales of iron ore and coal have generated more than half of LPMA's revenue in FY22 and FY23

2 Free cash flow generation has been substantial

In the two years ended 30 June 2023, LPMA generated cumulative adjusted free cash flows of over A$500m(2)

3 LPMA has been used as a source of funds for related parties

Since LPMA was incorporated in January 2019 and its subsidiaries were acquired from other entities within GFG in June 2019, a net amount of A$79.0m has been loaned out to related parties. Further, a loss allowance of A$32.1m has been recognised against amounts owed by related parties in 30 June 2023

Source: Filings with the Australian Securities and Investments Commission (ASIC).
Notes: (1) Segment revenue not disaggregated in FY20 or FY21. (2) Free cash flows are defined as operating cash flows less investing cash flows. Free cash flows have been adjusted to remove the impact of lending to and from related parties which was reported within investing cash flows.

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Operations – Middleback Ranges iron ore operation

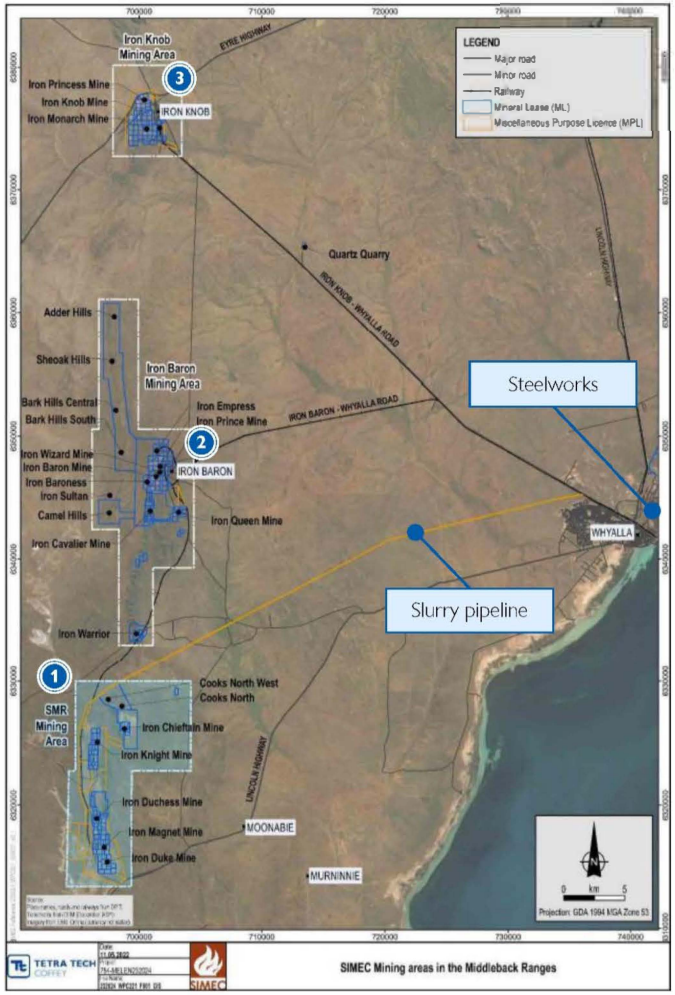
The economic hematite resource is being depleted and is close to the end of its life. A history of successful magnetite export suggests there may be substantial value in these iron ore properties.

Overview

- The Middleback Ranges consists of three mining areas:
  1. South Middleback Ranges
  2. Iron Baron
  3. Iron Knob
- The operations produce both hematite (higher-grade iron ore, generally suitable for steelmaking without further processing) and magnetite (lower-grade iron ore, which requires further processing prior to export or steelmaking). The Middleback Ranges provide iron ore for use in the Whyalla steelworks. Historically, hematite was preferred due to its direct usability in blast furnaces without requiring beneficiation. As the ore quality has declined and the resource has been depleted, magnetite has become the source of iron for the steelworks. Magnetite is processed into a slurry at the mine site, then pumped via pipeline to the steelworks site for dewatering and pellet production
- The Middleback Ranges operations have historically produced 6-10Mtpa of hematite ore for export and 2.3Mtpa of magnetite. Of the magnetite resource, approximately 1.3Mtpa is used in the steelworks and the remainder is exported. GFG is **seeking to expand magnetite production from 2.3Mtpa to ~7.5Mtpa, extending mine life by over 20 years**

> **"There is not many places in the world which have the potential which Whyalla has to develop large scale magnetite. Whyalla could just simply be an exporter of high-quality, low-cost magnetite at a large scale. But that is not our ambition."** – Sanjeev Gupta, 2022(1)

Resources & Reserves (Mt)(2)			
Mining area	South Middleback Ranges	Iron Baron	Iron Knob
Date provided	2019	Not provided	n.m.
Resources			
Measured	41.7	4.6	n.m.
Indicated	105.8	31.6	n.m.
Inferred	91.3	11.7	n.m.
Total	238.9	47.9	n.m.
Reserves			
Proved	33.6	0.5	n.m.
Probable	28.4	13.8	n.m.
Total	62.0	14.4	n.m.
Estimated mine life in 2022	~10 years	~2 years	~4 years



Source: Mining Compliance Reports filed with Energy and Mining South Australia in 2022, GFG – Liberty Primary Metals Australia 2022 Sustainability Report, Department of Climate Change, Energy, the Environment and Water
Notes: (1) GFG Website – Whyalla magnetite expansion plans. (2) As a private company, public reserve and reserve data is limited. Pit totals by mine site have been added together, and rounding may affect totals. Data for Iron Knob was outdated (some information was from 2013) and had material gaps. An estimate for mine life was provided.

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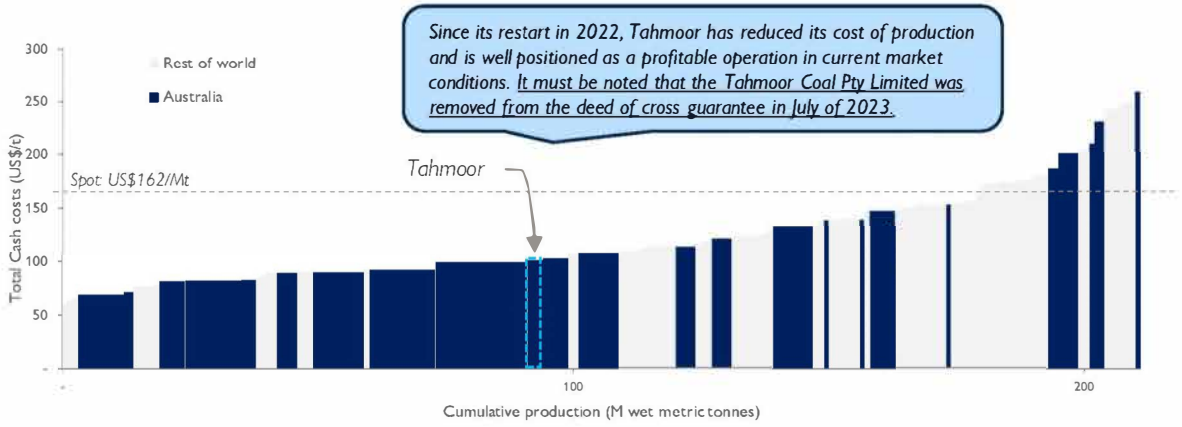
Operations – Other

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LPMA's portfolio also includes Tahmoor, Ardrossan and Whyalla Port. Historically, Tahmoor has been a strong cash generator for the group. Competitive production costs and an extended mine life suggests substantial value.

Tahmoor

- Tahmoor Coal Pty Ltd and Bargo Collieries Pty Ltd form part of the Tahmoor hard coking coal operation in the Southern Coalfields of New South Wales
  - The assets were acquired by GFG in 2018 from Glencore for an undisclosed sum
  - Previous owners: BP Coal and Minerals 1984 -1989, CRA Limited 1989 – 1997, Austral Coal 1997 – 2010, Xstrata/Glencore (merged in 2013) 2010 – 2017
- The operation is an underground longwall operation which has been producing ~2Mtpa of hard coking coal that is predominantly exported to steel producers in the Asian market
  - A portion of production is supplied to OneSteel Manufacturing / Whyalla steelworks as an input in the iron smelting process
- In 2021, it received approval for a 10-year mine life extension, to commence mining in an area known as Tahmoor South Domain, amid anticipated depletion of reserves
- Related to the Whyalla steelworks, there was an issue in the supply of coking coal that led to the group sourcing from BlueScope and internationally – details surrounding the cause of the shortage are undisclosed



Ardrossan

- SIMEC[1] operates a dolomite quarrying, crushing and ship loading facility at Ardrossan, South Australia
- The mine supplies dolomite flux for the Whyalla steelworks, to BlueScope Steel's Port Kembla operation and overseas customers, notably in Japan
  - Approximately 25% of production is exported
- Production capacity is 550kt per annum
- Employees approximately 40 people
- Mine life through to 2031 – currently seeking to extend the life of the Ardrossan Mine operation (+100 years) by securing approvals to develop a northern pit

Whyalla Port

- The port in Whyalla is privately owned and operated by SIMEC[1] consisting of:
  - Inner harbour – three berths to handle iron ore, coal, dolomite, limestone, coke and finished steel products
  - Outer harbour – channel and berth used for loading iron ore
  - Offshore anchorages for large, deep drafted vessels
- Infrastructure has been progressively upgraded over recent years. In 2020 the second mobile harbour installed, doubling the port's capacity
- The port serves as the export facility for Middleback Ranges iron ore mines and the Whyalla steelworks

Source: S&P Capital IQ, Wood Mackenzie, Rothschild Strategic Roadmap, Acil Allen Economic Analysis, GFG company website
Notes: (1) SIMEC is a trading name, not a company. Relates to Onesteel Manufacturing Pty Ltd. (2) Market data as at 4 October 2024

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Liberty Primary Metals Australia

Related party supply agreements

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There are several material related party supply agreements between LPMA and InfraBuild. It has not yet been determined if these would be considered commercial and at arms length by third parties.

Whyalla Billet Supply Agreement

- The Whyalla Billet Supply Agreement, referred to in recent related party disclosures, sets out the terms under which InfraBuild procures most of its external billet requirement
- The contract is with OneSteel Manufacturing Pty Ltd, a subsidiary of LPMA
- The Whyalla Billet Supply Agreement commenced 1 July 2019 and is set to expire 31 March 2025. It was amended in 2023 to allow Whyalla steelworks to import billet to deliver into the contract
- **Important terms**:
  - InfraBuild have a minimum 12-month purchase commitment volume;
  - Pricing is based on the FOB Black Sea price, with a premium applied for specialty products;
  - Where Whyalla imports to meet minimum requirements, costs above an equivalent parcel of Whyalla-produced billet will be treated as an advance payment, or a debt in certain circumstances
  - InfraBuild can "settle invoices early or make advance payments with agreed terms against future deliveries" without Board approval

Flat iron – Purchase and Sale Contract

- The Flat Iron – Purchase and Sale Contract is the agreement under which InfraBuild purchases flat iron from LPMA
- The agreement commenced December 2020 and has formally expired but is still being delivered into. As of 7 August 2024, it was being renegotiated
- **Important terms**:
  - Approximately A$443 per metric tonne

HRS Supply Agreement

- The Whyalla Steelworks – HRS Supply Agreement is the agreement under which InfraBuild purchases all or most of its hot rolled structural steel
- The contract is with OneSteel Manufacturing Pty Ltd, a subsidiary of LPMA
- The agreement commenced 1 July 2019 and is also set to expire 31 March 2025. As of 7 August 2024, this agreement was being renegotiated to allow LPMA to import to meet its HRS obligations under the contract, and to allow InfraBuild to import whenever LPMA fails to deliver
- **Important terms**:
  - InfraBuild has a minimum volume purchase commitment of 95% of its HRS requirements
  - Initial term of five years with an extension option

Other less material supply contracts

- Carbon – LPMA supplies 93% of total requirements nut coke and coke breeze. Agreement expired September 2024, were testing alternative supply
- Calcined Dolomite – LPMA supplies 6% of calcined dolomite requirements

Total disclosed contract values – 30 June FY end

Disclosed amounts paid to LPMA for supply[1]		FY2022	FY2023	Q3FY2023	Q3FY2024
Billet Supply Agreement	A$m	304.3	459.6	347.5	274.4
HRS Supply Agreement	A$m	228.3	208.0	154.3	142.2
Nut coke and coke breeze (carbon)	A$m	16.9	22.6	17.5	9.8
Calcined dolomite	A$m	1.4	1.8	1.5	0.5
Total of disclosed amounts	A$m	550.9	692.0	520.8	426.9

Liberty Primary Metals Australia
Financial statements

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Balance sheet – as reported

Statement of financial position (A$m)	30 June 2023	30 June 2022
Current assets		
Cash and cash equivalents	92.8	78.6
Trade and other receivables	283.4	396.1
Inventories	519.7	674.0
Other financial assets	52.4	56.7
Other current assets	14.4	10.5
Total current assets	962.7	1,215.9
Non-current assets		
Trade and other receivables	12.8	15.0
Other financial assets	25.0	-
Property, plant and equipment	805.7	928.5
Right of use assets	140.9	202.3
Mine development expenditure	567.3	228.0
Intangibles	18.3	18.2
Loans to related parties	187.8	210.7
Deferred tax assets	-	22.5
Total non-current assets	1,757.8	1,625.2
Total assets	2,720.5	2,841.1
Current liabilities		
Trade and other payables	430.6	534.8
Loans from related parties	-	3.2
Interest-bearing liabilities	-	150.3
Lease liabilities	57.5	56.5
Provisions	118.8	110.6
Total current liabilities	606.9	855.4
Non-current liabilities		
Loans from related parties	202.7	191.4
Lease liabilities	96.1	158.0
Deferred tax liabilities	20.8	-
Provisions	156.5	141.1
Total non-current liabilities	476.1	490.5
Total liabilities	1,083.0	1,345.9
Equity		
Share capital	112.0	112.0
Retained earnings	784.2	641.9
Reserves	741.3	741.3
Total equity	1,637.5	1,495.2

Income statement – as reported

Income statement (A$m)	30 June 2023	30 June 2022
Revenue	3,038.5	3,109.7
Cost of sales	(2,418.3)	(2,083.9)
Gross profit	620.2	1,025.8
Finance income	28.4	23.9
Other income	12.9	22.9
Operating expenses	(368.2)	(396.7)
Impairment reversal/(expense)	(55.5)	3.7
Finance costs	(46.6)	(55.5)
Profit before income tax	191.2	624.1
Total income tax expense	(48.9)	(189.9)
Profit for the year	142.3	434.2

Source: 2023 annual financials filed with the Australian Securities and Investments Commission (ASIC).

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Appendix D: About InfraBuild

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InfraBuild

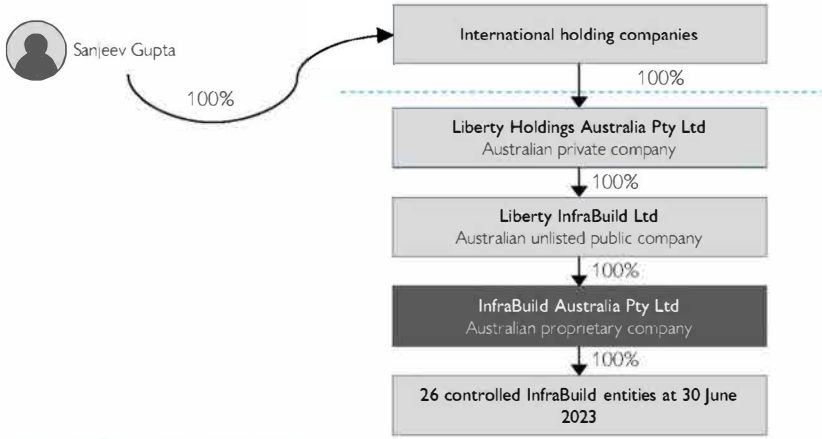
Company overview

InfraBuild, GFG's primary Australian asset, is a vertically integrated steel recycler, manufacturer and distributor – operating electric arc furnaces independent of Whyalla.

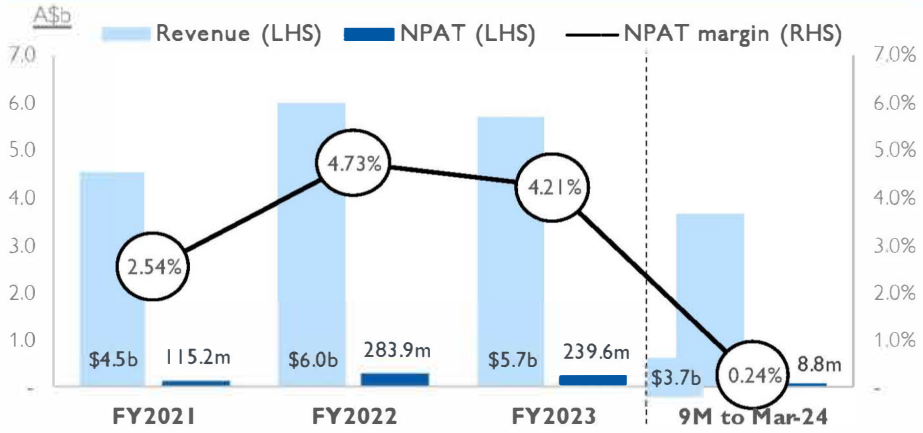
Overview

- Liberty InfraBuild Ltd ("InfraBuild") is Australia's only vertically integrated EAF steel long products manufacturer, Australia's largest distributor of steel long products and the Australian market's largest recycler of scrap metals
- GFG, the ultimate parent of InfraBuild, created InfraBuild through the purchase of the steel and mining business of Arrium Group in 2017, which was under voluntary administration. The assets were originally established as part of BHP Group over 100 years ago and demerged as OneSteel Limited and listed on the ASX
- InfraBuild primarily produces steel products for the construction markets (~80% of sales by revenue), where its key products are reinforcing bar & rod and mesh (45% and 18% of InfraBuild steel volume sold, and ~73% and ~70% market share in Australia respectively for the 12 months to Q3 2024)

Group corporate structure



Summary financial profile (A$)



Integrated business segments

A$22.2m EBITDA loss Q3 2024	55% of Group EBITDA Q3 2024	45% of Group EBITDA Q3 2024
Recycling	Manufacturing	Distribution
	Rod & Bar	Wire
	Tubular	ARC (SiC)
	Mesh	InfraBuild Reinforcing (SiC)
		Steel & Tube

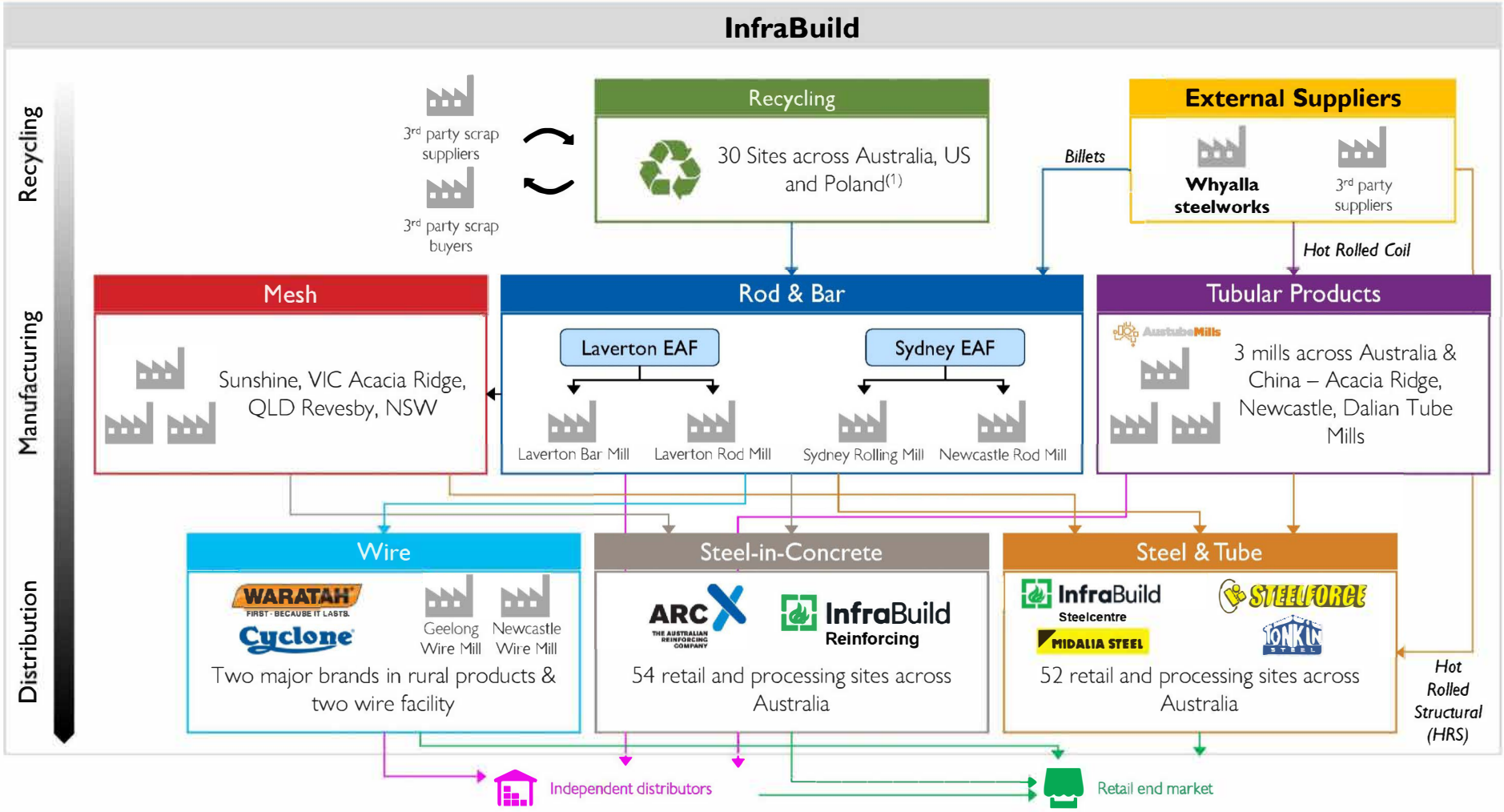
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InfraBuild

Integrated business structure

InfraBuild's vertically integrated structure is outlined below.



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InfraBuild

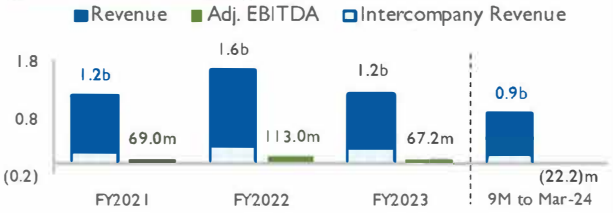
Segment breakdown

InfraBuild has three primary segments, recycling, manufacturing, and distribution.

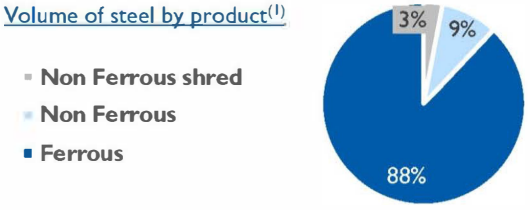
Recycling

Generates its income from collecting, recycling and trading ferrous and non-ferrous scrap in Australia and internationally. Serves two functions – to supply InfraBuild's EAFs and to generate revenue through global brokerage operations with external parties

Summary financials (A$)



Volume of steel by product[1]



Key suppliers

External Australian suppliers from a network of 26 brokerage and processing sites across NSW, VIC, QLD and SA

International external suppliers

Key customers

InfraBuild Manufacturing segment

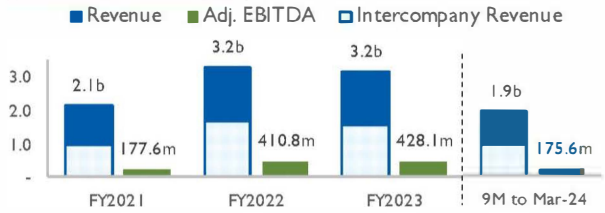
Domestic market through CFFs (inc. Whyalla)

International exports

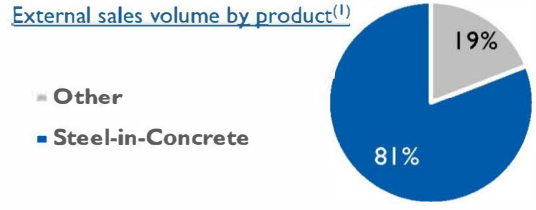
Manufacturing

Generates revenue from the sale of steel long products that it converts from steel billets, produced in the EAFs and from external suppliers (e.g. Whyalla). Split into three segments – Rod & Bar, Tubular and Mesh

Summary financials (A$)



External sales volume by product[1]



Key suppliers

InfraBuild EAFs

Whyalla

External

Key customers

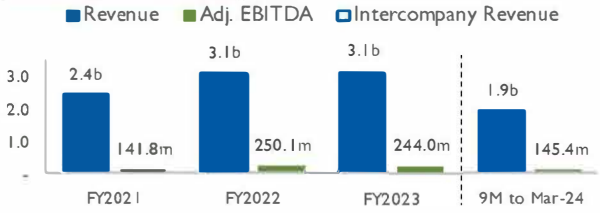
InfraBuild Distribution segment

Wholesale customers

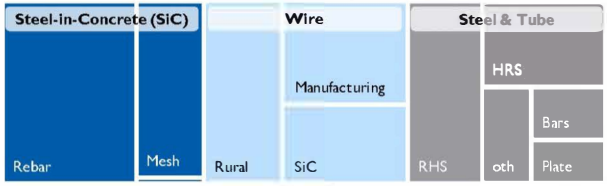
Distribution

Operates a network of 108 distribution, retail and processing sites across Australia, servicing a customer base of over 17,655 active customers in the wholesale and retail channels. Sells both internally-manufactured and 3rd party products

Summary financials (A$)



Sales volume by business unit and product group[1]



Key suppliers

InfraBuild Manufacturing segment

3rd party products

Key customers

Retail customers

Wholesale customers

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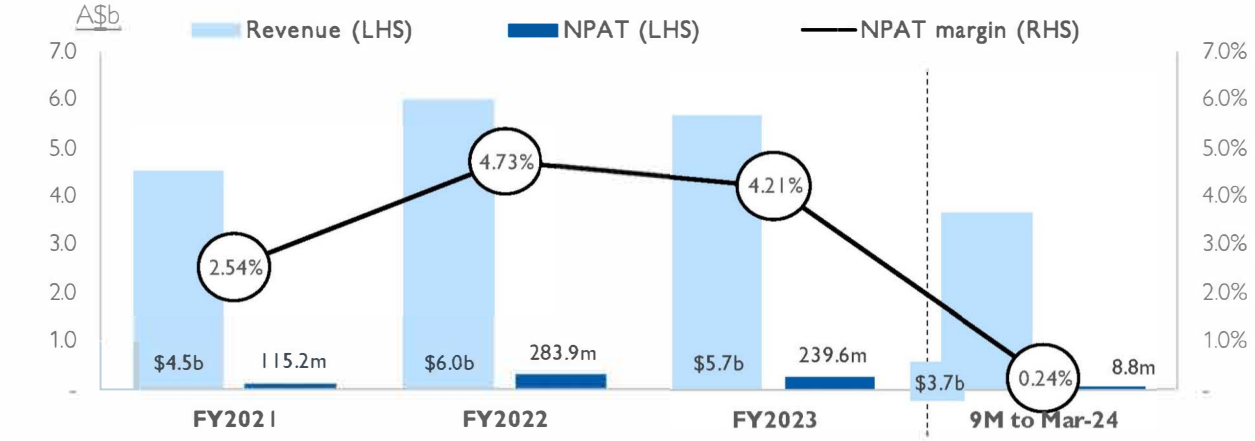
InfraBuild

Financial performance

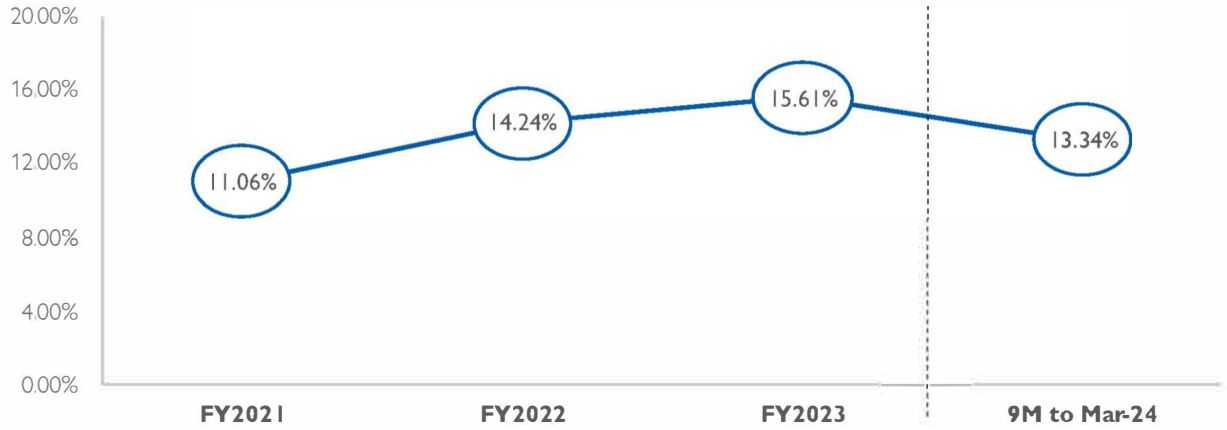
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Historically, InfraBuild's financial performance has been strong. However, the 9 months to March 2024 showed a downturn in earnings.

Revenue & NPAT over time (A$)



Gross profit margin over time



Key takeaways

- InfraBuild has historically been very profitable, recording NPAT of A$239.6m in FY2023
- However, the 9 months to March 2024 outline a downward trend in its profitability
- NPAT margin has deteriorated from 4.21% to 0.24% whilst gross profit margin remains healthy, increasing from 11.06% to 13.34%, from FY2021 to the 9 months to March 2024 respectively
- The aforementioned can largely be attributed to increasing overheads (from A$309m in FY2021 to A$386m in the 9 months to March 2024) and debt servicing, with financing outflows increasing from A$17.9m to A$76.2m over the same period
- The underlying business remains profitable and operating cash flow generative, although weighed down by an underperforming Recycling segment
- A downturn in the broader market and increased cost of borrowing (highlighted by the recent bond issuance priced at ~14.5% yield) due to governance risks have been the major drivers for the downturn in profitability

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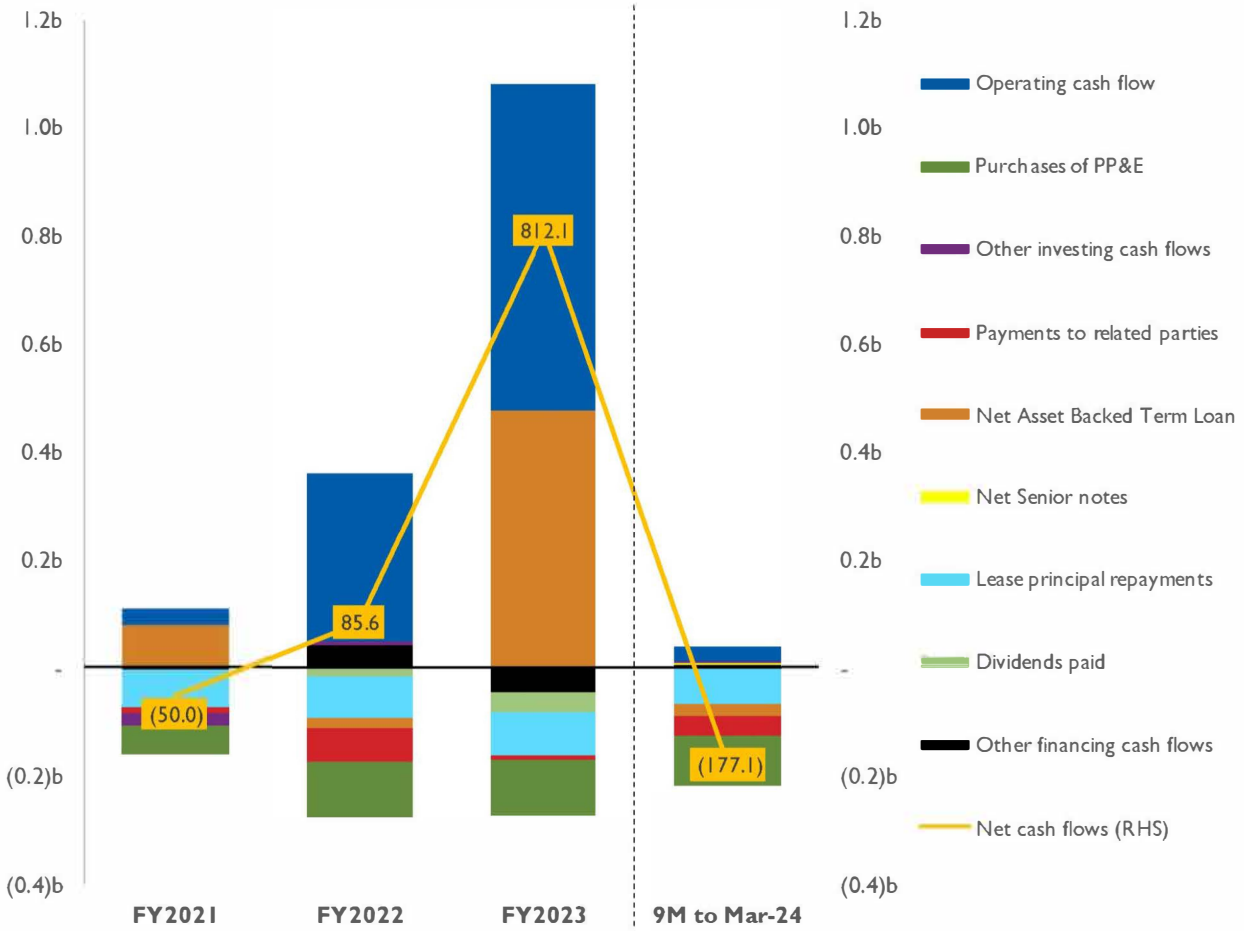
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InfraBuild

Cash flow build-up

While cash flow negative, InfraBuild remains cash flow generative at an operating cash flow line – increasing financing costs due to governance risks, and broader market dynamics have been weighing on financial performance.

Cash flow build-up (A$)



Key takeaways

- InfraBuild completed the issuance of an additional aggregate of US$350m of senior secured notes due for repayment in 2028, priced at 14.5% yield
- The recent issuance took the total aggregate principal amount of the notes to US$550m
- InfraBuild has been operating cash flow generative from FY2021 through the 9 months to March 2024, however debt servicing and investment have largely weighed on cash flows in the latter period
- Purchases of property, plant and equipment for the 9 months to March 2024 totalled A$92.7m, whilst total financing cash outflows totalled A$76.2m over the same period
- With the backdrop of a broader market downturn (expected to be limited to the short-term), InfraBuild remains a valuable business which is currently subject to unfavourable conditions due to governance risks

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InfraBuild

Facilities overview (1/2)

InfraBuild has facilities across New South Wales and Victoria, with capability in long steel, rod & bar, tubular, and mesh manufacturing.

Rod & Bar manufacturing unit - Australian facilities

Facility	Nameplate (ktpa)	Run-rate (FY23 ktpa)	Utilised (FY23 ktpa)	Whyalla supply	Inputs	Outputs
Laverton EAF	784	779	725	-	- 50% Ferrous scrap (Recycling segment) - 44% Ferrous scrap from external suppliers (inc. Sims) - 6% Ferrous scrap internally generated and reused	- 150mm square billet
Sydney EAF	656	568	582	-	- 4.7% Ferrous scrap internally generated and reused - 95.3% Ferrous scrap sourced through CFF Supply Agreement	- 130mm square billet
Newcastle Rod Mill	800	679	581	76%	- 24% billet from Sydney EAF - 76% billet from Liberty Primary Steel (Whyalla)	- Rod for mesh - Wire feed - Reinforcing bar coil - High carbon rods
Laverton Rod Mill	499	391	383	11%	- 89% billet from Laverton EAF - 11% billet from Liberty Primary Steel (Whyalla)	- Rod for mesh - Wire feed - Reinforcing bar coil
Laverton Bar Mill	497	439	349	-	- 100% billet from Laverton EAF	- Reinforcing bar - Large angles - Channels
Sydney Rolling Mill	470	465	427	3%	- 97% billet from Sydney EAF - 3% billet from Liberty Primary Steel (Whyalla)	- Reinforcing bar - Formwork bar - Equal and unequal angles - Flats - Engineering rounds - Square bar - Strata support products
Total	3,706	3,321	3,047	16%		

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InfraBuild

Facilities overview (2/2)

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InfraBuild has facilities across New South Wales and Victoria, with capability in long steel, rod & bar, tubular, and mesh manufacturing.

Tubular manufacturing unit

Facility	Nameplate (ktpa)	Run-rate (FY23 ktpa)	Utilised (FY23 ktpa)	Whyalla supply	Inputs	Outputs
Newcastle ATM	258	109	101	unknown	- Coil feed stock almost all externally sourced (unknown suppliers)	- Various hollow sections - Rail and silo tube
Acacia Ridge ATM	155	92	68	unknown	- Coil feed stock almost all externally sourced (unknown suppliers)	- Various hollow sections - Pipe - Rail and silo tube
Dalian Steelforce	84	47	33	unknown	- Coil feed stock almost all externally sourced (unknown suppliers)	- Various hollow sections - Pipe - Rail and silo tube
Total	**497**	**248**	**202**	-		

Mesh manufacturing unit

Facility	Nameplate (ktpa)	Run-rate (FY23 ktpa)	Utilised (FY23 ktpa)	Whyalla supply	Inputs	Outputs
Revesby Mesh	153	100	87	-	- Rod/wire feedstock almost all sourced from internal sources	- Various sizes of reinforcing mesh and mine mesh
Acacia Ridge Mesh	90	62	55	-	- Rod/wire feedstock almost all sourced from internal sources	- Various sizes of reinforcing mesh
Sunshine Mesh	264	140	125	-	- Rod/wire feedstock almost all sourced from internal sources	- Various sizes of reinforcing mesh
Total	**507**	**302**	**267**	-		

InfraBuild

Material sales contracts

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InfraBuild provides steel products for major public and private construction and infrastructure projects – with a large volume of Steel-in-Concrete produced for construction.

Project/company	Name	Contract start	Completion	Supply	Value
WEST GATE TUNNEL PROJECT	Melbourne West Gate Tunnel	21 December 2018	Project completion (expected ~2025)	▪ 95kt manufactured steel products & steel reinforced bar	Not disclosed
METROTUNNEL	Melbourne Metro Rail	12 September 2019	Project completion (expected ~2025)	▪ 27kt processed bar ▪ 18kt mill direct stock bar	A$60m
METRONET	Stage 1: Yanchep Road extension & Thornlie-Cockburn link	February 2021	October 2024	▪ 25kt reinforcing steel products	A$60m
sydney METRO	Eastern Tunnelling Project	13 March 2024	December 2025	▪ 8.7kt reinforcing steel products	A$18m
sydney METRO	Western Tunnelling Project	1 March 2024	June 2025	▪ 7kt reinforcing steel products	A$15m
NORTH EAST LINK	Primary Package (Tunnels)	30 January 2024	Project completion (expected ~2029)	▪ 51kt reinforcing bar	A$100m
JOHN HOLLAND	M7-M12 Integration supply	Mid 2024	2026 / 2027	▪ 14kt bar and mesh product	A$30m
dexus	Waterfront Brisbane	August 2024	July 2027	▪ 18kt processed reinforcement & mesh product	A$45m

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Appendix E: Industry and macroeconomic drivers

Macroeconomic environment

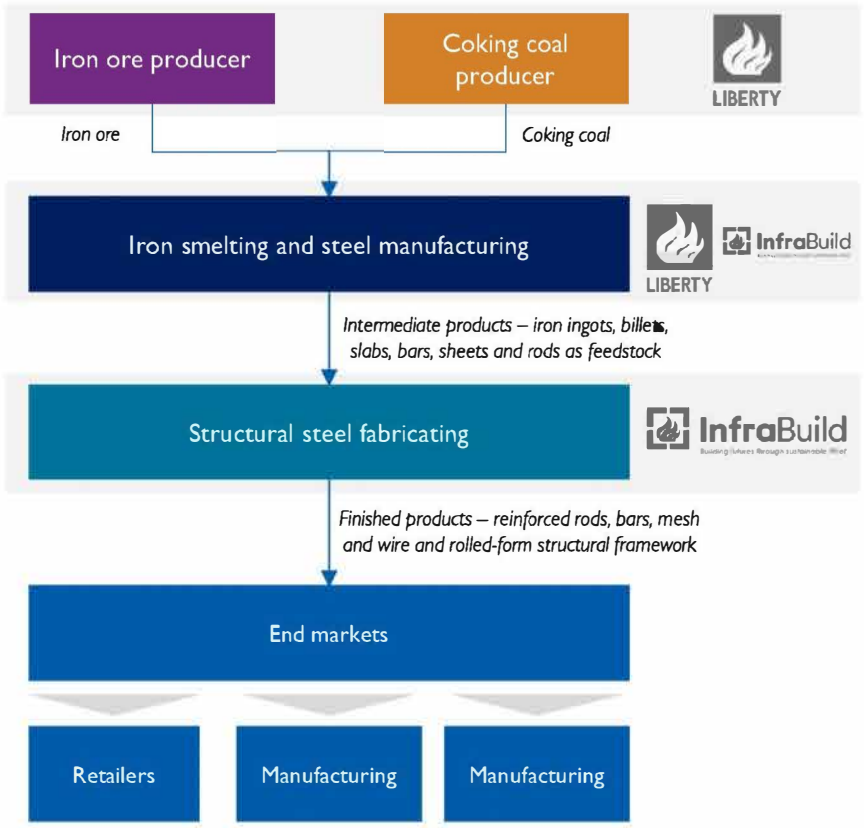
Australian steelworks industry

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Australian steelworks is a A$28bn industry comprised of several subset industries including iron smelting and steel manufacturing and structural steel fabricating.

Overview of the Australian steelworks industry

Operational flowchart *GFG involvement*



I Iron smelting and steel manufacturing in Australia

The Australian iron smelting and steel manufacturing industry comprises players who:

- manufacture refined iron ore into basic products such as iron ingots, billets and slabs
- convert steel into primary shapes such as sheets, bars and rods
- produce carbon and stainless steel

II Structural steel fabricating in Australia

The structural steel fabricating industry comprises players structural steel components that are used in buildings and other structures. Some manufacture include:

- reinforcing rods and bars
- reinforcing mesh and wire
- rolled-formed structural framework

Source: IBISWorld: Iron Smelting and Steel Manufacturing in Australia, IBIS World: Structural Steel Fabricating in Australia

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Macroeconomic environment

1 Australian steelworks: Iron smelting and steel manufacturing

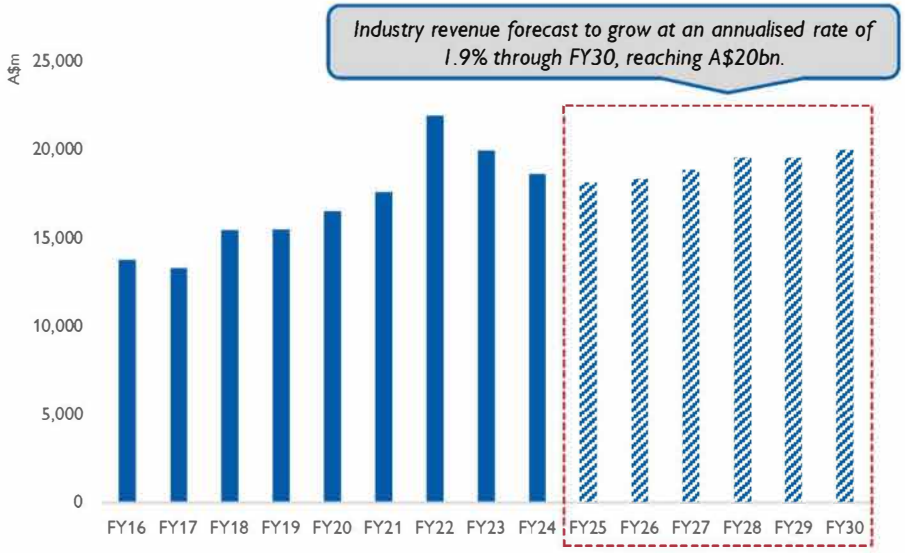
Iron smelting and steel manufacturing is a subset of Australian steelworks and is an A$18bn industry, dominated by a few major players. Industry growth is driven by demand from end industry, import competition, exchange rates and commodity prices.

Overview – industry size

A$18bn
FY25 Revenue

17,240
FY25 Employees

A$2.6bn
FY25 Wages



Major players

BlueScope

InfraBuild

LIBERTY

Industry drivers

Demand from end industries	▪ The industry is highly dependent on the demand from downstream industries such as the structural steel fabricating which in turn is dependent on demand from end industries, mainly construction ▪ Construction is commonly split into engineering, residential and non-residential construction ▪ See page 52 for more information
Import competition	▪ Alternative supply can be sourced internationally from countries like China and India which can be cheaper due to lower production costs ▪ Despite lower costs of imports, concerns around quality reliability and lead times exists
Exchange rate	▪ As the Australian dollar depreciates against the US dollar, imports become relatively more expensive, increasing the demand for locally produced steel ▪ See page 54 for more information
Iron ore prices Coking coal prices	▪ A key input in the manufacturing process of steel ▪ As a result, industry performance is directly correlated to these commodity prices ▪ See page 53 for more information
Structural steel prices	▪ The world price of steel directly impacts the competitiveness of domestic steel producers ▪ Higher world steel prices means imported steel is more expensive, raising domestic demand local produced steel

Source: IBISWorld: Iron Smelting and Steel Manufacturing in Australia

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Macroeconomic environment

II Australian steelworks: Structural steel fabricating in Australia

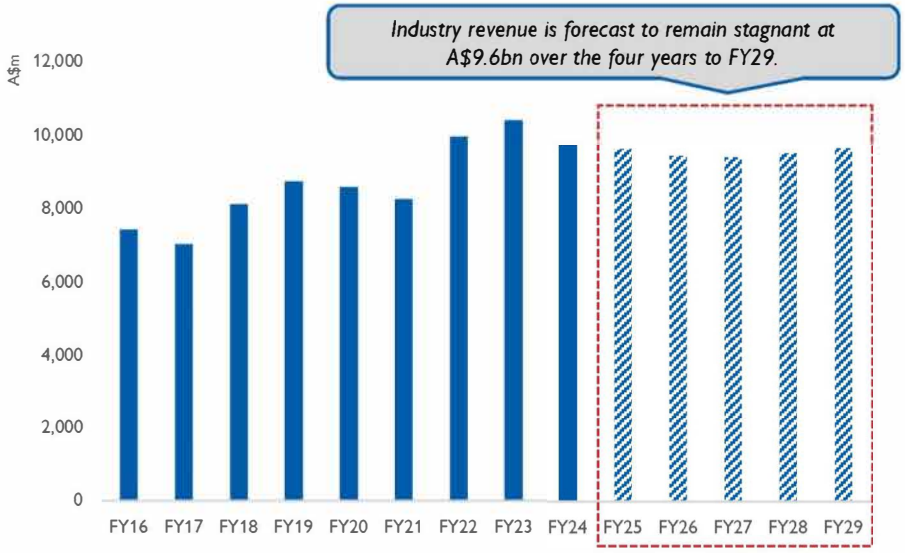
Structural steel fabricating is a subset of Australian steelworks and is a $9.6bn industry. Industry growth is driven largely by demand from end industries, import competition, substitute products and input cost fluctuations.

Overview – industry size

A$9.6bn
FY25 Revenue

20,554
FY25 Employees

A$1.7bn
FY25 Wages



Major players

BlueScope

InfraBuild

CIMIC

Industry drivers

Demand from end industries	▪ As the structural steel fabrication industry is predominantly involved in the production of finished building materials, impacts from demand fluctuations end industries are magnified – Residential and non-residential construction – Engineering construction – Other – mining, agriculture etc. ▪ See page 52 for more information
Import competition	▪ Alternative supply can be sourced internationally from countries like China and India which can be cheaper due to lower production costs ▪ Despite lower costs of imports, concerns around quality and reliability exists ▪ The exchange rate also impacts the level of import competition – see page 54
Substitute products	▪ The industry remains exposed to substitution by alternative materials such as aluminium, concrete, composites plastic and fabricated timber ▪ Steel is superior to many of its alternatives but can be substituted in situations where its full range of benefits isn't needed
Cost fluctuations	▪ As the structural steel fabricating industry is dependent on feedstock of billets, ingots, sheets, bars and other intermediate products, prices of inputs such as iron ore and coal are highly correlated to industry performance

Source: IBISWorld: Structural Steel Fabricating in Australia

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Macroeconomic environment

End industry demand: Construction

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The construction industry, comprising engineering, residential, and non-residential sectors, is the largest end customer of the Australian steelworks industry. Fluctuations in demand greatly impact the financial performance of Australian steelworks.

Construction industry

- Australia's construction industry is one of the largest growth sectors in the national economy, representing approximately A$259b of construction work completed in Q32024 LTM
- Materials commonly used include construction steel, concrete and aggregate products, flat metal, plastic and metal pipes and structural timber
- Historically, the three construction end markets which require construction steel have risen and fallen at different times
  - This diversification of market cycles provides a degree of stability for the industry

Engineering

- The engineering construction end market refers to construction work undertaken as part of major public and private infrastructure projects (roads, railways, bridges etc)
- Industry revenue forecast to increase from A$79bn in FY23 to A$89bn by FY28 representing a CAGR of 2.3%
- Key drivers of the anticipated future growth of the industry, is the large pipeline of major funded private and public infrastructure projects to support expected population growth
  - In its 24/25 budget, the Federal Government committed to >A$64.5bn of transportation and communication infrastructure spending over the next four years

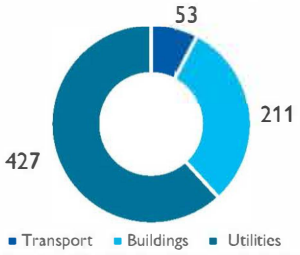
Residential

- The residential construction industry refers to expenditure relating to the construction of residential houses, units and townhouses
- Home commencements are expected to increase from ~172,000 in FY23 to ~258,000 by FY28, a CAGR of 8.4%
- Industry activity is supported by fundamentals in expected net migration into the country. Australia has one of the fastest growing populations in the developed world, and is expected to continue to grow at a CAGR of 1.5% from CY22 through to CY28
- The level of sustained population growth requires new housing infrastructure expenditure to expand the capacity and efficiency of Australia's infrastructure network

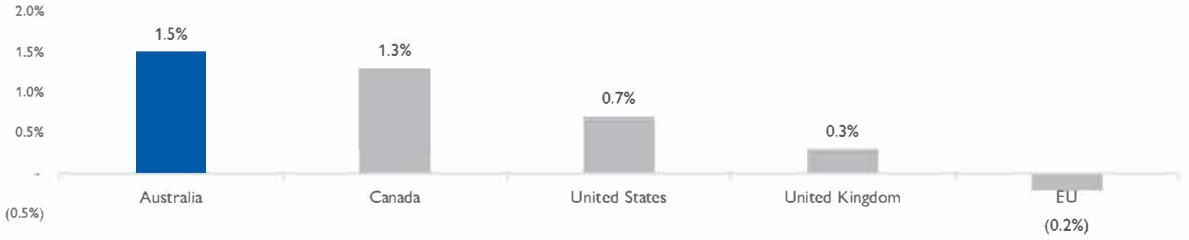
Non-residential

- The non-residential construction industry comprises a range of sub-sectors including office, education, retail, health and aged care, industrials and entertainment related construction
- Industry revenue is expected to increase from ~A$53bn in FY2023 to an estimated A$63bn by FY2028
- In recent years, growth has persisted across multiple industries. Key drivers include:
  - suburban offices: growth in white collar jobs from increased population growth
  - education: increase in foreign student migration
  - hotels: recovering tourism post-COVID

FY23 - FY28: Public infrastructure expenditure (A$b)



Population CAGR (2022 - 2028)



s 34

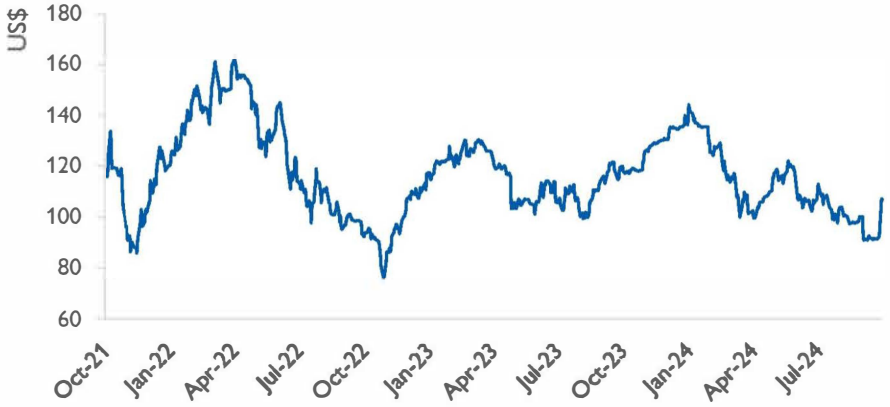
Macroeconomic environment

LEX 76386 - FOI - Document 17

Commodity inputs – Iron ore and metallurgical coal

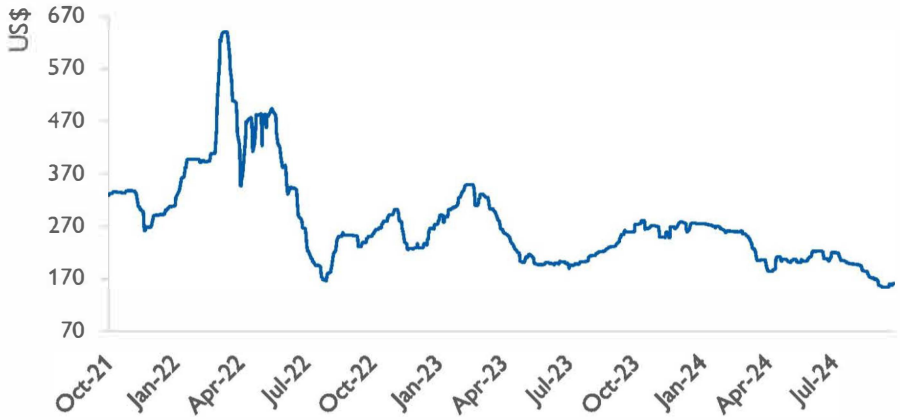
Iron ore and metallurgical coal prices, key inputs in the production of steel at Whyalla, have decreased significantly from 3-year highs.

Iron ore price – S&P Platts 62%Fe



- Iron ore is a key input that impacts the competitiveness of the operation in OneSteel Manufacturing / Whyalla steelworks as such, fluctuations in the commodity price directly
- As iron ore prices rise, the cost of manufacturing steel rises increases
- Historically, Middleback Ranges, the iron ore operations of Liberty Primary Metals Australia, has kept the group afloat through greater revenues realised through exports
- With the hematite resource almost completely depleted, the Group becomes more sensitive to price rises as it is unable to profit from higher prices
- The price of iron ore has decreased from a high of ~US$160/t in 2022

Metallurgical coal price – TSI Hard Coking Coal Australia Export FOB East Coast Port



- Metallurgical coal is a critical input for steelmaking at facilities which use blast furnaces, like Whyalla steelworks
- The price of coal has decreased significantly from a high of ~US$880/t in March 2022 to now. Coal price is at its lowest point in the last 3 years of ~$US235/t
- The Group benefits from a higher coal price through increased export revenues from its Tahmoor Coal mines
- The performance of Whyalla steelworks is directly influenced by fluctuations in coal prices
- The net group exposure to coal prices is unclear

Source: S&P Capital IQ
Market data as at 4 October 2024

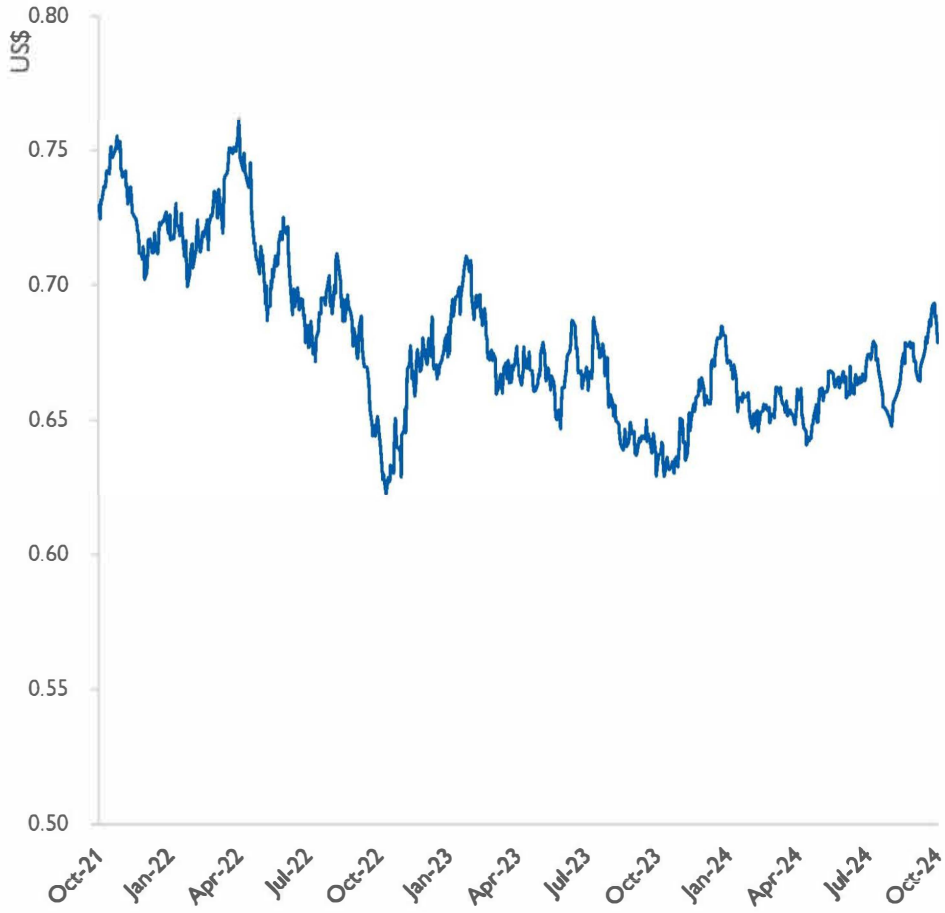
STRICTLY CONFIDENTIAL

Macroeconomic environment

AUD:USD

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Historical analysis of the exchange rate between the Australian dollar and US dollar.



Commentary

- The Australian dollar has weakened against the US dollar in the last three years
  - High: US$0.76 in April 2022
  - Low: US$0.62 in October 2022
  - Current: US$0.68
- The exchange rate between the Australian dollar and the US dollar has a direct correlation to the amount of import competition of Whyalla's intermediate structural steel products
- As the Australian dollar weakens against the US dollar, the relative cost of imported competing products increases, enhancing the competitive position of Whyalla's offering

Source: S&P Capital IQ
Market data as at 4 October 2024

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Macroeconomic environment

Upper Spencer Gulf green steel tailwinds

Stakeholders at all levels – from corporate entities within GFG to the South Australian and Federal Governments – have announced commitments to support the development of a green steel supply chain in South Australia.

Growing supply and demand-side support for green steel

- Currently, iron and steel manufacturing is the most carbon intensive industry in the world
- Demand for green steel is forecast to surge over the short and long term as the world seeks to decarbonise(1)
- The federal and state governments, and private companies have announced plans to support the transition of steelmaking infrastructure in the Upper Spencer Gulf to green energy production facilities
- The SA Govt. predict that once viability of green hydrogen has been realised and integrated with the steelworks, there is potential to produce up to 1.5 million tonnes of green steel per annum – a 50% increase in production capacity, supporting over 2,500 jobs

Key enablers of the transition to green steel

1. **Secure supply of magnetite iron ore** – SA has ~18.8b tonnes of magnetite resources
2. **Installation of a Direct Reduction Iron (DRI) plant**
   - Whyalla to transition from traditional blast furnaces powered by metallurgical coal to a low-carbon EAF
3. **Access to a clean fuel source** that replaces metallurgical coal e.g. green hydrogen

Recent commitments supporting the Upper Spencer Gulf

Federal Government – Future Made in Australia 2024

- Streamlining approvals and foreign investment: **A$170.6m**
- Support of the commercialisation of critical net-zero technology: **A$4.9b**
- Production incentives: **A$2 / kg** of renewable hydrogen produced

South Australian Government – State Prosperity Project

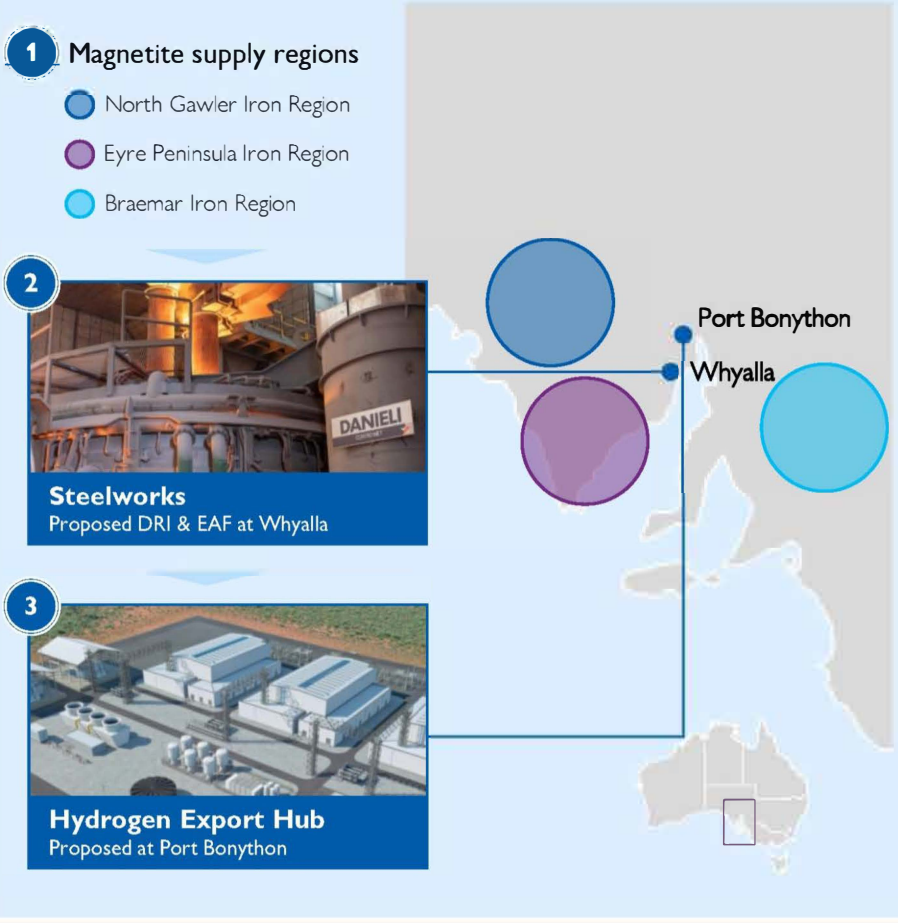
- Commitment to develop infrastructure of Port Bonython Hydrogen Export Hub: **A$100m**

GFG Alliance – Liberty Primary Metals Australia

- Commitment to electric arc furnace: **A$485m** *(note total announced cost of EAF varies)*
  - Supply contract with Danieli has not materialised

The Upper Spencer Gulf's green steel transition

Existing & proposed green steel supply chain infrastructure



Source: SA Govt – Energy and Minng: Magnetite South Australia, SA Govt – State Prosperity Project, Parliament of Australia: Future Made in Australia Bill 2024, GFG company announcement 4th April 2023
Notes: (1) According to SA Govt – State Prosperity Project, Parliament of Australia: Future Made in Australia Bill 2024

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Doc 3

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Doc 3

s 34

Doc 8

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DEPARTMENT OF INDUSTRY, SCIENCE AND RESOURCES

MB24-000946

To: Minister for Industry and Science

MEETING WITH SENATOR JACQUI LAMBIE

Timing: 11.00am – 11.30am, Wednesday 20 November 2024, M1.49, Australian Parliament House

Meeting with: Senator Jacqui Lambie, Senator for Tasmania

Proposed note taker: N/A

What we want: To outline the Albanese Government's vision for a Future Made in Australia and priorities in the Industry and Science portfolio. Discussion points are at Attachment A.

What they want: s 22

s 22

Prior meetings: None advised.

Issues and Sensitivities:

1. s 22

2. Senator Lambie visited the Upper Spencer Gulf Region, including Whyalla, in late October 2024 and may wish to discuss government intervention to prevent closure of the Whyalla Steelworks. The possibility of closure could be used to question the credibility of Future Made in Australia and renewable energy commitments. Actual closure would have significant local economic and social impacts.

3. s 22

4.

5. Background is at Attachment B and a biography at Attachment C.

Clearing Officer:	Dwayne Purdy	A/g General Manager, Budget and Portfolio Policy Branch	s 22
Contact Officer:	s 22	A/g Manager, Portfolio Priorities Team	s 22
For Parliamentary Services' use only. Date Submitted to the Minister's office in PDMS:			11/11/2024

Consultation: YES

6. Sovereign Capability and Supply Chains Division; Industry and Manufacturing Division; AusIndustry; Technology and Digital Division; Science Division; Strategic Examination of R&D.

Attachments:

A: Discussion points

B: Background

C: About the Organisation and Biography

Discussion Points

Future Made in Australia (FMA)

- The Government's FMA agenda is investing $22.7 billion over the next decade to secure Australia's place in a changing global economic and strategic landscape.
- The Government has introduced legislation that sets out a National Interest Framework, sector assessment process and community benefit principles to guide public investment in the national interest.
- The establishment of a new front door for investors will make it simpler to invest in major, transformational investment proposals.
- The $1.7 billion FMA Innovation Fund will accelerate innovation in priority areas, including renewable hydrogen, green metals, low carbon liquid fuels and clean energy technology manufacturing such as batteries and electrolysers.
- Our $18.1 million Green Metals Foundational Initiatives will expedite the emergence of Australia's green metals industry.
- The Battery Breakthrough provides $523.2 million in targeted funding to support battery manufacturers to build scale and move up the battery value chain in Australia.
- We are supporting Australian industry through existing programs, including the Research and Development Tax Incentive, the Cooperative Research Centres Program, the Industry Growth Program and the $15 million National Reconstruction Fund.

If asked: Whyalla Steelworks

- We are closely monitoring the financial and operational challenges facing the current owner of the Whyalla Steelworks, GFG Alliance.

- We are looking at the transition and future sustainability of Australian steel holistically, including through our FMA agenda.
- There are challenges in dealing with the current operator.
- Despite $113.2 million of State and Commonwealth funding being available to support the steelworks, milestones are not progressing.
- I am working closely with the South Australian Government to consider available and appropriate steps, should the situation worsen.
- My department is also connected with federal employment and social services to provide support to the community as needed.

Safe and responsible AI and use of AI in elections

s 22

ATTACHMENT B

BACKGROUND

Safe and responsible AI

s 22

Use of AI in election campaigns

s 22

s 22

Green metals

- The Future Made in Australia National Interest Framework prioritises Australian manufacturing of green iron, steel, alumina and aluminium, in recognition of our strong comparative advantages and growing global and domestic demand for these products.

s 22

s 22

Whyalla Steelworks

- The owner of the Whyalla Steelworks, Mr Sanjeev Gupta, is facing significant global debts and operational challenges here and in Europe.
- Whyalla Steelworks is currently the only domestic supplier of steel rail track products. The facility also supplies steel products to the rolling stock manufacturing industry. The department understands imported alternative products are available to mitigate potential domestic supply chain interruptions, but extended lead times are likely.
- $113.2 million has been made available to support the steelworks, comprising $50 million in state government funding and $63.2 million in Australian Government funding.
- The current operator of the Whyalla Steelworks has long made strong representations, but has not been forthcoming in making investments in the future of the operation.

Batteries

- The National Battery Strategy is a key part of the Government's Future Made in Australia agenda and sets out the government's plan for building a diverse and competitive Australian battery industry that will improve Australia's economic resilience and security.

s 22

National Reconstruction Fund

s 22

Industry Growth Program (IGP)

s 22

Science

- The Government has updated the National Science Statement and National Science and Research Priorities to reflect the big challenges and disruptions facing our country and our planet. The new National Science Statement places science at the forefront of Australia's industrial transformation and our commitment to a Future Made in Australia.

s 22

Strategic Examination of Research and Development

s 22

AusIndustry Insights – Key Challenges, Priorities and Projects in Tasmania

s 22

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s 22

ATTACHMENT C

ABOUT THE ORGANISATION

The Jacqui Lambie Network is an Australian political party formed on 14 May 2015. The party currently has two elected members: Jacqui Lambie in the Australian Senate and Andrew Jenner in the Tasmanian House of Assembly. The party frames its mission as 'giving a leg up to the little guy'.

BIOGRAPHY



Ms Jacqui Lambie, Senator for Tasmania, Australian Senate, & Leader of the Jacqui Lambie Network.

Senator Lambie has served as the Senator for Tasmania since 2019, having previously served as Senator from 2014-2017.

Senator Lambie began her political career working for Tasmanian Labor senator Nick Sherry in 2008. She joined the Liberal Party of Australia in November 2011, and ran for preselection for the Division of Braddon. She subsequently left the party.

In the 2013 federal election, Ms Lambie won Tasmania's sixth Senate seat as a candidate for the Palmer United Party. However, she left the party in November 2014, due to disagreements with Party Leader Clive Palmer. She remained in the Senate as an independent.

In May 2015, Ms Lambie established the Jacqui Lambie Network, winning re-election for the party in the 2016 federal election.

After resigning from the senate on 14 November 2016 under Section 44 of the Australian Constitution, due to holding a dual nationality, Lambie was re-elected to the Senate at the 2019 election.

Prior to entering into politics, Ms Lambie served in the Australian Army from 1989-2000, achieving the rank of Corporal before being discharged on medical grounds.

Senator Lambie is a Palawa woman, born in Ulverstone in north-western Tasmania.

Doc 10

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DEPARTMENT OF INDUSTRY, SCIENCE AND RESOURCES

MB24-000853

To: Minister for Industry and Science

VISIT TO SOUTH AUSTRALIA

Timing: 18 September 2024

Meeting with: To support your visit to South Australia, this brief provides overarching information about the state, prior departmental interactions with businesses, government and individuals and broad issues, sensitivities and discussion points.

Issues and Sensitivities:

Whyalla Steelworks

1. There has been significant media reporting on the Whyalla Steelworks, including:
   - retrenchments, with 45 jobs cut at the Steelworks and others in related mining operations;
   - delays to a shipment of coking coal;
   - reports of non-payment to contractors and suppliers;
   - reports of reduced maintenance and safety concerns.
2. Talking points for Whyalla Steelworks are at Attachment B.

Green metals

s 22

Defence Export Controls

s 22

Clearing Officer:	Celia Gleeson	General Manager, Whole of Government Policy and Priorities Branch	s 22
	Naomi Perdomo	General Manger, Whole of Government Policy and Priorities Branch	s 22
Contact Officer:	s 22	a/g Manager, Economic and Project Team	s 22
For Parliamentary Services' use only. Date Submitted to the Minister's office in PDMS:			17/9/2024

National Radioactive Waste Facility Kimba

s 22

Southern Launch permanent launch facility delay

s 22

Artificial Intelligence (AI)

s 22

PsiQuantum

s 22

Consultation: YES

12. Technology and Digital Division, Science Division, Commercialisation Division, Industry and Manufacturing Division, Sovereign Capability and Supply Chain Division, AusIndustry, Mineral and Resources Division, Oil and Gas Division, Australian Space Agency, Australian Radioactive Waste Agency.

Attachments:

A: Discussion Points

B: Q&As

C: Key State Facts

D: Departmental interactions

E: AusIndustry Insights

F: State and Local Economic Profiles for South Australia

Discussion points

National Reconstruction Fund

s 22

Future Made in Australia

- The Government will establish a new front door for investors with major, transformational investment proposals related to the Government's Future Made in Australia agenda to make it simpler to invest in Australia and attract more global and domestic capital.
- Treasury has commenced public consultation on the design, including the potential functions of the front door. These are detailed further in a consultation paper which can be found on the Treasury website.

National Battery Strategy

s 22

s 22

Government Tax incentive programs

s 22

Q&As

If asked about Whyalla Steelworks

- The Australian Government is aware of reports of non-payments and retrenchments at the Whyalla Steelworks.
- The Government is working with the South Australian Government, industry associations and businesses to understand the situation and monitor the impacts.
- We are committed to a Future Made in Australia – rebuilding Australian manufacturing is a large part of this. Green metals are identified as a priority sector under the Government's Future Made in Australia National Interest Framework.

If asked about providing Government funding to Liberty Steel Australia, part of the Gupta Family Group (GFG) Alliance

- On 31 January 2024, the Minister for Climate Change and Energy, the Hon Chris Bowen MP, and I made $63.2 million available to Liberty Steel Australia through the Powering the Regions Fund to support the commission of a low carbon electric arc furnace at the Whyalla Steelworks.
- The Powering the Regions Fund grant process included expert merit and technical assessment. Liberty Steel were assessed as suitable and recommended for funding by the expert committee.

If asked about the Southern Launch permanent launch facility delay

s 22

s 22

If asked about the PsiQuantum Market-led Proposal process

s 22

General commitments

If asked about the National Rail Manufacturing Plan

s 22

If asked about the National Robotics Strategy

s 22

If asked about the RNA Blueprint

s 22

If asked about Battery Breakthrough Industry Consultation

s 22

s 22

If asked about green metals

s 22

s 22

If asked about Safe and Responsible AI

s 22

If asked about the AI Adopt Program

s 22

s 22

If asked about the Next Generation Graduates Program

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ATTACHMENT C

Key South Australia (SA) Facts

Economy

- The state's employment market grew by 3.4 per cent in 2022-23 and is predicted to grow by 2 per cent in 2023-24. The unemployment rate is currently 32 per cent below the long-term average.
- SA's population has grown by 1.7 per cent from 2023 to 2024. Population growth is driven by net overseas migration, like other Australian states, but this growth rate is one of the lowest in the nation.
- The South Australian 2024-25 Budget states that gross state product (GSP) was estimated at 1.25 per cent for 2023-24, with growth forecasts of 1.75-2.0 per cent per year over the next 3 years.
- SA's biggest contributor to GSP is mining, followed by agriculture, fisheries and forestry, accommodation and food services, and transport, postal and warehousing. The industries with the most growth are accommodation and food services, art and recreation, and mining. The state's largest employers are health care and social services, followed by retail trade, and manufacturing. SA's biggest exports are wheat, education-related travel and copper.
- The South Australian 2023 *Economic Statement* sets 3 missions for the current state government:
    - Capitalise on the global green transition: Increase economic complexity, productivity and sustainability through leading in green industries and supply chains and moving up the value chain for green products.
    - Become partner of choice in an insecure world: Promote the state's stable and secure operating environment, which is ideal for industries such as defence and manufacturing, and the state's commitment to innovation.
    - Build South Australia's talent: Develop a highly skilled and dynamic workforce and nurture the state's high level of liveability to attract skilled workers.

Renewable energy

- SA has a strong uptake of renewable energy, with renewables generating 70 per cent of electricity demand in SA in 2022 and a target of 100 per cent renewable electricity by 2027.
- SA is home to the Hornsdale Power Reserve, Australia's first big battery constructed in 2018. SA government incentivises batteries with the $50 million Grid Scale Storage fund and $100 million home battery scheme for up to 40000 households.
- DCCEEW estimates a home battery can save the average SA household over $1,300 on their annual electricity bill when combined with solar – the largest saving of any state.

- The *South Australian Advanced Manufacturing Strategy* (the Strategy) identifies key industries for investment and growth, including defence and space, renewable energy and green hydrogen, and critical minerals and resources. It plans to grow the manufacturing sector in SA over 10 years from 6 per cent to 10 per cent of the economy and business research and development (R&D) from 25 per cent to 30 per cent. The Strategy aims to transition from current key manufacturing industries (food, machinery and equipment) to items up the value chain.

- The SA Government is currently working on a green industrial transition roadmap and a pathway strategy to reduce net greenhouse gas emissions by more than 50 per cent by 2030 and to achieve net zero emissions by 2050.

ATTACHMENT D

Recent departmental interactions

Science Division

Quantum and Photonics Industry

s 22

QuantX Labs

s 22

Commercialisation Division

Early-stage company case studies

s 22

s 22

National Startup Data Project

s 22

Industry and Manufacturing Division

Office of National Rail Industry Coordination (ONRIC)

s 22

RNA Blueprint

s 22

Green Metals

s 22

s 22

Sovereign Capability and Supply Chain Division

National Reconstruction Fund (NRF) Consultation Paper

s 22

Co-investment Plans Engagement

s 22

National Battery Strategy

s 22

s 22

Australian Space Agency

Active Grants

s 22

Minerals and Resources Division

Geoscientific Projects

s 22

Lithium-ion battery minerals

s 22

Technology and Digital Division

Artificial Intelligence

s 22

Next Generation Graduates Program

s 22

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s 22

AusIndustry Insights – Key Challenges and Projects in SA

Key issues impacting SA industry and businesses

Businesses, local councils, and industry organisations have identified several key challenges facing industry and communities in SA. These include:

Businesses across SA report **skills, labour and housing shortages** are restricting business growth and contributing to business closures. They note some of the most difficult skillsets to find in the region are electricians, welders, boilermakers, diesel mechanics, and other critical workers in the health, law enforcement and government sectors. Businesses state labour shortages are compounded by small labour forces and low unemployment, particularly in regional areas, a lack of training facilities for some trades, job poaching by higher paid roles in larger companies, and insufficient housing. In some cases, businesses state they are having to resort to the use of temporary accommodation measures, such as caravans, to house their staff.

The rising cost of doing business has impacted businesses in SA, with businesses reporting challenges due to inflation, interest rates and increased costs for energy, fuel, labour, materials, production and other inputs. Businesses note this is reducing profitability, increasing business risk, leading to demand decreases from consumers and business clients and causing businesses to reduce their workforce or operations, in some cases closing whole manufacturing lines. Industry stakeholders say business confidence is now "moving into the negative territory".

> *"We're probably only getting a third of the price of what you see on the shelf, despite having increased our prices twice in 2023 to meet costs."*

Multiple businesses reporting facing **difficulty accessing capital**, including to purchase a business or reinvest in their own, particularly in regional areas. They note financial institutions are hesitant to fund regional businesses, despite several large projects occurring nearby (including in decarbonisation and Net Zero initiatives). In some cases, they note lenders will not facilitate loans to a business over 200km outside of a city. Other businesses note if they do not secure funding, it would "effectively kill" their projects, and the biggest barrier to them receiving funding is the matched funding requirement in government grant programs.

Businesses and industry organisations report **the wine industry** in SA is in "a crisis bordering on catastrophe". They note the sector is struggling with a number of pressures, including the Chinese trade tariffs, a shift in wine consumption trends leading to an oversupply, water security issues, unsustainable prices below the cost of production, and increasing inputs for water, freight and production. Due to this, many growers say they are using equity at this point in time, selling assets to provide cashflow to their businesses, and are considering leaving their grapes to rot on the ground or pull out their vines entirely.

> *"The situation is desperate. The flow-on effects are plain to see – no-one has money to spend, no-one goes out to restaurants, no-one is buying tractors. We don't want to see the region become a ghost town."*

Industry stakeholders note businesses in SA face various **regional concerns**, including increasing anti-social behaviour and broader impacts on local industries and communities after business closures. They state crime in various regions is affecting business operations, with damage to premises, breaking and entering and shop lifting. Businesses state this is a "constant issue" affecting their bottom line, contributing to staff retention difficulties and leading to business closures. Industry stakeholders note the closure of businesses from various economic pressures has larger implications on surrounding regional communities and businesses. They say closures leave large areas with insufficient services and can affect the mental health of business owners and financial

viability of other local SMEs, including through delayed payments, job losses and contracts not being renewed – ultimately contributing to the rise in cost-of-living.

> *"Our business not only serviced our town – we also operated a freight service for our fresh fruit and vegetable goods to remote towns, and facilitated freight for other businesses in the town as well. It will leave a huge gap in the regional and remote community."*

Current SA State Government priorities

SA State Government's current priorities aim to address the challenges facing the state, including housing, health and cost-of-living pressures. The government also plans to invest in critical infrastructure, including health care services, child protection services, energy bill relief and disaster recovery assistance. These include:

- Additional **health care industry** investment of $2.3 billion over five years, including $1.3 billion over five years for additional hospital activity to meet demand pressures and ensure the health system is appropriately resourced.
- A $474.7 million **housing package** that aims to directly support the building of around 3600 homes over the next five years.
- $471.3 million in **cost-of-living relief** across several areas, including additional funding for non-Government organisations, expanded school breakfast program, increases to concessions and $254.4 million towards **energy bill relief.**
- The government is investing $216.6 million in **child protection and early intervention services**, including an additional $109.5 million in response to the increasing number of children and young people in non-family-based care.
- A **flood response and recovery package** that includes emergency accommodation assistance, travel assistance, clean-up and waste program, First Nations heritage protection, small business industry support grants and primary producer recovery grants.

Background information – SA projects and opportunities

Hydrogen Plant	Whyalla Jobs Plan: SA Government seeks to take a first mover advantage, through the building of a world leading **green hydrogen power station, electrolyser and storage facility** near Whyalla, in the state's Upper Spencer Gulf. The $593 million project will be operational by December 2025. The project includes: 250MW of electrolysers, 200MW of power generation, and hydrogen storage. There has been a focus on engaging with local providers in the early civil works packages. EntX, a clean energy tech company, is exploring the development of a **salt-cavern hydrogen storage** near Elliston on the Eyre Peninsula which would be significant, cheap storage of hydrogen. They estimate this would be a $4b project. GreenHill Energy: Planning is underway for a $425 million **hydrogen project** in regional SA, which is set to create about 300 jobs during construction, and around 50 to 100 direct employees through operation. The project could turn 200,000 tonnes of landfill into green hydrogen annually. Construction material supplier Hallet has agreed to partner with Elecseed and Korea Hydro and Nuclear Power Co (KHNP) to build a **6MW hydrogen plant** to power Hallet's $125 million green cement transformation project.
Renewable Energy Projects	**s 22**
Green Steel	Liberty Steel, part of GFG alliance announced the phase out of coal-based steelmaking at its Whyalla plant with the signing of a supply contract for a 160-tonne low carbon emissions (low carbon) **electric arc furnace**. The new furnace will lift steelmaking capacity at Whyalla from 1 million tonnes per annum (mtpa) to over 1.5mtpa. The $485 million new EAF and associated infrastructure would be funded by the business, with grant funding sought from SA government. ***Potential sensitivity:*** *Whyalla community held a meeting Sunday 15 September 2024 where over 100 community members attended to discuss their concerns with a state government independent.*
Green Cement	**s 22**

	s 22
Northern Water Supply Project	Northern Water Supply (NWS) project is assessing the viability of building a **desalination plant and pipelines** to meet the increasing demand for water by communities, agriculture and emerging green energy industries in the region. 450km of pipeline stretching into the South Australian outback will supply community, industry and Defence. This project is also vital to hydrogen developments and is connected to a desal plant situated at the top of Spencer Gulf at Port Bonython. Cost estimates are $3-4 billion. Economic models focusing on project activities and jobs indicate that $6 billion will be injected into the region's economy to 2050 as well as 4,000 new ongoing jobs, peaking at around 7,000 FTE by 2050. Industry stakeholders note that NWS' community engagement in the region is considered to be best practice, and it has been suggested that their process should be copied in other large scale projects.
Oak Dam Mine	s 22
Tech	
Defence Collaboration	

	s 22

Doc 17

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DEPARTMENT OF INDUSTRY, SCIENCE AND RESOURCES

MS24-001289

To: Minister for Industry and Science (For Decision)

WHYALLA STEELWORKS

Timing: URGENT

Recommendations:			
s 34			
Minister: Date:			
Comments:			
Clearing Officer:	James Flick	General Manager, Industry Policy Branch, Industry & Manufacturing Division	Ph: s 22 Mob: s 22
Contact Officer:	s 22	Manager Industrial Investment and Transition	Ph: s 22
For Parliamentary Services' use only. Date submitted to the Minister's office in PDMS: Date update was re-submitted in PDMS:			 12/09/2024 24/09/2024

Key Points:

s 34

s 34

2. While the Steelworks has faced several periods of uncertainty in recent years (see Attachment A – Background), the current situation is higher risk.

   a. Debts are significantly higher. GFG's South Australia (SA) businesses owe creditors around $180 million – impacting its ability to secure new goods and services. $74 million of this relates to local Whyalla suppliers, which is impacting the viability of these local businesses and causing related redundancies.

   b. GFG is "reducing all non-essential spending and prioritising areas that are safety critical and essential for production"[1] in the context of a market downturn. 116 new contractor cuts have also been announced in the associated mining operations.

   c. There is continued risk of operational failure, with reports of reduced preventative maintenance on the ageing blast furnace, planned and unplanned shutdowns, and periods of 'hot idle'. Safety concerns have been raised in the media. DEWR is aware of these and is liaising with SafeWork SA.

   d. Bluescope stepped in to assist GFG in repairing the Whyalla blast furnace when it was out of operation March to July 2024. Bluescope also supplied coking coal to GFG earlier this month so that operations could continue when a shipment from China was delayed.

   e. In comparison to previous periods of uncertainty (e.g. 2021 Greensill Capital collapse), lower commodity prices reduce GFG's ability to cross-subsidise the Steelworks with its associated SA mining operations.

s 34

4. Closure would have a significant impact on the Whyalla region, with around 25% of the workforce reliant on the Steelworks that directly employs 1,100 people. And development of the Upper Spencer Gulf is a priority for both governments, with close connections to Commonwealth priorities.

[1] ABC News 10 September 2024 https://www.abc.net.au/news/2024-09-10/safety-concerns-raised-at-whyalla-steelworks/104329310

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s 34

Data referenced:

10. Data on financial situation provided by SA Government Steel Taskforce.

Consultation: YES. PM&C; Treasury; DEWR; DCCEEW; NZEA; SA Department of Energy and Mining.

ATTACHMENTS

A: Background

B: Whyalla Steelworks one page overview

ATTACHMENT A

Background

Facts: GFG and the Whyalla Steelworks

- Liberty Primary Steel's Whyalla Steelworks is owned by GFG Alliance (GFG). GFG is headquartered in London, UK and privately owned by Sanjeev Gupta.
- GFG's "Mining and Primary Steel" (MPS) group includes the Steelworks; Whyalla region iron ore mining assets; Whyalla Port; and Tahmoor Coal.
- Separately, GFG also operates a steel manufacturing, recycling and distribution business on the east coast of Australia as InfraBuild. This group is profitable and is structurally apart from the Whyalla operations.
- The Steelworks produces 0.89 Mt of steel (2023), primarily rail steel and steel sleeper systems and structural steel for the construction industry.
- The Steelworks faces considerable challenges to its long-term viability. It sits deep in the 4th quartile (least competitive) of global steel facilities on a cash cost basis, amidst softening global steel prices.
    - Whyalla Steelworks is a Safeguard Mechanism facility. For 2022-23 it reported Scope 1 emissions of 1.95 Mt CO_2-e, and is Australia's 5th highest emitting industrial facility.
    - Losses from the Steelworks have in recent years been subsidised by profits from other parts of the MPS group (iron ore mines in the Middleback ranges; coking coal mine in Tahmoor; and the Whyalla Port). These assets are understood to now only be breaking even, with lower iron ore and coal prices expected to continue, and GFG's magnetite plans yet to be financed.

Context: Long term challenges

- GFG Alliance is a privately owned company, with complex intra-company ownership structures.
- GFG's business model of purchasing distressed metals businesses around the world has had limited success turning a profit.
- Globally the GFG Alliance remains under pressure to repay debts and restart idled assets, limiting the ability of the Whyalla Steelworks to rely on intra-company lending from the broader group.

History of Steelworks ownership

- GFG purchased Arrium Group, which was under voluntary administration, in September 2017 under the name Liberty OneSteel. The sale included the Whyalla Steelworks, mining operations in South Australia and its East Coast steel business.
- In 2021, financier Greensill Capital (a major financier of GFG operations, including the Whyalla steelworks) entered administration. A DISR-led taskforce was stood up to monitor this issue.
    - In May 2021, the UK Serious Fraud Office confirmed it was investigating suspected fraud, fraudulent trading, and money laundering in relation to the financing and conduct of GFG's financing arrangements with Greensill Capital.

- The GFG CEO and Chairman remains under investigation in the UK and France for fraud and money laundering.
- In October 2021 GFG reached a debt restructuring deal with Credit Suisse.

The Whyalla region is heavily reliant on the steelworks

- The Whyalla Steelworks accounts for around 25% of Whyalla's employment. Steelworkers are relatively highly paid, making up around 40% of Whyalla workers earning more than $1,750 per week.
- In the event of closure, there are limited comparable options for displaced steelworkers in Whyalla. The jobs of those employed in the steelmaking supply chain will likely also be at risk.

Future plans for the region and steelworks

- *GFG* has consistently expressed an ambition for the steelworks to evolve into a modern, globally competitive, sustainable green steel facility.
  - The plan includes a direct reduced iron (DRI) facility, replacing the blast furnace with an electric arc furnace (EAF), and a heavy-section combination rolling mill.
  - The plan aims to position Whyalla to become a world-leading, carbon-neutral steel producer, using SA's magnetite resources and natural gas, moving to green hydrogen produced from renewable energy.
  - GFG has not demonstrated the ability or any progress towards financing these plans.
  - GFG has delayed related contracts for this project out to 2027. The Commonwealth has made $63.2 million available towards the EAF installation under the Powering the Regions Fund.
- *The Commonwealth*, in addition to a Powering the Regions Fund grant, is leading non-binding negotiations with the South Australian Government through the NZEA to support the net zero transformation of the Upper Spencer Gulf.
- *The South Australian Government* has a standing $50 million offer of support towards the upgrade of the Whyalla Steelworks (since 2017), that is yet to be taken up by GFG.
  - In February 2024, GFG Alliance signed an agreement with the South Australian Government to explore opportunities for the supply of hydrogen from its 250MW electrolyser in Whyalla to support the transformation to green iron and steel.
- And *governments* continue to collaborate on South Australia's State Prosperity Project, including:
  - $593m Hydrogen Jobs Plan for a hydrogen production, power plant and storage facility near Whyalla.
  - $100m Hydrogen export hub announced for Port Bonython ($30m SA; $70m Commonwealth).
  - Supporting technical pre-planning for the proposed Northern Water Supply Project ($65m Australian Government through the NZEA, $230m SA and industry).

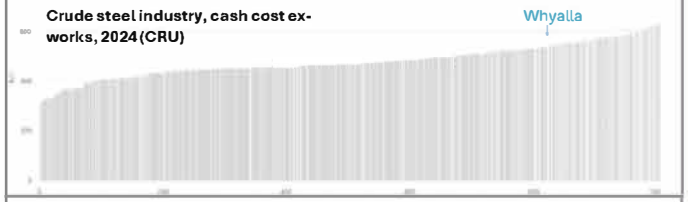
Doc 17 (Attachment B)

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Whyalla Steelworks – Overview

About Whyalla Steelworks

Owner	Gupta Family Group (GFG) Alliance
Jobs	1,100 / ~3,000 direct and indirect
Scope 1 emissions	1.95Mt CO_2-e (2022-23). #5 highest emitting industrial facility.
Annual production	0.89Mt steel (2023)
Cost quartile	4th (ie least competitive)



Whyalla region and the Steelworks

- ~25% of Whyalla employment
- Highly paid – steelworkers comprise ~40% of Whyalla workers earning > $1,750 per week
- Limited options for displaced steelworkers to find similar work in Whyalla
- Workers in the steelmaking supply chain likely at risk



- **Linked to other GFG assets** in the region include hematite and magnetite mines (SIMEC) in the Middle Back Ranges, port.

Challenges and risks

- 4th quartile cost competitiveness, softening steel prices.
- Reports Steelworks losing $1m / day.
- Increasing overdue debts, cost-cutting, and reports of transfers amongst GFG group companies.
- 49 jobs cut in August 2024, and reports of redundancies at supplier businesses
- Reduced preventative maintenance on ageing blast furnace. Blast furnace out of operation March – July and future shutdowns expected.
- Globally, GFG under pressure to repay debts and restart idled assets. GFG CEO and Chairman under investigation in the UK and France for fraud and money laundering.
- High risk of non-delivery on green iron and steel, EAF commissioning – needs significant finance.
- Whyalla mining operations: lower iron ore and met coal prices expected to continue; magnetite plans yet to be financed; 56 contract jobs lost in May. No longer cross-subsidising Steelworks.

There are plans for Upper Spencer Gulf, but significant lead times

- GFG's $8b Green Iron & Steel Strategy is not yet financed.
- NZEA leading non-binding negotiations with SA to support net zero transformation of the Upper Spencer Gulf.
- South Australian State Prosperity Project, including:
  - $593m Hydrogen Jobs Plan for a hydrogen production, power plant and storage facility near Whyalla.
  - $100m Hydrogen export hub announced for Port Bonython ($30m SA; $70m Commonwealth).
  - Supporting technical pre-planning for the proposed Northern Water Supply Project ($65m Australian Government through the NZEA, $230m SA and industry)
  - EOI for industry partners to jointly investigate the development of a hydrogen-based DRI plant in the state.
- South Australia has a standing $50 million offer of support for the upgrade of the Whyalla Steelworks (since 2017)

Current Commonwealth Support

Program / Project	Recipient	Grant $	Est project $	Dates	Notes
Powering the Regions Fund – Electric arc furnace purchase	OneSteel	$63.2m	Varies $485m - $2b	Announced Jan 2024; Executed April 2024; End 2027	Ability to deliver, finance unclear. Commissioning pushed back to 2027
Local Industry Grant – Steel Processing and Galvanising Plant in Whyalla	Ferretti	$15m	Unknown	Announced 2021 Ended 2023	Terminated. $10m not spent, BGH seeking repayment of $5m

1965

- Steelworks starts production

2000

- BHP spins out steelworks under OneSteel, later renamed Arrium

2016

- DISR-led Taskforce (2016-17)
- Arrium enters voluntary administration

2017

- GFG purchases steelworks under the name Liberty OneSteel

2021

- DISR-led Taskforce (2021)
- Feb: Ferretti awarded $15m to upgrade Whyalla manufacturing facilities
- March: Financier Greensill enters administration
- Oct: GFG reaches debt restructuring deal with Credit Suisse
- UK and France announce GFG investigations

2023

- Feb: GFG acquires AARTEE Group, owners of Ferretti
- April: GFG announces $485m EAF contract
- June: Ferretti project ends with $10m underspend, $5m to be recouped

2024

- Jan: GFG awarded $63.2m through PRF towards EAF project.
- March - July: Blast furnace goes out of operation, steel production stopped.
- Aug - Sept: 49 jobs cut, shutdowns amid coal supply issues, reports of non-payments.

Sept 2024