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PUBLIC RECORD VERSION - VICMESH-Case No 301

October 21, 2015

The Director  
Operations1  
Anti-Dumping Commission  
GPO Box 1632  
Melbourne Vic 3001  
Via email: [operations1@adcommission.gov.au](mailto:operations1@adcommission.gov.au)

Dear Director,

**Anti-Dumping Notice No 2015/95**  
**Rod in Coils ex China**

This submission on behalf of the affected importer, 'Vicmesh', is made in support of the evidence provided in the Commission's importer visit report and the submission dated 15<sup>th</sup> October 2015.

On the 19<sup>th</sup> October 2015, the applicant's parent company, 'Arrium - Mining and Material', provided the attached presentation which is considered to be of critical relevance to the Commission's determination on the applicants claimed injury and causation.

One of the most relevant, if not standout, considerations is the presentations graphic on page 23 headed 'Domestic steel pricing structure' which, as the name suggests, demonstrates how the applicant structures its domestic pricing, including the goods under consideration:-

- It starts with the apparent FIS price of the imported product.(say, import parity price)
- It then ADDS to the 'import parity price' three non-cash cost factors including:-
  - 1. An amount for Forex because of the three months lag from order (date of sale) to arrival into store; (The A\$ has depreciated 34% against the US\$ over the injury period.)
  - 2. An amount for dumping duty which the applicant described as 'trade measures';
  - 3. An amount for 'local premium', being what we have previously claimed as being the domestic price premium for the factors described in the presentation.

**CONCLUSIONS:**

1. The applicant is clearly able to quantify the non-cash components depicted in the graphic and should be required to do so to the Commission in a transparent and honest manner.
2. The so termed 'trade measures' amount from its anti-dumping business model is only intended to remove the necessary level of injury caused by imports that have been found to have been dumped on the basis of positive evidence, but the applicant appears to treat that amount as a cost element for unintended market protection being a positive competitive cost benefit.
3. The graphic demonstrates the applicant has an actual amount for domestic price premium.

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## REQUESTS:

1. In its habitual price undercutting exercise the Commission needs to adjust the applicants nett selling prices to third party customers by the three non-cash 'cost' elements it adds to its apparent import parity price guesstimate, which in reality are more than likely what is termed 'price bait' and not from any actual contractual orders of up to three months prior.
2. The Commission needs to actively engage with the 'other' importers namely those importers of the relevant goods from other sources, i.e. New Zealand, and those other importers being other than 'Vicmesh' and 'Stemcor' as notified on the 7<sup>th</sup> October 2015.
3. The Commission also needs to, as a matter of urgency, publish a meaningful visit report from its verification of the applicants' claims to enable affected and interested entities due process on the injury claims which simply run counter to both, the parent company's 2015 annual report, and the attached 'Arrium' presentation.

## OTHER CONSIDERATIONS:

- Page 10 of the attached presentation states the applicant is No 1 in Australian Reinforcing; No 1 in Australian Wire; and No 1 in general Australian distribution with a National footprint, meaning that the applicant has the demonstrable market power, and is the price leader.
- Pages 11 & 13 on the applicants integrated value chain, demonstrates it has two separate, independent processing operations, namely, Onesteel Reinforcing and ARC.
- The presentation also states that Onesteel Rod and Bar, is a 'flexible and reliable manufacturer of billet, rebar, rod & mebar into our chosen distribution channels', the most relevant words being 'our chosen distribution channels' demonstrating that the applicant is clearly not prepared to supply each and every purchaser etc.

## ONESTEEL APPLICATION:

The application comprised certain attachments including the EU (EC) No 703/2009 decision on imports including those from China (and Valin).

This EC decision was based on imports into the 'community' during the period 1/4/2007 and 31/03/2008, and given the time period, the cost environment, etc., that report is of no relevance to this investigation other than the methodology employed on injury.

The period for the EC investigation was historically the highest demand driven and thus abnormal realised price premiums on steel products generally.

As the Arrium Limited Annual Report for 2015 and the attached presentation observe, the current cost and price environment is the lowest for at least 10 years.

What the EC report does contain of relevance is its treatment of the producers' internal transfers, or what it describes as being 'captive use' of subject goods by the integrated producers.

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Para 54 of the EC Report states:

- “However, in accordance with the consistent practices of the Commission, captive use, i.e., internal transfers of the like product within the integrated community producers for further processing has not been included in the community consumption because those internal transfers are not in competition with sales from independent suppliers in the free market.”
- The EC reference to ‘free market’, in our view, is the same market segment that the Anti-Dumping Commission has referred to as being the ‘trade exposed market’, and in our opinion, the relevant market for injury etc., as claimed in our previous submission dated 15<sup>th</sup> October 2015.
- Para 106 of the EC report is also supportive of our claims that for injury determinations, the price comparisons should be at the ‘ex-works’ level, especially with respect to profit considerations.
- Whilst the outcome of the EC report (apart from the methodology referred to) has very limited utility for this current period of investigation, it ,in any event, only resulted in an injury elimination margin of 7.9% for Valin which, for obvious reasons, has no relevance to current input costs and pricing etc.

The Onesteel application also makes some reference to the US administration findings on imports of Wire Rod from China during the year 2013. The US administration employs a very different methodology to the Australian system and as such should be treated with caution.

Additionally, the Anti-Dumping Commissions previous investigation on the subject goods, namely Case No 240, is considered to have been deficient in its consideration of causation, cumulation and injury.

The Arrium limited 2015 Annual Report and the attached Arrium presentation clearly demonstrate that the applicant’s claims on material injury need to be seriously considered by the Commission in that there appears to be insufficient grounds for providing any remedy by way of provisional or final measures.

Please contact the writer for any clarification or further information relating to this submission.

Regards,



M J Howard



# Steel and Recycling Tour

**Steve Hamer – Chief Executive Steel**  
**Geoff Feurtado – Chief Executive Recycling**  
**19 October 2015**

This presentation contains certain forward-looking statements with respect to the financial condition, results of operations and business of Arrium and certain plans and objectives of the management of Arrium. Forward-looking statements can generally be identified by the use of words such as 'project', 'foresee', 'plan', 'expect', 'aim', 'intend', 'anticipate', 'believe', 'estimate', 'may', 'should', 'will' or similar expressions. All such forward looking statements involve known and unknown risks, significant uncertainties, assumptions, contingencies and other factors, many of which are outside the control of Arrium, which may cause the actual results or performance of Arrium to be materially different from any future results or performance expressed or implied by such forward looking statements. Such forward-looking statements speak only as of the date of this presentation. Factors that could cause actual results or performance to differ materially include without limitation the following: risks and uncertainties associated with the Australian and global economic environment and capital market conditions, the cyclical nature of the steel industry, the level of activity in the construction, manufacturing, mining, agricultural and automotive industries in Australia and North and South America and, to a lesser extent, the same industries in Asia and New Zealand, mining activity in the Americas, commodity price fluctuations, fluctuations in foreign currency exchange and interest rates, competition, Arrium's relationships with, and the financial condition of, its suppliers and customers, legislative changes, regulatory changes or other changes in the laws which affect Arrium's business, including environmental laws, a carbon tax, mining tax and operational risk. The foregoing list of important factors is not exhaustive. There can be no assurance that actual outcomes will not differ materially from these statements.

Unless otherwise stated, this presentation contains certain non-statutory financial measures including underlying EBIT, underlying EBITDA, underlying NPAT, underlying earnings per share and underlying effective tax rate. These measures are used to assist the reader understand the financial performance of the company's operations. Non-statutory financial information has not been audited or reviewed as part of KPMG's audit of the FY15 Financial Report. However, KPMG have undertaken a set of procedures to agree the financial information in this presentation to underlying information supplied by the company. The Directors believe that using these non-statutory financial measures appropriately represents the financial performance of the Group's operations. Other than results for the Mining Consumables segment, segment results referred to throughout this presentation are those reported in the 2015 Financial Report. Results for the Mining Consumables segment are the results of its total operations over the 12 months ended 30 June 2015, including continuing and discontinued operations. Except as otherwise stated, other Segment results are equivalent to segment underlying results for continuing operations only. Details of the reconciliation between non-statutory and statutory financial measures can be found in Arrium's FY15 financial results materials, released on 19 August 2015. For further information, refer to Arrium's FY15 financial results materials including the FY15 ASX Release and the FY15 Financial Report for the 12 months ended 30 June 2015.

All balance sheet items are based on statutory financial information. Except as otherwise expressed, references in this document to net profit/loss after tax refer to net profit/loss attributable to equity holders of the parent.



# Steel

**Steve Hamer – Chief Executive Steel**  
**19 October 2015**

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# Overview

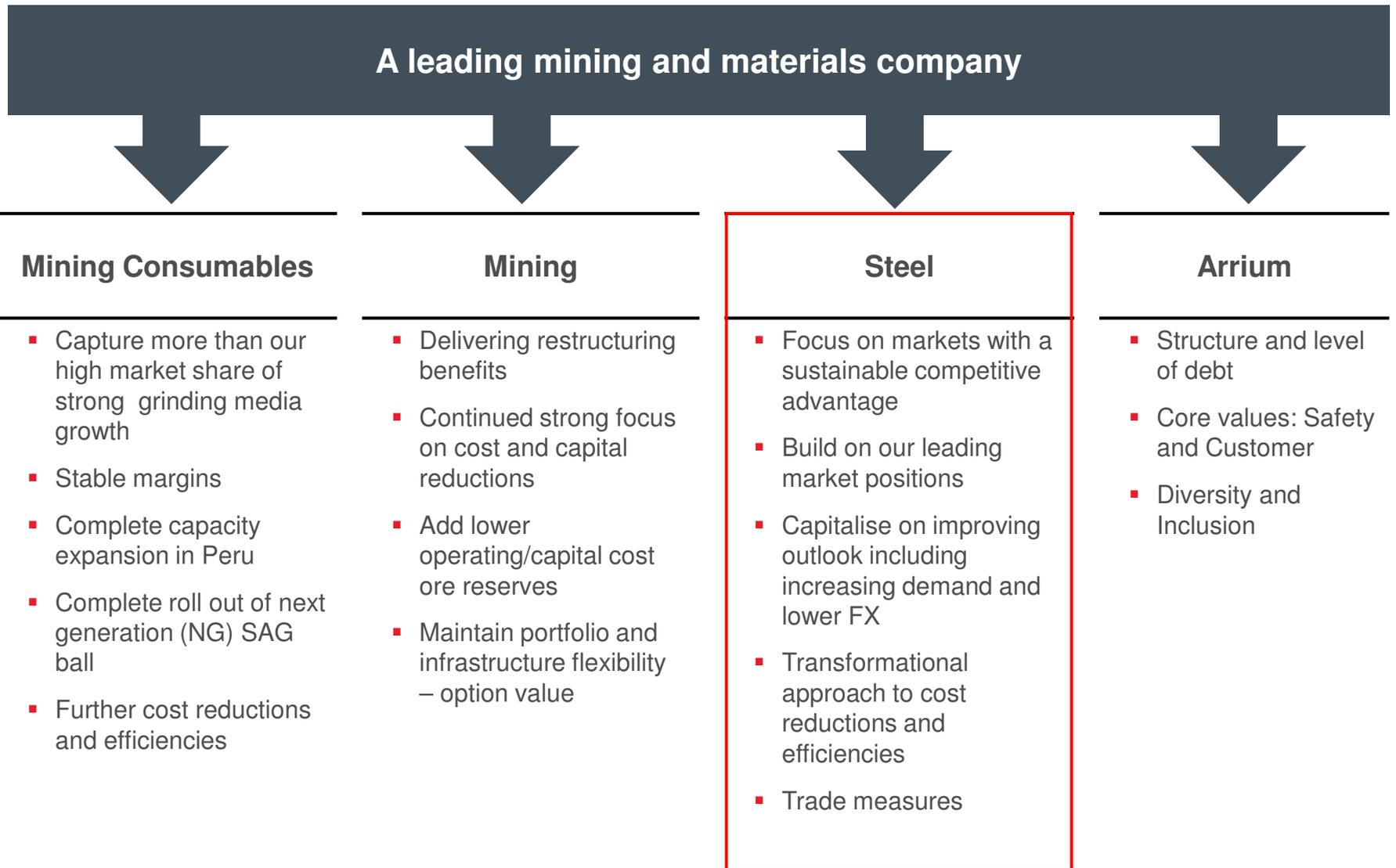
# Performance overview

- Historically (pre GFC) a strong generator of earnings and cash
- Subsequent performance impacted by very weak domestic demand, followed by period of very high AUD
- Returned to EBITDA and cash positive in FY12 – driven by cost reductions
- Strategic focus on integrated Steel businesses – divestment/exit of non integrated Steel businesses
- Structural change and improved leverage in FY14
  - Combined Manufacturing and Distribution
    - Simplified management structure
    - Rationalised footprint
    - Reduced working capital
    - Refocused markets
    - Increased supply chain flexibility
  - Additional cost reductions

# Performance overview

- FY15 – Significant improvement in earnings (2H EBIT positive – first since GFC)
  - Increased demand (volumes)
  - Further cost reductions
  - Lower scrap input costs
  - Lower AUD/USD
  - Partly offset by impact of 10 year low SE Asian steel margins and Asian prices
  
- FY16 – “transformational approach” (reset for challenging external environment)
  - Ongoing challenge related to China excess capacity / over supply
  - Broad-based cost reductions and efficiency improvements
    - ~\$20 million of annualised company’s \$60 million FY16 target
    - ~\$100 million annualised target at Whyalla (next 2 years)
    - Improvements to Distribution and Tube businesses
    - Further cost reductions and efficiency improvements being assessed
  - Delivers increased leverage to positive outlook for domestic demand and favourable FX
  - Benefits expected from
    - Lower scrap and coal costs
    - Anti-dumping

# Strategic focus



**Debt reduction continues to be a key priority**



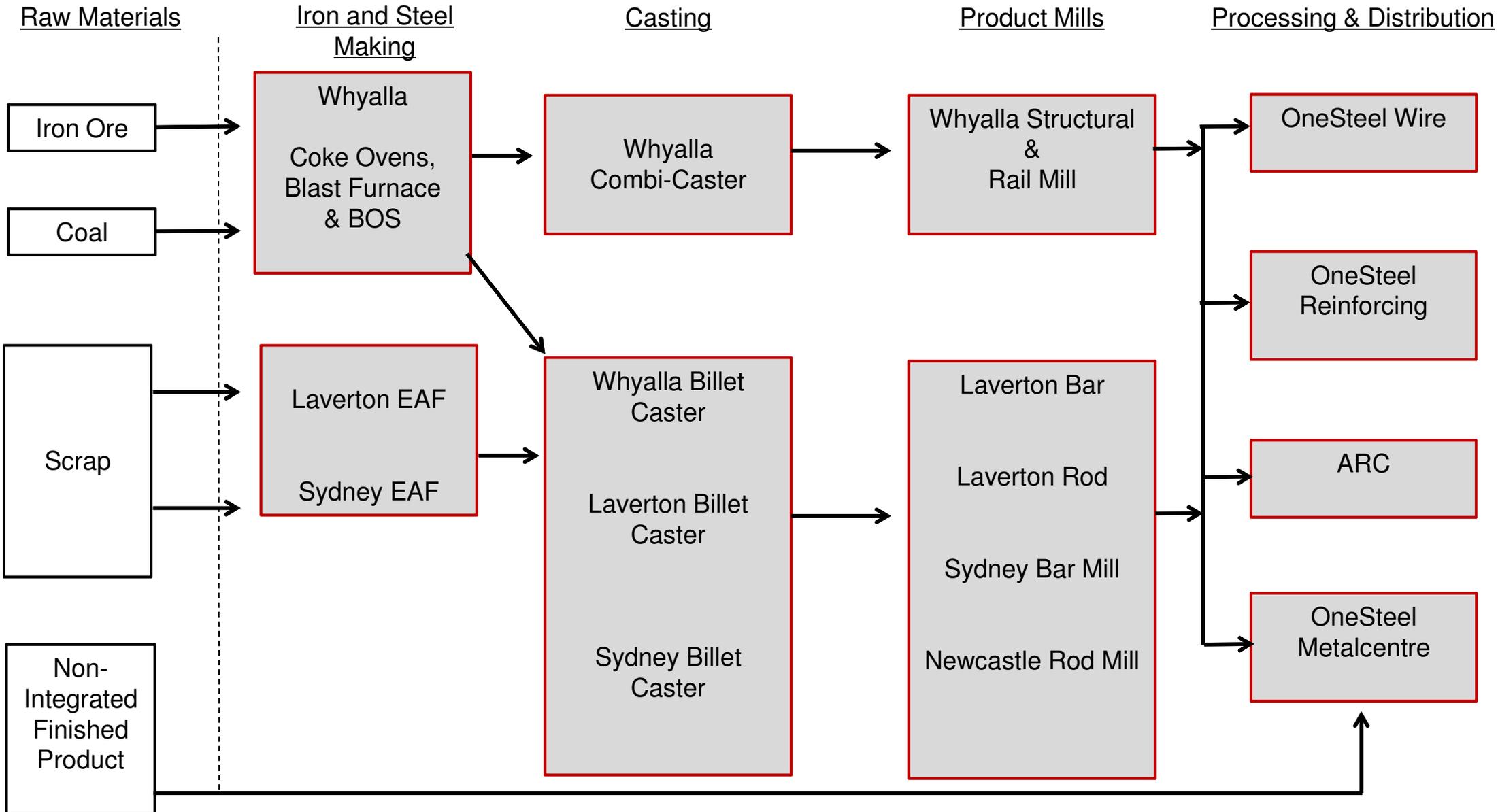
# An integrated business

# An integrated business

- Scrap/iron ore → Manufacturing → Distribution
- Australia's only manufacturer of steel long products
  - EAF and Blast Furnace production flexibility
  - Steelmaking capacity ~2.6Mtpa
  - Large product range – structural, reinforcing, rail, wire, fencing and strand products and solutions
- The leading distributor of metal products in Australia with a national footprint
  - #1 in general Australian steel distribution
  - #1 in Australian reinforcing
  - #1 in Australian wire

*We use our expertise in steel manufacturing, sales, logistics, supply chain and processing to deliver a safe, fast, flexible and reliable product to all Australian customers*

# Our integrated value chain



# Steel business units

Focused on top-tier projects and helping customers reduce construction risks



Sites      People<sup>2</sup>      Revenue<sup>1</sup>

**2**

**~1,100**

**~\$900m**

Reliable manufacturer of billet into our integrated channel, and rail and structurals into our chosen distributor channels



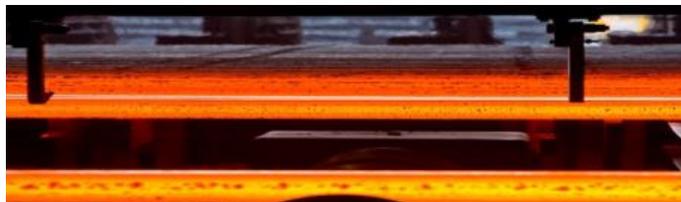
Sites      People<sup>2</sup>      Revenue<sup>1</sup>

**3**

**~700**

**~\$1.9bn**

Flexible and reliable manufacturer of billet, rebar, rod & mebar into our chosen distributor channels



Sites      People<sup>2</sup>      Revenue<sup>1</sup>

**3**

**~400**

**~\$300m**

The largest processor & distributor of wire products into rural & construction markets



<sup>1</sup> Revenue based on FY15 sales and includes sales within the Arrium Group

<sup>2</sup> Employees excludes contractors – at 30 June 15

# Steel business units

Focused on top-tier projects and helping customers reduce construction risks



Sites      People<sup>2</sup>      Revenue<sup>1</sup>

**65**

**~800**

**~\$600m**

The leading distributor of a broad range of products leveraging scale in market coverage, product range, operations & supply chain



Sites      People<sup>2</sup>      Revenue<sup>1</sup>

**38**

**~900**

**\$600m**

Australia's largest reinforcing provider focussed on top-tier projects and helping customers with their construction risks



Sites      People<sup>2</sup>      Revenue<sup>1</sup>

**33**

**~700**

**~\$500m**

The leading provider of reinforcing products to the mid-tier and smaller project markets



<sup>1</sup> Revenue based on FY14 sales and includes sales within the Arrium group

<sup>2</sup> Employees excludes contractors – at 30 June 15

# Our competitive advantage

- We have capability to support the largest and most complex construction projects in Australia and are integral to our customers' success
- We provide steel products and solutions to large and small construction customers through local supply with fast, flexible and reliable service
- We can flex with customer delivery and design demands to within 1 hour delivery windows. A significant competitive advantage for large projects where on site storage is limited
- We have the capability to “sprint” and satisfy the needs of our customers through our fully integrated supply chain (no need to rely on long import supply chains with their associated pricing risks and administrative burdens)
- We supply quality products to Australian Standards
- We have the capability to service both ends of the long products market through our wholesale and retail business model

*As Australia's only manufacturer and leading distributor of long products, our fully integrated value chain and national footprint provides a competitive advantage to service these markets*

# Our value proposition

## CUSTOMERS' RISKS MITIGATED

- 'Customer' is respected and a Core Value
- Full control of our end-to-end integrated manufacturing processes and transparent supply chain
- Long-term industry involvement with shared benefit and risk of local industry success



## FLEXIBLE TO MARKET DYNAMICS

- Variety of business models enacted through locally empowered leaders
- Fast delivery and "sprint" capacity to match market needs
- Extensive national footprint
- Local and ready to listen

## VALUE FOR MONEY

- "Straight forward" commercial relationships that make business easy
- Relentless focus on costs

## UNDERSTAND MARKETS' NEEDS

- Knowledgeable of products, their applications, end-use markets and global trends
- Innovative solutions to solve customer problems
- Manufacture or import supply solutions to deliver meaningful products and services

## PREDICTABLE

- Do what we say we will
- Reliable
- Product consistency
- Scale through integrated supply chain from raw materials to sales
- 'Safety' is a Core Value

## QUALITY

- Meet standards and certification
- In-house engineering to optimise design
- Core metallurgical expertise

*Our tailored local service offer ensures fast, flexible and reliable delivery*



# Key earnings drivers

# Key earnings drivers

- Domestic sales volumes
  - Positive demand outlook
  - Available capacity (~100kt at variable cost)
- AUD/USD FX rate
  - Favourable – partially offsetting lower USD import prices
- USD scrap to coal spread
  - Favourable position reduced
- USD SE Asian margins and Asian prices
  - Sharp fall in USD margins end FY15
  - Some improvement in USD margins Q1 FY16 – still low historically
  - Substantial fall in USD Asian prices
- Costs
  - Transformational reset underway

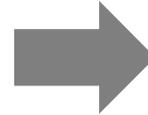


*The combination of these drive Steel's financial performance*

# Domestic sales volumes

## Driven by market conditions in:

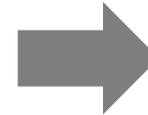
- Construction
- Rural
- Mining
- Manufacturing



We are Australia's only long products manufacturer and leading steel distributor with strong market positions at wholesale and retail levels

## These are impacted by:

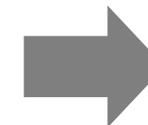
- Government funded infrastructure
- Private development
- Resource investment
- Availability of cash and credit
- Population growth
- Seasonal impacts
- Unemployment rates and trends
- Interest rates



Domestic construction activity has improved and the outlook is positive. There is a solid pipeline of infrastructure projects, and residential (particularly high rise) is strong.



We are well positioned through our leading market positions, customer value proposition and available capacity to benefit from increasing construction activity



We have significant leverage to increased sales volumes through our lower cost base and ~600kt of available capacity

## Mix of volume is important:

- Wholesale vs retail
- Geography (freight differentials)
- Product mix

# Domestic sales volumes

We have available capacity to meet increasing demand, ~100kt can be produced for variable cost

## Total capacities

Laverton Steel Mill EAF	~710kt pa
Sydney Steel Mill EAF	~660ktpa
Whyalla Steelworks	~1.2Mt – 1.3Mtpa
<b>Total Steelmake capacity</b>	<b>~2.6Mtpa</b>

## FY15 utilisation

EAF steelmake	930kt
Whyalla steelmake	~1.1Mt
<b>Total FY15 steelmake</b>	<b>~2.0Mt</b>



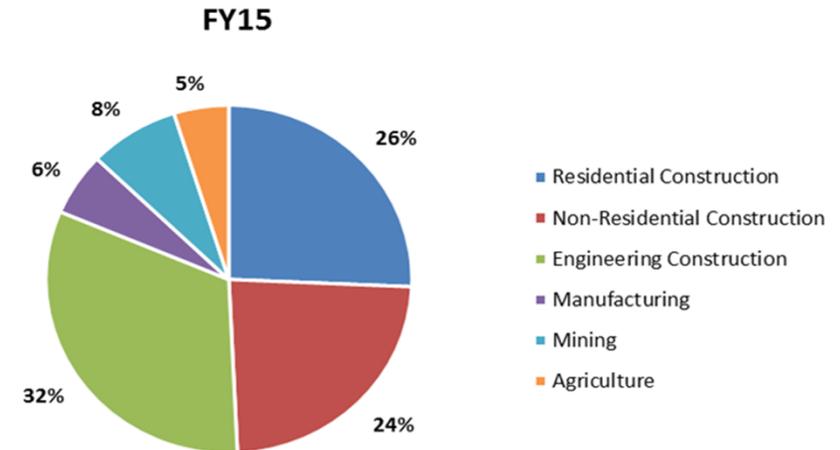
Recent production records have been achieved at Sydney Steel Mill

# Domestic sales volumes

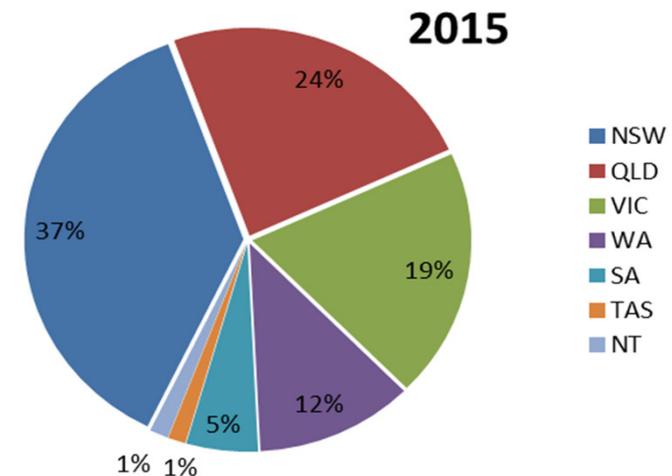
## Well positioned for key growth markets

- Approx. 80% of Steel revenue is driven by construction
- Residential, non-residential and engineering construction (incl mining investment) drives demand for reinforcing bar and wire, rod for mesh, structural pipe, HRS and rail
- Agriculture drives demand for rural wire, rural posts and rural pipe products
- Mining production drives demand for grinding bar which is feed for grinding media
- Manufacturing has limited exposure to automotive and manufacturing segments
- Majority of steel sales on the East Coast (~80%)

Approximate FY15 Steel domestic sales by market segment



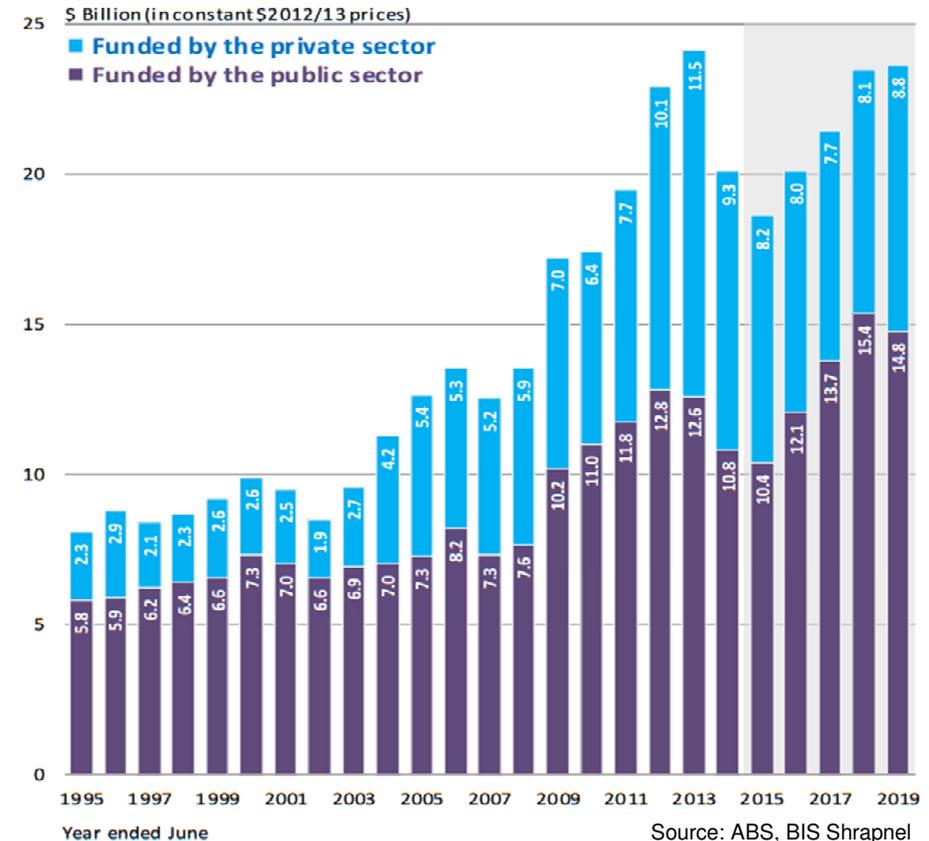
Approximate FY15 steel domestic sales by state



# Domestic sales volumes

- Solid pipeline of new construction projects
  - Residential construction (particularly high rise apartments)
  - Government funded infrastructure projects (now commencing)
- Domestic demand forecast to increase ~5% p.a. (FY16 – FY18)
- Significant leverage to increased sales volumes
  - High proportion of fixed costs (Fixed ~65%, Variable ~35%)
  - 5% increase in volumes would add ~\$50 million pa of EBITDA at FY15 margins and product mix

## NSW Investment – engineering construction



# Domestic sales volumes

## Solid pipeline of projects

### VIC

- RMIT New Academic Street – commercial
- 360 Collins Street - commercial
- 271 Spring Street – commercial
- 664 Collins Street - Tower 2 – commercial
- Flemington Race Course – commercial
- 80 Collins Street – commercial
- Telstra Head Office – commercial
- 405 Bourke Street – commercial
- Level Crossing Removals – infrastructure

### WA

- Elizabeth Quay – various projects
- Alkimos Development – various projects
- Water Bank Development – residential
- Reid Highway Upgrade – infrastructure
- Airport Link - infrastructure
- Collier Urea Project - resources

### QLD

- Commonwealth Games Village – residential
- Toowoomba Bypass - infrastructure
- Jewel Apartments – residential
- Jupiters Casino Hotel – commercial

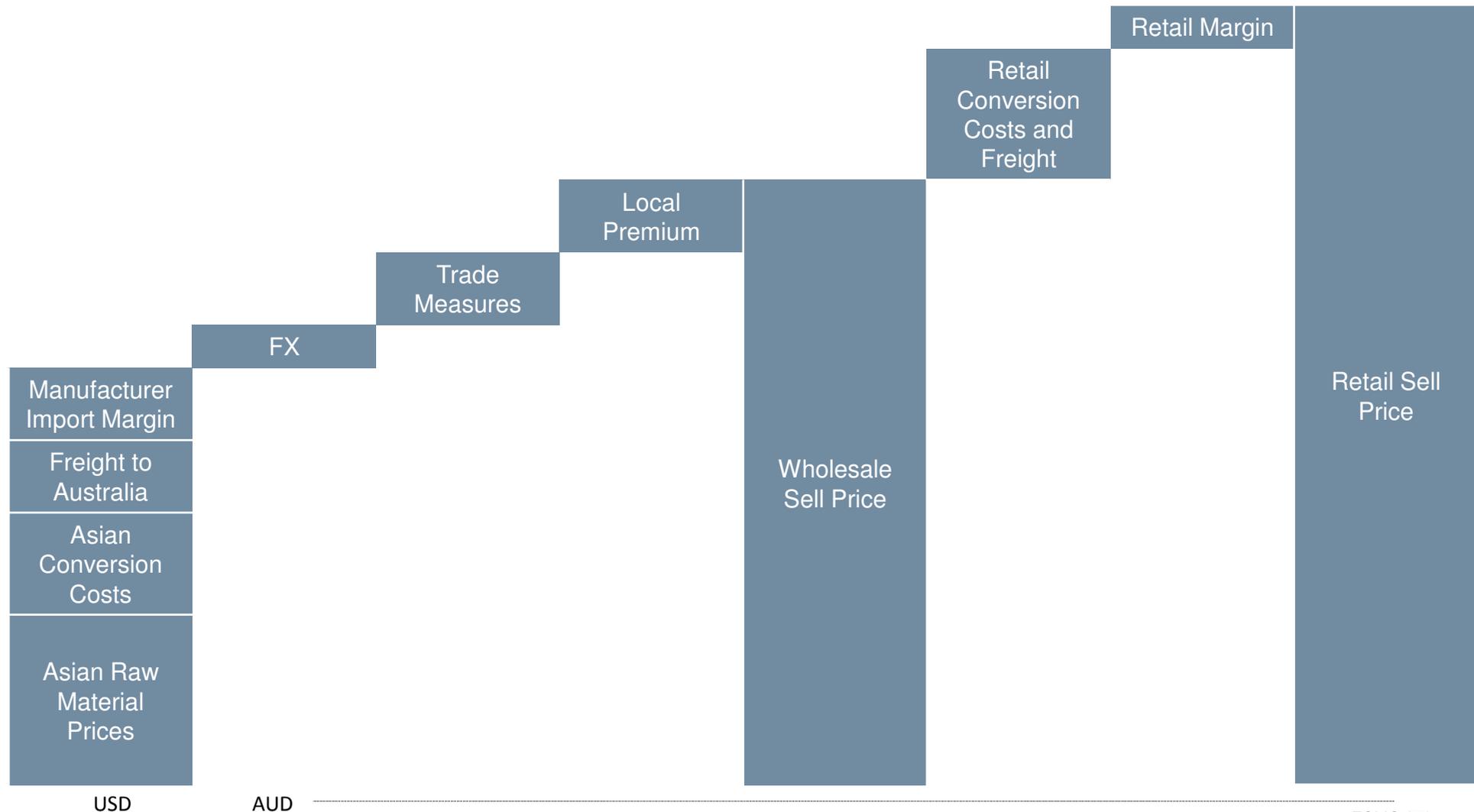
### NSW

- St George Hospital – commercial
- Canterbury development – residential
- Rosebery development – residential
- Box Hill development – residential
- Castle Hill development – residential
- Upright Meadowbank development – residential
- Barangaroo – central basement
- Northconnex – infrastructure
- M4 – infrastructure
- M5 East Tunnel – infrastructure
- Northern Beaches Hospital – commercial
- Pacific Highway Upgrade – infrastructure

Not all projects have been tendered and/or awarded.

# Domestic steel pricing structures

- Impact of change in FX and scrap prices on domestic wholesale pricing - ~3 months lag depending on product
- Majority of steel product range competes with South East Asian suppliers
- Local wholesale and retail premiums driven by level of service required and unique market offers



Note – above margin breakdown is not to scale and is for illustrative purposes only

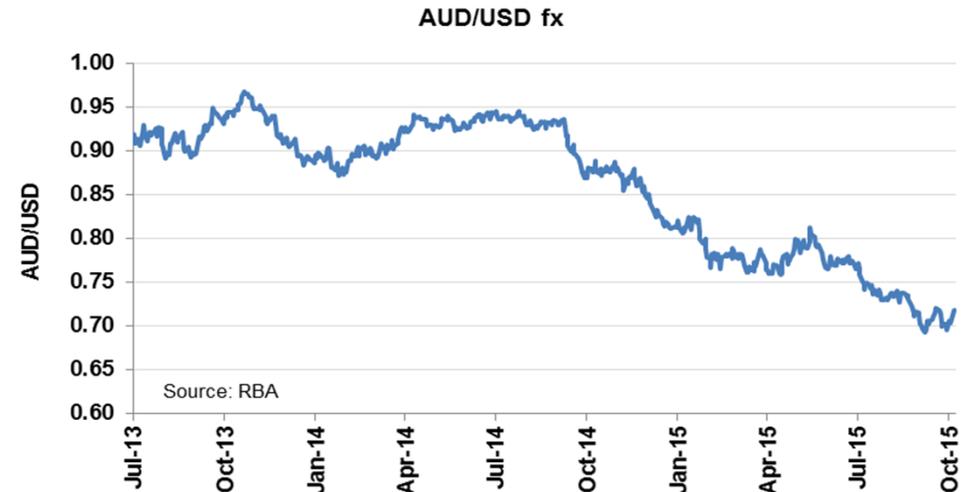
# Domestic sales volumes

## Rod Bar & Wire and Steel in Concrete businesses are performing well

- Improving market demand – led by NSW
- Enhanced product and service offering
- Higher wholesale market share
- Strengthening rural demand
- Improved Sydney EAF utilisation
- Lower FX
- Cost and productivity improvements
  - Lower scrap input cost (scrap cost decline offsetting price decline)
  - Significant improvements in productivity across all facilities
    - 19 records set in August
    - Improved scrap usage and purchasing
    - Improved EAF performance against worldwide benchmarks
- Continuing to implement price increases where appropriate – recent increase in Rural products, Hot Rolled Structurals and Merchant Bar

# AUD/USD FX Rate

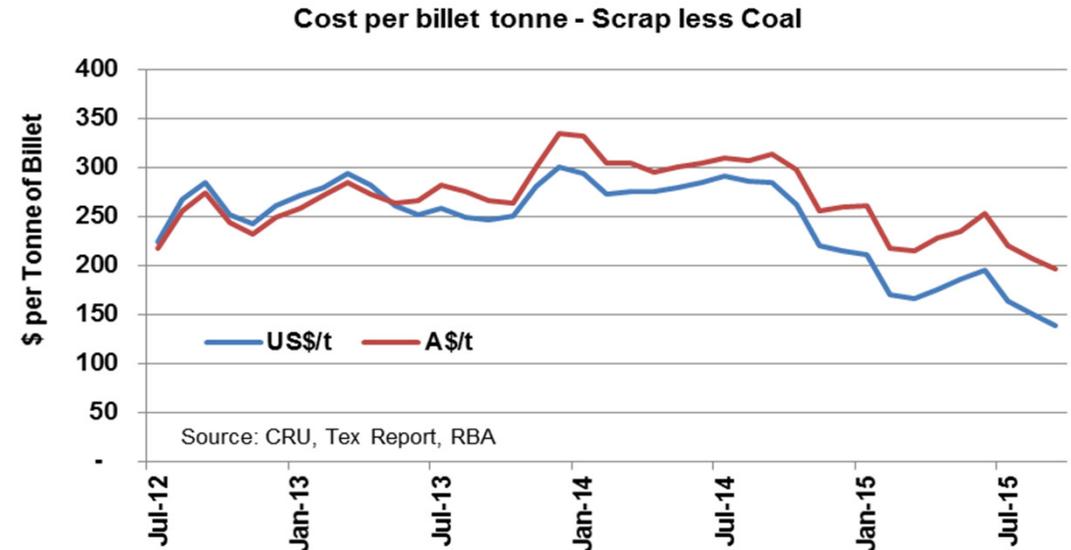
- A key driver of our margins
- The wholesale margin is the difference between:
  - the landed price of imports (USD competition); and
  - Scrap and iron ore/ pellet and coal raw material costs (USD purchases)
- Sensitivity – each 1c change in AUD/USD = ~\$5-\$7m EBIT pa assuming no change in raw material costs, sales mix, demand levels and SE Asian USD margins from FY15
- Lower AUD/USD currently reducing impact of decline in USD SE Asian margins and USD Asian prices



*Steel is well leveraged to a sustained fall in AUD*

# USD scrap to coal spread

- Chinese producers set SE Asian prices and are a key driver of Australian domestic prices
- High SE Asian USD scrap costs and low USD hard coking coal prices drive improved domestic steel margins
- Historically, the scrap/coal relativity has generally been favourable
- Sept. 15 USD scrap to coal spreads are significantly lower at \$139 per billet tonne
- ~1.1Mt of our production is from the coal based Whyalla Steelworks
- Focus on reducing our coal input costs:
  - Semi-soft coal blend increased from 25% in FY13 to 45% in FY15
  - Further work being progressed

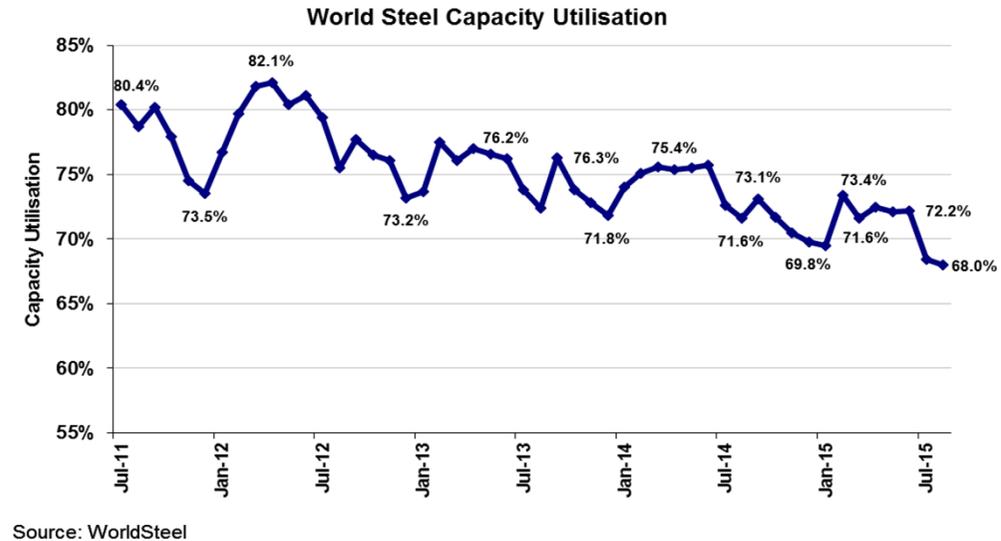


*Work underway to reduce impact of recent low USD scrap to USD coal spreads*

# USD SE Asian margins and Asian prices

## Macro environment

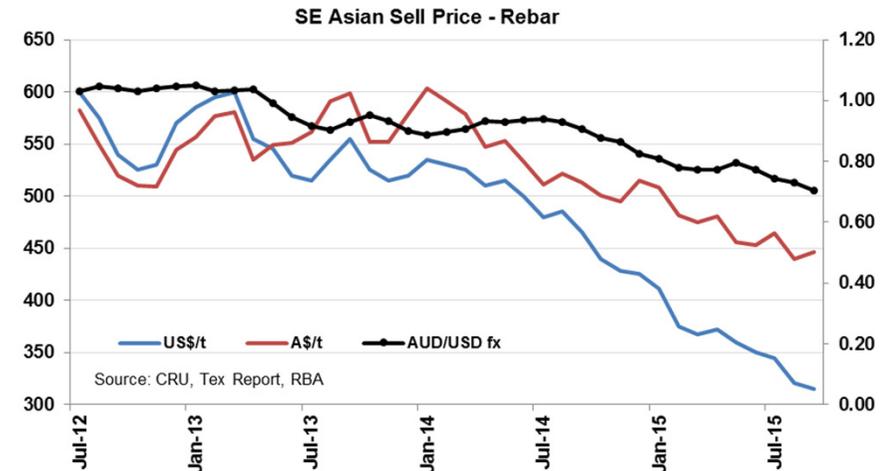
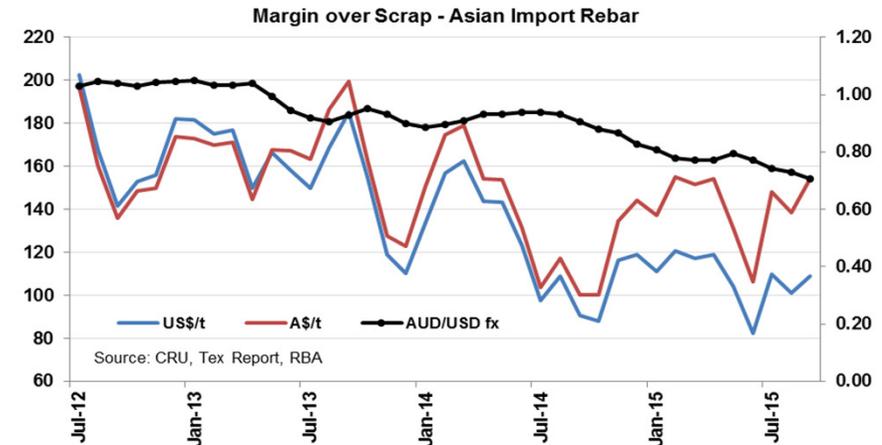
- China's rate of growth strong but slowing
  - Steady flow of Chinese government stimulus
  - Real estate recovery in China continues, construction has started to improve
- Steel overcapacity/oversupply in China and globally
  - Increased steel exports from China (now ~100Mtpa or ~10% of production)
  - Significant adverse impact of SE Asian margins and prices
- Steel mills in China and South East Asia mostly in loss making positions
- Chinese rebar and rod prices linked to iron and coal costs
- Weakening AUD and lower scrap input cost reduces domestic impact



# USD SE Asian margins and Asian prices

## Increased volatility

- Direct competition at wholesale level historically SE Asian long product EAF producers – key measure is USD margin over scrap
- Indirect competition – exports from China (mainly integrated producers) to South East Asia
- USD SE Asian prices – lag ~3 months to flow into domestic pricing
- Fall in import prices has been accompanied by fall in import volumes
- Asian rebar margin over scrap generally US\$200-\$220/t range (prior 10 years)
- SE Asian margin over scrap fell to low of \$82/t in June 15, lifted to US\$109/t in Sept 15
- CRU expect USD SE Margin over scrap to improve in 2H FY16



# Costs

Other costs (excluding scrap and coal) include:

- Labour
- Externally purchased finished product
- Freight
- Pellet and lump ore
- Utilities
- Repairs and maintenance
- Operating materials
- Contractors



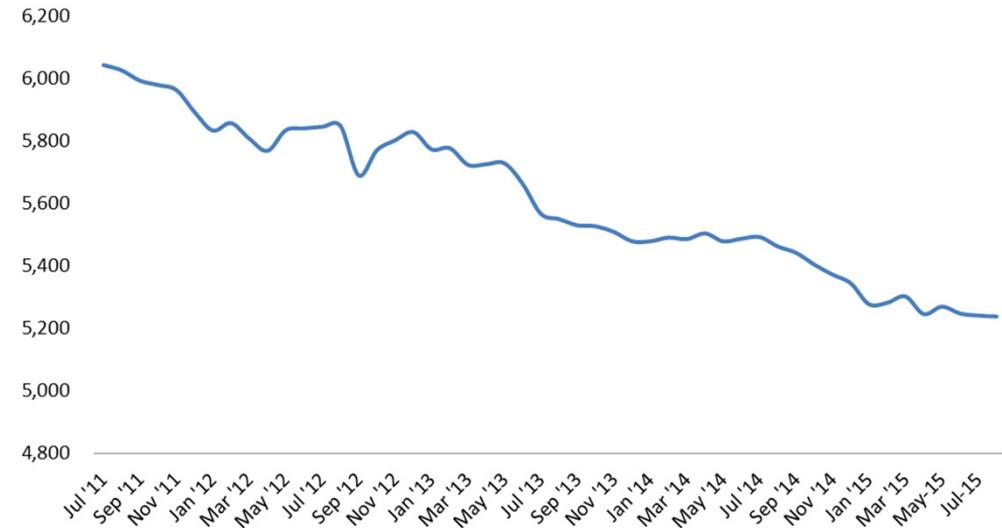
*Together with scrap and coal these make up our top 10 costs*



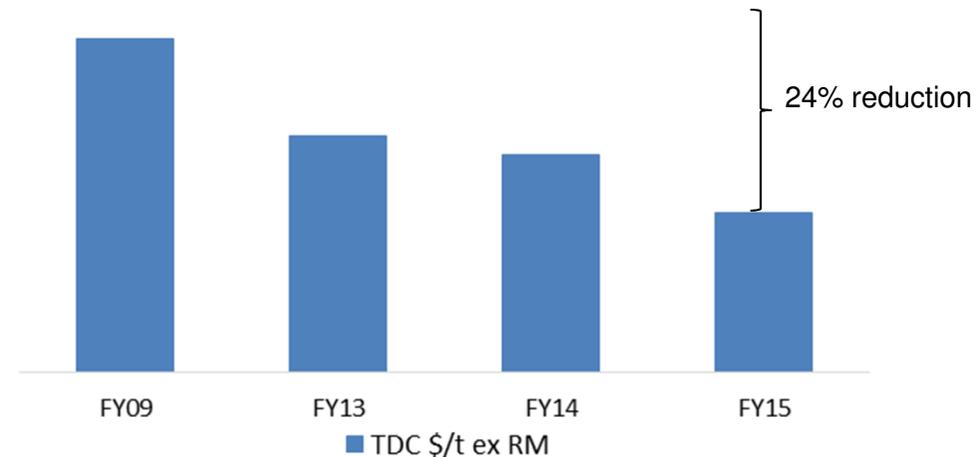
## Strong history of cost reductions

- Cost reduction programs:
  - FY10 – Arrium group wide labour cost reduction program (\$160m annualised)
  - FY12 – Steel labour cost reduction program (700+ FTEs, \$75m annualised)
  - FY14 – formation of single steel business (\$40m annualised)
  
- Reduction in headcount ex contractors from ~8,200<sup>1</sup> in FY08 to ~4,900 in FY15
  
- Reduced total delivered cost per tonne by 9%<sup>2</sup> in FY15 (24% since 2009)
  - ~300 reduction in total employee/contractors in FY15

**Total Steel Headcount (including contractors)**



**Total Delivered Cost \$/t excl Raw Materials**



<sup>1</sup> FY08 figure includes employees from discontinued operations

<sup>2</sup> In addition to impact of inflation

# Costs

## FY16 – A transformational reset

- Business is undergoing a reset to lift its competitiveness in current external environment and improve Group profitability and cash generation
- Focus is broad based cost reductions and efficiency improvements. Areas include:
  - Labour and overheads
  - Sourcing and procurement
  - Production conversion costs
  - Site rationalisations
- Steel component of company-wide ~\$60 million annualised FY16 target is ~\$20 million
- Further \$100 million annualised targeted savings at Whyalla (over 2 years) announced
- Focus on improvements to Distribution and Tube businesses
- Further cost reductions and efficiency improvements being assessed

# Costs

## Whyalla transformation

- Improving competitiveness of Whyalla steelmaking. Reflects impact of:
  - Record low SE Asian USD slab & billet prices
  - Lower iron ore prices offset by lower FX
  
- Initiatives completed:
  - Structural Mill Furnace rebuilt and energy savings progressing
  - Pellet stream cost reductions
  - Semi-soft coal at 45%
  - Reset lump/pellet mix
  - Significant overhead cost reductions

*“~\$35m annualised savings identified from Pellet stream and Structural Mill Furnace reheat work”*

### ***\$100 million annualised target – focus areas***

- *Pellet cost reductions*
- *Increased sales volumes*
- *Labour and overhead cost reductions*
- *Corporate cost reductions*
- *R&M and Contractor spend efficiencies*
- *Government engagement*
- *Engineering costs*
- *Sharing services with Mining*
- *Optimise production rates (due to low scrap price environment)*
- *Freight*
- *Energy*

***We are targeting an additional \$100 million annualised cost reductions and efficiencies over the next two years.***



# Areas of focus

# Areas of focus

- Business reset – improve competitiveness and lift profitability and cash generation
  - Labour and overhead reductions
  - Other costs
- Customer focused value propositions
- Ensuring an aligned business structure and resources
- Site rationalisations
- Continuing to lower working capital
- Delivering volume growth through servicing increased construction activity, particularly rebar
- Improving performance of Distribution and Tube businesses
- Increasing steel intensity in construction
- Local content
- Trade measures

# Areas of focus

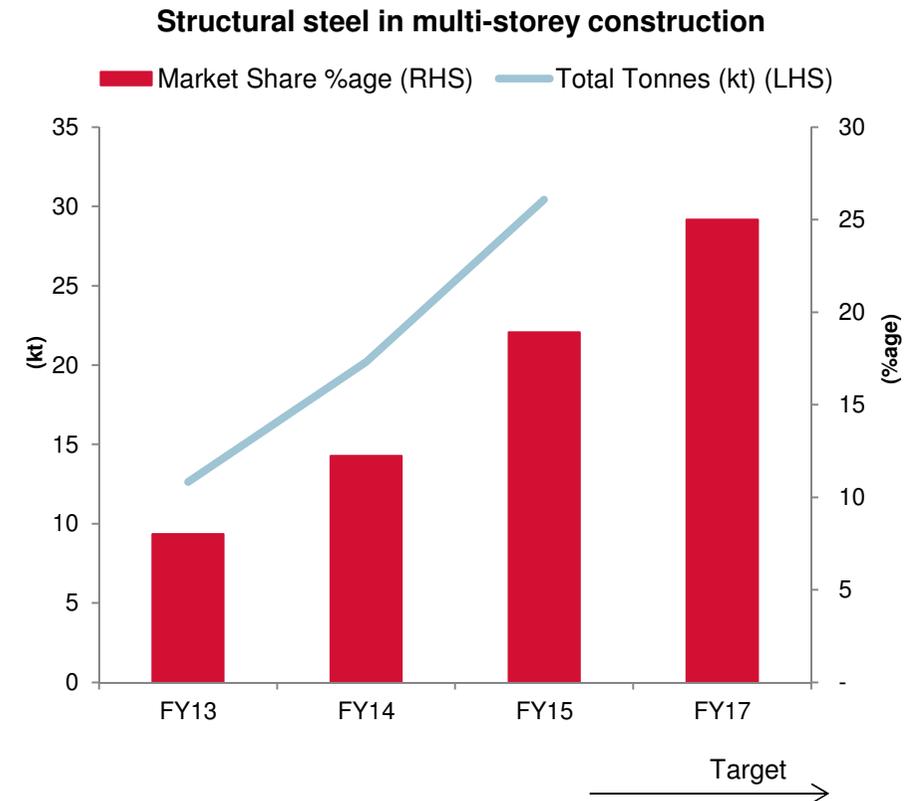
## Improving performance of Distribution and Tube businesses

- ASI channel impacted by
  - Reduction in mining and gas infrastructure projects and mining maintenance spend
  - Excess distribution capacity, but signs of restructuring underway
    - BSD exiting structural distribution
    - CMC, Vulcan and Atlas and other distributors all rationalising
- OneSteel Metalcentre
  - Footprint reduced by 14 sites last 2 years, further 9 sites announced or closed YTD FY16
  - Improvement plan:
    - Capture additional market share from industry rationalisation
    - Increasing domestic fabrication – Perth Stadium and Chadstone Shopping Centre
    - Increasing structural steel in multi-storey buildings
    - Further footprint and cost reviews
    - New transport management system now online
- Austube business
  - Performance has improved post closure of Somerton site
  - Further restructuring underway

# Areas of focus

## Growing volumes through increasing steel intensity

- Market share of structural steel in multi-storey construction has more than doubled since FY13
  - Structural steel usage has increased from 12kt to 30kt per annum in multi-storey construction
  - Number of structural steel projects increasing (63 projects over 3 years)
  
- Value proposition:
  - Fast, safe, quality assured through accreditation and economical construction
  - Innovation, collaboration and creating value
  
- Volume benefit to Arrium
  - Steel intensity 2.5 – 4 times greater using structural steel



Source: ASI Growing Steel Intensity Sub Committee

*Video contains a short case study on three recent multistorey projects, including; Meriton Serviced Apartments in North Sydney, 480 Queen Street in Brisbane and The Star Events Centre in Sydney. The case study highlights how the use of structural steel can provide fast, safe, quality assured and economical solutions.*

## *Speed, safety and open and flexible floor plans*

### 80 Arthur Street, Sydney, Meriton

- Australia's tallest steel framed residential building
- Meriton's first steel framed building
- Expected steel framing construction 6 months earlier than traditional build

### 480 Queen Street, Brisbane, Grocon

- First steel framed high-rise building in Brisbane in 40 years
- No MTIs or LTIs associated with steel work
- Project completed 4 months early

### The Star Events Centre, Sydney, Brookfield Multiplex

- Built over operating casino (24/7)
- Collaboration throughout the supply chain to ensure seamless delivery

*"Steel appealed to me because it's quicker than building in concrete...you can never find out the advantages and disadvantages of a material by listening to other people; you have to try it for yourself..."*



Harry Triguboff, Meriton

*"...Grocon's experience is that steel solutions help us get the project completed safely, on-time & on budget..."*

Jason O'Hara – Construction Manager, SA & VIC

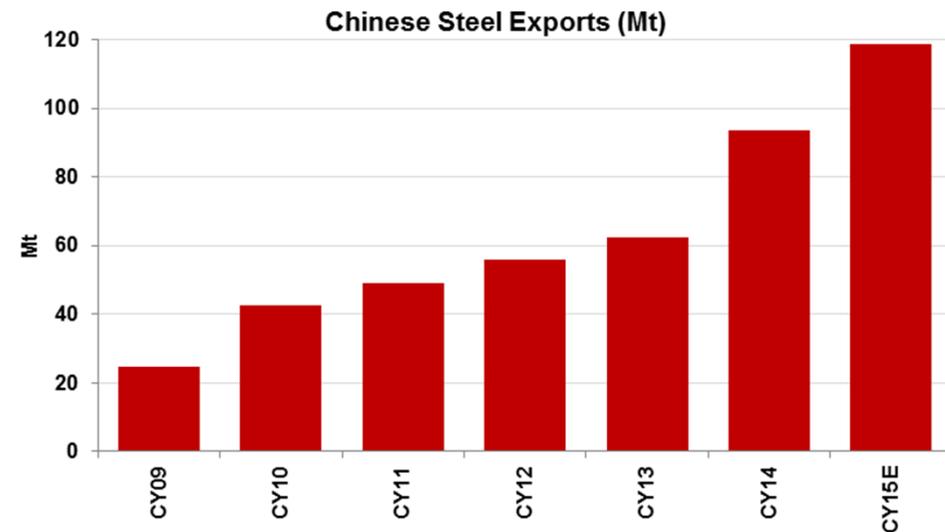


*... more steel*

# Areas of focus

## An effective trade action response system

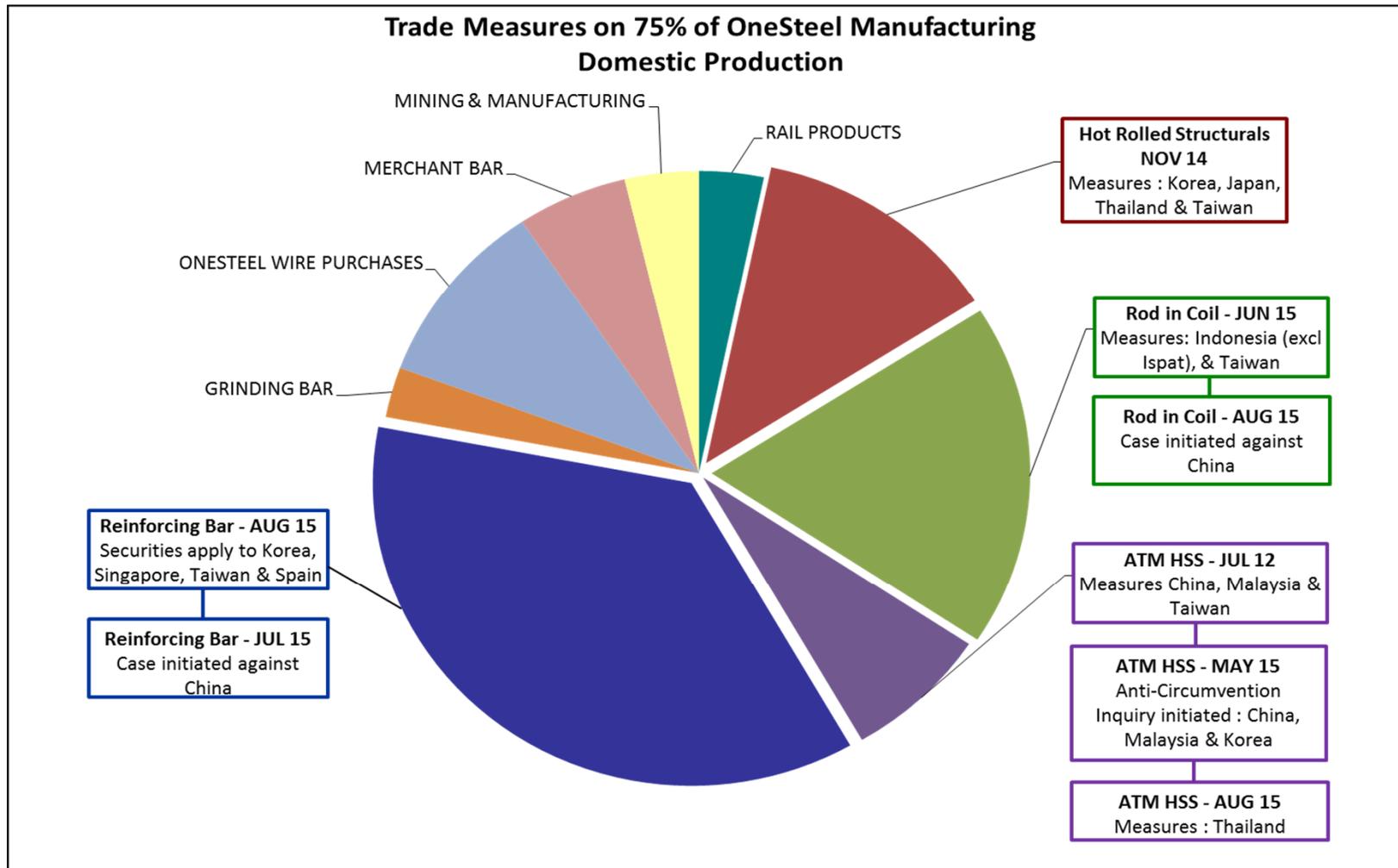
- A globally competitive anti-dumping system is now an imperative
- Dumping has become a global problem
  - Over-capacity/supply in Steel
  - Increased steel exports from China
  - Depressed o/s domestic markets
- Other countries are responding
  - Safe-guards
  - Increased tariff rates
  - AD/CVD - level of measures
  - Other initiatives
- Australia's improvements
  - Increased Government focus
  - Regulatory and administrative improvements
  - Greater speed in implementing preliminary measures
  - New regulations to address circumvention
- Arrium is working with Government to further improve competitiveness of system
  - Rigorous, robustness and responsiveness



Source: Tex Report

# Areas of focus

- Anti dumping measures in progress for ~75 of manufactured product base
- Working with Government to improve competitiveness of anti-dumping system



\* Excludes slab & billet sales

# Areas of focus

## Ensuring benefits of local supply are recognised

- Our local industry is well positioned to compete and supply
- In addition to broader economic benefits, local supply provides advantages of service, flexibility and quality that can significantly reduce project risk and budget overruns
- There are significant opportunities for local supply
- Federal budget allocation of ~\$70 billion over next four years for critical steel intensive infrastructure
- Leadership from Federal and State governments required to provide full, fair and reasonable opportunities for local supply chain
  - Positive action from Victoria and South Australia governments
  - NSW needs to act now
  - Federal government has a clear key role to play

# Outlook - recap

- Further improvement in domestic construction activity, mainly in NSW
  - High rise residential apartments
  - Large commercial projects
  - Commencement of government funded infrastructure projects
  
- Earnings in FY16 expected to benefit from improvement in key drivers
  - Increased sales volumes
  - Lower scrap costs
  - Further reduction in cost base
  - Anti dumping
  - Sustained lower AUD/USD
  
- However, lower SE Asian margins and Asian steel prices at end FY15 to impact 1H earnings, particularly Q1 FY16

# Summary

- Leading market positions in Australia
- Significant lift in FY15 earnings
- Well positioned to benefit from increasing construction activity, particularly infrastructure
  - Volumes improving
  - Strong pipeline of new projects announced
- Increased leverage to:
  - Increased constructions activity
  - Sustained lower AUD/USD
  - Improved SE Asian steel margins and Asian prices
- Government involvement is essential
  - Local content – ensuring full, fair and reasonable opportunity
  - Globally competitive anti-dumping system
- Transformational reset of business underway
- Global and domestic industry rationalisation underway





# Appendix

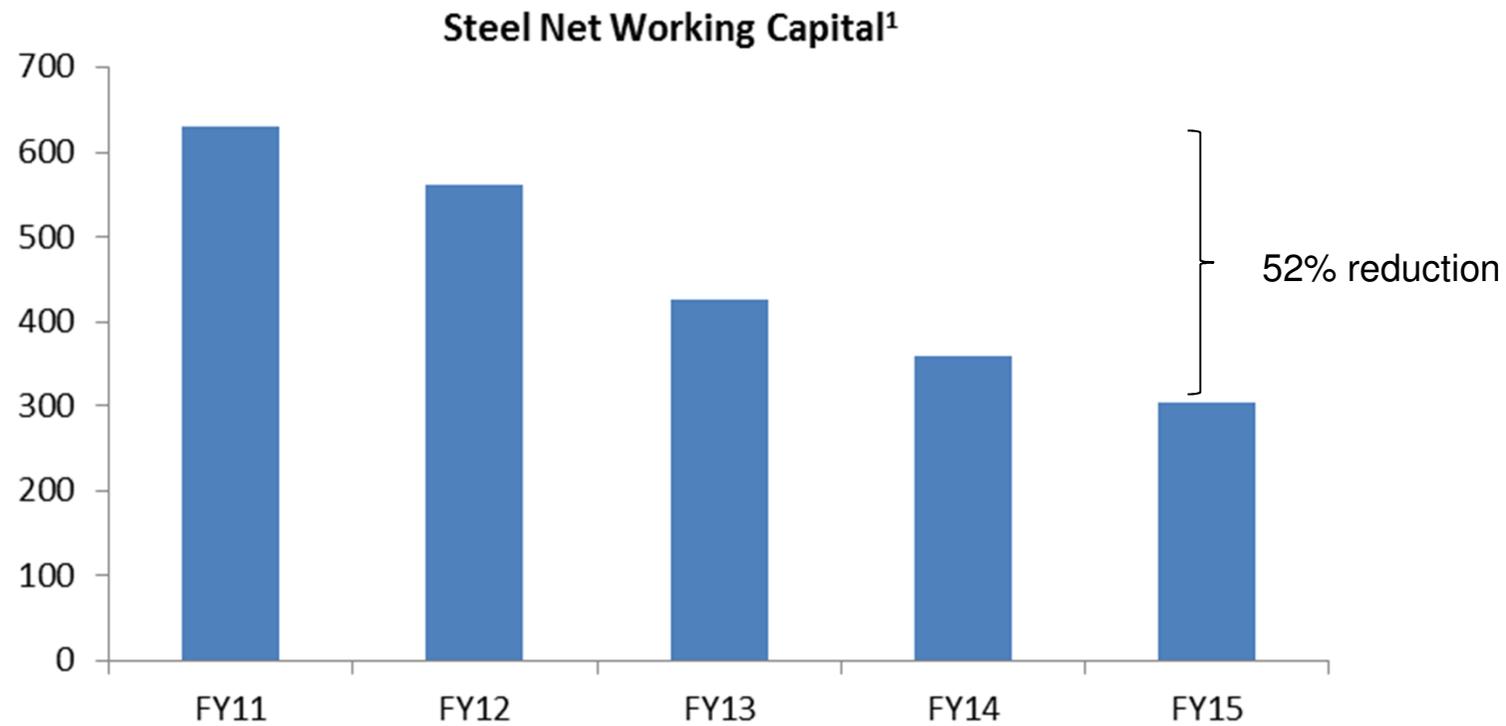
# FY15 Steel results

- EBIT positive in 2H – first since GFC
- EBITDA \$62 million, up 22% pcp
  - 2H \$46 million (mainly 4th qtr), 1H \$16 million
- EBITDA driven by
  - Domestic sales volumes up 4%
  - Lower scrap prices
  - Cost reductions
  - Underlying profit on asset sales
  - Partially offset by lower SE Asian steel margins
- Sales lower in ASI retail business
  - Industry starting to restructure



**Barangaroo, NSW**

# Continuing to reduce working capital



Source: Arrium

<sup>1</sup> Continuing operations only. Excludes ATM and Merchandising.

# Historical Data – Steel

	FY15 <sup>1</sup> \$m	FY14 <sup>1</sup> \$m	FY13 <sup>1</sup> \$m	FY12 <sup>1</sup> \$m	FY11 \$m	FY10 \$m	FY09 \$m	FY08 \$m	FY07 \$m	FY06 \$m
Total revenue/income	2,869.6	2,875.2	2,973.6	3,292.3	3,950.4	4,993.5	6,424.9	6,272.8	4,549.1	3,910.9
EBITDA	61.8	50.8	64.0	73.1	(37.1)	188.3	499.9	423.3	418.5	369.5
EBIT	(33.2)	(52.8)	(44.4)	(30.3)	(164.6)	56.8	372.0	279.2	331.4	284.1
Sales Margin	(1.2%)	(1.8%)	(1.5%)	(0.9%)	(4.2%)	1.1%	5.8%	4.5%	7.3%	7.3%
Assets	1,868.6	2,109.7	2,287.6	2,692.6	3,966.9	4,132.9	4,125.5	4,637.7	3,136.1	2,869.8
Funds Employed	1,289.9	1,544.1	1,717.7	2,109.0	3,171.9	3,183.0	3,326.5	3,429.8	2,364.9	2,208.8
Return on funds employed	(2.3%)	(3.2%)	(2.3%)	(1.1%)	(5.2%)	1.7%	11.0%	9.6%	14.5%	13.3%
Employees (number)	4,880	5,116	5,285	5,369	6,922	7,020	7,408	8,211	6,292	6,396
External tonnes despatched (Mt)	2.12	2.07	2.36	2.57	2.44	2.36	2.43	3.18	2.28	2.27
Steel tonnes produced (Mt)	2.00	1.91	1.99	2.00	1.92	1.91	1.79	2.44	1.73	1.63

<sup>1</sup> Excludes discontinued operations.

The financial measures displayed in this table are based on underlying results.

<sup>1</sup> Excludes discontinued operations.



# Recycling

**Geoff Feurtado – Chief Executive Recycling**  
**19 October 2015**

- Overview
- Current environment
- Performance indicators
- Summary



## **arrium** MINING AND MATERIALS

### **arrium** MINING CONSUMABLES

- Moly-Cop
- AltaSteel

### **arrium** MINING

- Middleback Ranges
- Whyalla Port

### **arrium** STEEL

- Steel
- Recycling

#### **A core component of Arrium's steel value chain – a focussed business with clear purpose**

- Core competence in metals trading & trading relationships, a portfolio of assets aligned to its purpose
- Culture that values safety and the customer experience
- Creates value by cost effective feed supply to Arrium Steel, non ferrous scrap trading & market insight

# Aligned to key markets

- Core
- Export
- Trading Office



# Aligned to Arrium Steel



# Low price business environment

## Macro

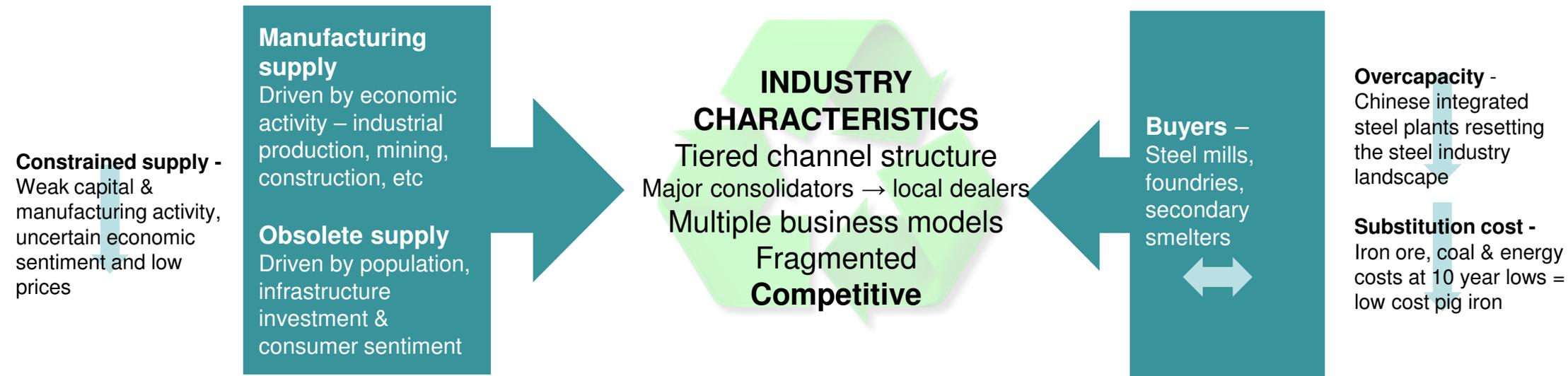
- Chinese economic restructuring
  - Metals capacity growth has run ahead of demand growth
    - China exporting at or below marginal cost - volume & liquidity
    - Chinese billets a scrap substitute – EAF utilisation contracting
  - Reset of iron ore and coal prices
  - Scrap price reset & ongoing downward pressure
  - Non ferrous metals prices & premiums down in response to high inventories and poor sentiment
- Global economic growth expectations downgraded

## Industry

- Tight scrap flows
  - Strong competition for viable source supply
- Tonnes bypassing the conventional value chain
  - Containerisation of scrap (and waste)
- Excess shredder and recycling capacity
- International trade flows realigning to demand changes



# Recycling industry drivers

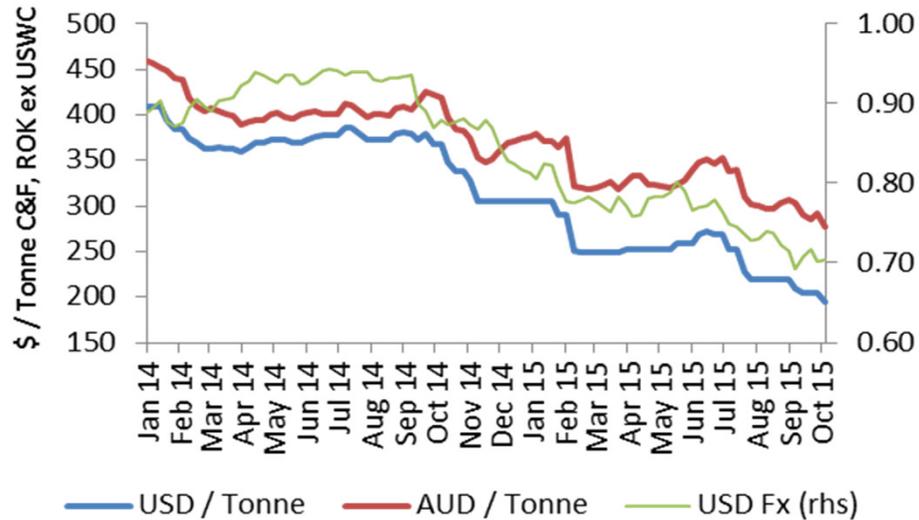


Industry structure under pressure from sustained low price environment  
OSTR previously right sized & refined; portfolio, cost structure and buying mechanisms under review

**Future opportunities**  
Activity restructuring – source to sale  
Trading mechanisms & supply source portfolio  
Resource recovery  
Landfill cost minimisation

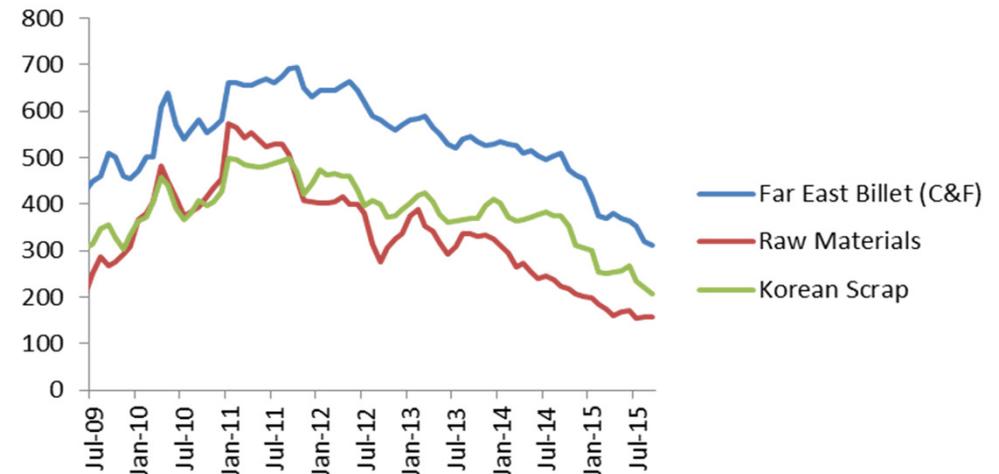
# Ferrous price trends

**Tex HM1 - weekly price report**  
AUD:USD Fx



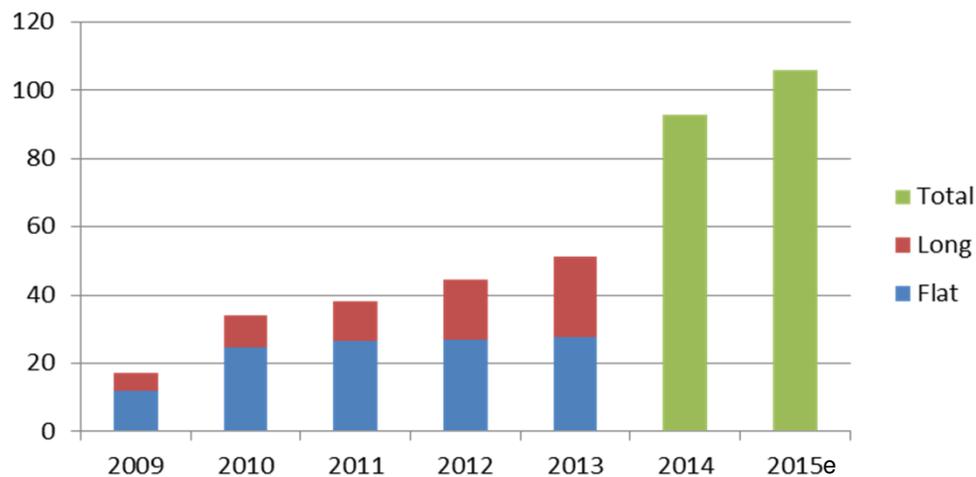
Source: Tex Report

**Price Benchmarks**



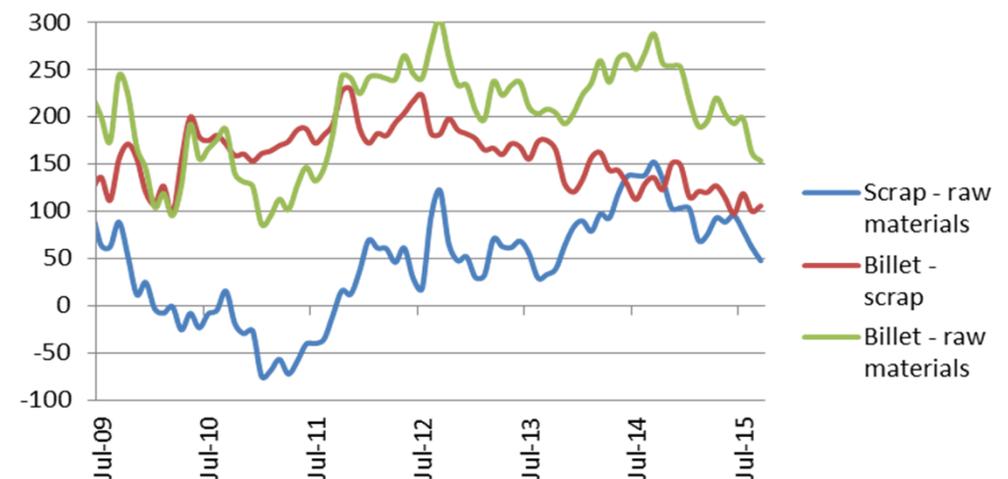
Source: Tex Report

**Chinese Steel Exports**



Source: World Steel & CRU

**Margins**



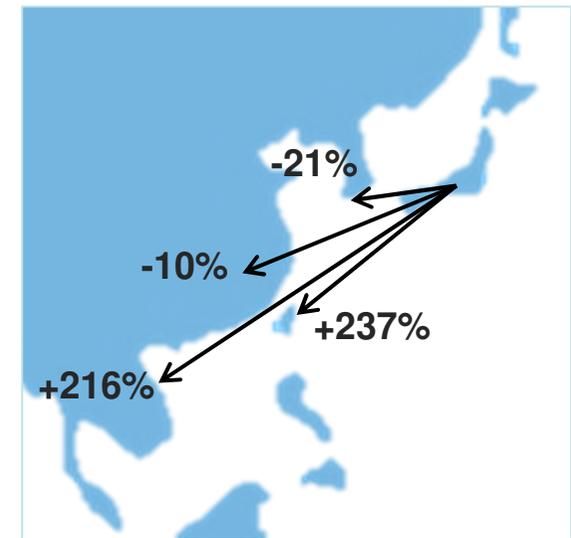
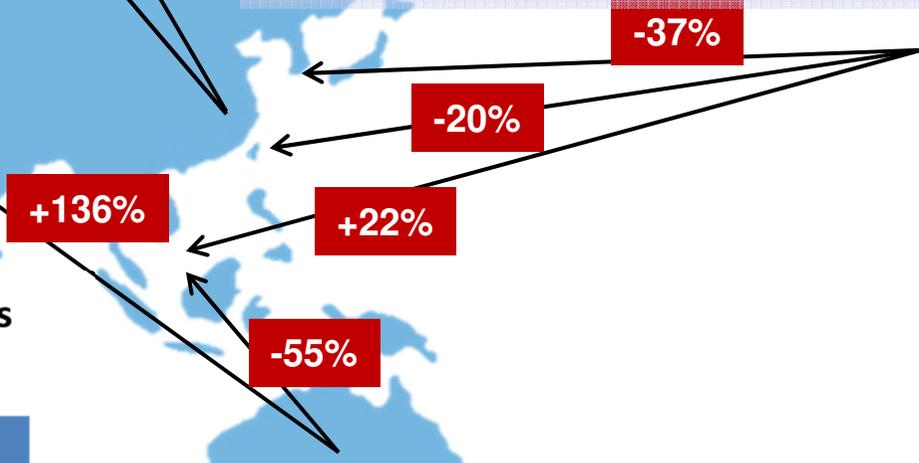
Source: CRU, Tex Report

# Shifting Trade Flows

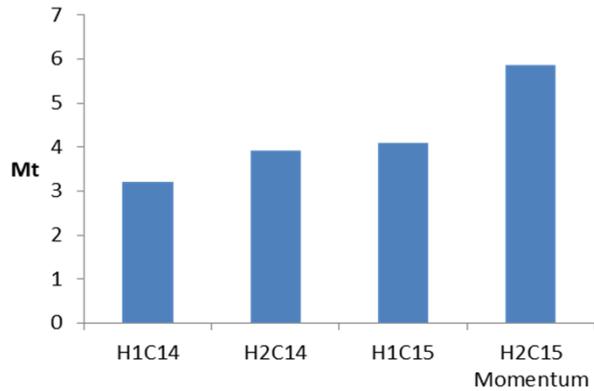
- Chinese billet exports displacing scrap
  - EAF turndowns in Korea and elsewhere – deep sea scrap market contracting
- Japanese have grown share of Korean market displacing US scrap
- Koreans buying Russian A3 to lower average buy price
- Japanese pushing scrap into Taiwan and Vietnam
- US market reach extending into SE Asia and India
- Australian scrap extending its reach into India, Pakistan, Bangladesh and the Middle East

100Mtpa steel exports  
300Mtpa surplus steel capacity

Sponge & pig iron substituting for scrap



**Billet Trade - major sources**



# Ferrous scrap prices

- Reset of steel industry input costs
  - Low iron ore, coal prices & energy costs translate to low cost steel semis
- Surplus steel exported – low price billets impacting the EAF sector & driving scrap prices down
- EAF closures and low utilisation curtailing scrap demand and shifting trade flows – US and Japanese scrap moving into non traditional markets
- Recycling sector anticipating a period of low scrap prices
  - Translating into reduced supply and lower margins
    - Ferrous scrap has limited propensity to travel
  - Consolidation and new business models probable



# Base metal prices

- Non ferrous represents over half of OSR's revenue – a key driver of profitability
- Margins under pressure from contracting supply; premiums and discount rates normalised

## Nickel:

High nickel inventories have suppressed prices. Unlikely to be resolved in the near term with new nickel pig iron capacity coming on stream and weak stainless steel markets.

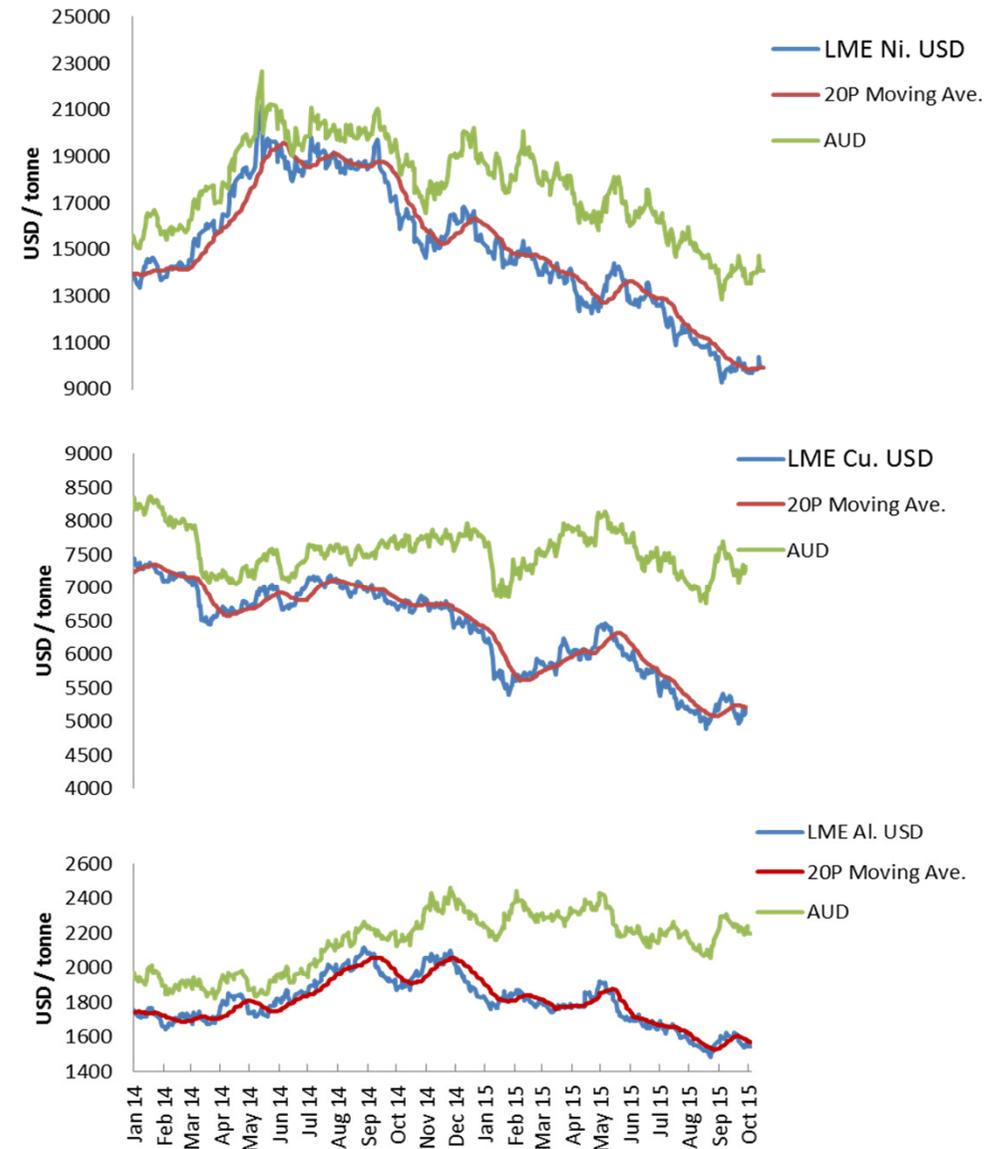
## Copper:

Copper is an indicator of Asia's economic condition. Weak sentiment is impacting in the near term.

## Aluminium:

Industry struggling to resolve excess capacity with new facilities coming on stream in China.

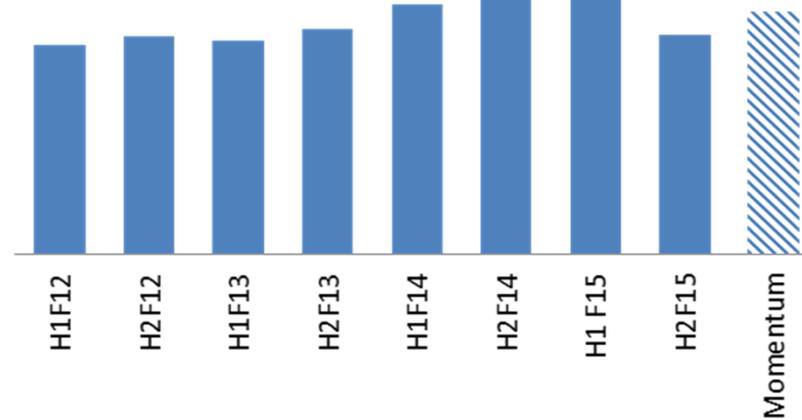
- Upside leveraged to improving medium term Asian economic sentiment



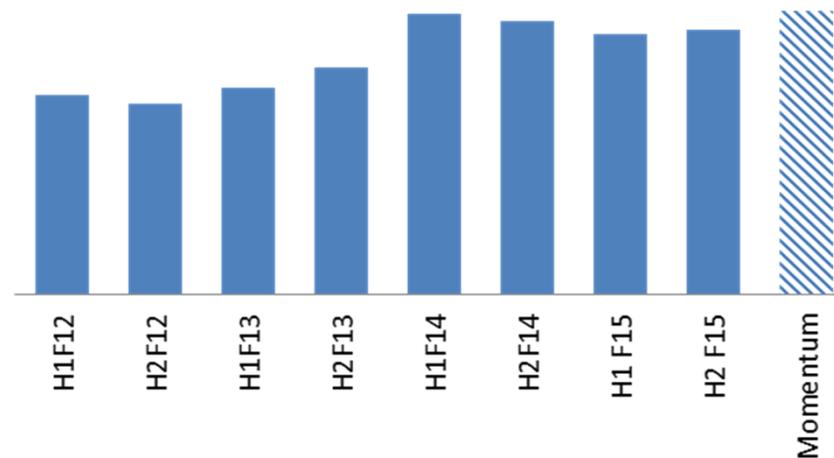
Source: Metal Bulletin

# Performance indicators

**Intake tonnes per person - annualised (Australia)**

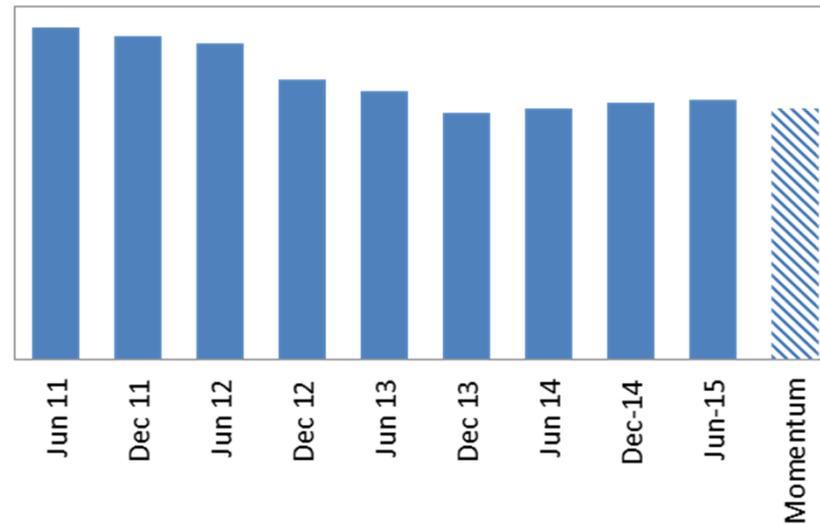


**Working Capital turn - Australia + Asia**

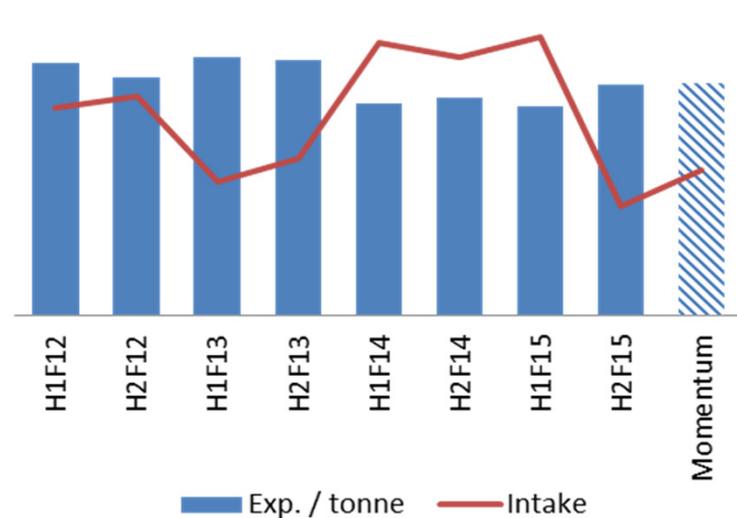


# Performance indicators

### Headcount - Total



### Aust. expenses per intake tonne



# Summary

- Responding to a low price environment as metals industries adjust to the next Chinese paradigm
- Transformed business provides a robust platform from which to respond to current challenges
- Immediate opportunities from latent value
  - Managing working capital – stock turn
  - Productivity improvement
- Medium term opportunities
  - Portfolio tuning
  - Source to sale – activity realignment
  - Yield improvement / waste minimisation
- Industry transformation
  - Shake out and consolidation
  - Waste Levy renegotiation
  - Pricing models – unbundling services
- Alignment with Arrium Steel objectives





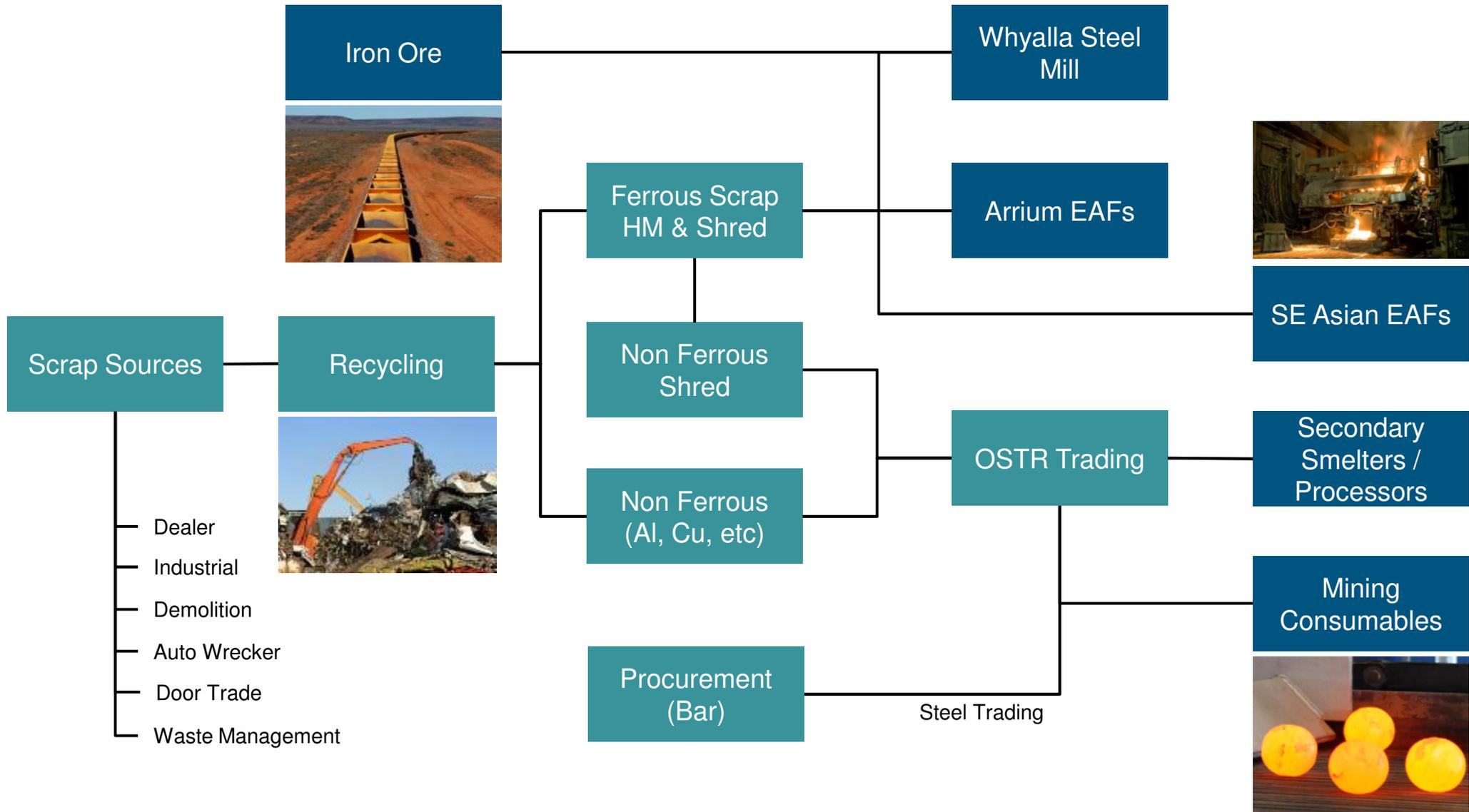
# APPENDIX

# OneSteel Recycling

We buy materials containing steel, stainless steel, copper, aluminium, lead, zinc, brass, bronze etc; prepare it for reuse then trade metals into local and global markets.



# Business model



# Ferrous scrap flow – how it happens

## Materials Handling



## Baler



## Bales



## Shred



## Shredder



## Shears



## Heavy Melt

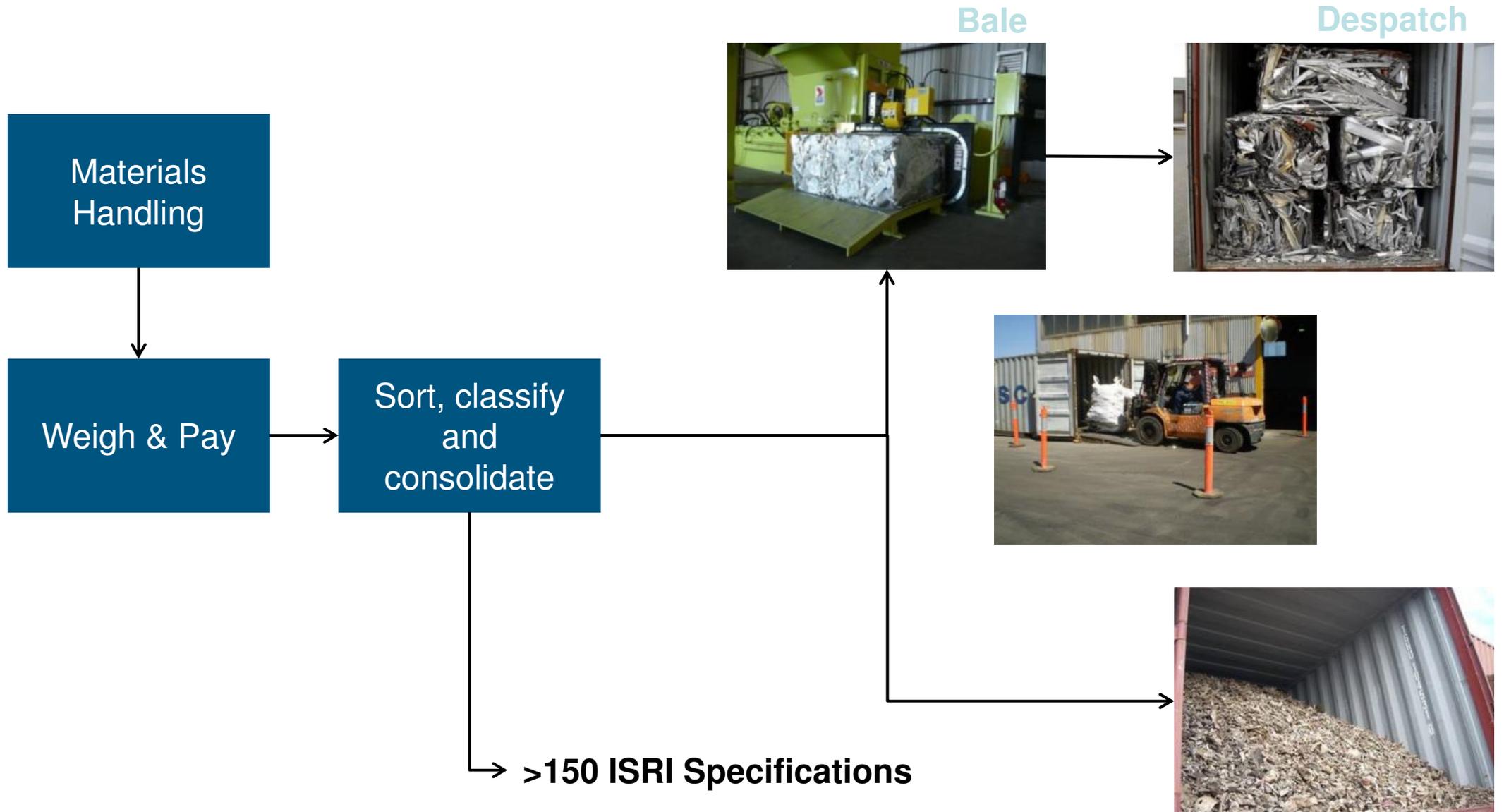


## Steelmaking



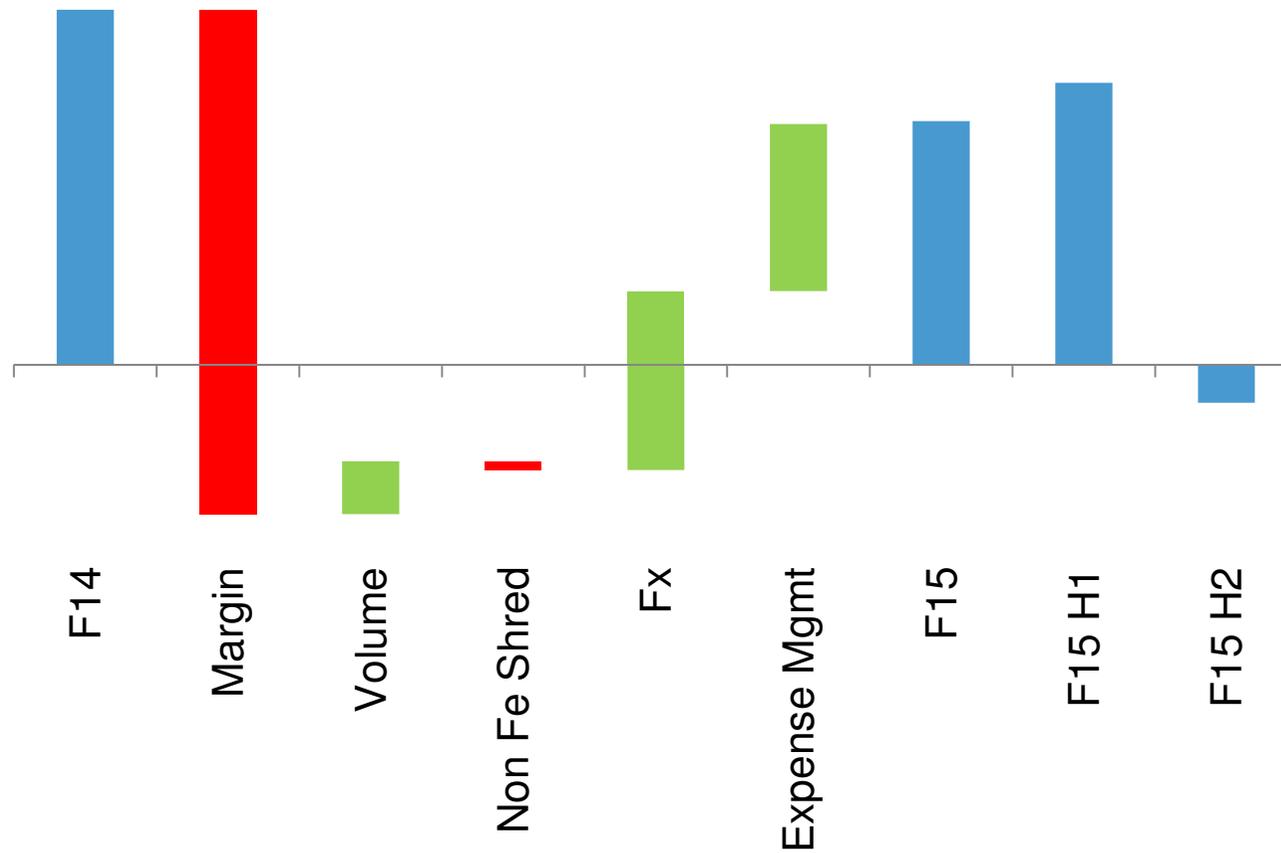
## Zorba

# Non ferrous scrap flow – how it happens



# FY15 EBITDA drivers

## Continuing business – underlying EBITDA



# Zero waste initiatives

The recycling sector in Australia generates c600ktpa of waste that goes to landfill at a cost c\$50Mpa.

- Waste contains metals, plastics and other reusable materials

Landfill levies are increasing as industry relief lessens

- The NSW landfill levy will grow to \$170/t in 2017
- Driving export of “unprocessed scrap” and contained waste

OneSteel has previously invested in additional sensor sorts and batch feeders at its Hemmant & Laverton shredders extracting +2% of the waste stream as metal

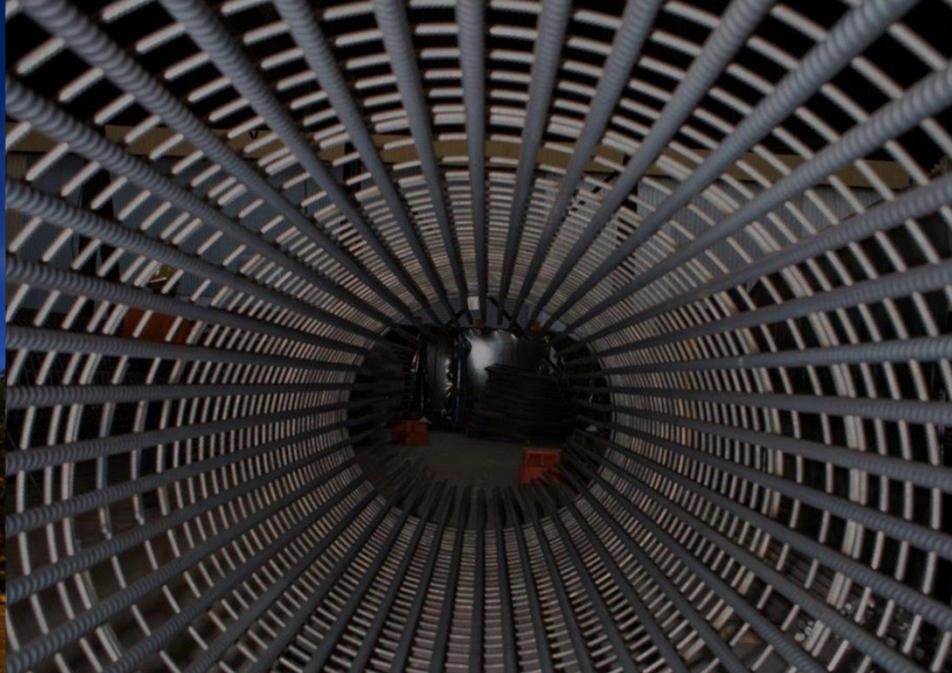
A two pronged strategy:

- Diversion of reusable materials
- Recovering metals

Supported by:

- R&D program; in house research and partnerships with Universities in Sydney & Melbourne
- Application of new technologies





# OneSteel Reinforcing

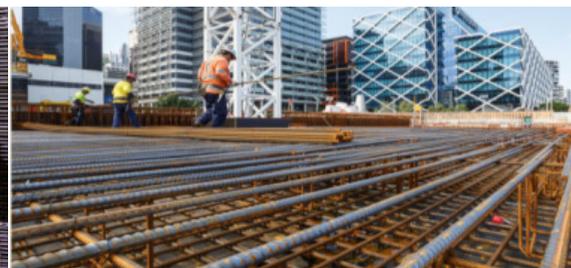
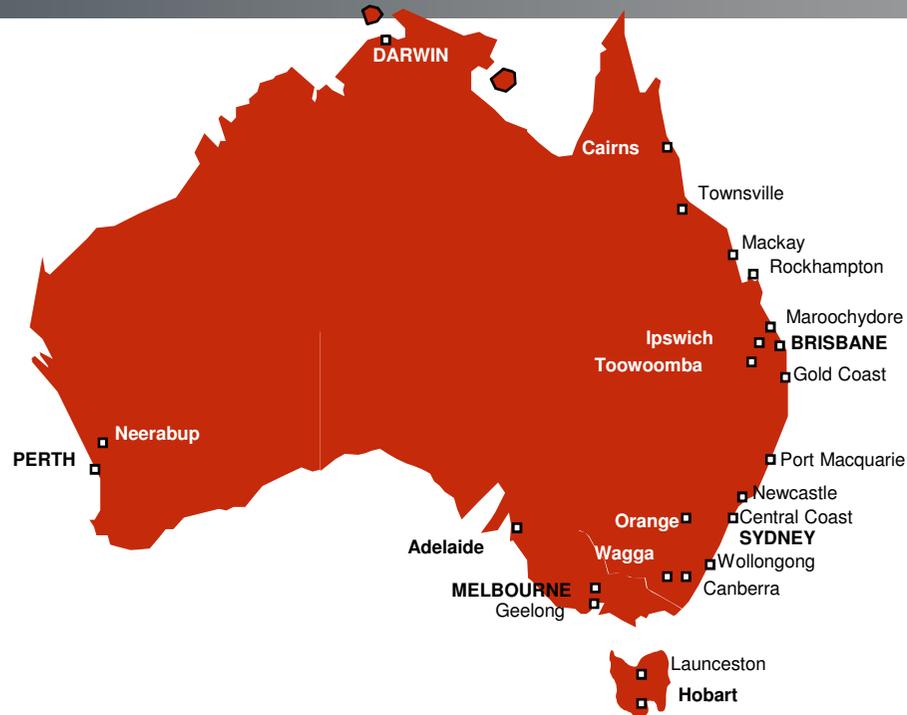
## Wetherill Park Site Tour

**Neil McLean, General Manager OneSteel Reinforcing**  
**19 October 2015**

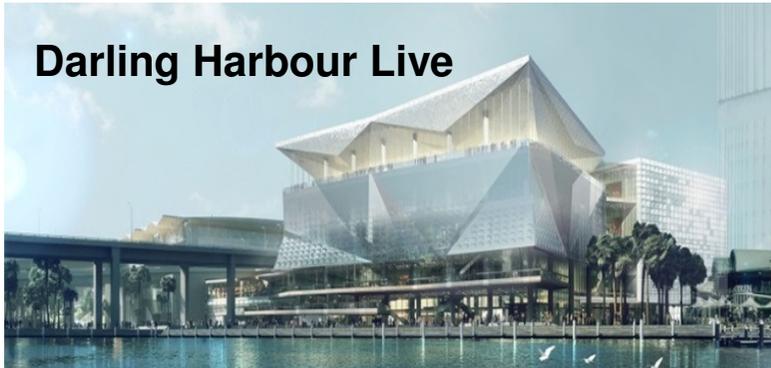
# OneSteel Reinforcing fact sheet

Revenue <sup>1</sup>	\$600m
Employees	890+
Sites	38

*“Australia’s largest reinforcing provider focussed on top-tier projects and helping customers with their construction risks”*



# Major projects for OneSteel Reinforcing



**Darling Harbour Live**



**NorthConnex**



**Barangaroo South**



**Meriton Pagewood**



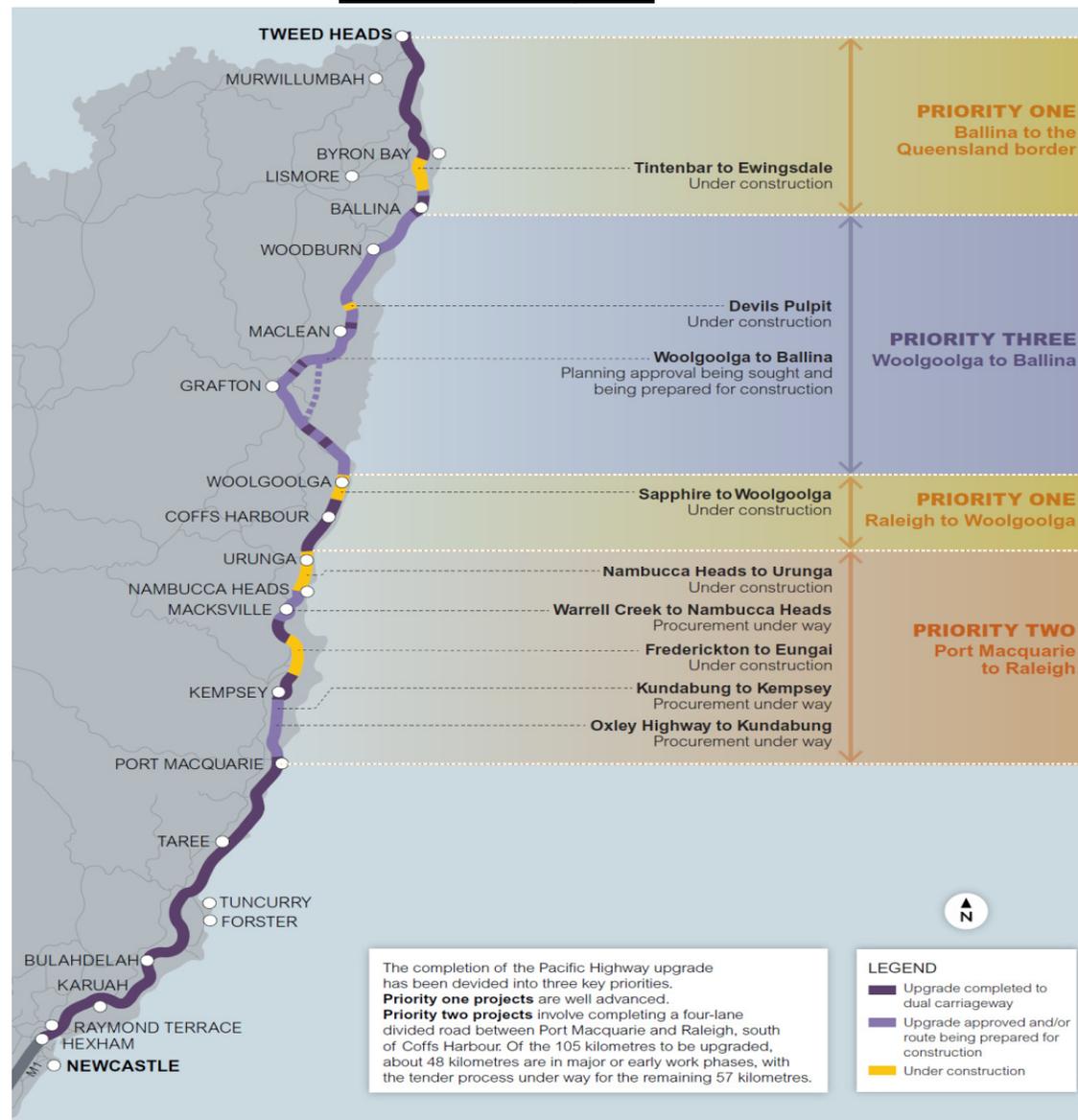
**Wynard Walk**

# Pacific Highway upgrade work continues

- Approximately 25,000 tonnes of upgrade work expected to be tendered in period 2016 - 2018
- CRCP - Continuous Reinforced Concrete Pavement using BAMTEC carpets
- Labour Productivity gains, safer deployment, speed of roadway development



## Indicative Projects



# Estimated impact of Sydney apartment growth

**25,000 apartments**

**Estimated Total Tonnes in the market (2015 – 2018): ~110ktpa<sup>1</sup>**



**Altitude Towers  
53 Storeys**



**Green Square**



**Parramatta City**

# Wetherill Park site fact sheet

<b>Employees</b>	<ul style="list-style-type: none"> <li>20 wages employees across day and afternoon shifts</li> <li>4 salary employees</li> <li>18 casual employees</li> </ul>
<b>Sites</b>	Wetherill Park - 90 tonne to 100 tonne per day. Plans to expand this to 150t per day over the next 12 months
<b>Major equipment</b>	<ul style="list-style-type: none"> <li>Progress MSR 20</li> <li>Mini Syntax 16</li> <li>MEP Shear Line</li> <li>Focus</li> </ul>
<b>Safety statistics</b>	<ul style="list-style-type: none"> <li>Loss Time Injuries = 0 (zero injuries)</li> <li>Medical Treatments = 3 MTI's over the last 12 months</li> <li>All Injuries = Total of 11 injuries over the last 12 months</li> </ul>
<b>Total hours worked (last 12 months)</b>	62,154



# New Bar Processing and Prefabrication facility

- 2 shifts, 5 days per week operation, with a total of 42 employees
- \$3.3m asset investment in FY15, including latest technology in bar processing and prefabrication
- Meets AS/NZS 1554.3 - welding reinforcing steel
- Guaranteed Lifting Certification
- Quality Assurance ISO9001
- Traceability
- Potential to expand capacity in future
- Key equipment
  - Mini Syntax 16 – Twin feed off coil auto cut and bend bar processing.
  - MEP LTM300 bar shear line plus integrated CS460 automated bar bending system
  - Progress MSR20+2BK off coil processing system

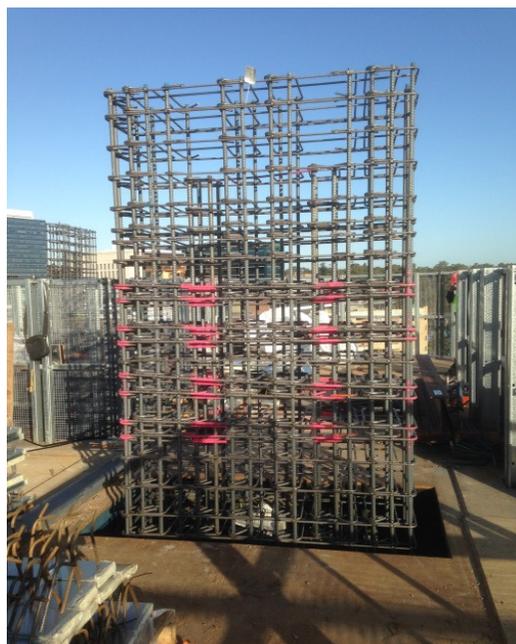


New Bar and Pre Fabrication facility at 166 Newton Road Wetherill Park

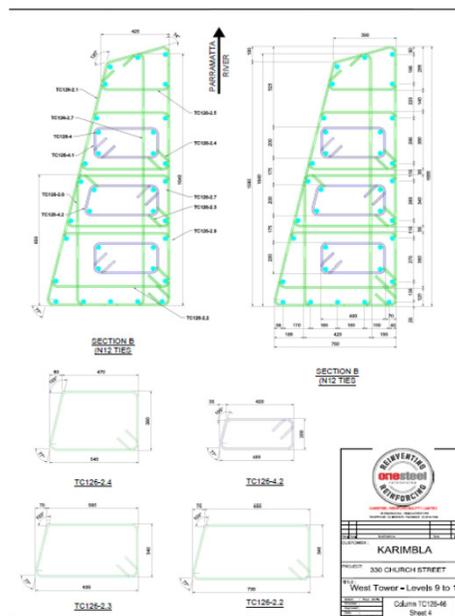


# Innovation & growth – prefabrication solutions

- Detail, manufacture and safe delivery of Prefabricated Reinforcing cages made to Australian Standard and ready for installation
  - Pile Cages, Diaphragm Walls, Columns, Beams, Walls, Footings
- Speeds up construction cycles for the builder
- Safer - reduces on site labour and congestion
- Key to meeting Green Star ratings



Altitude Towers



Barangaroo

















# Summary

- Continue to support the construction sector - new plant, equipment & process / product development
- Market opportunities are significant
- Innovation key to success - Prefabrication, New Product Development, Branded differentiation based on solutions capability
- OneSteel Reinforcing continues to be the market leader

# ONESTEEL COST GRAPHIC

## Domestic steel pricing structures

MINING AND MATERIALS

- Impact of change in FX and scrap prices on domestic wholesale pricing - ~3 months lag depending on product
- Majority of steel product range competes with South East Asian suppliers
- Local wholesale and retail premiums driven by level of service required and unique market offers

