



**J.BRACIC & ASSOCIATES**  
TRADE REMEDY ADVISORS

PO Box 3026  
Manuka, ACT 2603  
Mobile: +61 499 056 729  
Email: [john@jbracic.com.au](mailto:john@jbracic.com.au)  
Web: [www.jbracic.com.au](http://www.jbracic.com.au)

---

3 February 2017

Director Operations 2  
Anti-Dumping Commission  
GPO Box 1632  
Melbourne VIC 3001

**Dumping investigation into alloy round steel bars exported from the  
Peoples Republic of China**

Dear Director

This submission is made on behalf of Donhad Pty Ltd (Donhad) in response to the application by OneSteel Manufacturing Pty Ltd (OneSteel) for the publication of dumping duties on alloy round steel bars (alloy steel bars) exported from the Peoples Republic of China (China).

The purpose of this submission is to bring to the Anti-Dumping Commission's (the Commission) earliest attention a number of critical issues identified in OneSteel's application that at best undermines the validity of the injury and causation claims made, and at worst, supports the view that the applicant is not a member of the Australian industry producing like goods and/or does not comply with the minimum required production volumes to meet the standing requirements set out in subsection 269TC(4) of the *Customs Act 1901* (the Act).

Therefore, Donhad urges the Commission to carefully consider the issues raised in this submission and urgently seek further necessary and relevant information from the other Australian producer of like goods to allow for a proper determination of the scope of the goods under investigation(s) and the corresponding composition of the Australian industry.

**The scope of goods subject of the application**

It is important for the Commission to firstly understand the scope of goods subject of the application and the corresponding range of like goods produced by OneSteel and Commonwealth Steel Company Pty Ltd (Com Steel), the other identified Australian producer of like goods.

OneSteel has named the goods subject of the application as alloy round steel bars and defined the parameters of such goods as '*hot-rolled solid sections of 'alloy steel', having round or near-round cross-sectional dimensions of not less than 9.5 millimetres (mm) and not greater than 98.5 mm, not in coil*'.

Notwithstanding the exclusion of steel reinforcing bars, steel rod in coil and chromium plated steel,

products falling within the goods description remain very broad and with significant differentiating characteristics between the various categories of goods.

For example, as noted by OneSteel in its application, alloy steel bars include rod, round bar, engineering bar, spring steel, alloy bar, high alloy bar, silico-manganese bar, grinding rod or bar used for the production of grinding media. In addition, OneSteel further categorises the range of products subject of their application into 'five broad product categories', with two of those categories subject to Australian Standard AS1444 and the remaining three categories produced to customer required specifications.

Of the broad range of goods covered by the goods description, it is Donhad's understanding that the approximately [REDACTED] % of imports are represented by grinding bar used in the production of grinding media. Importantly, grinding bar is critically different to other alloy steel bar within scope of this investigation, including but not limited to:

- i) as noted by OneSteel, grinding bar is not subject to any Australian Standard;
- ii) as noted by OneSteel, grinding bar is used exclusively in the production of grinding media, unlike other imported and locally produced alloy steel bars certified to AS1444 which are used in engineering construction (axles, shafts, high tensile studs and bolts, gears and drill rods), residential construction, non-residential construction, mining infrastructure, and transport and storage<sup>1</sup>;
- iii) grinding bar is produced to the customer's own technical specifications which are required to produce grinding media tailored for the end-user's intended application; and
- iv) grinding bar does not compete with goods certified to AS1444 as they are used exclusively in the manufacture of grinding balls with approximately 90 per cent of grinding ball demand on the Australian market originating from the mining industry, including for use in magnetite, copper and gold mine processing applications, with the remaining ten per cent taken up from coal pulverizing for electricity production and grinding plaster and cement for the building industry<sup>2</sup>.

In summary then, imports of grinding bar account for approximately [REDACTED] % of imports subject to investigation, is exclusively used in the production of grinding media and possesses physical, functional and commercial characteristics which differ substantially from other forms of alloy steel bar. In these circumstances, Donhad contends that there are grounds for the Commission to consider that the application by OneSteel covers more than one distinct 'good' and should accordingly be treated as an application covering several goods, with one such good being 'grinding bar'.

This is supported by the Commission's 'Guidelines for Applicants'<sup>3</sup> which outlines the risks of an applicant defining the goods subject of the application too broadly, and explains that in these circumstances '[i]t is also possible that the Commission would consider that the goods described in the application covered more than one good and treated the application accordingly.' Donhad considers that the

<sup>1</sup> <http://www.onesteelmetalcentre.com.au/products/merchant-bar/round-bar>

<sup>2</sup> EPR 316, Record no. 54, page 19

<sup>3</sup> Guidelines for Applicants – December 2015, page 10.

circumstances in this particular case warrant an examination of the product categories falling within OneSteel's goods description and a careful assessment of the like goods framework, to determine whether the application is comprised of two or more discrete and distinct imported goods.

This assessment will have important implications for the composition of the Australian industry producing like goods if as expected, the Commission was to determine that grinding bar was a discrete and distinct good from other imported alloy steel bars. If, however the Commission was to hold the view that the application covers a single product category, then the composition of the Australian industry will impact on the Commission's material injury and causation determinations, as explained below.

### **Australian industry producing like goods**

It is noted that the named applicant is identified as OneSteel Manufacturing Pty Ltd, a wholly owned subsidiary of Arrium Limited. In its application, OneSteel identifies Commonwealth Steel Company Pty Ltd (Com Steel) as another Australian producer of like goods. It is noted that during the nominated investigation period and injury analysis period (1 July 2012 – 30 September 2016), Com Steel was also a wholly owned subsidiary of Arrium Limited. Donhad seeks clarification of the applicant given that both of the claimed producers of like goods were related entities within the Arrium single corporate group.

Identification of the applicant is also vitally important in this case given that OneSteel and Com Steel manufacture different models of goods falling within the broad description of the subject goods. The importance of this issue is further magnified if the Commission was to decide that grinding bar was a discrete and distinct product from other alloy steel bar and as such, required to be investigated in a separate and standalone investigation.

In its application, OneSteel states that it '*is the largest producer in Australia of like goods to the imported goods the subject of this application*'. Whilst this statement may be correct when assessed against the broad description of goods subject of the application, Donhad contends that OneSteel is not a producer of like goods to the principal imports of grinding bars. This is critically important in order to ensure that the Commission has relevant cost and sales information to properly examine and assess the economic performance of the Australian industry producing like goods, and to properly consider whether material injury can be linked to the predominant imports of grinding bar.

Section A-3.6 of OneSteel's application is heavily redacted in the public version and Donhad understands that the redacted information would outline the tolling arrangement between OneSteel and Com Steel for the conversion of OneSteel produced billet into grinding bar by Com Steel at its Newcastle rolling mill. This arrangement is confirmed in the application to the Commission's recently completed dumping and subsidy investigation into grinding balls exported from China (EPR 316):

*The feed material for the Donhad grinding media production process is grinding bar purchased from OneSteel which has been produced from billet sourced from the Blast Furnace/BOF Steelmaking operation at Whyalla that has subsequently been rolled through the bar mill at Moly-Cop's Waratah facility.*



OneSteel also confirms this in its application by stating that '[o]ne model of like goods is also produced by Commonwealth Steel Company Pty Ltd (trading as Moly-Cop) ("Moly-Cop"), specifically 'grinding rods'.'<sup>4</sup> Com Steel also confirmed in its grinding ball application that OneSteel's production of grinding bar involved the transfer of billet produced at OneSteel's steelmaking operation at Whyalla, for re-heating and rolling through the bar mill at Com Steel's Waratah facility.<sup>5</sup>

It is important then for the Commission to understand that as far as Donhad is aware, OneSteel does not and has not produced grinding bar since the closure of the OneSteel Mayfield bar mill in 2009/10. It does not produce grinding bar or rod in Australia at any of its rolling steel mills located in Laverton, Newcastle or Sydney. Instead, OneSteel is simply a producer of the billet feed material used to manufacture a small portion of the total volume of grinding bar produced in Australia.

The only local producer of grinding bar is Com Steel as its Newcastle rolling bar mill is the only known mill capable of producing grinding bars. All grinding bar sold by OneSteel during the investigation and injury analysis period was produced by and manufactured at Com Steel's Newcastle rolling bar mill.

The table below summarises Donhad's understanding of the stages of production of grinding bars in Australia. It shows that Com Steel is the only Australian producer of like goods to the imports of grinding bar which account for approximately █% of all subject imports, as all grinding bar is produced in Australia at Com Steel's Newcastle rolling mill from billet produced internally by Com Steel and externally by OneSteel.

Local manufacturer	Billet	Grinding bar
OneSteel Manufacturing	Yes	No
ComSteel	Yes	Yes

Table 1

It is clear then that the only local producer of like goods to the imported grinding bars subject to investigation is Com Steel, as OneSteel's production is limited to billet and other alloy steel bars which cannot possibly be considered like goods to grinding bar.

Therefore, Donhad urges the Commission to promptly clarify which of the Arrium Limited entities comprise the applicant. If the applicant is limited to OneSteel Manufacturing Pty Ltd, then the application is either invalid if grinding bar is separately investigated, as they do not produce like goods, or the application is critically weakened as cost and sales information for the vast majority of grinding bar produced locally by Com Steel has been omitted.

It is also open to the Commission to treat the Arrium group of companies as a single corporate entity and the applicant for the purposes of assessing injury. For example, in Report No. 63 – *Washing Machines exported from the Republic of Korea*, the application was lodged by a holding company Fisher & Paykel Australia Holdings Limited, notwithstanding that production of like goods was undertaken by a separate and wholly owned subsidiary, Fisher & Paykel Manufacturing Pty Limited, and sales of like goods was undertaken by another separate and wholly owned subsidiary, Fisher & Paykel Australia Pty Limited. In that case, the then Australian Customs Service

<sup>4</sup> EPR 384, Record no. 001, page 12.

<sup>5</sup> EPR 316, Record no. 54, page 13.



proceeded on the basis that it was reasonable to view the Fisher & Paykel group of companies in Australia as a single corporate entity for the purpose of assessing injury. This approach of amalgamating the related entities into a single corporate entity for assessing material injury was endorsed by the Federal Court and the Full Court in *LG Electronics Inc v Minister for Justice and Customs*<sup>6</sup>.

However, by amalgamating the related entities into a single corporate entity, the application is again considered invalid as the application did not provide and contain such information as required by the approved form, being all relevant production, cost and sales information in respect of like goods produced by Com Steel. At the very least, the Commissioner was prevented from properly considering whether there appeared to be reasonable grounds for the publication of a dumping duty notice as the application did not contain any cost and sales information from the only local producer of grinding bar.

Please note that whilst OneSteel and Com Steel were related entities within the Arrium Group during the investigation period, on 4 January 2017 Arrium's administrators announced the completion of the sale of Arrium's Mining Consumables Division<sup>7</sup> which includes Com Steel's Newcastle rolling bar mill.

Donhad submits then that the applicant and the composition of the Australian industry producing like goods is critical to the scope of goods to be investigated and the scope of information required from the Australian industry members. That is, OneSteel cannot simply claim to be suffering material injury as the applicant when it does not manufacture any products that are like or directly competitive to the grinding bar imports which represent approximately █% of total imports of the subject goods. Likewise, OneSteel cannot claim to be suffering material injury on behalf of the Arrium group of companies without providing the Commission with all of the relevant cost and sales information from Com Steel as the sole local producer of grinding bar.

The table below more clearly highlights the product categories being manufactured by the Arrium group of companies and the relative comparison in product mix to the subject imports. Donhad submits that this provides further grounds for considering that the goods subject of the application are discrete and distinct when assessed against the categories of like goods produced locally and the respective goods produced by each of the Australian industry members. It is clear from this information that if the Commission is to conduct a proper and objective injury assessment and establish whether the subject imports have caused material injury to the Australian industry producing like goods, then the only relevant information is that held by Com Steel.

Source	Grinding bar	Other alloy bar
OneSteel	0%	100%
Com Steel	100%	0%
Chinese imports	█%	█%

Table 2

<sup>6</sup> *LG Electronics Inc v Minister for Justice and Customs* [2005] FCA 233; *LG Electronics Inc v Minister for Justice and Customs* [2005] FCAFC 214

<sup>7</sup> [http://www.arrium.com/~media/Arrium Mining and Materials/Files/ASX Announcements/FY2017/Arrium announces completion of Moly-Cop sale 04 January 2017.pdf](http://www.arrium.com/~media/Arrium%20Mining%20and%20Materials/Files/ASX%20Announcements/FY2017/Arrium%20announces%20completion%20of%20Moly-Cop%20sale%2004%20January%202017.pdf)



So whilst OneSteel might correctly identify itself as *'the largest producer in Australia of like goods to the imported goods the subject of this application'*, this claim is made against the broad range of goods described in its application and that may be imported into Australia but does not properly take account of the types of goods actually imported during the nominated investigation period.

It is noted that the Commission's Dumping and Subsidy Manual states that the Commission *'may need to substantiate production figures by cross reference to other sources of information.'* Donhad therefore requests the Commission to refer to verified costing information submitted by Com Steel in relation to grinding bar feed material used in the production of grinding balls, to examine the reasonableness of OneSteel's estimate of production by Com Steel during the investigation period.

Please note however that Donhad is not questioning or suggesting that OneSteel does not possess standing in its own right against the current description of goods subject of the application. It is understood and accepted that the industry applicant need not produce all models of like goods and that the determination of like goods and standing is not required to be separately undertaken for each type or model imported. Instead, Donhad raises the issue of standing and the industry's composition to more clearly highlight its concerns about the possible reasoning for OneSteel's decision to define a very broad category of goods and to exclude Com Steel from its application.

Firstly, the current broad description of the subject goods without the inclusion of relevant cost and sales information from Com Steel as the sole local producer of grinding bars affects the Commission's ability to undertake a meaningful assessment and determination of injury to the whole of the Australian industry producing like goods and to establish a causal link to the subject imports. As the information at table 2 shows, whilst approximately ■■■% of total imports of alloy steel bar is represented by grinding bars, OneSteel's production data contained in the application and relied upon to initiate the investigation refers only to other alloy steel bars. That is, all of OneSteel's submitted production information relates to manufactured products which do not compete with and are not like to, the predominant imports of grinding bar.

In addition, and of equal concern, OneSteel's sales of grinding bars which do compete with the vast majority of the subject imports, represents approximately only ■■■% of the total production of grinding bars produced by the whole of the Australian industry, which includes Com Steel. To put that another way, approximately ■■■% of the locally produced like goods that compete directly with the vast majority of the imported goods under investigation, do not form part of the application.

In these circumstances, it is curious then that the largest local producer of grinding bars, a related party to OneSteel during the investigation period and the party most likely to benefit from the imposition of interim dumping duties, Com Steel, has *'elected to not become applicants to this application.'* It is also clear that had the application more precisely described the goods subject of the application as grinding bars, OneSteel would not have had sufficient standing in its own right to lodge such an application, even with Com Steel's support, as it would not be able to demonstrate production of like grinding bar.

Instead, the only two options available to OneSteel to seek the imposition of interim dumping duties on grinding bars, was to either encourage Com Steel to be the applicant and formally lodge an application in its own right, or broaden the definition of the goods subject of the application



sufficiently to ensure that it would then comply with the standing requirements in its own right. It is now apparent that OneSteel's standing in its own right is only met when the goods are defined to include all round alloy steel bars, irrespective of their physical characteristics, technical specifications, end-use application, market segment and distribution channels.

It is also of concern that in defining the goods so broadly in its current application, OneSteel appears to be suggesting that Com Steel's sales and costing information is not required for the Commission to properly assess injury to the Australian industry producing like goods. This should be particularly disturbing and a primary concern for the Commission given the well-documented and vastly contrasting financial performance of Com Steel, Arrium's then only profit making division, and OneSteel, the troubled steel making division which includes its Whyalla blast furnace operation. Please refer to non-confidential **Appendix A** for a comparison of first-half 2016 reported financials for both divisions.

The above analysis of the Australian industry and its inconsistency with statements presented in the application, provides Donhad with deep concerns that the anti-dumping system may be manipulated in this case for a particular desired outcome, and for the investigation to be used as an anti-competitive tool that would primarily benefit Com Steel. Given that OneSteel is expected to be aware of the relative local production volumes and import volumes of grinding bar and other alloy steel bars, it is troubling that they would seemingly be of the view that Com Steel's sales and costing information is not relevant or required by the Commission to undertake a meaningful and accurate assessment of injury to the whole of the industry.

Given that approximately [REDACTED] % of imports of alloy steel bars are represented by grinding bars, and grinding bars do not compete with or have characteristics similar to other alloy steel bars produced by OneSteel, it is essential that the Commission's injury and causation assessments properly and carefully consider the economic condition to the whole Australian industry producing grinding bars, including the largest local producer of grinding bars, Com Steel. Donhad would expect that the Commission would follow its usual practice and request that Com Steel properly cooperate and submit its detailed sales and costing information over the injury analysis period. Only then can the Commission undertake a meaningful injury and causal link assessment.

In addition to being the largest local producer of grinding bars and in the circumstances where grinding bar production in Australia also involved the transfer of billet from OneSteel to its then related entity Com Steel, it is expected that a substantial portion of OneSteel's costs of grinding bar sales are accounted for and recorded in Com Steel's financial records. Given that Com Steel and OneSteel were 100% subsidiary entities within the Arrium Group during the whole of the investigation period, it is again critical that the Commission request and verify sales and costing information held by Com Steel, the largest producer of grinding bar in Australia.

**Other factor –** [REDACTED]

In addition to the broader issues of like goods and the Australian industry producing like goods outlined earlier in this submission, there are a number of product specific issues unrelated to imports which would explain and demonstrate that factors other than the subject imports have contributed to the injury being claimed by OneSteel.



In its application, OneSteel highlights that certain models such as grinding bar are manufactured to meet and comply with '*the customer requirements specified*'. It stands to reason then that where OneSteel is unable to meet and comply with Donhad's very detailed grade and technical specification requirements, any resulting lost potential sales and potential profits cannot be attributed to the subject imports.

Donhad has prepared a summary at **Confidential Appendix 2** of the various grades of grinding bar sold by OneSteel and an assessment of whether they comply with Donhad's technical specifications and identified issues preventing compliance with Donhad's quality and testing requirements. Based on the identified issues with certain grades of grinding bar produced by Com Steel and sold to Donhad by One Steel, Donhad has had no other option but to seek alternative supply of these types of grinding bar from imports. In these circumstances, the sole cause of potential lost sales and potential lost profits by OneSteel is its inability to comply with Donhad's technical specifications and quality and testing requirements.

#### **Changed circumstances post-investigation period**

Anti-dumping measures may be imposed on future exports of like goods only when the Minister is satisfied that material injury to an Australian industry has been caused by dumping, and is satisfied that the dumping and material injury may continue. In considering whether material injury may continue, the Commission would seek to examine and understand whether any change in circumstance has occurred in the post-investigation period.

As noted earlier, during the investigation and injury analysis period, both OneSteel and Com Steel were wholly owned entities within the Arrium group of companies. Since then, Arrium's administrators announced on 4 January 2017 that the sale of Arrium's Mining Consumables Division which includes Com Steel's Newcastle rolling bar mill had been completed to funds managed by American Industrial Partners.

Given that OneSteel does not possess the capability to produce grinding bar at its existing steel mills located at Laverton, Newcastle or Sydney, and now must negotiate at arms-length with Com Steel for the production of grinding bar, it is incumbent on the Commission to examine and assess whether alleged material injury in the future will be caused by factors other than the subject imports. To highlight by way of example, [REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]. [Confidential arrangements]

Further, the sale of the Moly-Cop division from the Arrium group confirms that in the post-investigation period, that the Arrium group of companies no longer undertake production of grinding bar in Australia, with the sole producer of grinding bar being Moly-Cop. This further emphasises the need to request the cooperation and relevant cost and sales information from Moly-Cop to enable an assess and determination as to whether alleged material injury will continue.

Given the change in circumstances surrounding the Arrium group of companies and the composition of the Australian industry producing like goods since the end of the nominated



investigation period, the Commission is obliged to examine the impact that these changes have had on the likelihood that the alleged material injury will continue in the future.

### Conclusion

The anti-dumping system is designed and intended to remedy the impact of unfairly traded dumped and/or subsidised imports. Donhad supports the legitimate use of the dumping system to improve the competitive strength of Australian industry against such unfair trade. Likewise, Donhad is supportive of the Commission's role in assessing the legitimacy of applicant's claims and determining the appropriate levels of duties to offset dumping where it is found to have occurred and caused material injury.

However, in this particular circumstance, Donhad is deeply concerned by the apparent efforts by OneSteel to circumvent the mandatory 'standing' and production requirements and contrive an injury claim without relevant information from its then related entity and sole producer of grinding bar, Com Steel. This misapplication has been achieved by redefining the goods description broadly instead of more accurately targeting the grinding bar imports which account for approximately █% of all subject imports from China.

Of further concern is the apparent desire by OneSteel to ensure that Com Steel's production and sales of grinding bar do not form part of the Commission's injury assessment. This should be of particular concern to the Commission given that OneSteel does not itself produce grinding bar and instead all local production of grinding bar is undertaken at Com Steel's Newcastle rolling facility.

Donhad therefore questions the validity of the application and the investigation in its current form and urges the Commission to investigate the issues raised in this submission more closely and thoroughly. Donhad also welcomes the opportunity to meet with and discuss these issues in greater detail with the Commission.

Yours sincerely

John Bracic

## Mining Consumables



### Market conditions and external factors

- Lower commodity prices
  - Copper down 26%, gold down 10%, iron ore down 38%
- Increased focus by miners on cost reductions and cash
  - 'Value in use' key focus
- Some mines mothballed or reduced mining activity
- Mining activity, particularly copper/gold, still strong and forecast to continue at high levels
- Continued deterioration in head grades of copper/gold – increased demand for grinding media
- Mines now commenced and soon to ramp up. Includes:
  - Cerro Verde & Las Bambas, Peru
  - Conceicao & Caue, Brazil
  - Cananea, Mexico



*Strong performance despite weaker external environment*

18

## Mining Consumables results



	1H16 \$m	1H15 \$m	% change	
Total revenue/income	755	766	↓	(1)
EBITDA	109	95	↑	15
EBIT	83	72	↑	15
Sales margin (%)	11%	9%	↑	2 pp
Assets	2,603	2,620	↓	(1)
Funds employed	2,239	2,184	↑	3
Return on funds employed <sup>1</sup> (%)	8%	7%	↑	1 pp
Employees (number)	1,837	1,848	↓	(1)
External tonnes despatched (Mt) <sup>2</sup>	0.54	0.58	↓	(7)

<sup>1</sup> ROFE for Moly-Cop grinding media businesses in North and South America –13%, excludes capacity expansion at La Joya, Peru yet to be commissioned. Includes recently commissioned Kamloops, Canada expansion.

<sup>2</sup> Excludes scrap sales.

19



## Mining Consumables results

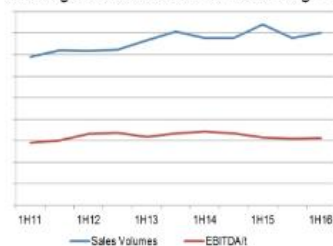


### Strong performance despite weaker external environment

#### EBITDA \$109 million, up 15% on pcp

- Grinding media sales volumes up 1% on prior half
  - Stronger volumes in North America
  - Some mine operational disruptions in Chile/Brazil
- Stable grinding media margins<sup>1</sup>
  - Improvement in rail wheel volumes
  - FX benefit
  - Cost reductions and productivity improvements
- Stable AltaSteel performance
- Return on funds employed for North and South America grinding media business ~13%<sup>2</sup>

North and South America  
Grinding media sales volumes and margins



Source: Arrium

<sup>1</sup> Grinding media margins include impact of timing of pass through of lower steel raw material costs into prices. Margins best viewed over extended period.

<sup>2</sup> Excludes capacity expansion yet to be commissioned at La Joya, Peru. Includes recently commissioned Kamloops, Canada expansion.

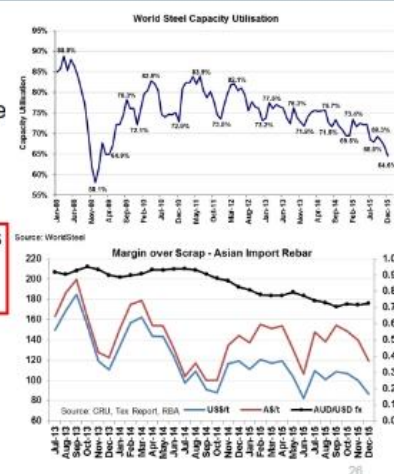
20

## Steel and Recycling results



### Market conditions and external factors

- Increase in residential construction activity
- Non-residential construction improving off a weak base
- Engineering construction – strong pipeline with projects commencing
- Steel making raw materials prices continue to be low
- Global steel capacity utilisation at unsustainable levels (~65% - lowest since GFC)
- Asian steel prices at 12 year lows
- Chinese Government taking action ~RMB100bn committed to reduce steel overcapacity<sup>1</sup>
- Continued volatility in international markets



<sup>1</sup> Source: CRU.

20

## Steel results



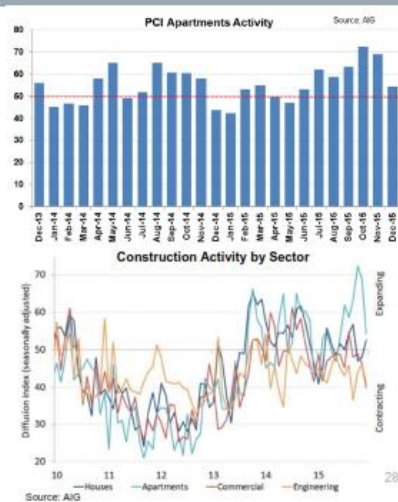
	1H16 \$m	1H15 \$m		% change
Total revenue/income	1,453	1,567	↓	(7)
EBITDA	44	13	↑	238
EBIT	4	(38)	↑	111
Sales margin (%)	0.3%	(2%)	↑	2 pp
Assets	1,867	1,848	↑	1
Funds employed	1,349	1,310	↑	3
Return on funds employed (%)	1%	(5%)	↑	6 pp
Employees (number)	4,993	5,260	↓	(5)
External steel despatches (Mt)	1.16	1.17	↓	(1)
Steel tonnes produced (Mt)	1.02	1.00	↑	2

27

## Steel results



- Continued improvement in domestic demand
  - Increased residential construction, particularly apartments
  - Commencement of large infrastructure projects
  - Improved demand from rural sector
  
- Domestic sales volumes up 5% on prior half
  - Reinforcing up strongly
  - Structurals up strongly
  - Stronger wire sales



28



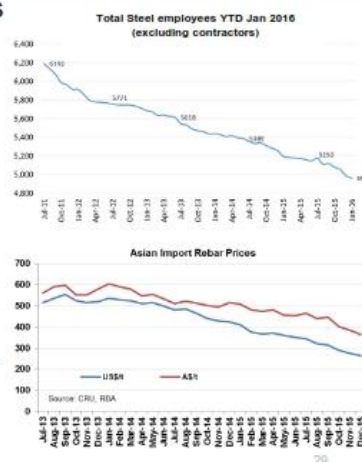
## Steel results

### Strong lift in earnings in difficult external conditions

- EBIT positive – second consecutive half since GFC
  - Cost reductions and productivity improvements
  - Lower raw material costs
  - Lower AUD/USD

More than offset:

  - Impact of lower Asian USD steel prices
- Improved earnings in all businesses other than Whyalla Steelworks
- Whyalla Steelworks operating loss \$43 million
  - Lower Asian steel prices and fixed cost iron ore feed more than offset cost reductions 1H16
  - Capital expenditure \$24 million



29

## Steel results

- Domestic sales volumes up 5% on prior half
- Domestic demand forecast to increase ~5% p.a. (FY16 – FY18)<sup>1</sup>
- Solid pipeline of new construction projects
  - Residential, particularly high rise
  - Government funded infrastructure, particularly NSW and Victoria
- Significant leverage to increased sales volumes
  - High proportion of fixed costs (fixed ~65%, variable ~35%)
  - 5% increase in volumes adds ~\$50 million pa EBITDA at FY15 margins and product mix



<sup>1</sup> Source: NIEIR November 2015.

30

CONFIDENTIAL TABLE AND INFORMATION REMOVED