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# Financial Results

## Full year ended 30 June 2016

25 August 2016



# Agenda

- **Results Overview**  
Galdino Claro, Group CEO
- **Financial Results**  
Fred Knechtel, Group CFO
- **Strategic Progress & Outlook**  
Galdino Claro, Group CEO



*Loading heavy melt scrap into a bulk carrier for deep-sea export  
in Providence, Rhode Island*

# Strengthening the business and improving returns

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1. Successful rollout of business resetting actions
  - \$137 million in controllable costs savings in FY16<sup>1</sup>
  - Sold or idled 29 underperforming facilities, lowered headcount by 12%, and reduced volume break-even point by a further 17% to 7.8 million tonnes
  
2. 2H FY16 earnings recovery assisted by internal initiatives
  - Underlying EBIT of \$63 million in 2H FY16
  - Underlying return on capital of 5.5% in 2H FY16 and 11.0% in 4Q FY16
  
3. Strategic initiatives to deliver on FY18 return targets
  - Established internal initiatives now embedded into the business, with new initiatives expected to drive progressively stronger ROC in FY17 and FY18
  
4. Strong balance sheet and capital management
  - \$131 million in operating cash flow and \$242 million in net cash (at 30 June 2016)
  - Final dividend of 12.0 cents fully franked and 7.9 million shares repurchased

## Resetting objectives

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### **Actions accomplished during FY16**

- Volume break-even point was reduced by a further 17% to 7.8 million tonnes
- Sold or idled 29 underperforming facilities
  - North American Metals - Central Region restructure near complete
  - E-Recycling US operational resetting commenced, expected completion 1H FY17
  - Selected facility closures in ANZ and Europe Metals

### **Further progress in 1H FY17**

- 8 facilities sold thus far in 1H FY17:
  - Sale of North America Metals assets in Tennessee and Mississippi
  - Sale of FE Mottram (UK based aerospace metals business)
- 5 small additional facilities pending sale or closure

***42 facilities in total identified for resetting***

# Full year highlights

## Sales Revenue \$4,652 million

1H \$2,412 million | 2H \$2,240 million

## Sales Volumes 8.55 million tonnes

1H 4.30 million | 2H 4.25 million

## Underlying<sup>1</sup> EBITDA \$184 million

1H \$61 million | 2H \$123 million

## Net Cash \$242 million

As at 30 June 2016

## Underlying<sup>1</sup> EBIT \$58 million

1H (\$5) million | 2H \$63 million

## Underlying<sup>1</sup> Return on Capital 2.6%

1H (0.4)% | 2H 5.5%

## Underlying<sup>1</sup> NPAT \$38 million

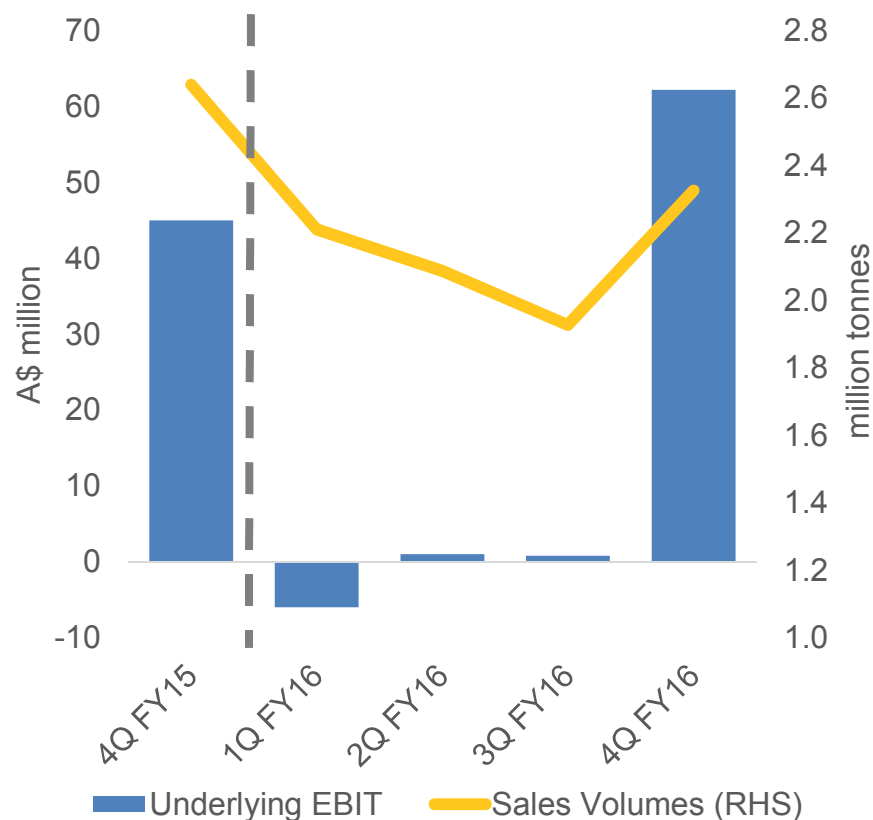
1H (\$18) million | 2H \$56 million

## Full Year Dividends 22.0 cents

1H 10.0 cents | 2H 12.0 cents  
(unfranked) (100% franked)

# Earnings by quarter

## Underlying EBIT by Quarter



### 1Q FY16

- The market weakened substantially in July, stabilised, and then fell again materially in mid-September

### 2Q FY16

- Resetting plan initiated to respond to lower volume environment by deeper cost cuts, excising marginal assets, and reconfiguring operations

### 3Q FY16

- Further market contraction in January offset by the initial benefits from resetting plan cost reductions

### 4Q FY16

- Mixture of lower costs, stronger sale volumes, and higher scrap prices led to the highest quarterly EBIT since FY11



# Financial Results

Fred Knechtel, Group CFO



## Group financial performance

A\$ million	FY15	FY16	Chg %
Sales Revenue	6,310.9	4,651.7	(26.3)
Underlying EBITDA <sup>1</sup>	262.5	184.4	(29.8)
Depreciation & amortisation	(120.8)	(126.4)	4.6
Underlying EBIT <sup>1</sup>	141.7	58.0	(59.1)
Net Interest expense	(7.8)	(9.7)	24.4
Underlying tax expense	(32.4)	(10.3)	(68.2)
Underlying NPAT <sup>1</sup>	101.5	38.0	(62.6)
Significant items (net)	8.4	(254.5)	-
Statutory NPAT	109.9	(216.5)	-
Underlying EBIT	141.7	58.0	(59.1)
Facilities identified for resetting	(20.4)	(29.1)	-
Underlying EBIT excl. facilities identified for resetting	162.1	87.1	(46.3)

- Underlying EBIT of \$58 million in FY16
  - 1H impacted by steep drop in prices and volumes
  - 2H recovery due to cost reductions and improved market conditions
- Significant items after tax largely relate to impairment of the SA Recycling JV, impairment of intangibles and business resetting actions
- Excluding facilities identified for resetting, underlying EBIT was \$87 million
  - Majority of loss making operations identified for resetting were within the North America Metals, Central Region



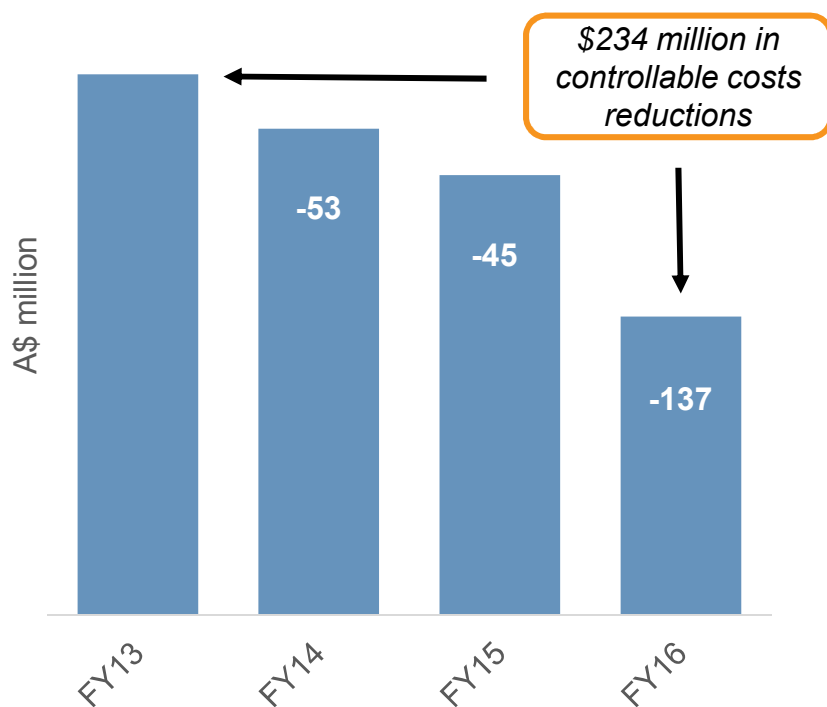
## Business segment financial performance

Underlying EBIT (A\$m)	1H	2H	FY16
North America Metals	(23.1)	25.4	2.3
ANZ Metals	14.0	25.7	39.7
Europe Metals	2.1	16.5	18.6
Global E-Recycling	(0.3)	7.9	7.6
<b>EBIT impact facilities identified for resetting</b>			
North America Metals	(17.2)	(2.2)	(19.4)
ANZ Metals	-	(0.5)	(0.5)
Europe Metals	(2.5)	-	(2.5)
Global E-Recycling	(3.4)	(3.4)	(6.8)
<b>Underlying EBIT excluding facilities identified for resetting</b>			
North America Metals	(5.9)	27.6	21.7
ANZ Metals	14.0	26.2	40.2
Europe Metals	4.6	16.5	21.1
Global E-Recycling	3.1	11.3	14.4

- Improved 2H FY16 underlying EBIT across all business segments
  - NA Metals improved \$49 million 2H over 1H
  - Europe Metals 2H the strongest since FY08
- Facilities identified for resetting negatively impacted underlying EBIT by \$29 million in FY16
  - Identified facilities in North America and Europe Metals have now been sold or closed
  - Closures of related facilities in US E-Recycling will take place over 1H FY17
  - Total cash proceeds of \$50 million expected in 1H FY17
  - Net book value of related facilities \$18 million
- Significant items related to resetting actions of \$100 million (pre-tax)
  - Fixed asset and lease impairments, yard closures & dilapidations, and redundancies
  - \$28 million for US SRS restructure taken in the second half

# Substantially reduced controllable costs

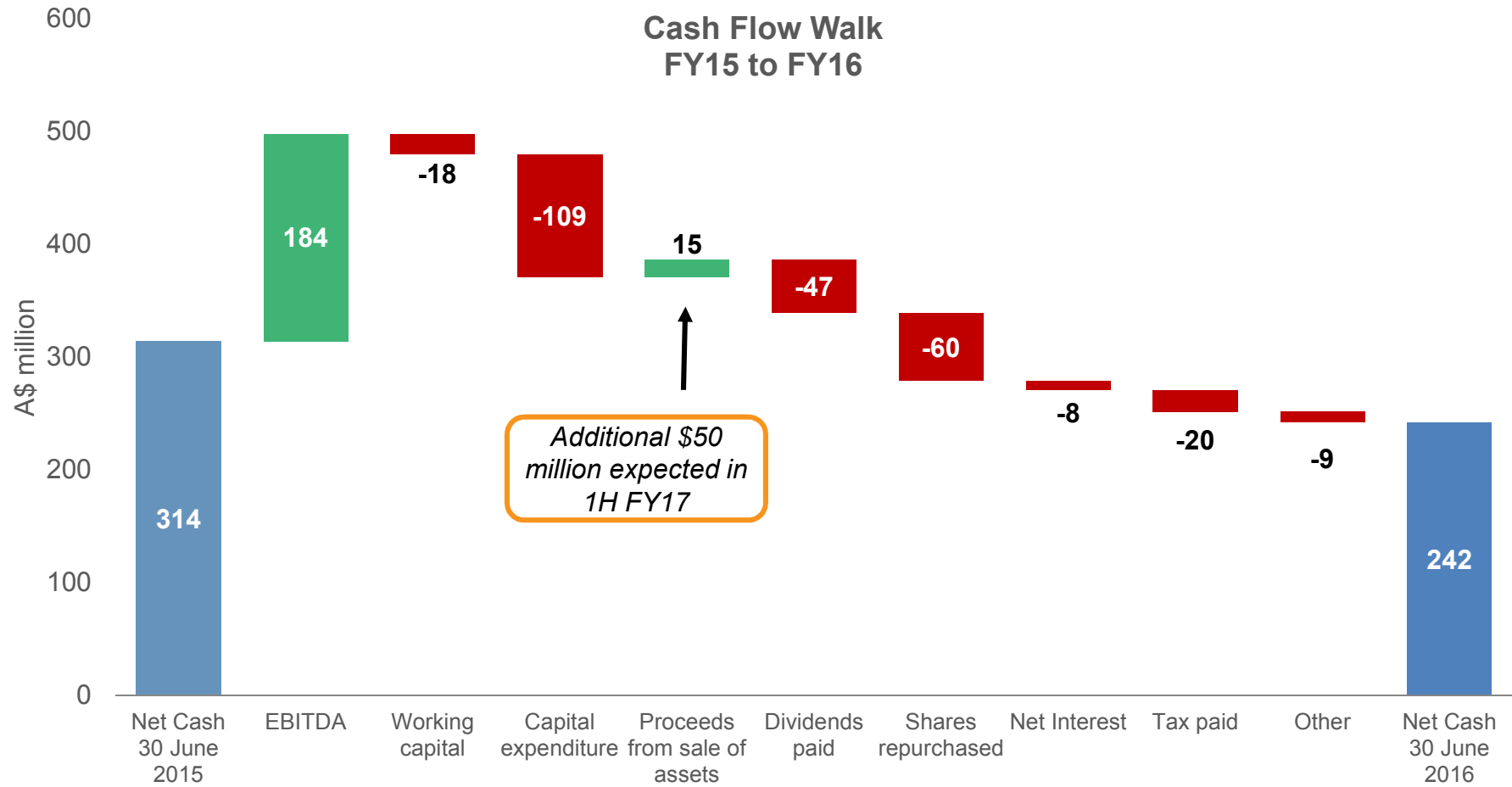
**Controllable Costs Reductions<sup>1</sup>**  
(exchange rate adjusted)



- \$234 million in controllable cost reductions since the start of the strategic plan in FY14, in constant currency terms
  - Headcount reduced by 26% since FY13
  - Sustainably lower overhead costs
- Further controllable cost reductions in FY17 through the sale or closure of assets announced in 1H FY17 moving breakeven volume even lower
- Retained volume capacity across the business for when industry conditions improve
  - Volume capacity of at least 12 million tonnes per annum
  - Significant upside leverage on FY16 sales volumes of 8.6 million tonnes
  - Cost structure to yield \$40-\$50 million of EBIT for every 500 thousand tonnes of additional sales volumes

1. In A\$ million terms adjusting for exchange rate movements in FY13

# Cash Flow Walk



# Strong net cash supports reinvestment into business, while continuing to return capital to shareholders

## Cash Management

- Preservation of cash for future working capital requirements

## Sustaining Capex

- Ongoing maintenance, safety and Environmental
- Technology and equipment

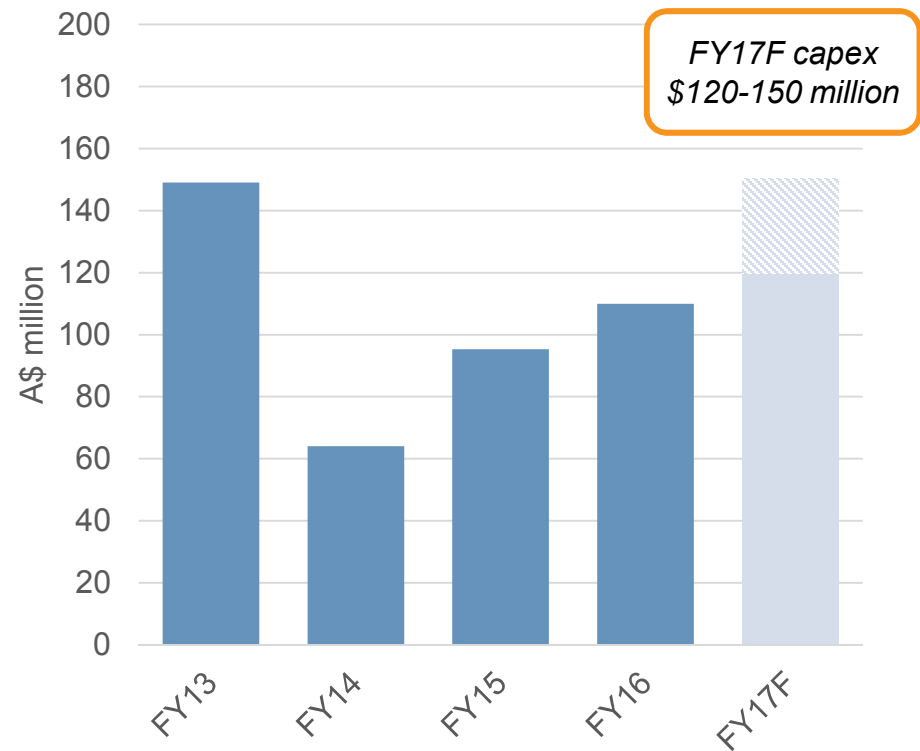
## Expansion Capex

- NFSR plant upgrade in New Jersey
- NFSR plant installations in Kwinana & Chicago
- Zorba recovery initiatives

## Capital Management

- 22 cents in dividends for FY16
- 7.9 million shares repurchased, with buyback ongoing

## Capital Expenditure



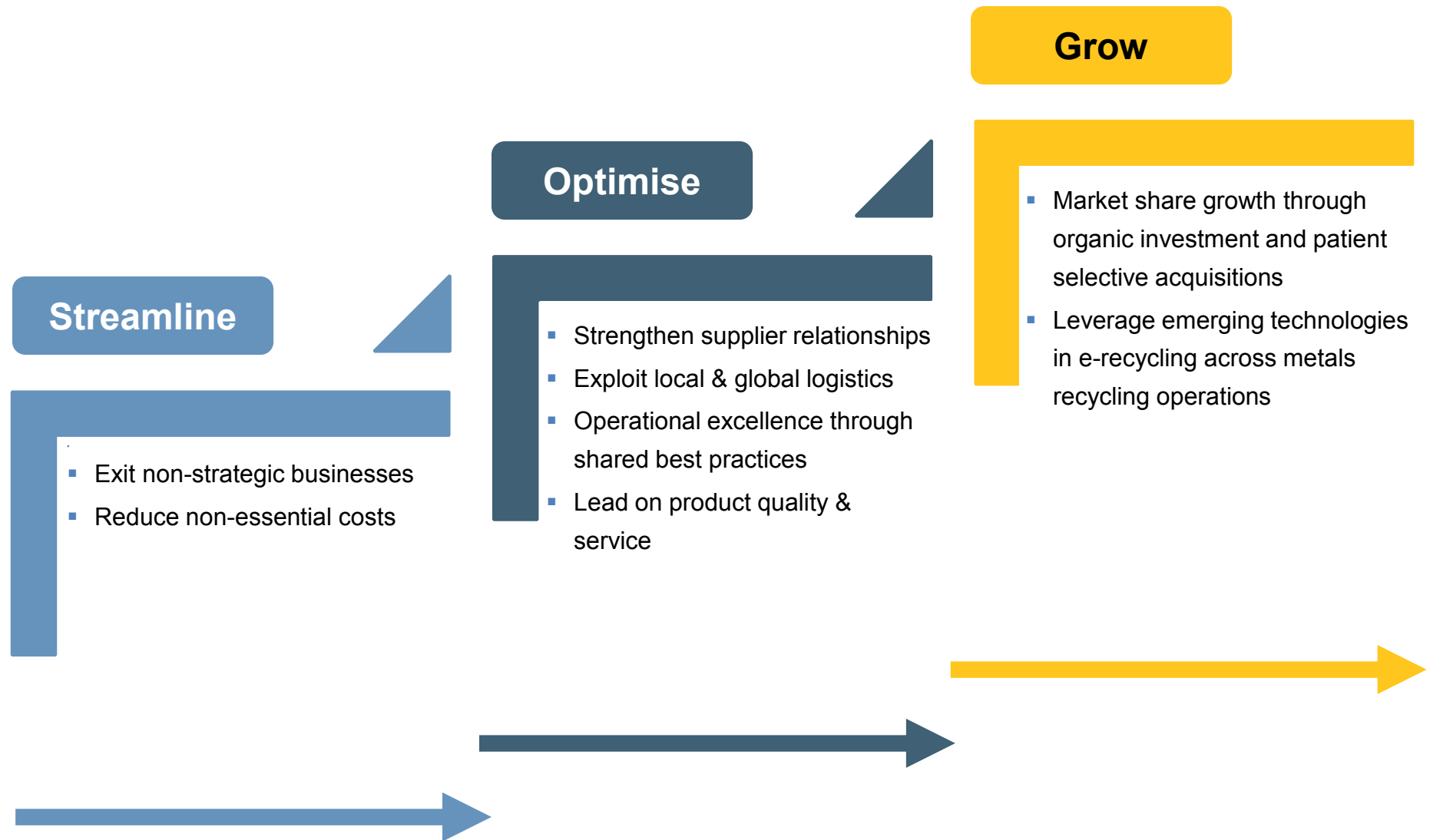


# Strategic Progress & Outlook

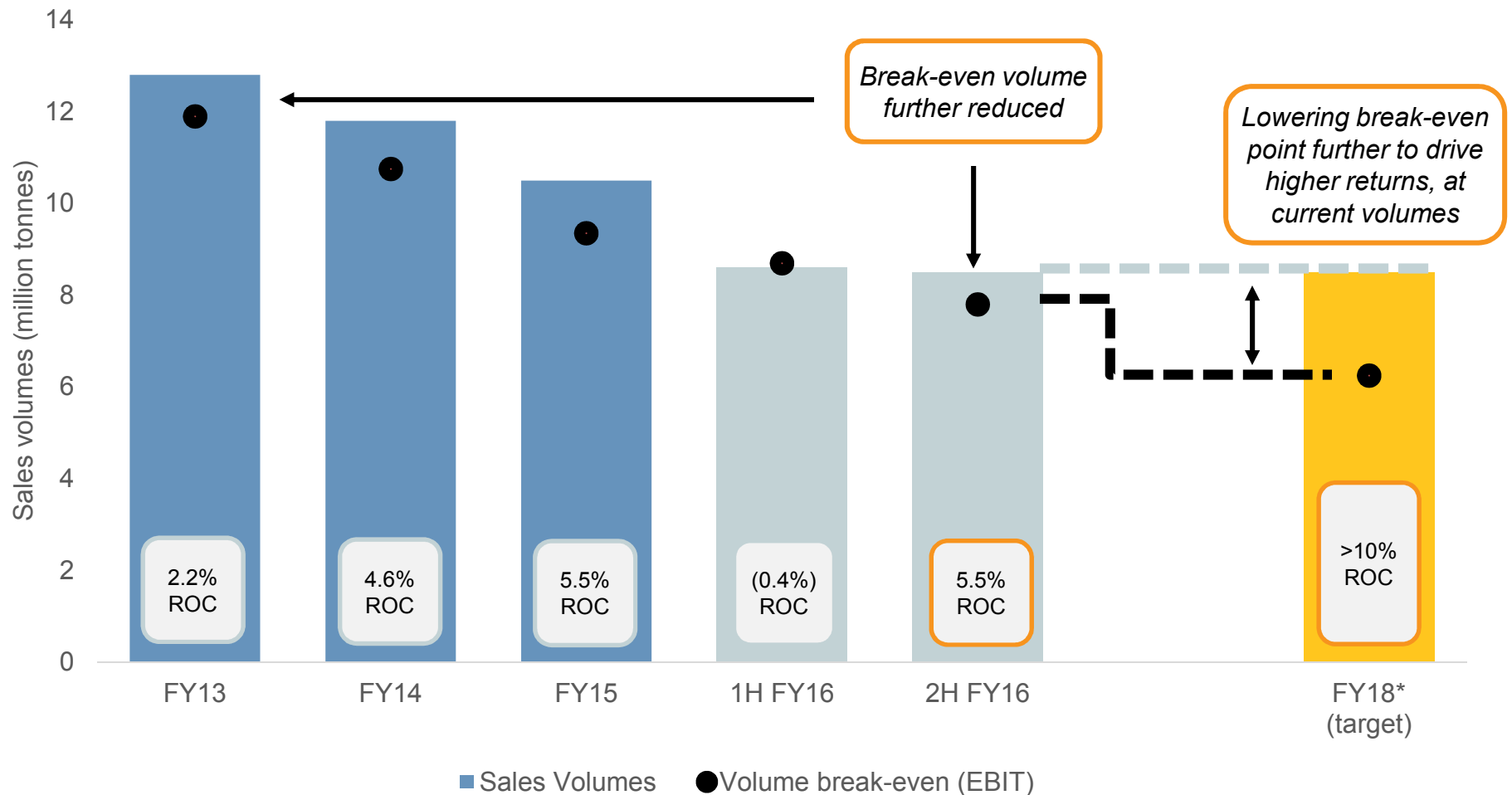
Galdino Claro, Group CEO



Committed to deliver  $\geq 10\%$  return on capital by FY18



# Lowering costs and volume break-even, providing for higher earnings and improved return on capital



## Substantial pipeline of internal initiatives over FY17-FY18



	FY17	FY18
<b>Streamline Initiatives</b>		
	<ul style="list-style-type: none"> <li>- Sale of assets in Mississippi and Tennessee (complete)</li> <li>- Sale of FE Mottram (complete)</li> <li>- Closure of Chicago Stainless (complete)</li> <li>- E-Recycling US restructure (in progress)</li> </ul>	
<b>EBIT impact (A\$m)</b>	<b>\$20 to \$25 million</b>	-
<b>Optimise Initiatives</b>		
	<ul style="list-style-type: none"> <li>- MRP installation in Kwinana</li> <li>- Chicago rail connection</li> <li>- Claremont terminal dredging</li> <li>- Zorba de-commoditisation pilot</li> <li>- Overhead cost redesign</li> </ul>	<ul style="list-style-type: none"> <li>- MRP upgrade in New Jersey</li> <li>- MRP installation in Chicago</li> <li>- Municipal recycling expansion</li> <li>- Avonmouth, UK site upgrade</li> </ul>
<b>EBIT impact (A\$m)</b>	<b>\$20 to \$25 million</b>	<b>\$50 to \$70 million</b>
<b>Total Initiatives</b>	<b>\$40 to \$50 million</b>	<b>\$50 to \$70 million</b>



## Conclusion & Outlook

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### 1. **Substantial reductions in costs and break-even volume point during FY16**

- \$137 million in controllable cost reductions (on a constant currency basis)
- Volume break-even point lowered to 7.8 million tonnes

### 2. **Earnings leverage to higher volumes proven in 4Q FY16**

- \$63 million in underlying EBIT in the fourth quarter on annualised volumes of 9.3 million tonnes
- 11.0% return on capital in 4Q FY16

### 3. **Strong balance sheet with net cash of \$242 million**

- Supporting capex reinvestment in FY17, dividends, and share buyback

### 4. **Improved market conditions**

- Overall improved market conditions compared to six months ago
- Remain mindful of continued macro economic and political uncertainties

### 5. **Pipeline of internal initiatives**

- Expected FY17 return on capital to be a step towards our FY18 return on capital target of 10% or higher

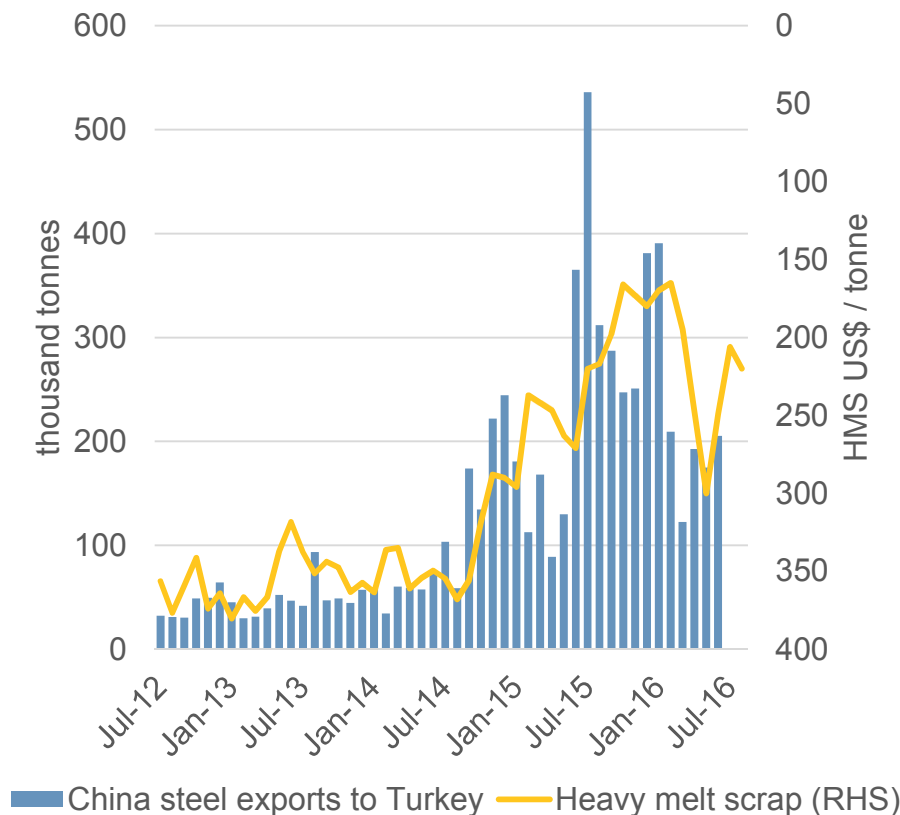


# Appendix



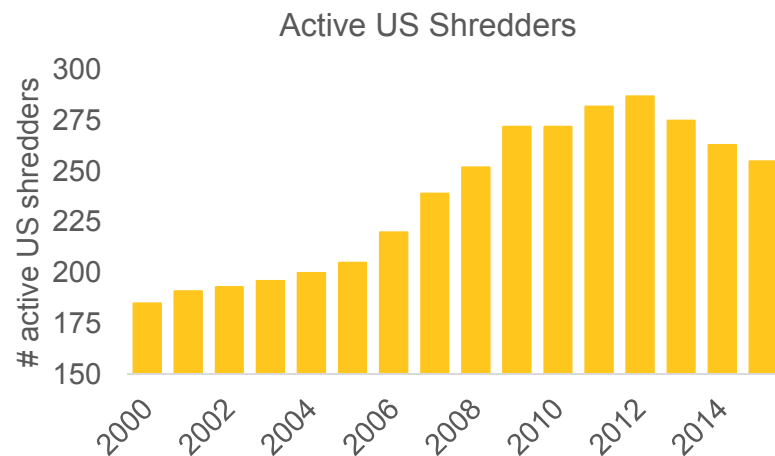
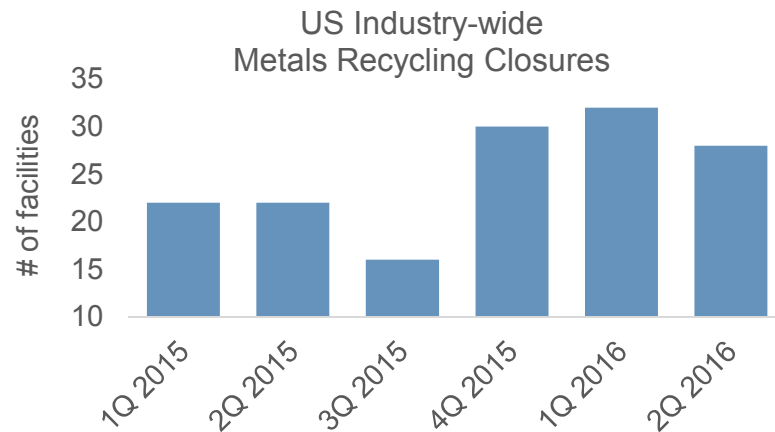
# Easing competition from Chinese steel exports to Turkey

## Turkey Steel Imports From China



- China's exports of steel to Turkey have receded to 2014 levels
  - Lower imports of semi-finished steel are supporting increased demand and prices for ferrous scrap
- China announced intentions to reduce annual steelmaking capacity by 100 to 150 million tonnes
  - *Implied capacity reduction of circa 10 to 15%*
- Large scale mergers of major Chinese steel makers reported to be considered
  - *Large scale consolidation would assist capacity rationalisation efforts*

# Metal recycling industry beginning to rationalise



- Over 160 reported closures of metals recycling facilities since the start of 2015
- Consolidation taking place through bankruptcies, indefinite idling, consolidations and voluntary exits
- Pace of closures has increased in 2016
- Number of active metal shredders in the US has been in decline since 2012

# North America Metals



A\$m	FY15	FY16	Chg %
<b>Sales Revenue</b>	3,416.5	2,352.6	(31.1)
<b>Statutory EBITDA</b>	86.7	53.5	(38.3)
<b>Underlying EBITDA</b>	80.7	75.7	(6.2)
<b>Depreciation</b>	55.9	61.7	10.4
<b>Amortisation</b>	13.0	11.7	(10.0)
<b>Statutory EBIT</b>	17.8	(145.8)	-
<b>Underlying EBIT</b>	11.8	2.3	(80.5)
<b>Assets</b>	1,335.0	1,145.0	(14.2)
<b>Intake Volumes (000's)</b>	6,885	5,760	(16.3)
<b>Sales Volumes (000's)</b>	7,018	5,772	(17.8)
<b>Employees</b>	2,129	1,884	(11.5)

# Australia & New Zealand Metals



A\$m	FY15	FY16	Chg %
<b>Sales Revenue</b>	1,053.3	743.6	(29.4)
<b>Statutory EBITDA</b>	85.0	58.0	(31.7)
<b>Underlying EBITDA</b>	86.9	66.6	(23.4)
<b>Depreciation</b>	26.6	26.0	(2.3)
<b>Amortisation</b>	1.1	0.9	(18.2)
<b>Statutory EBIT</b>	57.3	31.1	(45.7)
<b>Underlying EBIT</b>	59.2	39.7	(32.9)
<b>Assets</b>	463.3	481.7	4.0
<b>Intake Volumes (000's)</b>	1,848	1,485	(19.6)
<b>Sales Volumes (000's)</b>	1,874	1,418	(24.3)
<b>Employees</b>	813	712	(12.4)

# Europe Metals



A\$m	FY15	FY16	Chg %
<b>Sales Revenue</b>	1,036.6	759.1	(26.8)
<b>Statutory EBITDA</b>	38.0	(15.7)	-
<b>Underlying EBITDA</b>	37.1	32.4	(12.7)
<b>Depreciation</b>	12.5	13.8	10.4
<b>Amortisation</b>	-	-	-
<b>Statutory EBIT</b>	25.5	(29.7)	-
<b>Underlying EBIT</b>	24.6	18.6	(24.4)
<b>Assets</b>	258.3	245.2	(5.1)
<b>Intake Volumes (000's)</b>	1,582	1,420	(10.2)
<b>Sales Volumes (000's)</b>	1,589	1,361	(14.3)
<b>Employees</b>	704	612	(13.1)

# Global E-Recycling



A\$m	FY15	FY16	Chg %
<b>Sales Revenue</b>	795.0	792.7	(0.3)
<b>Statutory EBITDA</b>	53.0	(2.6)	-
<b>Underlying EBITDA</b>	55.2	19.2	(65.2)
<b>Depreciation</b>	10.6	11.2	5.7
<b>Amortisation</b>	0.6	0.4	(33.3)
<b>Statutory EBIT</b>	41.8	(60.2)	-
<b>Underlying EBIT</b>	44.0	7.6	(82.7)
<b>Assets</b>	473.3	447.9	(5.4)
<b>Employees</b>	1,703	1,471	(13.6)



# FY16 income tax expense considerations



A\$m	Loss Before Tax	Income Tax Benefit	Effective Tax %
<b>Statutory Result</b>	<b>(225.2)</b>	<b>(8.7)</b>	<b>3.9%</b>
Reconciling items:			
Deferred tax assets not recognised		(17.2)	
Non-deductible impairment charge		(41.5)	
<b>Underlying Results</b>	<b>(225.2)</b>	<b>(67.4)</b>	<b>29.9%</b>

## Significant items by region – FY16



FY16 (A\$m)	NA Metals	ANZ Metals	Europe Metals	Global E-Recycling	Unallocated	Pre-Tax Total	After-Tax Total
Goodwill impairment	-	-	0.2	43.1	-	43.3	34.2
Other intangible asset impairment	6.8	-	-	2.9	-	9.7	8.6
Impairment of investment in joint venture	119.1	-	-	-	-	119.1	119.1
Fixed asset impairment	15.8	1.6	8.9	5.5	-	31.8	29.5
Lease settlements/onerous leases	0.2	0.5	34.5	9.3	-	44.5	41.7
Net expense relating to yard closure/dilapidations	0.3	4.3	3.6	5.7	-	13.9	11.4
Redundancies	4.5	2.2	1.1	1.3	0.7	9.8	8.6
Settlement of disputes with 3 <sup>rd</sup> parties	1.4	-	-	-	-	1.4	1.4
<b>Significant Items for FY16</b>	<b>148.1</b>	<b>8.6</b>	<b>48.3</b>	<b>67.8</b>	<b>0.7</b>	<b>273.5</b>	<b>254.5</b>

## Significant items by region – FY15



FY15 (A\$m)	NA Metals	ANZ Metals	Europe Metals	Global E-Recycling	Unallocated	Pre-Tax Total	After-Tax Total
Reversal of an impairment of loan receivable	(0.6)	-	-	-	-	(0.6)	(0.6)
Net impact from investments in associates	-	-	-	-	(2.8)	(2.8)	(2.8)
Net reversal relating to yard closure/dilapidations	-	-	(1.6)	3.0	-	1.4	1.4
Multi-employer pension liability	(5.9)	-	-	-	-	(5.9)	(5.9)
Redundancies	0.5	1.9	0.7	(1.6)	2.5	4.0	2.7
Lease settlements/ onerous leases	-	-	-	(5.9)	-	(5.9)	(5.9)
Tax asset reversal	-	-	-	-	-	-	(3.9)
Underlying losses from discontinued operations	-	-	-	6.0	-	6.0	6.6
<b>Significant Items for FY15</b>	<b>(6.0)</b>	<b>1.9</b>	<b>(0.9)</b>	<b>1.5</b>	<b>(0.3)</b>	<b>3.8</b>	<b>(8.4)</b>

# Financial Summary - Group



A\$m	FY10	FY11	FY12	FY13	FY14	FY15	FY16
<b>Group Results</b>							
Sales Revenue	7,453	8,847	9,036	7,193	7,129	6,311	4,652
Underlying EBITDA	379	414	253	190	242	263	184
Underlying EBIT	235	283	123	67	119	142	58
<b>Underlying NPAT</b>	<b>127</b>	<b>182</b>	<b>74</b>	<b>17</b>	<b>69</b>	<b>102</b>	<b>38</b>
Underlying EPS (cents)	65	88	36	8	34	49	19
Dividend (cents)	33	47	20	0	10	29	22
<b>Balance Sheet</b>							
Total Assets	4,233	4,167	3,509	2,917	2,649	2,882	2,571
Total Liabilities	959	1,256	1,225	988	816	769	738
Total Equity	3,274	2,912	2,284	1,929	1,834	2,113	1,833
<b>Net Cash (Net Debt)</b>	<b>15</b>	<b>-126</b>	<b>-292</b>	<b>-154</b>	<b>42</b>	<b>314</b>	<b>242</b>
<b>Cash Flows</b>							
Operating Cash Flow	-48	159	290	297	210	298	131
Capital Expenditure	-121	-143	-161	-149	-64	-95	-109
<b>Free Cash Flow</b>	<b>-168</b>	<b>16</b>	<b>129</b>	<b>148</b>	<b>146</b>	<b>203</b>	<b>22</b>
NOPAT	165	198	86	47	83	99	41
Total Capital	3,259	3,038	2,576	2,083	1,792	1,799	1,590
<b>ROC<sup>2</sup> (%)</b>	<b>5.0%</b>	<b>6.5%</b>	<b>3.3%</b>	<b>2.3%</b>	<b>4.6%</b>	<b>5.5%</b>	<b>2.6%</b>

1) Underlying earnings from continuing operations; excludes significant non-recurring items and earnings from discontinued businesses

2) Return on Capital = Underlying NOPAT / (BV of Equity + Net Debt)

# Financial Summary – Segment



A\$m	FY10	FY11	FY12	FY13	FY14	FY15	FY16
<b>Sales Revenue</b>							
North America Metals	4,834	5,782	5,773	4,256	3,996	3,417	2,353
ANZ Metals	1,126	1,300	1,190	1,047	1,188	1,053	744
Europe Metals	783	954	1,056	935	1,063	1,037	759
Global E-Recycling	622	750	982	937	868	795	793
Unallocated	88	61	35	18	14	9	3
<b>Total</b>	<b>7,453</b>	<b>8,847</b>	<b>9,036</b>	<b>7,193</b>	<b>7,129</b>	<b>6,311</b>	<b>4,652</b>
<b>Underlying EBITDA</b>							
North America Metals	182	175	51	94	75	81	76
ANZ Metals	83	107	80	72	107	87	67
Europe Metals	25	28	15	-2	29	37	32
Global E-Recycling	87	112	92	24	20	55	19
Unallocated	2	-8	15	2	11	3	-10
<b>Total</b>	<b>379</b>	<b>414</b>	<b>253</b>	<b>190</b>	<b>242</b>	<b>263</b>	<b>184</b>
<b>Underlying EBITDA Margin (%)</b>							
North America Metals	3.8%	3.0%	0.9%	2.2%	1.9%	2.4%	3.2%
ANZ Metals	7.4%	8.2%	6.7%	6.9%	9.0%	8.3%	9.0%
Europe Metals	3.2%	2.9%	1.4%	-0.2%	2.7%	3.6%	4.3%
Global E-Recycling	14.0%	14.9%	9.4%	2.6%	2.3%	6.9%	2.4%
<b>Total</b>	<b>5.1%</b>	<b>4.7%</b>	<b>2.8%</b>	<b>2.7%</b>	<b>3.4%</b>	<b>4.2%</b>	<b>4.2%</b>

# Financial Summary – Segment (cont.)



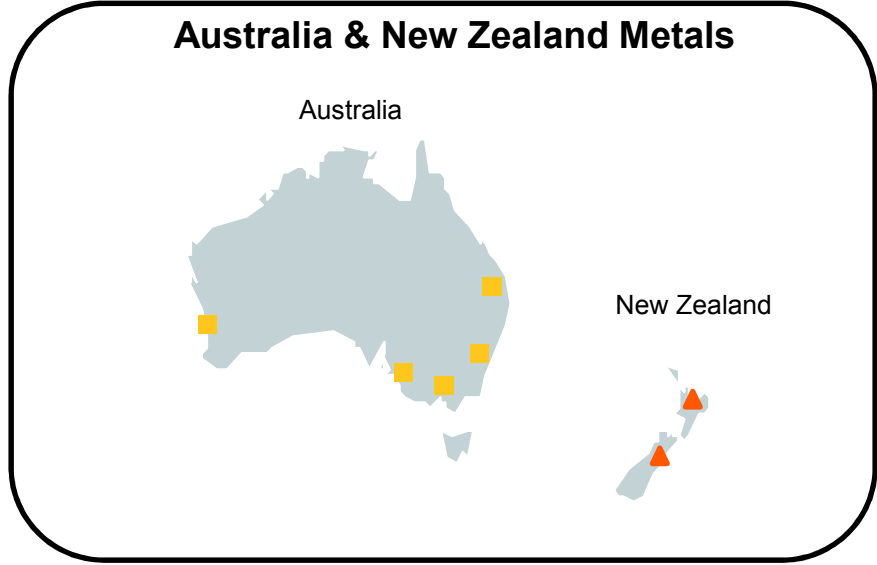
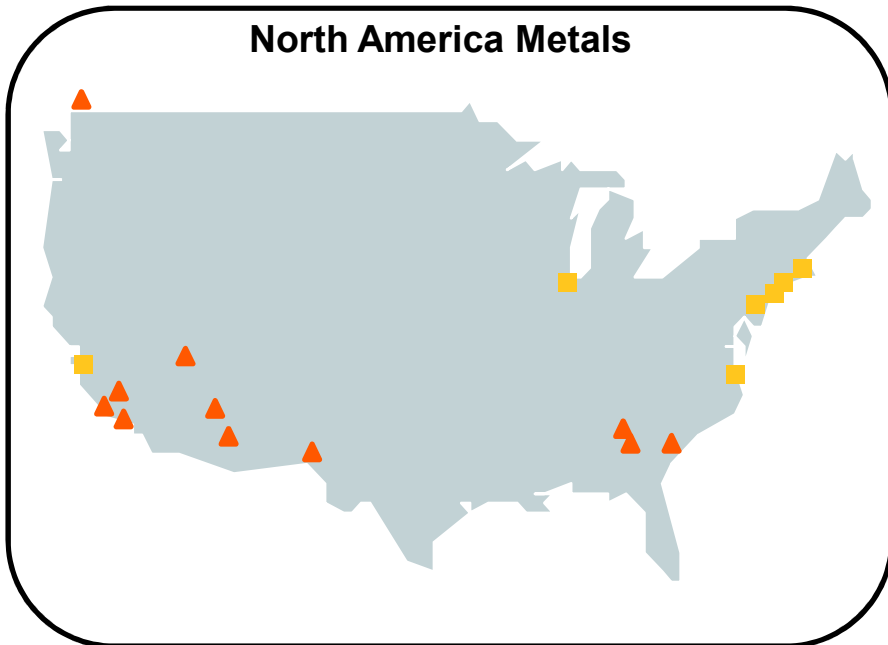
A\$m	FY10	FY11	FY12	FY13	FY14	FY15	FY16
<b>Sales tonnes ('000)</b>							
North America Metals	9,906	10,964	11,080	9,377	8,152	7,018	5,772
ANZ Metals	1,578	1,764	1,765	1,764	2,054	1,874	1,418
Europe Metals	1,394	1,466	1,651	1,645	1,609	1,589	1,361
<b>Total</b>	<b>12,878</b>	<b>14,194</b>	<b>14,496</b>	<b>12,786</b>	<b>11,815</b>	<b>10,481</b>	<b>8,551</b>
<b>Underlying EBIT</b>							
North America Metals	92.7	99.6	-18.7	32.8	11.7	11.8	2.3
ANZ Metals	62.4	86.1	56.3	46.9	79.2	59.2	39.7
Europe Metals	15.8	18.8	4.1	-14.0	16.5	24.6	18.6
<b>Total</b>	<b>170.9</b>	<b>204.5</b>	<b>41.7</b>	<b>65.7</b>	<b>107.4</b>	<b>95.6</b>	<b>60.6</b>
<b>EBIT / tonne (A\$/t)</b>							
North America Metals	9.36	9.08	-1.69	3.50	1.44	1.68	0.40
ANZ Metals	39.54	48.81	31.90	26.59	38.56	31.59	27.93
Europe Metals	11.33	12.82	2.48	-8.51	10.25	15.48	13.74
<b>Total</b>	<b>13.27</b>	<b>14.41</b>	<b>2.88</b>	<b>5.14</b>	<b>9.09</b>	<b>9.12</b>	<b>7.09</b>

# Financial Summary – Segment (cont.)



A\$m	FY10	FY11	FY12	FY13	FY14	FY15	FY16
<b>Sales tonnes ('000)</b>							
Ferrous Trading	9,068	10,115	10,320	9,396	9,331	8,325	6,768
Ferrous Brokerage	3,264	3,518	3,597	2,840	1,918	1,617	1,307
Non Ferrous	565	571	586	550	566	539	476
<b>Total</b>	<b>12,897</b>	<b>14,204</b>	<b>14,503</b>	<b>12,786</b>	<b>11,815</b>	<b>10,481</b>	<b>8,551</b>
<b>Sales Revenue</b>							
Ferrous Metals	5,071	6,144	6,259	4,817	4,801	4,068	2,703
Non Ferrous Metals	1,526	1,724	1,657	1,353	1,361	1,342	1,055
Global E-Recycling	622	750	982	937	868	795	793
Secondary processing & other	234	229	138	86	99	106	101
<b>Total</b>	<b>7,453</b>	<b>8,847</b>	<b>9,036</b>	<b>7,193</b>	<b>7,129</b>	<b>6,311</b>	<b>4,562</b>

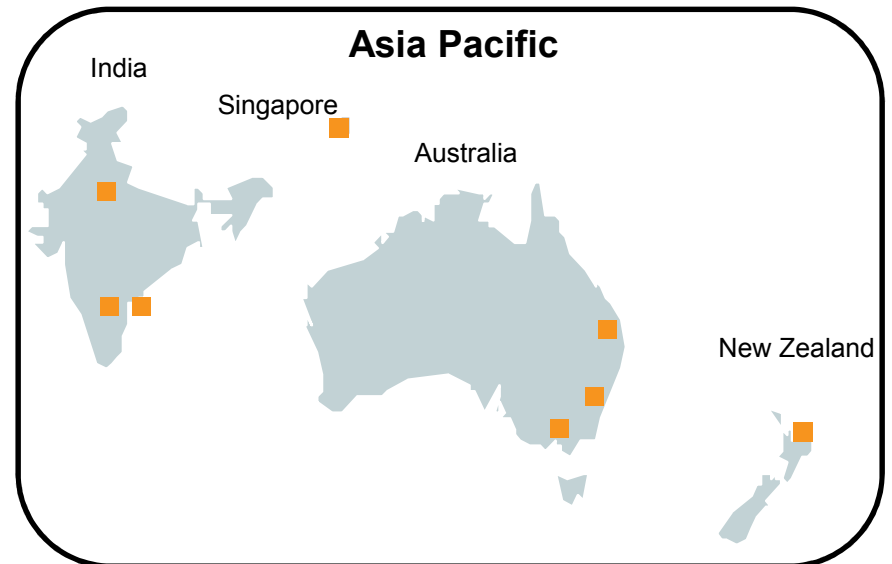
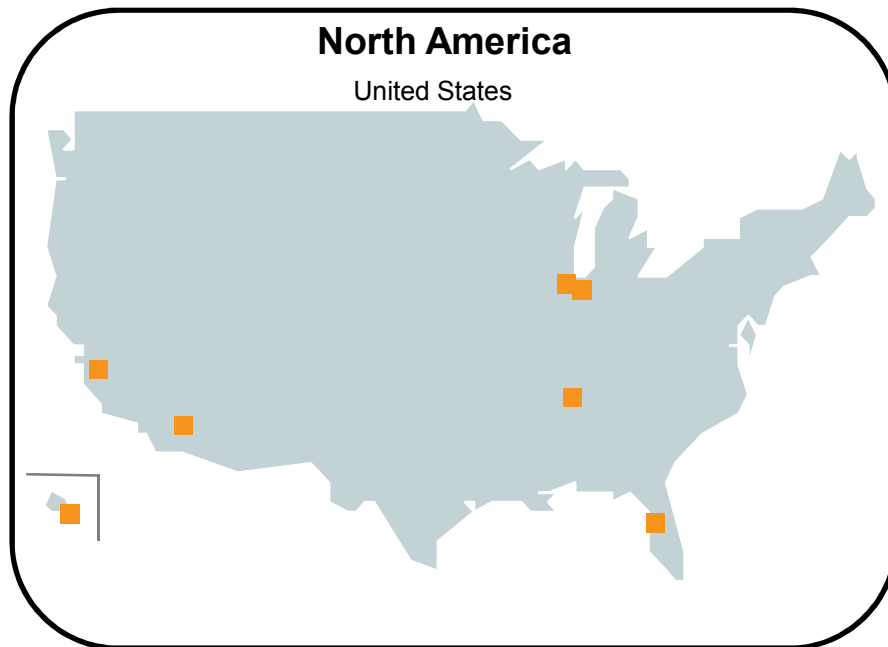
# Metals Recycling Global Footprint



- Metal Shredder / Key Metals Recycling facility
- ▲ Metal Shredder (50% JV owned)



# Electronics Recycling Global Footprint



■ Electronics Recycling facility

# Disclaimer

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The material contained in this document is a presentation of information about the Group's activities current at the date of the presentation, 25 August 2016. It is provided in summary form and does not purport to be complete. It should be read in conjunction with the Group's periodic reporting and other announcements lodged with the Australian Securities Exchange (ASX).

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