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PRESENTATION

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

Welcome to Day 2. This morning we're going to kickoff with my Head of Non-Ferrous Trading, based in Singapore, Graeme Cameron. So Graeme's going to walk you through non-ferrous and I'm sure there's going to be a number of questions that we can take after the presentation this morning. And Graeme's going to talk through obviously how he sees non-ferrous, some of the challenges and basically give you an update on a number of items that we're all watching as well. So Graeme, welcome.

Graeme Cameron

All right. Thanks, Alistair. Can you guys hear me all right?

Unidentified Company Representative

Yes.

Graeme Cameron

So good morning. I'll turn my mobile phone off. Sorry about that. I think I met a lot of you yesterday but in case -- or for those of you that I didn't get a chance to speak to, my name is Graeme Cameron and I lead our non-ferrous trading team. In our team, we have a small group of industry experts who have a strong market and technical knowledge as well as some very strong and well-respected relationships with key industry consumers -- key industry participants in our industry. I have been part of Sims for the last 15 years, I started as a graduate within the organization and really had a good opportunity to learn our business from the ground up. In fact, John Glyde was the first person I met at Sims in (inaudible) in the meeting room in our Brooklyn facility back then. It's -- and just as a sidenote to that, one of the main reasons why I decided to join Sims was because of John's history as well and the career that he explained to me. It's been an honor to be asked to present here today, and I thank you for your time. I hope you enjoy the topic that I have been tasked to present, these are topics that I very -- that I'm very passionate about and can go into -- in quite some depth, but I'll try to be succinct as possible.

There's been much discussion as to what impact Chinese policy will have on non-ferrous scrap metal demand, and rightfully so. These discussions have primarily been around copper and non-ferrous shredded residue products, zorba and twitch. Despite these concerns around China's ability to import scrap, by no means has the demand for copper scrap -- or by no means is the demand for copper scrap dissipating, as is evident in this slide. Here we see the demand for recycled copper will continue to grow in the years to come. This same graph identifies where in supply chain this scrap will be continued, either for direct use as a substitute for refined or alloyed metal, or by smelters and refiners. Copper, including copper

in scrap form is a commodity, which will continue to have high demand from industry in the immediate years ahead of us, and potentially over the next couple of decades. We have seen in the past 18 to 24 months, since the announcement of the Chinese National Sword and subsequent Blue Sky initiative, a rapid development of infrastructure to prepare, melt and even refine copper scrap. Much of this infrastructure is relatively low cost and is typically a mechanical separation process or even a remelt-type operation, this process is taking place either at source, by companies such as Sims, or in countries other than China. Some companies have further contingency plans in case the Chinese's Category 6 quotas for scrap or reduce or potentially ban, in scrap form that is, the lead time to implement or construct these contingencies is very short and can be as quick as 3 months. In addition, it's important to note that many consumers outside of China, already had the option to use scrap in their processes, but chose not to compete with the Chinese for these copper units, with an increasing interest recently from primary copper smelters located in countries, excluding China, who are increasing the amount of scrap usage in their processes as an example.

This slide shows the primary or refined copper demand will continue to grow over the next 1.5 decades and will likely outstrip supply. It's obvious that copper ore supply cannot immediately replace scrap. Copper mine construction has a long lead time, taking on average 10 years. We feel comfortable that copper scrap will remain a critical copper source in the years to come. The decision for a consumer to use scrap copper as a raw material source versus new refined or alloyed copper is a decision based on economics. In a few minutes, I'll describe the different uses of copper scrap by industry and the types of uses of copper scrap and its alloys, but now we must discuss aluminum market.

I have quite an emotional and fond attachment to the light metal known as aluminum, famous for its light weight and anti-corrosive characteristics. This is because my first few years working at Sims, metal management was spent at what was a secondary aluminum smelter, located in Laverton North, just outside Melbourne. To me, this is my classroom where I learned the basics of our industry. Although primary aluminum is abundant and production capacity, particularly in China, is greater than demand, many of the consumers of scrap aluminum prefer scrap, not because of the base metal but the other components that it's alloyed with. For example, copper, zinc and silicon. In addition, aluminum scrap is really a stored source of energy, so why would a manufacturer of an alloy using high-pressure die casting, purchase primary aluminum and alloy it with other elements that need -- that are needed in the finished product, when scrap with these elements is available as a raw material source. We continue to see investments in smelters and mills that consume aluminum scrap across Asia, North America and Europe. Several of these investments are geared towards providing sheet aluminum to the more automotive industry, which has an increasing demand for aluminum components and body panel.

Sims is prepared in the event that China reduces or bans scrap metal import. We've taken a logical approach to protect our sales outlets, whilst developing new ones. You've heard from Alistair and my other colleagues about our investments in new technologies that allow us to better prepare scrap to meet our customer needs. In particular, it's all the separations. These investments have allowed us to diversify, absorb ourselves, to countries other than China. The split metals in many cases are now sold and delivered to consumers in Europe, North America and Asia. These split products comfortably meet the strict Chinese environmental standards. So when it makes sense, we do sell to China. Ultimately, our goal is to be the preferred supplier of all of our customers, by providing them with high-quality raw materials that meet their requirement.

So here we've listed some of the steps that we have made to future-proof ourselves and the results of those. Quite proud of this diversification in our customers' geographic locations, as can been seen on this pie chart. Sims is always focused on maximizing sales revenue by selling non-ferrous scrap to the most competitive market. For a long time, this market was China. Despite this Sims has always had a customer base that is geographically dispersed. Since 2015, we have been working towards further diversifying sales of non-ferrous scrap to other markets, tapping into old relationships and simultaneously building new ones. These include customers based in other parts of Asia, North America and Europe. To meet the needs of these customers, some modifications have been made to the way we prepare certain scrap grades. A lot of these modifications to products can be attributed to the technology that our engineering team have recently designed and constructed. You'd have heard from Alistair and Bill in the past talk about preparation of furnace-ready material. As part of our strategy to diversify our customer base, we have put together a strong trading team, with members of this team based across 3 continents. As Alistair mentioned in his introduction this morning, our non-ferrous trading hub is located in Singapore, giving us quick access to a large proportion of our customers, with other members of our team being based in Europe and North America. As a result of this work, we have reduced our dependence on China, as can be seen in the pie chart comparing first half FY '18 deliveries and FY '19. These are for our exports, not for our domestic sales. I'm using this as a simple illustration if we went back further in time, we would have seen a greater proportion of our export sales going to consumers based in China. As more of our facilities come into full production capacity like the one -- one of the facilities you'll see today, we anticipate that we'll see that black part of the pie, the slice, increase further, which will -- it will have the ability to deliver some of our non-ferrous products to consumers based in other geographical regions, such as North America

or Europe. But in short, a geographically diverse customer and supply base has allowed us to remain competitive in the purchasing of non-ferrous scrap during times of tariff and protectionism.

I really wanted to show you what we mean when we talk about furnace-ready scrap, it's a little hard to show the upgraded result but to twitch in photos. However, you will be able to see these products first hand today, as we are walking around our facility. But for the purpose of this discussion and because we are relying on photos, I've included some photos of our copper cables who we have chopped and converted into what we call copper chop. Material on the left is from one of our U.K. facilities, it's a mix passel of insulated copper wire and on the right is pure high-grade copper chop. It can be used as a substitute for copper cathode by the semis manufacturers. That particular grade, low grades with a lower copper content would go to a refiner or a smelter. But it's essentially pure copper.

Prior to the changes to these -- to the Chinese policies regarding scrap metal import and -- the supply chain for ICW would have looked like this diagram on the left. Post the banning of the Category 7 imports, the supply chain for ICW is shown on the right. Ultimately, the metal still goes to the same types of consumers. However, we now have the flexibility to deliver to consumers that are based in China or other markets.

In today's market, the cables are chopped at source like Sims is doing or in a third country such as Malaysia. However, the spreads between aluminum copper and the cable buying price reflects additional freight movements between Malaysia and the country where the scrap is ultimately consumed, since there is no copper consumption as such in Malaysia itself, so the material -- the finished product, the chops I showed you before would have to be delivered to the ultimate consumer. I mentioned in my earlier slides that -- I explained the main uses of scrap. In broad, straight terms, we can say that scrap can be used directly by semifinished products or alloy manufacturer. For example, a producer of copper wire rod or strip could consume the copper chops shown on the previous slide as a substitute for copper cathode. The alternate market for copper scrap chops are smelters or refiners, who refine the copper chops to make a pure cathode. The decision to determine whether the copper chop will be used as a substitute for a copper cathode or as a raw material to make a cathode itself depends on the purity of the chop. The purity of the chop is determined by the inside material.

So on its final slide, I've prepared a short recap of the Chinese policy changes and in turn, how Sims has responded to these. I've only gone as far back as the National Sword but really we could go back a couple of years previous -- prior to that to the Green Fence initiative. But as a recap, National Sword was introduced in July 2017 to the World Trade Organization. Its aims were to stop the illegal smuggling of foreign waste into China, targeting dirty or hazardous waste mixed with solid waste. Blue Sky was announced shortly after that, in 2018, which was a more broad environmental policy, not just focused on our industry. Sims, I'm proud to say, responded quickly and appropriately, and as a result we now have a strong record of importing quality materials without waste into China. And we are producing products with a high metallic content that can continue to be delivered into China or to consumers with higher-quality expectations in other markets.

Just on a final concluding note, one of the advantages of scrap that's sometimes forgotten and not publicized enough, in my opinion, is the energy efficiencies in using scrap as a raw material source. So some statistics that industry institutions, both BIR and ISRI, regularly publish are shown here. So aluminum scrap uses a fraction of the energy when it's been remelted, compared to the production of primary aluminum and the same goes for copper.

That's all I had to share with you. So thank you.

John Glyde - *Sims Metal Management Limited - MD of Australia & New Zealand Metals*

Welcome to Adelaide. It would be fair to say, I believe we have been blessed with a wonderful day. It looks like we have clear blue skies and thankfully no rain. I know most people like to visit Adelaide to perhaps partake in some of the reasons, one, but you guys will be blessed with the benefits of traveling through our LMS landfill facility, a metal recycling plant and our new beneficiation plant. So I hope you enjoy that. I think this is the first time for a number of people to visit any of our facilities in ANZ, and I gather that it should be a great day. So I plan to give you a little overview of the -- our ANZ business, something that some of you will be familiar with, others this may be new to you. I will also give you my view on where our growth opportunities exist and lastly I will talk to the new plant that's currently being commissioned at the new Johansson Road facility. What I would say is the Johansson Road facility is very much in the commissioning phase. So we have run some batch products through it. It would be fair to say that some of the paint will still be wet. I know there's a little sign out in the front today, when we got to the carpark last night I actually

thought about stealing that and perhaps using that for later today, but please understand the site that you will see at Johansson Road is going through the commissioning phase. I think I can use this.

So what can I tell you about the Australian business? From very humble beginnings that Alistair talked yesterday, our business in Australia started in Newtown. One facility with a one-man truck, from that (inaudible) plus Australia, New Zealand and Papua New Guinea, we have a very good track record around stable earnings growth and strong investment returns. In FY '18, we had revenues exceeding $1 billion. We have 900 employees, and it would be fair to say that we have a very, very strong succession planning process. I'm a product of our graduate program that started well before me, in the 1960s I believe. Those that have covered our stock for a long period of time, they would remember Ross Cunningham, our previous CFO. He was also a product of our graduate program. So we have a very good business, but we certainly have room to grow. If you look at our spread of facilities, and perhaps if I -- does that do it? Yes, that does do it. Maybe? No. Laser is not working, sorry. So we have 38 facilities in Australia, you'll notice mainly on the coastlines and obviously, focused on population centers. But what I would like to highlight is the facilities that you see in the Northwest or Western Australia, and the facilities that you see in Northern Queensland. Obviously, a lot of our scrap is generated in population centers, but we have some very big volumes of scrap that are also generated at the major mining sites in the northwest, BHP, Rio Tinto, Fortescue mines, Gina Rinehart, et cetera. Believe it or not, they generate a very large volume of scrap. We also have, obviously, the northern part of Queensland covered and that really is focused about the mining activities such as metals and mines, and obviously, at Bowen Basin coal mines, BMAs and the likes. So we have an extensive network of [VR is] that covers those 2 very big generators of scrap. VR is around like 1 part of what we do, Michael talked yesterday about what he plans on doing with the North American business around capturing scrap at source. Can I say that's been embedded in our business for as long as I have been in this business? It doesn't start at our facilities, it starts at the infrastructure that we have out there collecting that scrap. And when I say that, I mean trucks, bins, mobile balers, compactors, mobile shears. So if you think about when I was talking about that network of mines you are seeing in the Northwest or Western Australia, we have 8 outside job crews. A crew consists of 4, 5 people. That are going to service the rail networks that run between the port and the mine site, collecting strings of railway line. So when we say at source, we literally mean at the point of origin. Another good example would be Mount Isa. Mount Isa, obviously a very big mining town, but also has a significant township or population base. They accumulate post-consumer scrap in the form of car bodies, (inaudible), your typical scrap that people through around on day-to-day basis. We will have a crew that will go and buy that scrap and transport it back to our facilities. So what I would say to you is our geographic footprint provides us very good coverage of the Australian market to capture scrap at source, same exists in New Zealand.

On the sell side, we have always had a mentality to try and fill domestic demand wherever possible. But we always like to have that flexibility to export product where we can. Believe it or not, with the 38 facilities in Australia and the 9 facilities in New Zealand, we have 18 ports that we can access bulk export. So if you think about that, a town like Cairns would generate post-consumer scrap, we would buy that scrap, transport it back to Brisbane, which is where our shredder is, then process there. Any of the other scrap that we can process such as, you know, your typical beam structural plate-type steel scrap, we will process there and export directly out of that port, that gives us enormous competitive advantage.

New Zealand, very similar scenario. We export out of most of those ports that you see dots on, where we can't bulk export, we contain our export. New Zealand went for a change about 2 or 3 years ago, where the major electric arc furnace closed, Pacific Steel, and we became basically an export-orientated business there.

Papua New Guinea, we have 3 sites. One services the mine site Ok Tedi, which is an extremely mountainous area, I can tell, I've been there many times, it's a unique trip to get there. I can tell you that we service the mine site there, they generate very sizeable volumes of ferrous scrap. The logistics of getting that scrap to, obviously, destination is significant. But, again, it's about capturing that scrap at source, obviously, logistics play a big role, but that in turn is reflected in what we pay for the scrap. But what you need to understand is, in everything we do, the logistics portion of it will influence what we pay for the scrap. 7 shredders, 5 in Australia, obviously, scattered between Brisbane, Sydney, Melbourne, Adelaide and Perth. 2 New in Zealand, one in Auckland, one in Christchurch. And at this point we don't have a shredder in PNG. We've actually added a further shredder, also in Adelaide, which you'll see later today.

Market share. So this is a combined market share of Australia and we see ourselves sitting at 30%. When I say combined market share, ferrous and non-ferrous. What I would say to you is that, obviously a sizable market share, a leading market share, but certainly has the opportunity to grow. Particularly in some regions and I think Alistair alluded to this yesterday, we are definitely under-represented. That market share varies considerably across geographic regions, so if I look at cities like Sydney, Melbourne, Auckland, it's my belief that we have enormous opportunity there to improve our representation.

City of Sydney, 6 million people collectively, if you start picking up central coast and a bit of a southern coast, we've got [3 yards.] We are also simply absent from a couple of major cities, one being Hobart, the other being Port Kembla of Wollongong. These are also opportunities for us, as I see us grow. There are also -- without alluding to New Zealand, there's also regions there that we do not have representation and we certainly can look to expand our footprint.

So just in conclusion about the Australian business. It is a good business, but it has an ability to grow. We have had a good history of stable earnings growth, very strong returns. I think our footprint and more importantly, the collection infrastructure that sits outside those facilities that goes and actually collect the scrap, serves us very well and provides us a very good competitive advantage.

The fact that we have always maintained that ability to ship domestically and fulfill our needs, but having flexibility to go export, when we need to, serves us very well. Having said that, as I just said, we do have some opportunities to grow in areas that we're under-represented or simply not represented. And from that, I think that can be a combination of greenfield development, we've got a couple of facilities that I believe that could certainly benefit from some brownfield development and expand our processing capacity. And we will look as the opportunities arise for selective, targeted bolt-on acquisitions, but I do not see them being a major part of our growth strategy. For me, I think we can build the facility and secure volume. If something comes along, is presented at the right price and we're confident about the, how would you say, the intentions of those selling, I think it's -- we would obviously have a look.

Lastly, I think what we should drill on and pay a little homage to is that whilst we have a very good footprint, we do strive to continuously improve what we do. We have a PMO team, we've got a number of people that are in the Australian business that sit on, I think Brendan referred to the operational excellence team yesterday. Globally, we share what we do and share best practice. In addition to that, I can certainly tell you within the Australian business, we are looking to embed a continuous improvement process across all our facilities looking to get cost down, improve efficiency, improve yield, target things like -- and you'll see it when we get to Gillman facility today, you will see the flock, something that Brendan would encourage people to roll around, and if they so wish, for this waste to energy, you will see metal in that waste. And there is still opportunities for us to get metal out of that waste, and this has been something that we have worked on for the last 5 to 10 years, and we will continue to work on. Gillman is actually probably something that we actually have planned in our FY '20 budget to address. So there's certainly some metal there that we can improve on.

So turning to the separation plant. This is an initiative that I guess has really been our response to Chinese National Sword being able to diversify our customer base, further refine our products, and pocket the additional revenue and margin that comes with the ability to separate the product and the commodities.

So, we're not like the North American business. We have 5 shredders scattered across a very big geographic region. None of those individual shredders have the critical mass that Michael has in some of these facilities to justify the sort of investment that we're talking about in this particular plant. So our solution is to build one plant. That will be a national facility that will process as zurik and that's something that you guys probably haven't heard of and I know Stephen hates me referring to zurik because he will tell me it's a zorba separation plant, but we do also beneficiate zurik you'll get to see that later today in what the difference is. The reality is Australian mixed metals, if you collectively look at zorba and zurik, we have a greater concentration of stainless steel, than what they do in North America or what Paul has in the U.K. Our stainless steel contents and our mixed metals run at 20%.

I think, Michael, you're at 6% or 8% or something like that. Zurik is a big part of our national response initiative. So this plant will be the first of its kind in the southern hemisphere. As I said, I got the word up there operational, and I guess what's the date today. Not today, yes, we could well be operational in April 2019. We're definitely commissioning at the moment. So, yes, it is getting close to being ready to run. It certainly provides us with a solution around National Sword and other jurisdictions looking to restrict mixed metals. It definitely presents us with an opportunity to upgrade that product, segregate that product, sell it as individual commodities to specifically targeted smelters and foundries and refineries. It is also for us and when you get to the plant today, you will see that the plant is actually adjacent to a foundry called Intercast & Forge. Intercast & Forge, principally an iron foundry, but a natural extension for them, and as I said, stainless steel is a major part of what we generate could be to cast stainless steel. So I had definitely a target for us in terms of selling some of their product. The other major consumer that exists in Adelaide, believe it or not, is a company called Adelaide Chemical in a little place called Burra, and they are big consumers of copper scrap. One of the products

that will come from this plant is shredded copper, and this is ideal feed stream for them. So whilst we have opportunities to export, to refineries and smelters that Graeme alluded to, we can also look to target some of our product going to our domestic consumers.

In doing so, we will definitely extract greater margins and what I would allude to there is we have good capacity in this plant to look at -- firstly looking at third-party volumes. As I said, the issue for us is critical mass and that's why we're built on national beneficiation plant. For any of our competitors to go down this, they would have a much bigger threshold to cross. So the opportunity for us to potentially do something with, for example, some for our competitors is real.

I also added up there, I really do think there is an opportunity for us because this plant actually comes with a shredder to also process e-waste, which is something that I'm keen to pursue.

So one plant servicing 5 shredders if you include Adelaide. It gave us a number of advantages having one plant. Obviously, it gave us scale and efficiency, and as I said, critical mass in our existing shredder base doesn't support putting those plants in each of the shredders, so this gave us scale and efficiency by doing it in one plant. Secondly, it obviously reduced the overall capital requirements to address our National Sword risk, kept capital cost down, it also meant by building one plant, our implementation time frame and our construction time frame to address this got reduced considerably. Lastly, what I would say to you knowing how technology is and how technology changes and adapts and grows, having one plant, the opportunity for us to add further technology down the track as that presents itself is a very simple and easy exercise at a much lower cost than potentially doing across 5 plants in Australia. You'll see there the 2 dots in Adelaide, one being our existing shredder facility that you will see at Gillman and Wingfield today. What I would say to you is that, that plant has existed since the 1960s. It's a very large site. As pointed out by Stephen, it's half what it used to be. It's still about a 33-acre site. It definitely is a full-service scrap facility. It has a shredder on site. It has a shear on site. We do retime on ferrous there. It is a very live and active facility. When we get to that site today, we will do an induction. It is a busy yard. There is lots of moving equipment. It's important that we keep you guys safe. So we will be breaking into couple of groups before we go walking around there and there will be some fairly strict ground rules about keeping you guys herded.

The second site there is literally 5 minutes up the road, which is where our zorba separation plant is.

So why Adelaide? I guess what drove us down this path is that we had a competing shredder that was supplying the foundry. It operated for a 12-month period, was hugely unsuccessful, and we were able to buy those assets at arguably below asset value. As part of that transaction, they were supplying the foundry right next door, Intercast & Forge. We now have a supply agreement with Intercast & Forge, and we supply that product from our existing Wingfield facility.

So what we have been able to do is take these assets, repurpose those assets to address our response around National Sword, tip some very sophisticated new technology into them and come up with what I believe is a fantastic solution for us. It will allow us to process zorba, it will allow us to process zurik. As I said there is opportunity and capacity to do third-party volumes and potentially e-waste. The shredder itself, we can look to do what we call breaking scrap, things like ironing aluminiums. Again, you'll see that later today ironing stainless steel. Shredding that, then running through the zorba separation plant will be very good outcome for us. So we bought those assets, repurpose-ed them, added technology, constructed it, going through the commissioning phase right now. So the technology that we're putting on this plant is very sophisticated. It uses the mix of x-ray, color sorting, shape sorting and metal detection. Anyone of those types of sorting can be used in any combination. Now if you think about insulated copper wire, if you can think about your normal lead, you can imagine if you shredded that, it looked like worms. So the programming around this technology looks to something that's metal and something that looks like worms. And it will kick that out in very simple terms. Because we are running a single plant, obviously, that comes at some consolidation cost in flaking product from the various shredders to this plant. What we have elected to do is slightly modify our existing MRPs at the 5 shredders, to extract a large proportion of the aluminum that exists in the zorba at those plants. That does a couple of things for us. Allows Graeme to sell that product as twitch directly, which is a great outcome, but more importantly, what it does is concentrate the balance. That's where all the goodies are, one of the better times. Now if you think about what the goodies are, all the high-value commodities, the copper, the brass, zinc, magnesium, some cast grades of aluminium, obviously, insulated wire. So what we're doing is basically taking out a sizable volume at the shredder plants, keeping a smaller volume, which we plan to transfer to this plant. But very simply, I think I've described that so existing MRPs, twitch get better. Graeme can sell that as is. The balance of the product of the zorba will come to the beneficiation plant, get beneficiated, sorted into various commodities. You will see that today. And as I said, the opportunities within third-party product and e-waste also exist through the same plant.

So in summary, it does present us with an ideal solution to process all our zorba and all our zurik across Australia. It certainly removes an uncertainty around National Sword and the sale of semi-finished products. It also allow us to attract a greater margin, simply by extracting the high-value products that exist currently in zorba. And as I said to you, my expectation is some of these products we will actually sell into the domestic market to some very nearby customers, in fact, one right next door. So that is a great outcome for us if that works. If it doesn't work, Graeme has already had some trials of shredded stainless steel that we have managed to market into other jurisdictions very successfully, at a very sizable premium to zurik. I think the single localized location provides us with a great outcome in that it has kept that capital cost down, it has, obviously, reduced our construction time frames but most importantly, knowing how technology is, we will be looking to add further technology down the track and I think a single site solution allows us to respond to this very quickly in a very measured way at a lower capital cost. Thanks.

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

Thanks, John. Perhaps I can take some questions. We've heard from Graeme around non-ferrous and I know that I've seen some challenging questions in the past and getting an understanding of the non-ferrous and obviously, we still have John and his team here, so we can ask some questions. So I'm happy to take some questions. Michael?

QUESTIONS AND ANSWERS

Michael Slifirski - *Crédit Suisse AG, Research Division - MD*

Yes, Mike Slifirski from Crédit Suisse. I guess I am interested in the capital that you deployed to get additional margin. Does that make you standstill to offset what you may have lost? So do you think you will see an appreciable difference in earnings as a result of this? Or is it just a strategic thing so you can continue to sell product?

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

I'll answer in the sort of the larger part first. Yes, there is a derisk in this process as well for us. The opportunity to have a diversified product and customer base gives us the opportunity in case that, that market is not as good as we want and it gives you an outlet for some of your material. Where you actually do have a specialized product that you can produce as we were talking about, you can get a premium, particularly, if it's a domestic market. That's one of the advantages of what John is talking about. Do you want to add anything else, John?

John Glyde - *Sims Metal Management Limited - MD of Australia & New Zealand Metals*

No, other than, obviously, as Alastair said that it -- the initial proposal was around derisking our position around National Sword and the opportunity for that spread. But the reality is, I can tell you, and Stephen referred to it yesterday, just to get to the table, you got to have IRRs in excess of 15%. So this plant in itself, with the opportunity we see in improving margin and in selling commodities as commodities rather than mixed metals, certainly well justifies the investment we're making in this plant.

Michael Slifirski - *Crédit Suisse AG, Research Division - MD*

And then secondly, with respect to your major domestic competitor, Greens Steel and the discussions that they might list the recent states assets and scrap business. That, I think, has been a grossly underperforming business compared to your business. At least when it was reported publicly, the number suggested that. So if that comes to market and is under greater scrutiny, is there something structurally wrong with that business that can be fixed but might threaten your margins? Or how do you see that changing competitive environment?

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

I'll answer in the first step. So you remember when the Arrium literally went to the Liberty formed company? We obviously were capable of having a look at some of those assets, and we did perform a similar opinion as to what you're mentioning that. The way that, that business was run is different to the way that we ran over recycling business here. One is that you really got to earn your performance to get capital in our business where that was really a division of another larger steel organization. So I think, there was a fundamental difference in the way that business was run. I think in terms of the competitiveness for us to have a look at any of those particular assets, there may be certain cities, Melbourne or Sydney, we would not be allowed to compete for those assets given the ACCC and some of its settings. But there are certain states or certain assets that we might be able to go after. So I don't know the actual competitive nature right now, but maybe you can give an update on that?

John Glyde - *Sims Metal Management Limited - MD of Australia & New Zealand Metals*

The comment I'd make about the -- what was obviously the Arrium assets is for a number of years leading up to the period that they went into voluntary administration, there is a sizable underinvestment in their recycling business. When they went through VA, there was no investment in their recycling business. It's my perception that, that business is still heavily underinvested. They have not done any of the sort of stuff that we're talking about here. We have a unusual relationship with them. We obviously compete with them variantly in a number of marketplaces, but they're also a major customer of ours. We sell a lot of products to them in their Rooty Hill mill and we sell a lot of products to them in their Laverton mill. So it is an unusual relationship, but definitely, obviously, when I get to look over the fence occasionally sometimes on a mill track, they got some money to spend at some point.

Unidentified Analyst

Alastair, and Graeme maybe, I think in August last year, you sort of detailed -- gave us quite a bit of detail on the premium that the higher grades are getting. Can you talk about how that's trended? And, John, maybe how the -- why prices trended? Logically, you'd assume that the competitors that are not doing this shouldn't be able to pay as much. I'm not that we've necessarily seen that. So if you could just talk about that?

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

So I'll answer the first question. Graeme, do you want to talk about zorba pricing and ADC12 as an example, the gap between twitch plus grades and heavies and how that has that trended over the past 6 months since August last year?

Graeme Cameron

Yes, sure. So we would have seen -- if you went back in track and looked at ADC12 pricing versus twitch back to October, November last year, you would have seen a real contraction in that spread. And that was really at a real load point in the automotive industry. Since then, we have seen that spread widen again, so what is more of a healthy and typical spread so we've seen some good recovery there. At that point in time, the differential between producing twitch and zorba really contracted when you factor in operating cost and the premium prices that we got for the split metals. That now we have seen that, that's widening out again, and in my opinion, it's a relatively healthy premium over -- sorry, premium over zorba price I should say, so...

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

What is that spread now, as an example?

Graeme Cameron

It's circa $100 a tonne.

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

After cost.

Graeme Cameron

After cost, absolutely.

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

Yes.

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

John, on the buy side?

John Glyde - *Sims Metal Management Limited - MD of Australia & New Zealand Metals*

It would be fair to say, and maybe Graeme can comment on this further. The Australian zorba price hasn't been anywhere nearly as impacted as the North American zorba price for a couple of reasons. I -- and again this is a function of the size of our shredders. We ran on air before magnet system and they typically run air after magnet systems. Naturally, our zorba is cleaner. So for us to get to the 99% threshold was not a huge change to what we were doing. So we haven't seen that reduction strongly in effect that we aren't experiencing the tariff war that exists between China and the U.S.A. Our zorba prices haven't fallen to the level that you've seen in other jurisdictions. Would that would be a fair comment, Graeme?

Graeme Cameron

Yes.

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

And bearing in mind, for us, this plant is only just about to kick off. And the Australian business has always had a slight -- a third advantage as well as slightly short of freight time. So cost-to-finance for our consumers is reduced though.

Unidentified Analyst

And, John, I know you said you're still exploring it, but maybe turn your mind to. If you were processing third-party volumes, what the commercial arrangement would be? Would that be a tolling arrangement? Or would you be happy to buy it opportunistically?

John Glyde - *Sims Metal Management Limited - MD of Australia & New Zealand Metals*

Buy it. Buy it, not $1 more than what I think they can achieve themself.

Unidentified Analyst

It's [Ben Lines] from [Yara] Capital. Maybe a question for Alistair and Graeme. I was under the impression that with the Category 6 changes in China, we're expecting your customers to be applying for quota levels for the second half of this year and going into the following year. Just wondering what feedback you're receiving from your Chinese customers as to whether they think they'll achieve quotas of Cat 6 material? And secondly, there's also a school of thought that maybe Category 6 material can possibly be reclassified into small-to-ready material, very high grade valuable source feed as opposed to a solid waste product. I am just wondering how you're thinking about that potential for reclassification?

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

Graeme and I've had this discussion. So you're happy to give some feedback, Graeme?

Graeme Cameron

Yes, sure. So I mean -- we obviously can't say without any -- with any real certainty, but there's a very strong belief amongst Chinese consumers that quotas will be released very soon, and to the point where people are buying scrap, and they're taking -- they're making payments in advance to receive materials. So that's a very strong indicator that quotas will be released. As to reclassification of scrap, it's suspected and while we talked about as you said that it will be reclassified from a waste product to a commodity as a description.

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

And I guess, just on that, there's obviously a conference taking place in North America now, which is ISRI Conference. And it is suggested that there is going to be some feedback from some Chinese delegation around the issue of quotas and potentially the issue around 2020 and maybe not as damn as everybody's worried? But it's early days yet, so we'll have to see.

Unidentified Analyst

While you've got the floor, Graeme, I'll -- maybe Alistair said. Just in terms of what the alternatives are if the Category 6 quotas are implemented? What -- just interested in your thoughts of what China can do given the growing demand. What's the alternative?

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

So I think if we can just talk, let's take zorba as a product or a twitch. That product ultimately goes to some of the automotive industries. Now if they go into some form of a secondary smelting to create an Ingrid type product, they can do that outside of China and actually sell it to the facilities, which are actually in Thailand or Japan themselves. So we have seen some of the Chinese folk come out and actually do some processing outside of China. They then can send some of that back into China if that demand rises. So we have seen some proactiveness from some of the customers that we are aware of in China and operating outside of China itself, very small operations. We have seen that take place.

Unidentified Analyst

(inaudible) would just step off.

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

We're quite confident given the aluminium and copper discussions we've had over the last 2 days that, that demand is still very strong. So I think, the recategorization of Category 6, we should see a purest set of metals going in, and that's why we have been focusing on that for quite a while now that we can actually have the coppers and aluminiums at that quality level go in. So the recategorization of that shouldn't be too difficult for

us. But there are customers, they're going to take that outside of the country anyway and still sell us into Japan and Thailand. So a lot of those auto manufacturing processes are actually outside of China. We used to send a raw material in and they just export it out.

Unidentified Analyst

Just a question for John. On, I think, Slide 18. So you have sourced some zorba feed from your 5 shredders. What proportion would you basically source from the Adelaide region.

John Glyde - *Sims Metal Management Limited - MD of Australia & New Zealand Metals*

So Adelaide is actually our smallest shredder output. But as I said to you, our strategy around extracting a major component of what we do at the 4 other shredders in Brisbane, Sydney, Melbourne, and Kwinana, we expect to reduce the volume by something like 60% simply extracting what Graeme would call twitch at those 5 shredders and then simply sending the other 40% of zorba through the beneficiation plant to beneficiate the value of all bits in there. I mean the shredded copper in there that's got a value of, on today's market, AUD 8 a kilo. The zurik, however, from all our plants will come to this plant.

Unidentified Analyst

Just interested in the economics of the transport cost from...

John Glyde - *Sims Metal Management Limited - MD of Australia & New Zealand Metals*

Think about it in this way. Copper is obviously a very high-value item. We are talking in U.S. dollars $6,500 a tonne. The freight is significant but relative to the overall commodity value of what we've concentrated, it represents only a small amount.

Abraham Akra - *CLSA Limited, Research Division - Research Analyst*

This is a question for Graeme, This is Abraham from CLSA. Has there been a buyer from China in terms of non-ferrous materials ahead of July quota being released.

Graeme Cameron

Sorry, I didn't hear the first part of the question?

Abraham Akra - *CLSA Limited, Research Division - Research Analyst*

Has there been a buyer from China ahead of the quotas being implemented in July?

Graeme Cameron

No, the buying pattern of our customers in China have been pretty steady over the last few months. We did see, going back maybe 6 weeks ago, 8 weeks ago, a little bit of a concern and things slowed down for a few weeks, but other than it's been fairly consistent.

Abraham Akra - *CLSA Limited, Research Division - Research Analyst*

And secondly, you had the pie chart showing less dependence on China in terms of the overall mix. Is there a corresponding impact on price and the margins moving forward if that continues?

Graeme Cameron

As I've said earlier, the one of our ultimate goals is always to sell at the highest price and to maximize revenue and we'll continue to do that.

Unidentified Analyst

Just a quick question for John. The acquisition of the plant that you repurposed to process zorba was in July '18. Was that a competitor positioning themselves within the Adelaide market on ferrous and therefore you looked to buy them out at that time to reduce the competition? Or was that planned so that we mark as -- or we can repurpose this and it's better than any plant that we currently have, therefore we should buy it as part of a non-ferrous strategy?

John Glyde - *Sims Metal Management Limited - MD of Australia & New Zealand Metals*

So the plan itself was, quite frankly, a roaring value. As a supplier of scrap to the foundry, they thought that they could generate a product that the foundry could accept. They had ongoing issues with the specification of the product that was going into the foundry, had ongoing issues with cleanliness of the product going into the foundry. It ran for 12 months but was a failure. So for us, we saw the opportunity, hey, this does represent a solution for us around zorba, zurik. We acquire another shredder, something that can be dedicated to non-ferrous, whether it be shredding breakage, shredding e-waste, shredding alum grades and non-ferrous, but also we saw it as an opportunity to enter into a supply agreement with the foundry, provide them a solution. They needed a solution to supply what they really did need from our Wingfield facility. So it was actually a bit of both.

Unidentified Analyst

Was that a new operator into the space or was that an existing scrap player.

John Glyde - *Sims Metal Management Limited - MD of Australia & New Zealand Metals*

A new operator into this South Australian space, but an operator that existed in other jurisdictions.

Unidentified Analyst

And are they successful in those other jurisdictions or they're struggling there as well?

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

No, simple answer. I think they have a long-term strategy of exiting the scrap business. They're not traditionally scrap people.

Unidentified Analyst

John, just a question on Australia. You gave some numbers here on ferrous, non-ferrous market share, and where you see the new -- you spoke about being underpenetrated in Sydney, Melbourne, and no representation in Hobart. I think you -- just -- and greenfields and brownfields. Just

can you give us some sense of how you're thinking about the Australian market and how you wish to grow it and in those specific markets? Is that how you're thinking that we need to go in there and perhaps gain share there?

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

Yes, look the Sydney metropolitan area has grown rapidly over the last 10 years. The level of construction and the ongoing growth of population there represents some very, very lucrative corridors for us to look at putting in feeder yards. If we think about something like -- as I said to you in Sydney, we have 3 facilities in a population of close to 6 million people. If you think about South Australia, Adelaide, what's the population of Adelaide, Johnny?

John Glyde - *Sims Metal Management Limited - MD of Australia & New Zealand Metals*

1 million.

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

1 million, we got 3 facilities here. If you think about Aukland, the single biggest capital city in New Zealand, we have 2 facilities, but unfortunately, they are 300 meters from each other. They do not give us great geographic coverage being 300 meters from each other in terms of having a feeder network and a source of supply.

Unidentified Analyst

So how progressed are you on those?

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

We are looking at some options around land. We are looking at some options around some brownfield developments, and we're also discussing a couple of tuck-on acquisition opportunities.

Wei-Weng Chen - *JP Morgan Chase & Co, Research Division - Research Analyst*

This is Wei-Weng from JPMorgan. Just we've talked about non-ferrous Chinese ban, but you've kind of been reiterating that sort of underlying demand is unchanged if not sort of growing. Customer taking proactive steps to ensure continued supply without moving out of China, et cetera, but why does Sims need to invest in separation plants? What would happen if you didn't?

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

Part of this has given us the ability to be able to cut out certain movement in terms of processing, which was what Graeme was describing to earlier on where we would send to a processor that was then getting it ready for the furnace. The process that we've undertaken now is allowing us to get a furnace-ready product be it aluminum or copper. So that's one of the key prospects for us. It has also been able -- or allowed us to have a diversified product that we can then send anywhere in the world. So there's basically 8 copper smelters in the world. We want to make sure we've got access to all 8 of those and that we can actually sell our products at the right quality and that's a lot of what copper choppings and all the separation as allowed us to do.

Unidentified Analyst

And do you think that your competitors are kind of doing very similar things in terms of installing zorba separation facilities?

Alistair Field - *Sims Metal Management Limited - Group CEO. MD & Director*

John can maybe comment here in Australia. I do know that Schnitzer in the United States is about 2 years away from doing that. They are talking about their capital spend. Todd?

Todd Scott - *Sims Metal Management Limited - Group VP of IR & Corporate Development*

I believe we need to get going onto buses but happily to talk to you on the route there. Thank you.
