

26 November 2014

ASX Market Announcements  
Australian Stock Exchange Limited  
Level 4, 20 Bridge Street  
Sydney NSW 2000

### **AGM Presentations**

In accordance with the ASX Listing Rules and the *Corporations Act 2001*, attached are the presentations to be given at today's Annual General Meeting. The presentations include earnings guidance for the year.

Regards



**Malcolm Mitchell**  
Company Secretary

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## Chairman's Address

Before moving to the formal business of today's meeting, the Managing Director and I will first provide you with an update on the Group's operational highlights and measures undertaken to address the challenging environment in which the Group operates. These presentations were lodged with the ASX prior to the commencement of this meeting.

As has been widely reported, businesses that provide services and materials to the resources sector have seen a transition from investment to utilisation in recent years. This transition has been intensified by the significant falls in the global market prices for key Australian commodity exports including iron ore and coal. While it had been anticipated that such a transition would occur relatively quickly, many of Bisalloy's end use customers in the resources sector continue to restrict their spending on repairs and maintenance. However, increases in production volumes being reported across many areas of the resources sector are expected in due course to lead to increased demand for Q&T plate, as equipment is pushed well beyond its traditional operational capabilities. While Bisalloy has already seen some positive signs in project work, such optimism must be balanced against the impact on some producers of low commodity prices and high levels of Q&T stocks in the supply chain. The Board are however confident that Bisalloy is well positioned to take full advantage of any improvement in the market.

In FY2014 Bisalloy raised concerns that several overseas steel producers were targeting the Australian Q&T market with their surplus production and unfairly pricing Q&T steel plate into the Australian market. This contention has now been confirmed by the final determination of an investigation by the Australian Anti-Dumping Commission ('ADC'). The ADC has found significant dumping margins and recommended anti-dumping duties ranging between 9.6% and 26.1% on Q&T plate from Sweden, Finland and Japan, to offset the injury being caused to the Australian industry. Injury caused by unfair dumping practices is exacerbated in times of a declining market and this scenario was reflected in the drop in earnings reported by Bisalloy for FY2014. With effective duties now in place, Bisalloy's competitive position is no longer being undermined by unrealistic pricing by exporters.

While Bisalloy has a highly efficient production capability, the decline in order intake during the first half of FY2014 necessitated a restructuring of Bisalloy's Australian operations to more closely align the company's capabilities with the prevailing market requirements. This unfortunately resulted in redundancies across the Australian workforce and incurred a one-off restructuring cost of \$1.2m in FY2014. Despite this restructuring, Bisalloy's Australian operations continue to have the flexibility to rapidly increase production output as and when required, without additional capital investment.

The Group's revenue of \$55.2m (FY2013 \$80.6m) was a reflection of the challenging conditions faced by Bisalloy in FY2014. Normalised EBITDA before redundancy costs was reduced to \$2.5m (FY2013 \$8.4m).

The company's distribution operations in Indonesia and Thailand continued to make a positive contribution to the Group's financial performance and remain an important gateway into these growing markets for Bisalloy, not only for their profit contribution but for the production requirements they feed back into Bisalloy's Australian operations. The resources and manufacturing industries in both these countries were also affected by the same commodity price volatility and market uncertainty experienced in Australia and

both operations continue to diversify their customer base to reduce the impact of such volatility.

The profitability of Bisalloy's Co-operative Joint Venture (CJV) in the People's Republic of China allowed it to pay two dividends in the financial year. Bisalloy received total dividends from the CJV of A\$755,000 after withholding taxes, which is equivalent to 63% of the Group's original investment. The Board remains confident that the CJV provides significant earnings opportunities and, having deployed additional marketing resources to accelerate the CJV's presence in the highly competitive Chinese market, expect an increased contribution in FY2015. This growth opportunity for the Group remains extremely attractive as it is low risk and has scope for significant upside. The interaction between Bisalloy and its Chinese partners is regular, consultative and very positive.

Perhaps the highlight of the year was how Bisalloy was able to maintain its focus on reducing its borrowings. The Group was able to further reduce its debt as at 30 June 2014, net of cash balances, down to \$10.1m. This is \$26.1m lower than FY2009. Over that period debt reduction has been an important objective for the Group and I am pleased to say that we are confident of achieving our target of a net debt consistently below \$10m by the end of the current financial year.

The first four months of the current financial year has seen a 10% improvement in Group revenues compared to FY2014 while operating expenses have been significantly lower when compared to FY2014. The reduced operating expenses largely reflect a flow through of the restructuring measures undertaken in FY2014. Having considered the company's performance against the current market environment, the Board expect EBITDA to be between \$4.5m and \$5.0m for the 2015 financial year i.e. an increase of between 75% - 100%. In arriving at this projection, the Board wishes to reinforce its concern that any forward looking estimates are fraught with difficulty given the significant uncertainties surrounding this sector.

At our last AGM I noted that the Board had committed to reviewing its dividend policy once net interest bearing debt was consistently below \$10m. The Board now expects to be in a position to consider recommencing the payment of dividends on achievement of the current year earnings forecast and the company demonstrating its net debt levels will remain consistently below \$10m.

Bisalloy believes the demand for its products is at, or near, the bottom of their decline and that increasing output from Australia's mining sector is forecast, albeit at lower commodity prices. Further, Bisalloy expects that now the investigation by the Anti-Dumping Commission has been finalised, it will move closer to a level playing field between Bisalloy and the competing importers. The Board believe that Bisalloy has the products, strategies and management team to take advantage of the anticipated market recovery and that the restructuring of the Australian operation will maintain the competitiveness and sustainability of the business and will enable the Group to generate appropriate shareholder returns going forward.

The Board would like to express its gratitude to our Managing Director, Robert Terpening, for his leadership and to all Group employees for their hard work and commitment during a challenging year. I will now invite Robert to provide additional commentary on the Group's outcomes and opportunities.

## Managing Director's Address

Thank you Mr Chairman.

Ladies and gentlemen, welcome to Bisalloy's 2014 Annual General Meeting. I appreciate this yearly meeting as it gives me the opportunity to update our shareholders on the performance of our company as well as to discuss the opportunities and challenges that we face.

Firstly, as I do each year I would like to talk proudly about our company's safety performance. Bisalloy is committed to the principle of zero harm to all employees, contractors and visitors. We believe that simple adherence to statutory compliance obligations set down by WorkCover NSW and Safe Work Australia is not sufficient in the pursuit of the safest possible work environment. The Group therefore targets the active participation of all employees in its Work Health & Safety programmes. We believe it is only through all employees and managers actively working together that we are able to achieve a safety culture and environment that will give us the best results. Today I can advise that Bisalloy has been Lost Time Injury free for 551 days and looking to surpass the company's LTI free record 766 days, which was set in May 2013.

Bisalloy's distribution businesses in Indonesia and Thailand continue their outstanding safety record and have now had over ten years without a Lost Time Injury at either operation. Our Chinese CJV has also adopted the Group's safety programmes and has reported no Lost Time Injuries since its commencement in July 2011.

The Chairman has already talked about the current market conditions influencing Bisalloy's trading performance but I feel it is important to highlight the success Bisalloy has had against the actions of some overseas steel producers who were targeting the Australian Q&T market with their surplus production and unfair pricing of Q&T steel plate into the Australian market. Faced with unfair pricing in its market, Bisalloy lodged an application to the Australian Anti-Dumping Commission to investigate the pricing of exported Q&T steel plate in the Australian market. Earlier this month, the Parliamentary Secretary to the Minister for Industry made his final determination on the ADC's investigation and found that there had been significant dumping margins in the Australian Q&T plate market and imposed anti-dumping duties on Q&T plate exported to Australia from the nominated countries. While these duties are between 9.6% and 26.1%, the true dumping margins verified by the ADC were between 21.7% and 34.0%. Bisalloy believes this disparity is unjust and is considering an appeal.

The prevailing trading conditions in the year negatively impacted both our revenue and profitability. Faced with a lower level of demand, management realigned Bisalloy's Australian business by addressing its cost structures, working capital levels and capital programmes. This reassessment of Bisalloy's Australian production capacity, led to a restructuring of the Unanderra workforce from a three shift operation to a two shift operation and unfortunately resulted in redundancies during the year. It is anticipated that the measures we have taken will deliver annualised savings of around \$2.5m, some of which is already evident in our results year to date.

The disciplined management of the company's operations over the last year has allowed the Group to maintain its focus on achieving its debt targets and I am pleased that we can report today that Bisalloy has seen its net debt below \$10m. Despite the actions we

have taken to respond to the current market conditions, we remain confident that Bisalloy is still able to quickly react to any improvement in demand for Q&T plate.

I would now like to turn to the individual Group operations.

Bisalloy Steels is Australia's only manufacturer of high tensile, abrasion resistant and armour grade quenched & tempered steel plate. The key to Bisalloy Steels' low cost, highly efficient production capabilities is its highly automated, continuous flow production process at Unanderra, south of Sydney. To maximise customer service levels Bisalloy has sales engineers located in New South Wales, Queensland, Victoria and Western Australia who are supported by the placement of targeted stock holdings of Bisplate to accommodate short lead time purchases, which is a common occurrence in the mining industry. For over 33 years the Australian market has understood Bisplate to be synonymous with quality quenched & tempered steel plate. We believe the value proposition we provide to our customers remains compelling and our competitors find it difficult to offer an equivalent combination of product quality, product placement, design approval and technical support.

The demand for quenched & tempered steel plate over Bisalloy's key markets is underpinned by the resources industry and extends over the entire extraction process, from 'pit to port'. We estimate that around 70% of the Bisplate we produce is used in the resources sector with applications covering the entire mine site life-cycle, from initial capital build through to the need to refurbish and maintain existing production equipment.

Bisalloy continues to invest in research and development and during FY2014 released its hardest product to date, Bisplate 600 (BIS600). Apart from extending the range of products on offer, BIS600 provides a competitive alternative to clad or weld overlay plate especially suited to extreme wear applications. In conjunction with its alliance partner, Davies Wear Plate Systems, recent field trials have proven highly successful and should lead to opportunities for the replacement of clad or weld overlay plate in the future. A combination of high wear performance by BIS600 and unique wear-liner fastener attachment through the Davies Wear Plate Systems' Easylock® system offers a cost effective solution not just a product.

Another area of product development has seen Bisalloy's portfolio of armour grades expanded to meet the increasing demand for both personal and military protection in both static and mobile applications. During FY2014 new export markets for armour plate were developed in response to an increasing need for personal protection vehicles.

Increased spending on infrastructure projects has led to more enquires for Bisplate since its inclusion in the Australian Steel Structures Standard AS4100-1998. While still in the design stage, several of these projects could deliver substantial tonnages in 2015 and beyond.

I am also pleased to report that Bisalloy has joined the Australian Government sponsored, Australian Research Council Research Hub for Australian Steel Manufacturing or 'Steel Research Hub'. The 'Steel Research Hub' is a partnership between 6 Australian universities and a number of leading steel industry organisations. This initiative is already leading to investigations into new technologies that can be applied in Bisalloy's product development program.

The Group's majority owned entities in Indonesia and Thailand have both embarked on programs to broaden their market base in both new products and geographic coverage. In undertaking these programs management are focused on targeting the requirements of the existing industry base to maximise the returns while keeping further investment to a minimum. Where possible, the Group is leveraging its association with its Chinese Joint Venture partner to meet the carbon steel needs of its existing customer base.

The Bisalloy Jigang Co-operative Joint Venture in the People's Republic of China (PRC) continues to grow its customer base in the PRC and has also been successful in targeting some export opportunities that could not be successfully serviced out of the Australian operations. While the rate of growth of our Chinese Co-operative Joint Venture is slower than we originally anticipated it has maintained its profitability during a downturn in both global mining and the slowing Chinese economy. This cannot be said of all our competitors in this highly competitive market.

I would like to reiterate that market conditions across the regions in which Bisalloy operates remain challenging and the long anticipated increase in mining equipment maintenance has not yet compensated for the reduction in capital expenditure associated with new mining projects. However, with the support of the Board, Bisalloy management met the challenges it faced in FY2014 and I believe has delivered a more resilient business that is well positioned to deliver improved shareholder returns in the years ahead.

I would like to conclude by thanking the Bisalloy management team and all Group employees for their efforts, particularly their commitment to safety. It has been a year of change within our business and while some associates have departed those who remain are committed to the interests of all stakeholders.