



## **CHAIRMAN'S ADDRESS**

Welcome to the 2012 Annual General Meeting of the Bisalloy Steel Group.

At last year's AGM in November 2011, I was pleased to announce that your Company was expecting an increase in EBITDA (or Earnings before Interest, Tax, Depreciation and Amortisation) in the range of 40% to 50% for the year to 30 June 2012. Despite the strong competition in the Australian market for quench and tempered steel, Bisalloy exceeded its own ambitious growth targets for the 2012 financial year in achieving EBITDA of \$12.1 million, an increase of 58% over the preceding year. This result is before any contribution from our Chinese joint venture, which I will mention shortly.

Like most successes, this increase in earnings in the local market was the result of careful planning and consistent efforts by the Board, senior management team and all our staff. During FY2011, Bisalloy invested in additional sales and marketing resources as well as in augmenting its finished goods availability. These investments were intended to enable Bisalloy to increase not only its domestic business volumes but also its domestic market share in FY2012. This was always going to be challenging because overseas producers were continuing to look for opportunities in Australia to offset the weak demand in their own traditional markets. The initiatives taken in FY2011 have proven successful, and helped Bisalloy deliver a 40% increase in tonnes supplied into the local market, while securing an increase in domestic market share.

The Group has maintained its focus on strengthening the balance sheet through reducing debt, and I am pleased to report our debt, net of cash balances, has reduced from \$15.2m at 30 June 2011 to \$11.1m at 30 June 2012. Gearing in turn has reduced from 51% at June 2011 to 36% at June 2012, and debt reduction remains an ongoing imperative for the Group. However, the Board believes that it is close to reducing Group debt to levels that are sustainable in light of the current business, and has announced its intention to re-introduce dividend payments to shareholders for the year ended 30 June 2013. The Board's initial target is that 50% of net profit after tax (excluding any contribution from the Chinese joint venture) will be distributed as fully franked dividends. The Board will review this dividend policy once total interest bearing debt is permanently reduced below \$10m.

During the past year Bisalloy undertook a number of initiatives to tidy up the presentation of the balance sheet so that it more clearly reflects the underlying



position of the Group and clears away any residual impact from the disposal of the distribution business in 2009. These initiatives included the 5 to 1 share consolidation that was approved at last year's AGM as well as the reduction in contributed equity by the accumulated losses that had arisen in 2009 from the discontinued distribution business. Full details are included in the 2012 Financial Report, and I wish to make clear that these initiatives were technical adjustments that did not impact the net assets, financial results, cash flow or funding of the Group.

The development of our 50:50 Co-operative Joint Venture (or CJV) with Jigang Iron & Steel Co., Limited for the production and sale of quench & tempered steel plate in China and other regional markets is progressing steadily. Our plant in Jigang was declared operational in December 2011 following an intensive product development program that was undertaken to ensure the Q&T plates produced at the Jigang plant satisfied all necessary criteria to be branded as Bisplate. The CJV generated an initial operating profit before tax of \$1.2m, contributing \$0.4m to the Group result for FY2012. The focus is now on developing the marketing capability of the CJV and building its reputation as a premium provider of Q&T plate to the Chinese market.

While the current turbulence in international economies has also spread to the Chinese market, we are confident that our strategy of targeting the supply of high quality, locally produced Bisplate to premium sectors of the Chinese market will enable the CJV to build a presence in the local market. Those sectors are currently supplied by imports into China. It is difficult in the present market environment to give specific guidance on the growth and performance of the CJV at this time.

There has been significant press commentary on the fact that the outlook for Australian steel industry is facing challenges as pricing for Australia's major exports of coal and iron ore fall back from their recent highs, leading to the deferral or cancellation of a number of planned resource based projects. Demand from key export customers for Australian resources is also subdued as their economies face growing uncertainty and surplus capacity. We need to recognise that our end customers are being affected by reductions in commodity prices and potential export volumes in the current global economic environment.

The Groups performance during the first quarter met our expectations and we remain confident that demand will continue for quench & tempered steel. The Board expects however, that we will see a transition in sources of demand with less



demand for quench & tempered steel in new project developments and more demand for repairs and maintenance as new resource projects move into their production phases. This is currently being reflected in steel industry de-stocking across both the Australian and Asian markets in which we operate. During this transition period and while the current de-stocking continues, the short-term outlook for Bisalloy is less predictable.

Notwithstanding that our first quarter results met expectations and the Board remains confident in the longer term prospects for our China joint venture, in light of the current volatility the Board withdraws the previous guidance given in August 2012 and is unable to provide credible earnings guidance for the full year.

Your Board will of course be continuing to assess all potential initiatives to ensure shareholder value is maximised as we continue to develop our businesses.

I would like to take this opportunity to sincerely thank all our employees for their outstanding efforts in delivering such strong growth over FY2011 and FY2012. The Board believes Bisalloy has the products, strategies and management team to deliver the best possible result over FY2013 notwithstanding the uncertain and competitive environment.

I now invite the Managing Director to provide additional commentary on the Bisalloy Steel Group results and performance.



## MANAGING DIRECTOR'S ADDRESS

Thank you Mr. Chairman.

Ladies and gentlemen, I am pleased to have this opportunity to update shareholders on the operational performance for the Bisalloy Steel Group and the opportunities and challenges which the Group is facing.

A fundamental commitment of the Group is the active pursuit of the principle of zero harm to all employees, contractors and visitors, regardless of any other objectives pursued by the Group. All employees across the Group's operations are empowered under the STAR program to Stop, Think, Act and Respond to any issue in regard to ensuring safe working conditions. It is pleasing to report that in September 2012, the Australian operation passed 500 days without a Lost Time Injury.

Our businesses in Indonesia and Thailand continue their outstanding safety record and they have now had over nine years without a Lost Time Injury at either operation. Our Chinese CJV also adopts the Group's safety programs.

The instability of global economic conditions, along with a stubbornly high Australian dollar, has created a highly competitive environment within the Australian steel industry. Bisalloy has successfully adapted to this environment through its investment in additional sales and marketing resources, improving finished goods availability and strategically multi-sourcing steel plate inputs to manage costs. The Group's earnings growth of 58% in FY2012 is a strong reflection of the success of Bisalloy in deploying these strategies.

As emphasised to shareholders in previous years, the Group has had to focus resources on reducing debt to sustainable levels. In FY2012, operating activities generated cash inflow of \$6.7m of which \$1.6m was reinvested in our production and delivery processes and \$0.5m as the initial equity contribution to our Chinese CJV. The majority of operating cash flow was directed to debt reduction and Group borrowings were reduced by \$3.5m to \$12.3m at 30 June 2012. This matches the net debt figure of \$11.1m mentioned by the Chairman after adjusting for our cash balance of \$1.2m.

Turning to the individual operations, Bisalloy Steels remains Australia's only manufacturer of high tensile, abrasion resistant and armour grade quench & tempered steel plates. The key to Bisalloy Steels' low cost, high yield production



capabilities is the highly automated, continuous flow production process at Unanderra, south of Sydney. We now have sales engineers located in New South Wales, Queensland, Victoria and West Australia and support our customers through targeted stock holdings of Q&T plate ready for immediate delivery. In the Australian market we have made sure that Bisplate is synonymous with quality quench & tempered steel. We believe the value proposition we provide to our customers is compelling and our competitors will struggle to offer an equivalent combination of product quality, customer relationships and technical support.

The Australian Q&T market is becoming increasingly competitive because of the influx of overseas competitors. This market is attractive to them because of the performance of the Australian resources industry in combination with the strong Australian dollar, as well as relatively weak demand in their home markets. I am however pleased to report that despite this increased competition, our growth in sales not only reflected increased domestic demand, but also an increase in market share for Bisalloy in our core domestic market.

Demand in Australia for Bisalloy's high quality quench & tempered steel plate is underpinned by the resources industry, and it is estimated that around 70% of Bisplate is used in resource related activities. The demand for quench & tempered steel plate extends over the entire extraction process, from pit to port, and demand covers across the mining operations life-cycle from initial capital build through the need to refurbish and maintain existing production equipment.

As the Chairman mentioned, the Australia resources market is currently undergoing realignment with the focus switching from the boom in new projects to maximising the output from the mining investments over recent years. To put this in context, the Bureau of Resources and Energy Economics September 2012 quarterly report shows a forecast increase in exports from 2010/11 to 2012/13 of 30% for thermal coal and 20% for iron ore. Every tonne of ore will pass over quench & tempered steel plate multiple times on its trip from pit to port. The demand for Q&T will therefore switch from new projects to maintenance and refurbishment of existing equipment over the coming months and years, although the transition will undoubtedly not be smooth.

While the Australian construction industry has been relatively subdued in recent years, Bisalloy has prepared for an increased exposure to structural applications through inclusion of quench & tempered steel in the Australian Steel Structures Standard AS4100-1998. Development work is currently underway for a range of



products that could be utilised in these applications with some interesting potential in uses such as support beams in rail bridges.

Bisalloy continues to develop and introduce new product lines to meet the changing market requirements. As an example, speciality applications such as a higher hardness range are currently being developed. These new product ranges are designed to offer additional performance characteristics not available in the current Bisplate range, while seeking to replace other, more expensive competitor alternatives. This is particularly important to our customers at a time when capital spending and maintenance costs are under close financial scrutiny.

The distribution businesses in Indonesia and Thailand sell a range of wear related products in addition to Bisplate quench and tempered plate. They both contributed to the Group's solid result during FY2012 and provide important access into these regional markets as well as important potential springboards into neighbouring countries including Laos and Vietnam. The Indonesian business operates across the resources, agriculture, cement and power industries, with opportunities to leverage off the developing local resources industry. The Thai market has a greater reliance on original equipment manufacturing and has faced more subdued market conditions from the on-going uncertainty in European markets.

Our Bisalloy-Jigang CJV is steadily establishing its reputation as a premium Q&T supplier in the Chinese market. One concern we have needed to address was a perception from some potential Chinese customers that Chinese manufactured Bisplate might not be at least as good as more expensive Q&T imported from Europe. To address this, the CJV has been undertaking a measured and targeted marketing and technical campaign. This has been successful, but it has taken longer to roll out than initially anticipated, although the process is now well established with suitably skilled marketing personnel being recruited.

The Chinese economy is currently in a state of flux. As has been widely reported, it is undergoing significant structural change at a time of economic instability in its key export markets. In addition, the government transition that is currently underway has delayed some policy decisions. These events make it difficult to provide a definitive short term outlook, but the opportunities in the Chinese markets remain extensive. The CJV provides significant earnings opportunities as the process of accelerating our market penetration continues, with an increased contribution expected in FY2013. This growth opportunity remains very attractive



for Bisalloy as it is low risk, already profitable and has scope for significant upside in the months and years ahead.

While we have met the challenges of FY2012, we can be sure that FY2013 will provide its own obstacles and opportunities. I would like to finish by thanking my management team and all Group employees for their efforts, particularly their commitment to safety and their commitment to building Bisalloy into a regional force in the production and marketing of high quality quench and tempered steel plate.