



8 November 2017

The Manager Announcements Company Announcements Office Australian Securities Exchange 20 Bridge Street Sydney NSW 2000

Dear Sirs,

Sims Metal Management Limited (Company) Chairman's and CEO's Address to Shareholders

Attached is a copy of the Chairman's and CEO's Address to Shareholders which will be presented at the Company's 2017 Annual General Meeting to be held today.

Yours sincerely

Frank Moratti

**Company Secretary** 

(Moratt:



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# Annual General Meeting 2017 Chairman's Address

Ladies and gentlemen,

### Introduction

It is with great pleasure that I welcome you to the 2017 Annual General Meeting. A significant milestone marks this year's Annual General Meeting. It was 100 years ago, that a 28 year old Albert Sims started collecting glass and metal on his bicycle and laid the foundations for what ultimately would grow into the global business that Sims Metal Management is today.

This rare achievement, is, in my view, directly attributable to the important social purpose the Company serves. However, without the vision, hard work and resilience of those that followed Albert Sims, no matter how noble the purpose of this Company, it would not have survived in the form it is today.

As we celebrate this centenary year, on behalf of our shareholders, I would like to pay tribute to all the current and past employees whose hard work and determination have turned this individual enterprise into the leading global business that Sims Metal Management is today.

With this great legacy, and with some recent images of the Sims of yesterday fresh in our minds, I thought I would spend a few minutes today reflecting on the operating environment we find ourselves in today and how we see the challenge of remaining relevant and successful in the 21<sup>st</sup> century.

### The Future

Every day we see evidence of new technology being used to disrupt long established business models, in many cases creating great value for the disruptors, while destroying the value of those who fail to adapt.

The implications of new technologies, changing markets and evolving customer behaviors are far reaching for society. In this environment, Sims will need to develop the capability to rapidly adapt to, and embrace, new technologies.

# Leadership

With this future clearly in view, the Board announced the appointment of Alistair Field as the Company's Chief Executive and Managing Director on August 4. You will hear from Alistair

shortly, however, by way of introduction, Alistair has been leading the Australian business of Sims for the last two years and, before that, had extensive experience in the commodities and logistics industries. Most significantly, Alistair has a record of successfully deploying leading edge technologies, one example of which was the total automation of Patrick's container terminal at Port Botany.

Given Alistair has been part of Sims for a number of years, the Board has observed a virtually seamless leadership transition as Alistair and his leadership team build on the momentum we have seen during FY17, while continuing to deliver on our Safety, Health, Environment, Community and Sustainability (SHECS) objectives. The Board is confident that Alistair will successfully lead the Company through the next phase of growth and development.

## Strong Culture of Safety, Health, Environment, Community and Sustainability

Sims Metal Management has been built on a strong culture, and a commitment to delivering sustainable value to all our stakeholders.

We have learned very valuable lessons over the past 100 years and, as a result, fostered a strong commitment to, and culture of, safety and sustainability. In 1991, we formalised this commitment through a dedicated SHECS Board committee because we believed our Company, a leading global recycler, was set to play a critical role in the emerging 'circular economy'.

In the past years, we have refined our sustainability goals and continued to improve our metrics to ensure the wellbeing of our people, our community and the environment in which we operate.

We have developed a world-class SHECS platform to achieve an injury free workplace, one of our primary sustainability goals as outlined in this year's Sustainability Report.

Looking to the future, we are confident our Company's role will become even more prominent as both governments and businesses around the world continue to discuss sustainable solutions to mitigate risks resulting from climate change, the pressures on energy and resources supply, and increasing population demands.

### Significant Turnaround during FY 2017

Our success over the past 100 years has not come without challenges.

In the past several years, the Company faced losses and marginal performance as a result of difficult external macroeconomic factors and market conditions, namely low commodity prices, competition from record high steel exports from China, and low material collection volumes in North America.

However, in FY17 the external environment became more favorable. Steel exports from China fell by 21% over the prior year due to higher domestic demand and a coordinated plan to close inefficient steel mill capacity. This resulted in improved demand for ferrous scrap metal as a steelmaking raw material, and contributed to better prices.

The price of East Coast US export HMS ferrous scrap increased 15% during FY17, while certain grades of busheling and bundled ferrous scrap increased by 34% over FY16 prices.

Similarly, the Company realised rising demand for non-ferrous secondary metals, with prices for copper and aluminium improving 10% and 15% respectively over the prior year.

In addition, the operational leverage of the business was enhanced by internal initiatives implemented over the past eighteen months designed to reduce costs and improve margins.

As a result, we saw a substantially better performance for the Company across all key metrics compared to FY16. Our underlying return on invested capital (ROIC) reached 8.0% in FY17, and underlying EBIT and underlying NPAT each increased threefold over FY16.

While this is a tremendous achievement, history has taught us that conditions can change quickly, and we remain mindful of the risks around potential economic contraction in China, regulatory change in our domestic markets or abroad, and competitive challenges in the regions where we operate.

Therefore, we are committed to doing all we can to safeguard the business from these factors in our pursuit of sustainable growth.

### Commitment to Deliver Sustainable Returns to our Shareholders

The Company's balance sheet continued to reflect strong levels of cash generation through higher profits as well as the proceeds from asset sales.

As a result of the Company's strong financial performance, the net cash position at the year end, and the continued positive outcomes from our internal initiatives, the Board resolved to pay a final dividend of 20 cents per share (100% franked, utilising available franking credits), as well as an unfranked "special" dividend of 10 cents per share. The payment was made to shareholders on 20 October 2017.

In making this decision, the Board has taken into consideration that some of our shareholders' preference is to receive their returns as dividends while others would prefer to see retained earnings invested into the business to drive capital growth.

The Board continues to balance these preferences to make dividend payments while ensuring we are reinvesting the appropriate levels of capital in the business. Consistent with our growth orientation, the Board has continued to support the increased capital investment in growth projects in FY18 while maintaining sustaining capex spend at appropriate levels.

# **Sims Revised Remuneration Structure and Framework**

Following our AGM in 2016 and first strike, we launched a comprehensive review to address the concerns shareholders raised regarding particular components of our remuneration report.

As part of the review, the Board listened to shareholders' concerns. I thank you again for engaging with us over the past year and for your feedback which was incorporated in the revised Company remuneration structure.

Throughout the review process, our primary objective has been to ensure the Company's remuneration framework continues to align with shareholders' interests while providing an appropriately rewarding compensation structure to maintain the momentum achieved in FY17.

As a result of the review, the Board has made a number of significant changes to the executive remuneration framework and design for FY18. These are detailed in the FY17 Annual Report.

In brief, the changes implemented include the introduction of an earnings gateway to the ROIC tranche of the long-term incentive plan, the reduction of the ROIC opportunity from 200% to 100%, and a new executive remuneration benchmark comparator group.

I am pleased with the support we have received from our shareholders for the Company's Remuneration Report as we will outline in the formal part of the meeting.

We thank you for your confidence, and reconfirm our strong commitment to continuing the improvement of our remuneration framework through consultations with all our stakeholders, and with our new Group CEO and Managing Director, Alistair Field, and his team.

### Thank You

On behalf of my fellow directors, I would like to recognise the significant contributions and hard work of our management and employees over the past year. We are well positioned to deliver on our growth plans and I look forward to reporting on our further progress in the year ahead.

Now, I would like to welcome to the stage Alistair Field to present a more detailed account of last year's performance and outlook for the rest of this financial year.



# Annual General Meeting 2017 Group Chief Executive Officer's Address

Thank you, Mr. Chairman,

Ladies and gentlemen,

#### Introduction

Sims Metal Management emerged as a stronger and more resilient company at the end of financial year 2017. Despite external operating conditions which remain challenging, the Company delivered outstanding growth in earnings and dividends, as well as improved performance across safety and operations.

This is a great achievement and testament to the hard work of our people across the Company. Before going into the details of the year's performance, I would like to acknowledge and thank all our employees for their effort and commitment. I am privileged to lead a business with such a strong team in place. I look forward to working together to further strengthen our position as a modern Company and global leader in our industry.

## **Continued Commitment to Strong Safety and Sustainability Values**

Throughout our Company's history, we have been committed to upholding the highest standards of safety. The strategic initiatives we are implementing to deliver on this commitment have progressed steadily in FY17.

Our 'safety-first' approach has seen us develop global best practice in policies, education, employee engagement and leadership accountability. These practices have been embedded into a well-established culture as demonstrated by the high levels of commitment and engagement by all our employees.

As a result, we have seen improved key metrics year on year. Our total recordable injury frequency rate (TRIFR) dropped by 10% and our lost workday injury rate dropped by 38% over the prior year.

Our ultimate objective is to create a zero-harm environment both at work and at home for our people and all our stakeholders. To that end, we have launched various internal initiatives which have resulted in a 60% reduction in our TRIFR since the beginning of 2013.

But we believe one injury is one too many, therefore our target is to further reduce this rate by 30% by 2020, to move closer to our goal of becoming an incident free workplace.

Equally, sustainability and environmental stewardship remains at the core of our business. We have established a robust internal culture to continuously enhance our systems and practices that underpin our approach to sustainability.

Every year, the Company diverts over 10 million tonnes of metal, electronics, plastics, glass, and paper from landfill across our operations. Also, we produce over 380,000 megawatt hours of renewable energy annually, through our renewable energy joint venture LMS Energy, while abating roughly 3 million tonnes CO2-e of carbon emissions.

In FY18, we will continue to work towards achieving our 2020 sustainability goals, to enhance the Company's critical role in the 'circular economy' as a leading global recycler.

# **FY2017 Financial Highlights**

During the Financial Year 2017, the fourth-year of the five-year business transformation strategy, the Company saw a significant financial turnaround in a meaningful step towards achieving our five-year return on capital target.

FY17 underlying EBIT of \$182 million was more than three times higher than the prior year, with progressive improvement shown through the year.

This translated into an underlying return on capital of 8.0%, up materially from 2.6% in the prior year. Importantly, this growth was balanced across our global business portfolio with earnings improving in each geographic region as well as through our joint venture partners.

Our ANZ and Europe Metals businesses contributed substantial double-digit growth on both earnings and volumes, benefiting from the delivery of recent internal initiatives and a steady improvement in market conditions.

Performance in North America Metals, our largest business, also improved substantially, delivering more than half of the total earnings improvement for the Group.

Likewise, the Company's global Electronics Recycling segment grew earnings to the second highest level in five years, supported by the recently completed re-organisation of the US business, and improving commodities markets.

The Company's improved performance helped lift an already strong net cash balance to \$373 million at the end of the fiscal year. At the same time, the Company returned \$77 million in capital to shareholders through dividends and shares repurchased.

## **Strategic Initiatives Delivering Benefits**

During FY17, we continued to see benefits to the bottom line resulting from the completion of a number of strategic initiatives aimed at cutting costs and improving operational efficiency.

These initiatives included the completion of stage two of the Kwinana expansion in the ANZ Metals business, rail and port improvements in our North America Metals operations, and the sale and closure of our remaining non-core assets in North America.

In total, these initiatives directly contributed \$40 million in underlying EBIT improvement. Looking ahead, the Company has commenced further initiatives including capital projects, cost reduction targets, and training and development expected to deliver \$60 to \$80 million in EBIT annually once completed.

As part of the current initiatives, we will look to adapt to and benefit from ongoing changes in our markets, in customer demand and materials composition, and to assess new investment opportunities to deliver value for our shareholders.

This will include accelerating the pace of investments in downstream metal recoveries to remove more metal from our material streams and increase the quality of our products, thereby opening up new markets that were previously inaccessible. This investment will be managed in line with our return on capital targets while maintaining a strong balance sheet.

## **Strategic Progress and Outlook**

Looking to the year ahead, we have set out some clear priorities to maintain and build on the momentum achieved in the past year. These underpin our short-term goals for FY18 and provide a roadmap for delivering growth over the coming years.

We have continued the momentum of our internal capital projects focused on enhanced customer centric product development. This includes the optimisation of non-ferrous separation plant yields and the upgrade of the non-ferrous bi-product quality to improve yields and reduce operational costs.

We are seeing significant opportunities to improve and grow our business through internal investment that aims to strengthen our operations and improve the efficiency of our processes. In FY18, we have budgeted a large proportion of our total capital spend to internal growth. As well, we are continuing to evaluate external expansion opportunities that would create value for our shareholders through a gradual and disciplined approach.

External market conditions continue to show steady improvement from recent 2016 lows. Demand for ferrous scrap metal has gradually strengthened, driven by improving global steel production combined with lower exports of steel from China. Steel exports from China have declined significantly this calendar year to date, due in large part to tighter environmental regulations leading to steel production restrictions and outright steel mill closures.

Firm demand for ferrous scrap, in export as well as domestic markets, has supported higher prices, which currently remain circa 5% above where they were at the start of the fiscal year. In addition, non-ferrous prices for copper and aluminium have increased 20% and 15% respectively since the start of the fiscal year. Combined, these conditions have fostered improved material flow and intake volumes across the Group, albeit at rates which continue to be low relative to historic and future long-term potential levels.

Based on current market conditions, and benefits anticipated from internal initiatives, our confidence in our ability to deliver on the target underlying return on capital of 10% in FY18 remains unchanged.

We are pleased that you could join is in celebrating our 100 year anniversary. As an organisation we are well positioned to build on the success we have achieved in the past, and continue to play a leading role for the future of our industry.

## **About Sims Metal Management**

Sims Metal Management is one of the world's largest metal recyclers with over 200 facilities, operations in 20 countries, and over 4,500 employees globally. Sims' core businesses are metal recycling and electronics recycling, with circa 51% of its revenue from operations in North America. The Company's ordinary shares are listed on the Australian Securities Exchange (ASX: SGM) and its American Depositary Shares are quoted on the Over-the-Counter market in the United States (USOTC: SMSMY).

Please visit our website (www.simsmm.com) for more information on the Company and recent developments.

## Investor and media inquiries contact

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