



2014 Update

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August 2014



Disclaimer

This presentation, 15 August 2014, provides additional comment on Steel & Tube's financial results announcement for the period ending 30 June 2014. It should be read in conjunction with the documents attached to that announcement, which highlight future outlook expectations of earnings, activities and market conditions.

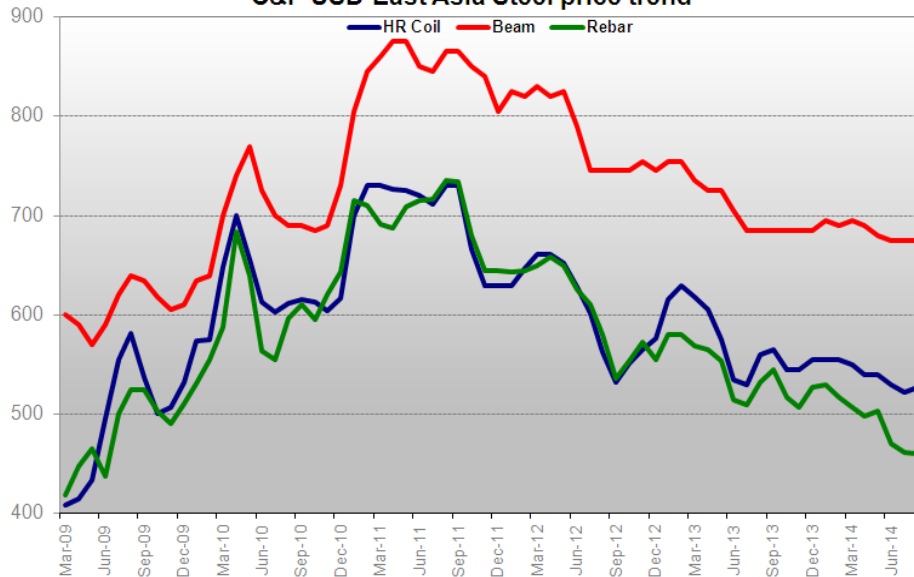

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Global Markets

Commodity prices

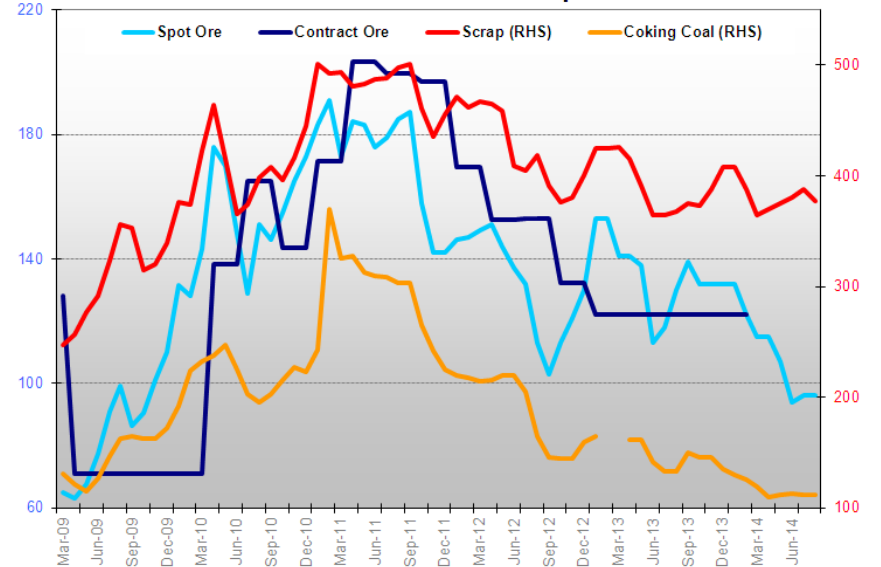
- Raw material prices continue to decline, iron ore especially
 - Lowest price in five years
 - Forecast is to remain low
- Scrap has remained relatively stable, although may experience downwards pressure if iron ore remains low

C&F USD East Asia Steel price trend



Source: Steel Business Briefings

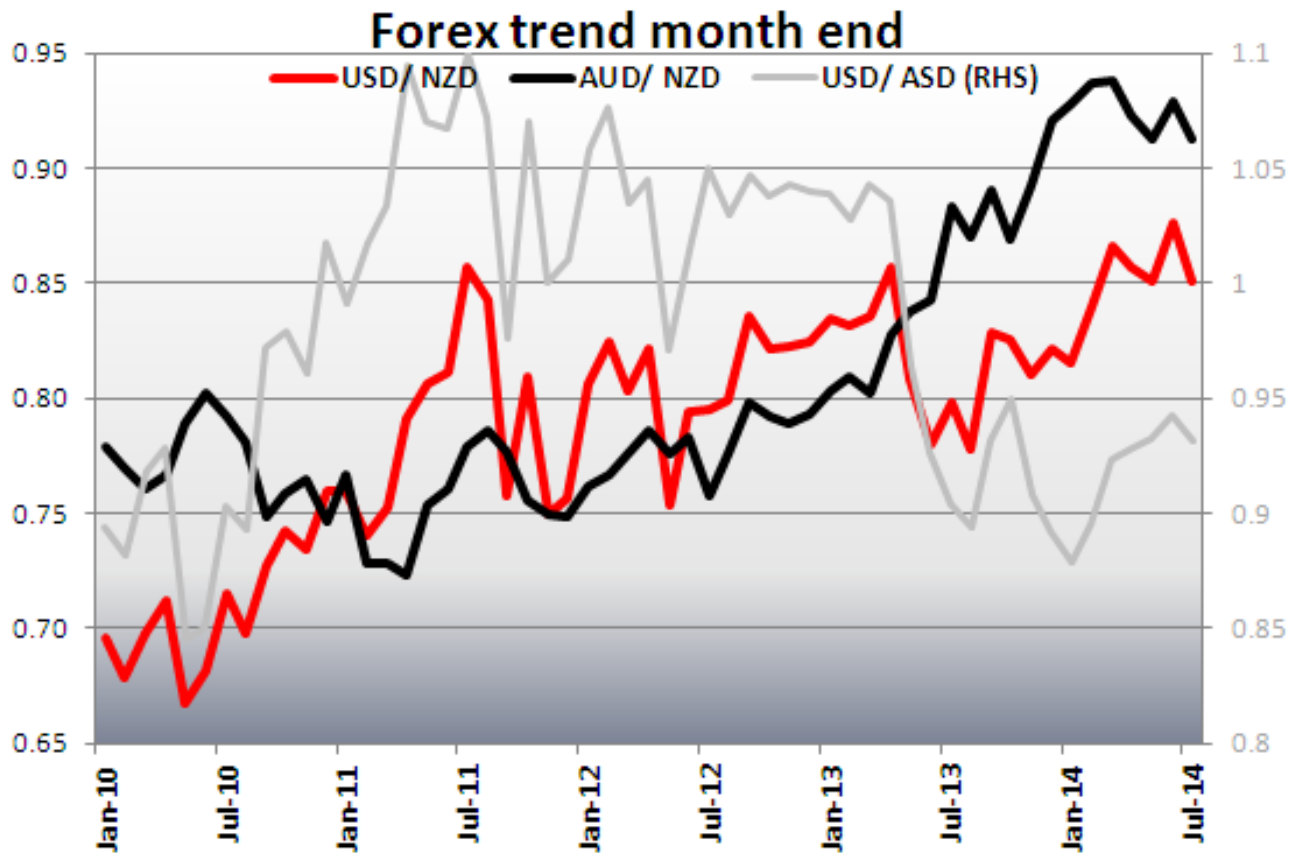
East Asia raw material USD price trend



- Finished steel prices mirror the softening in raw material prices
- Slow Chinese domestic demand has led to increases in Chinese steel exports, compounding the issue
- Multiple anti-dumping levies applied worldwide

Global Markets

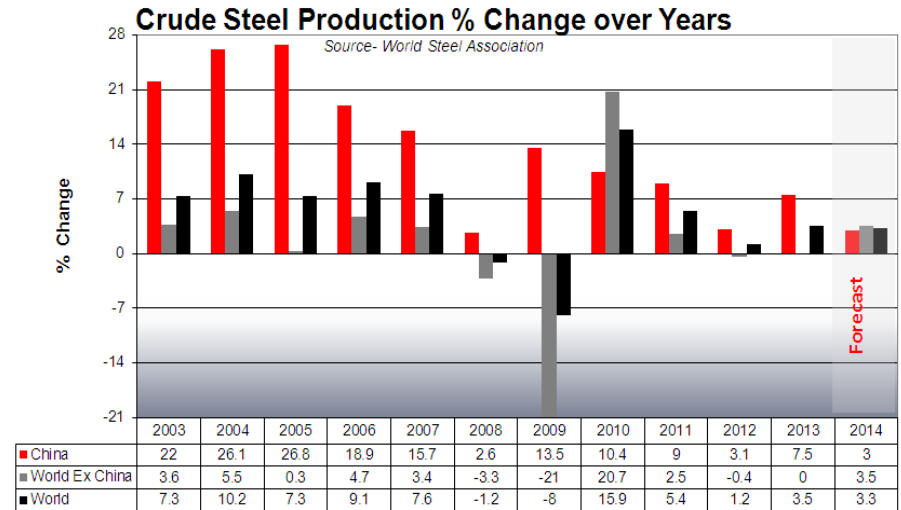
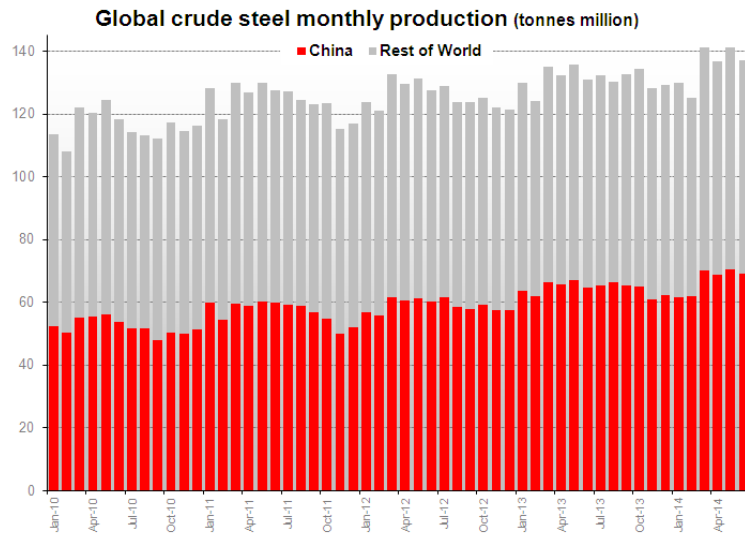
Exchange rates



- Significant strengthening of NZD over the long term against both US and Australian dollar
- Higher NZD effectively makes imported steel cheaper
- ...and compounds the finished steel pricing softness

Global Markets

Steel production and industrial activity

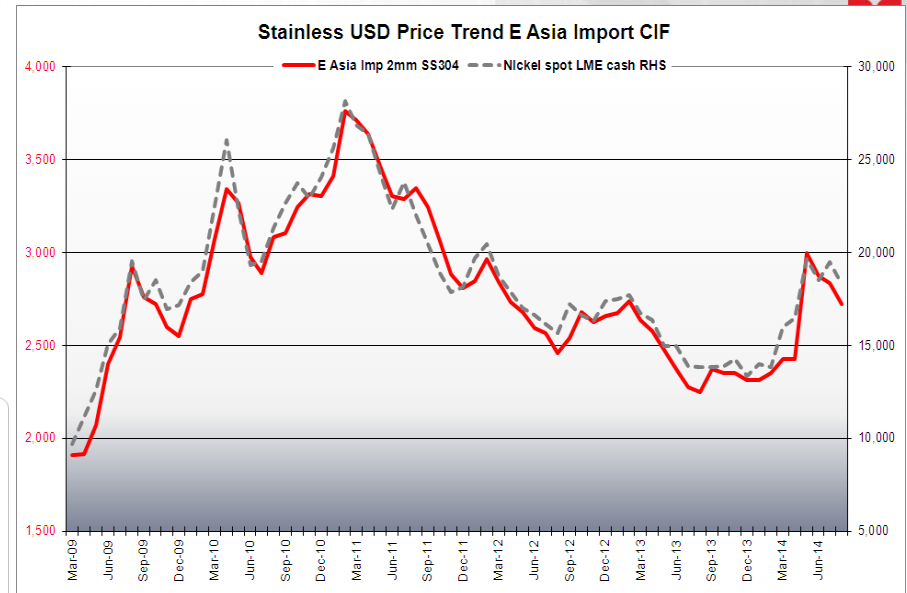
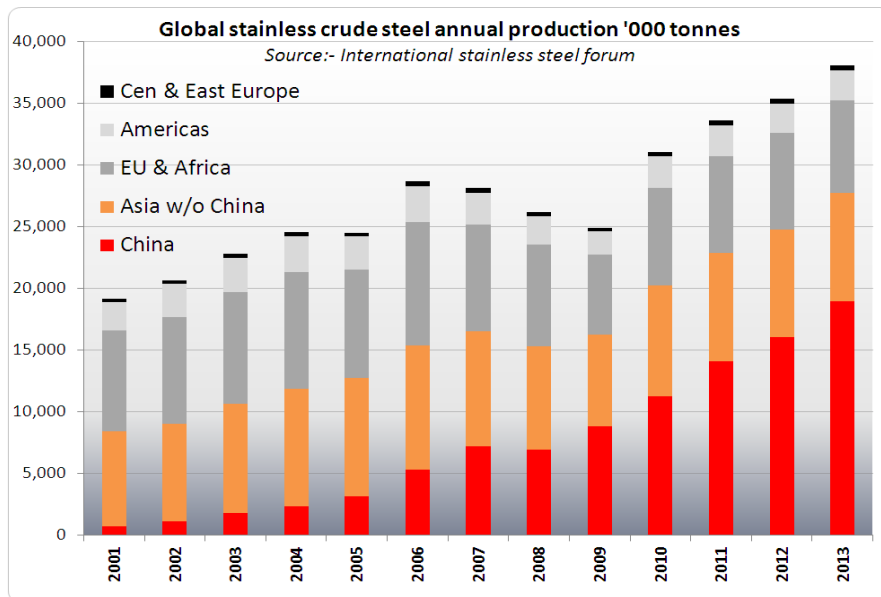


- Global steel output continues to grow, driven primarily by China
- Soft domestic demand is increasing Chinese exports
- Manufacturing activity remains subdued including much of Asia

Global Markets

Stainless steel price and production trends

- Production steadily increasing over past four years since GFC
- Increase led by China – a major exporter
- International prices correlate closely with nickel prices which are very volatile



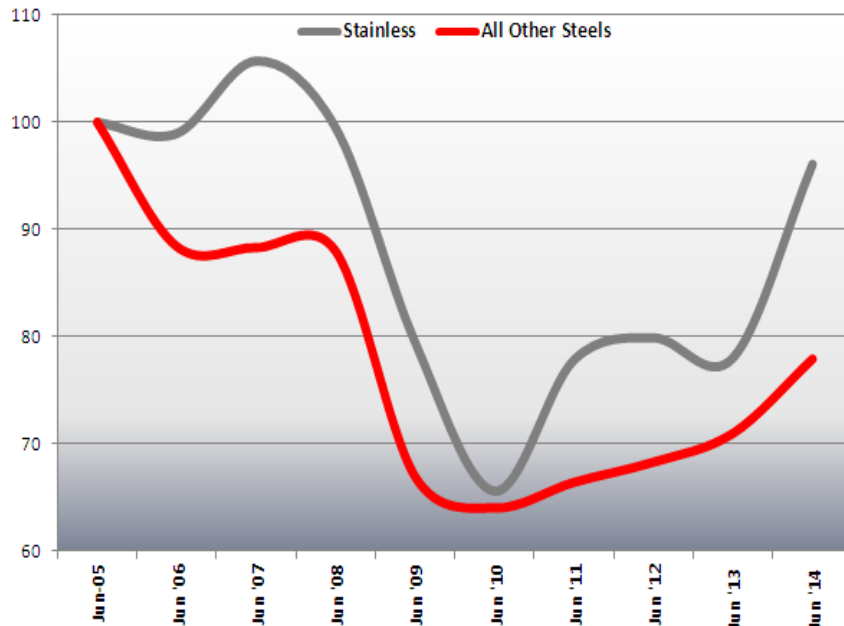
- Indonesia is a major supplier of nickel ore to China
- Recent price volatility related to the Indonesian export ban in January, with the Government attempting to encourage downstream processing
- Low-grade ore has started to trade

New Zealand Markets

Steel volumes

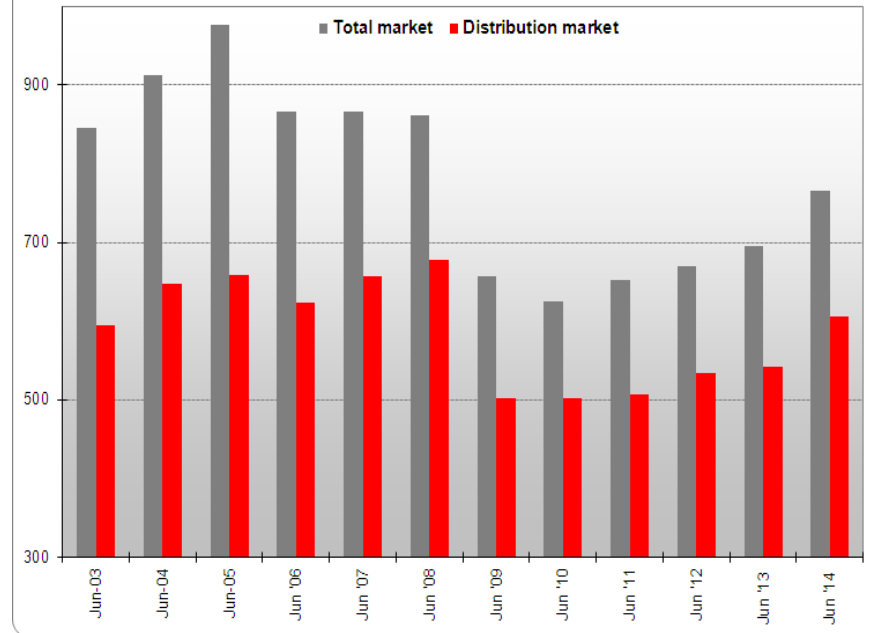
- Steel demand is steadily recovering led by construction related-products
- ...but still down approximately 10% on pre-GFC demand

Indexed consumption trend of stainless steel



Source: Stats NZ; S&T Research

Estimated annual New Zealand steel market - Tonnes '000

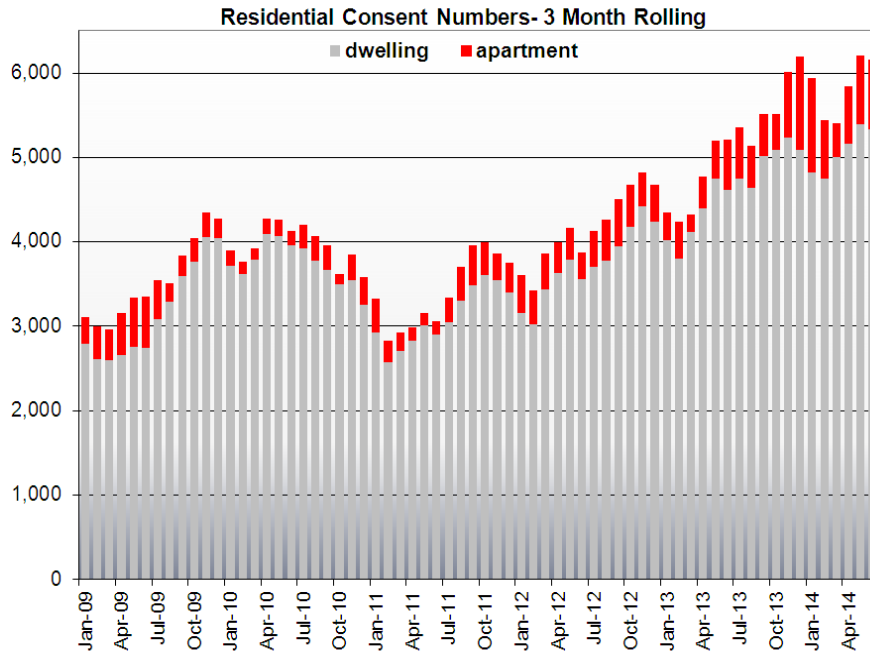


- Stainless steel demand is recovering faster than carbon steel
- Driven by food and dairy processing and viticulture

New Zealand Markets

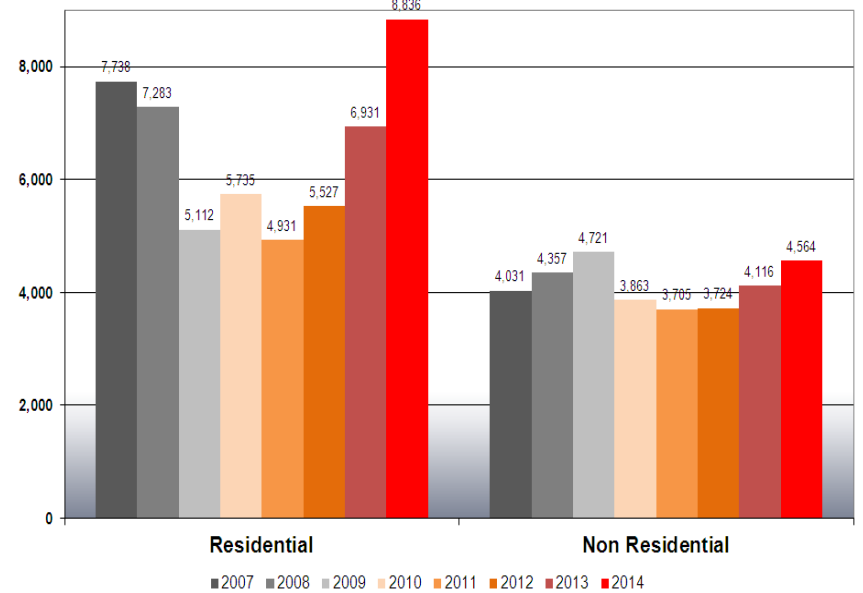
Key sector trends – building consents (\$m)

- Non-residential consents increased 11% to \$4.6 billion, year ending June 2014
- Non-residential consents, at \$490 million for June 2014, was the second-highest ever monthly figure
- Led by Auckland and Christchurch



Source: Stats NZ

Annual building consents by value \$ m- June years

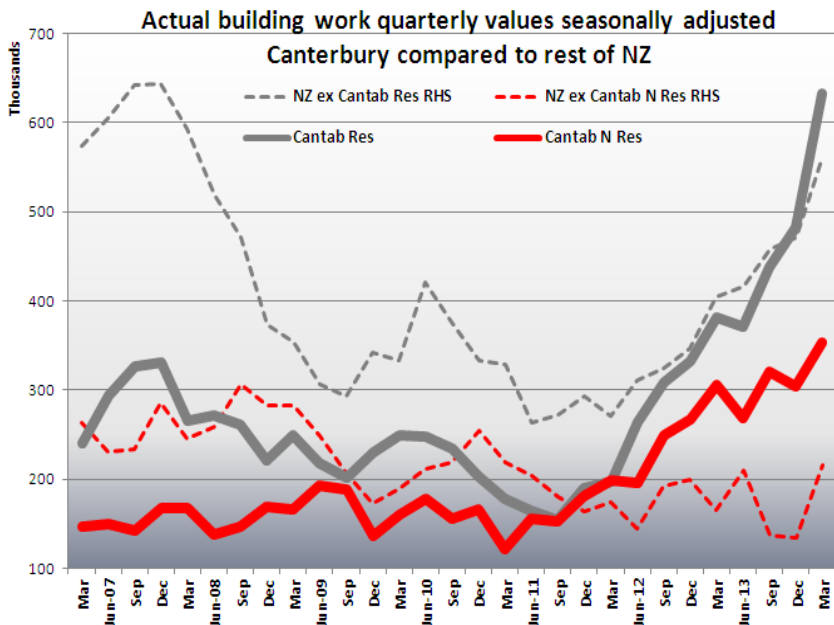


- Residential consents increased 27% to \$8.8 billion, year ending June 2014
- Led by Christchurch and Auckland, although the latter may be easing

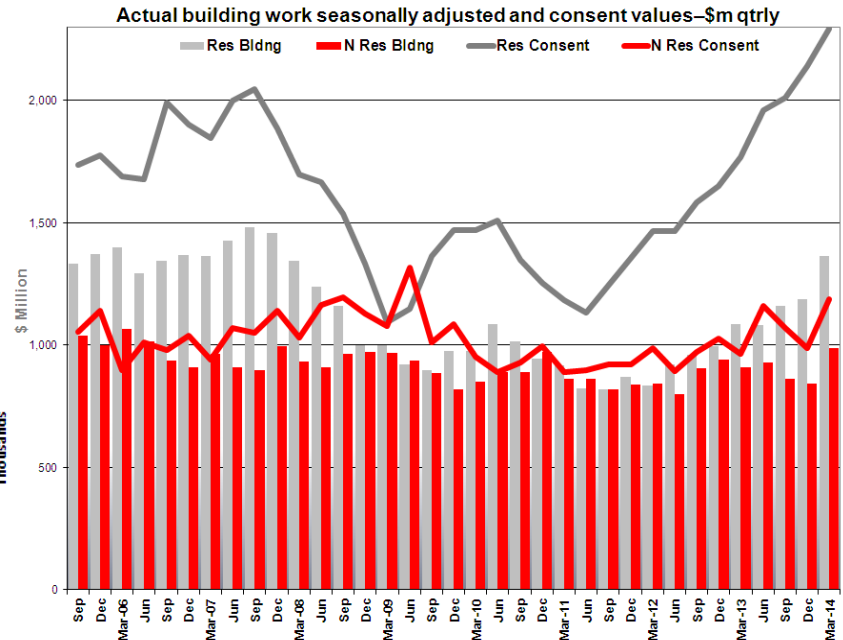
New Zealand Markets

Key sector trends – actual building work (\$m quarterly)

- While consents are increasing, actual building work lags – especially in the residential sector
- Despite this, residential building work increased by 15% over the quarter and by 21% over the year



Source: Stats NZ



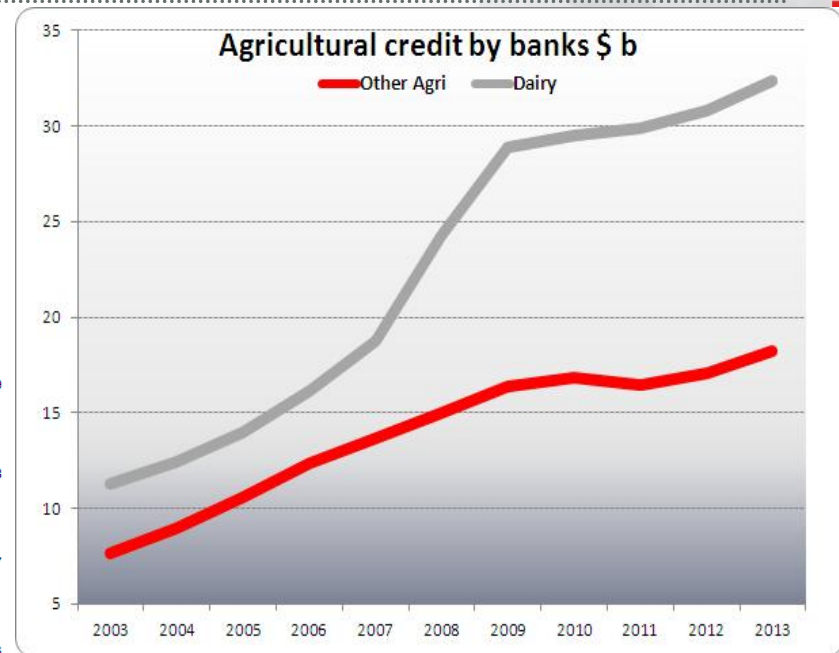
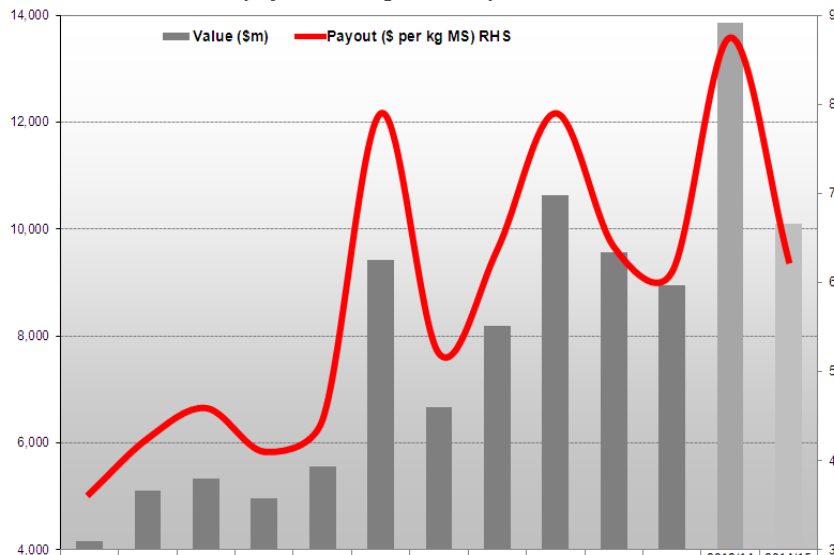
- Non-residential work increased by just 2% over the year, led by Canterbury, which increased by 22%
- Similarly Canterbury residential work increased by 50% over the year

New Zealand Markets

Key sector trends – rural

- International dairy auction prices rose to record level in October 2013
- Highest-ever payouts for milk solids
- Most dairy farmers increased production

Fonterra cash payout- farmgate milk price & dividend



- International prices continue to fall this year – 50% to date in NZD
- Fonterra's reduced payout (\$6.25) for the new year will reduce revenues by \$4b in the rural sector

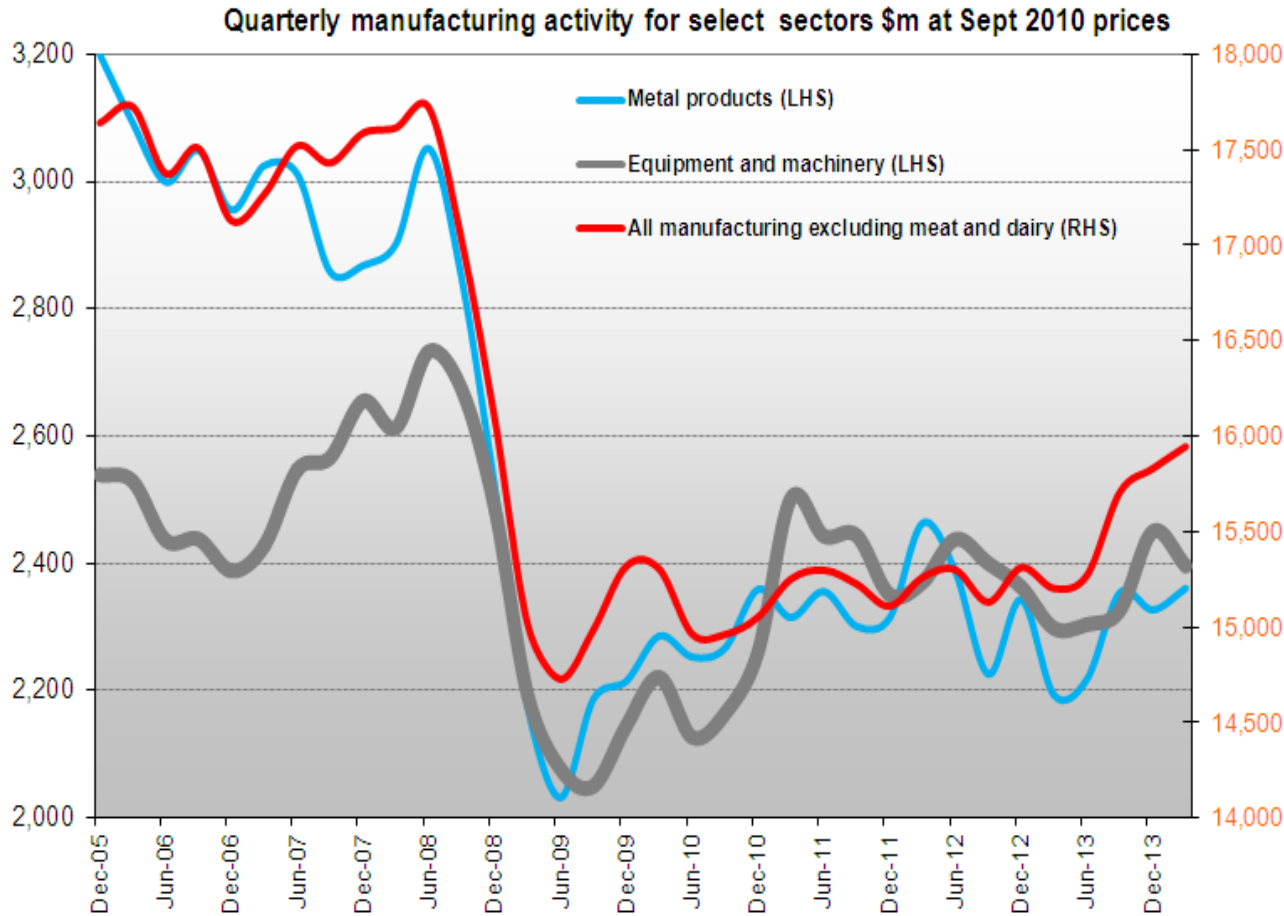
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New Zealand Markets

Key sector trends – manufacturing (\$m)



- Volatility continues from quarter to quarter
- Excluding food, activity increased by 3% in the year ending March 2014
- No increase in the year for metal products or equipment manufacturing sub-sectors

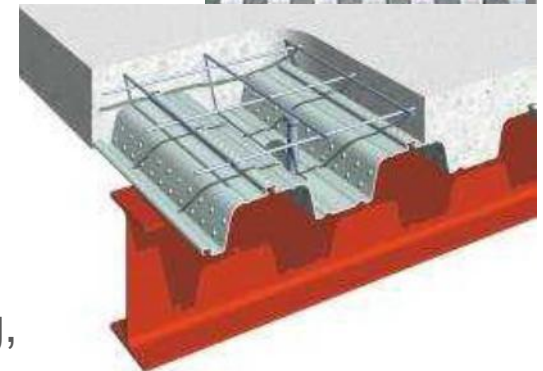
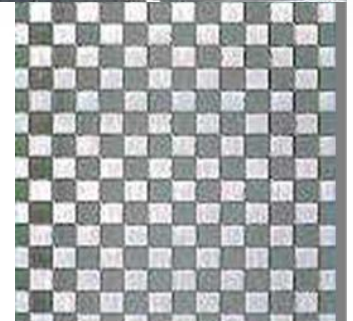
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S&T Stainless

Background

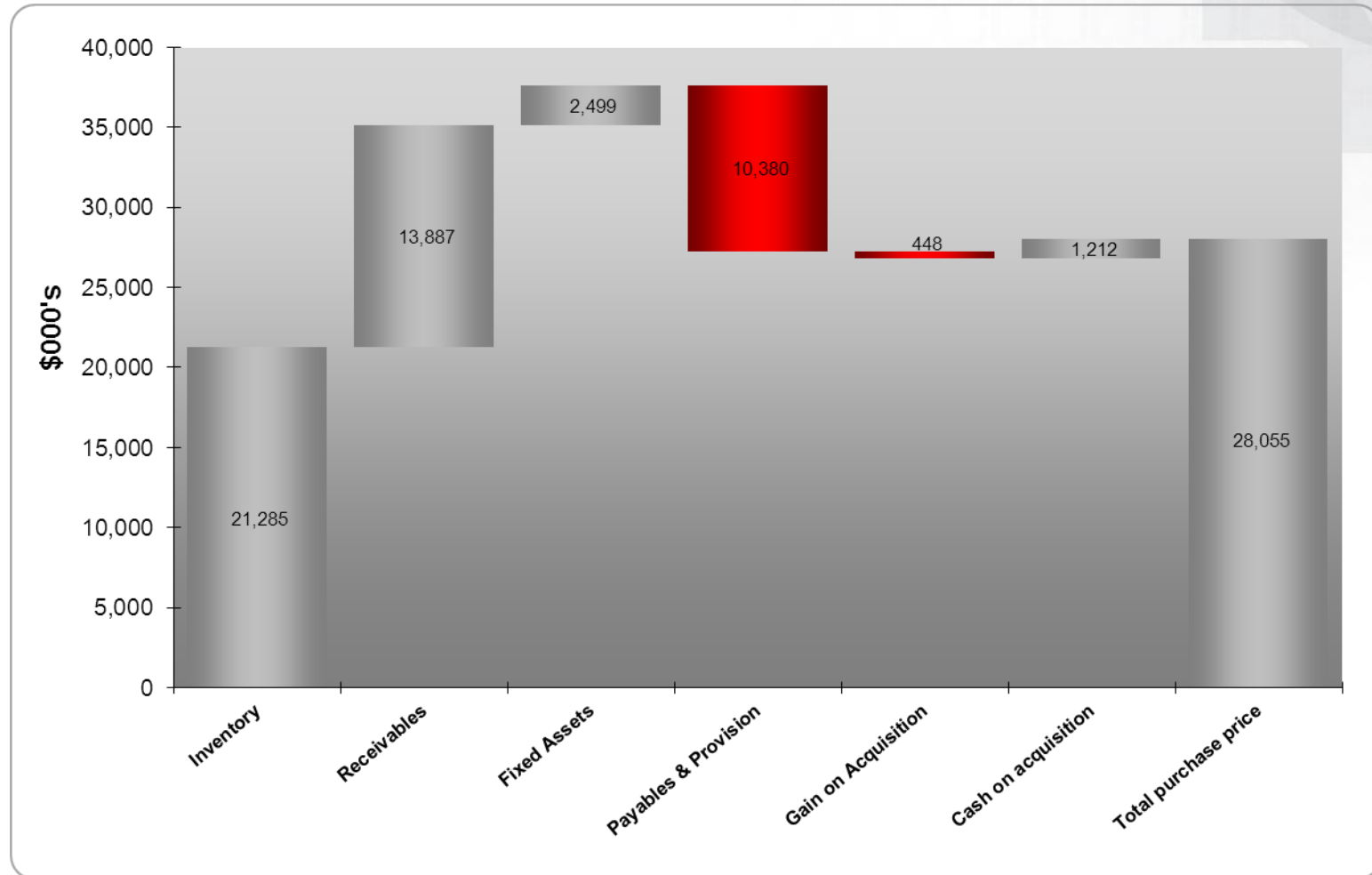
- Acquired the New Zealand business of Tata Australasia
 - No. 2 by market share but very close to No.1
 - Predominately stainless steels
 - Products – sheet and coil, hollows and pipes, merchant bar, architectural, specialist plumbing etc
 - Processing – coil processing, automatic feed-bar cutting, polishing, PVC/PE film application etc
 - Also engineering and special steels...
 - ...and composite floor profiles – COMFLOR
 - Eight locations – head office in Auckland
 - 95 employees
 - Principal market sectors include food and dairy, wine and beverage, architecture and construction, packaging, marine, rail transport, and engineering industries
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S&T Stainless

Assets and acquisition price



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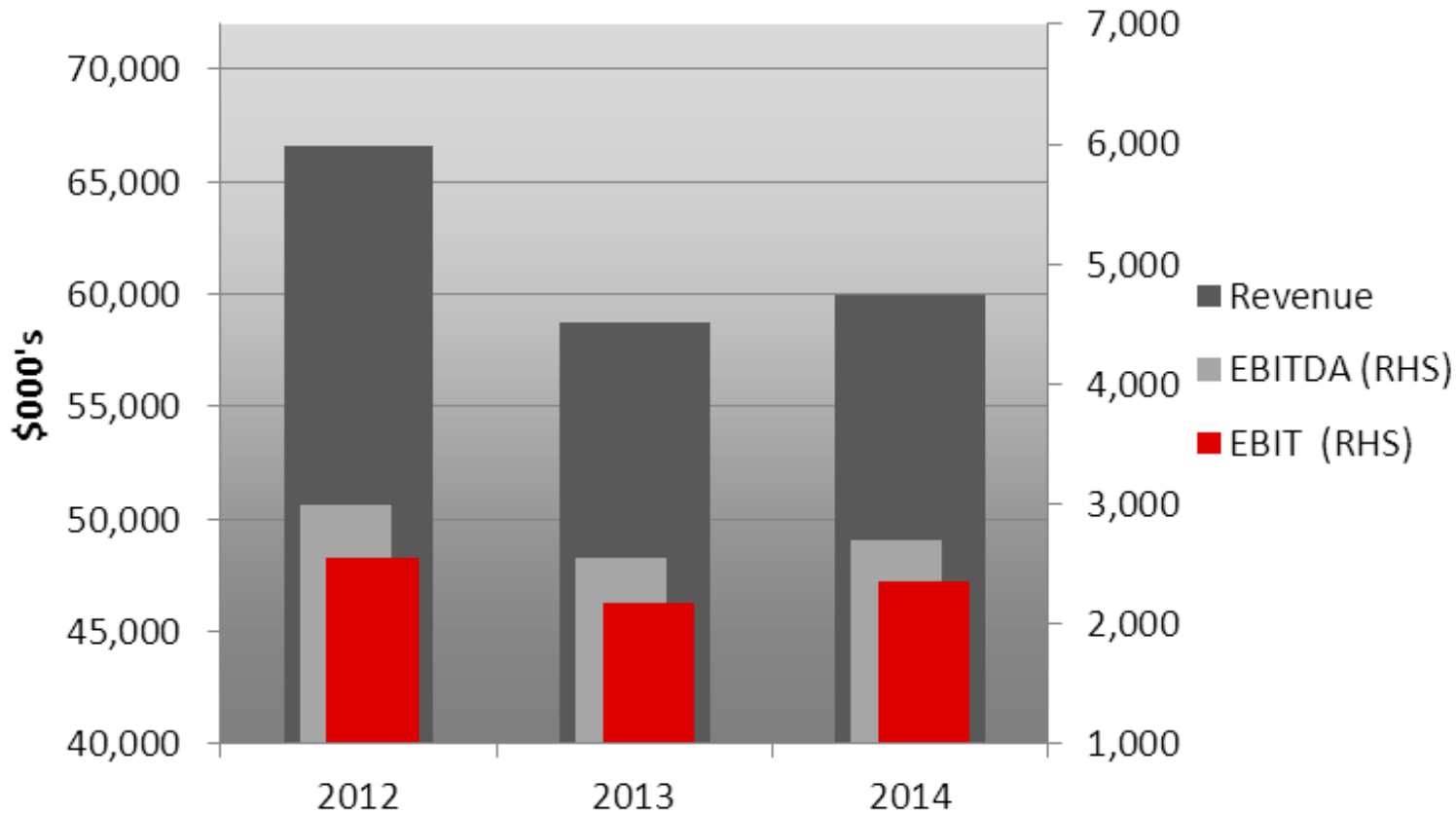
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Historical performance

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NZ Historical Performance



Excludes Tata internal management fees & one-off costs
Only includes continuing business operations

S&T Stainless

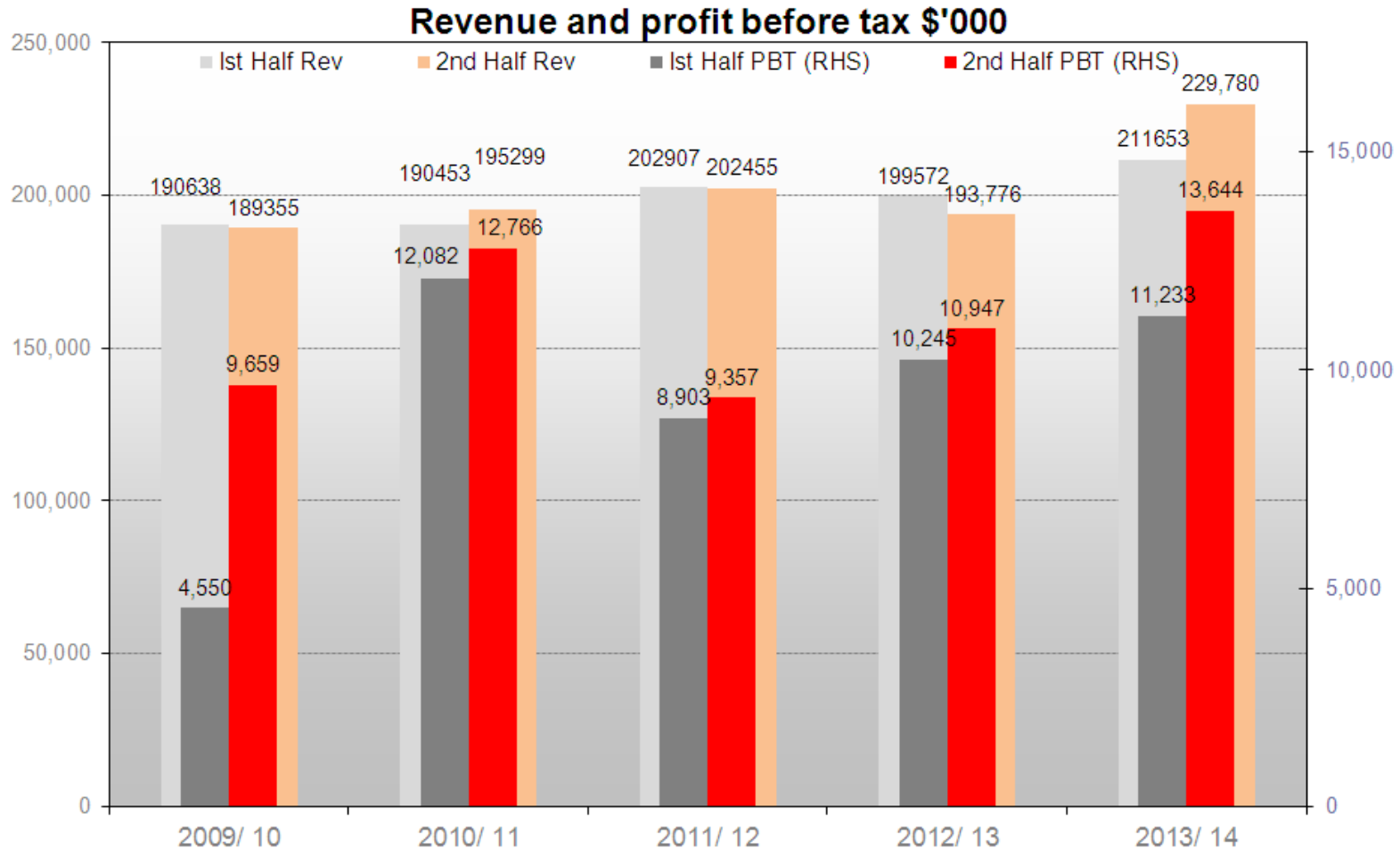
Opportunities

- Created the No.1 stainless player with a nationwide footprint
- Stainless market is improving
 - Food and dairy, wine and beverage, including repairs following Seddon earthquakes
 - Nickel price has increased 33 per cent in 2014
- COMFLOR has a strong market presence and will benefit from growing construction activity
- Good 'One Company' opportunities
- Good operational cost and procurement synergies. However, this will take some time due to systems / infrastructure changes etc.


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Business performance – revenue and profit



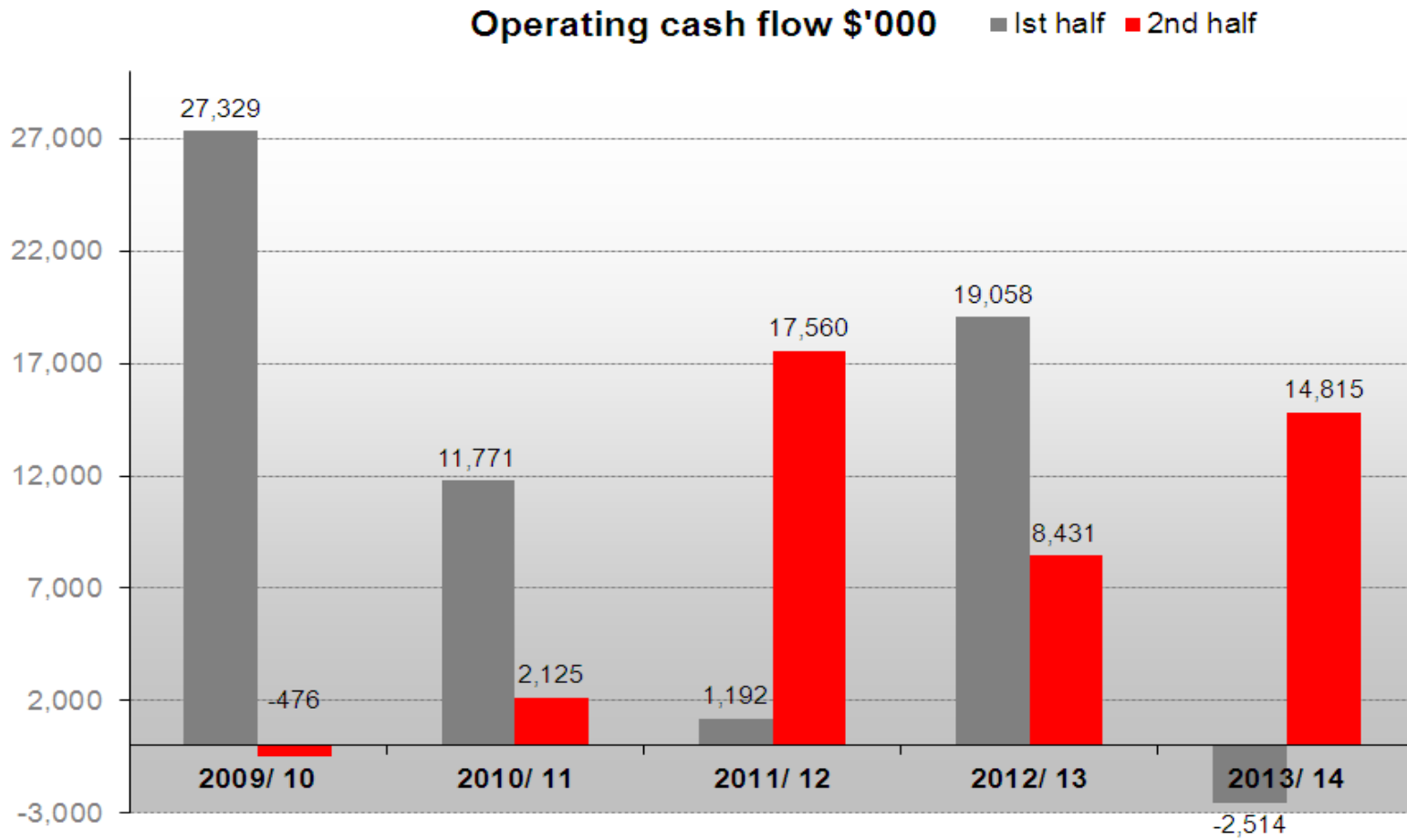
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Source: S&T financial reports

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Business performance – operating cash



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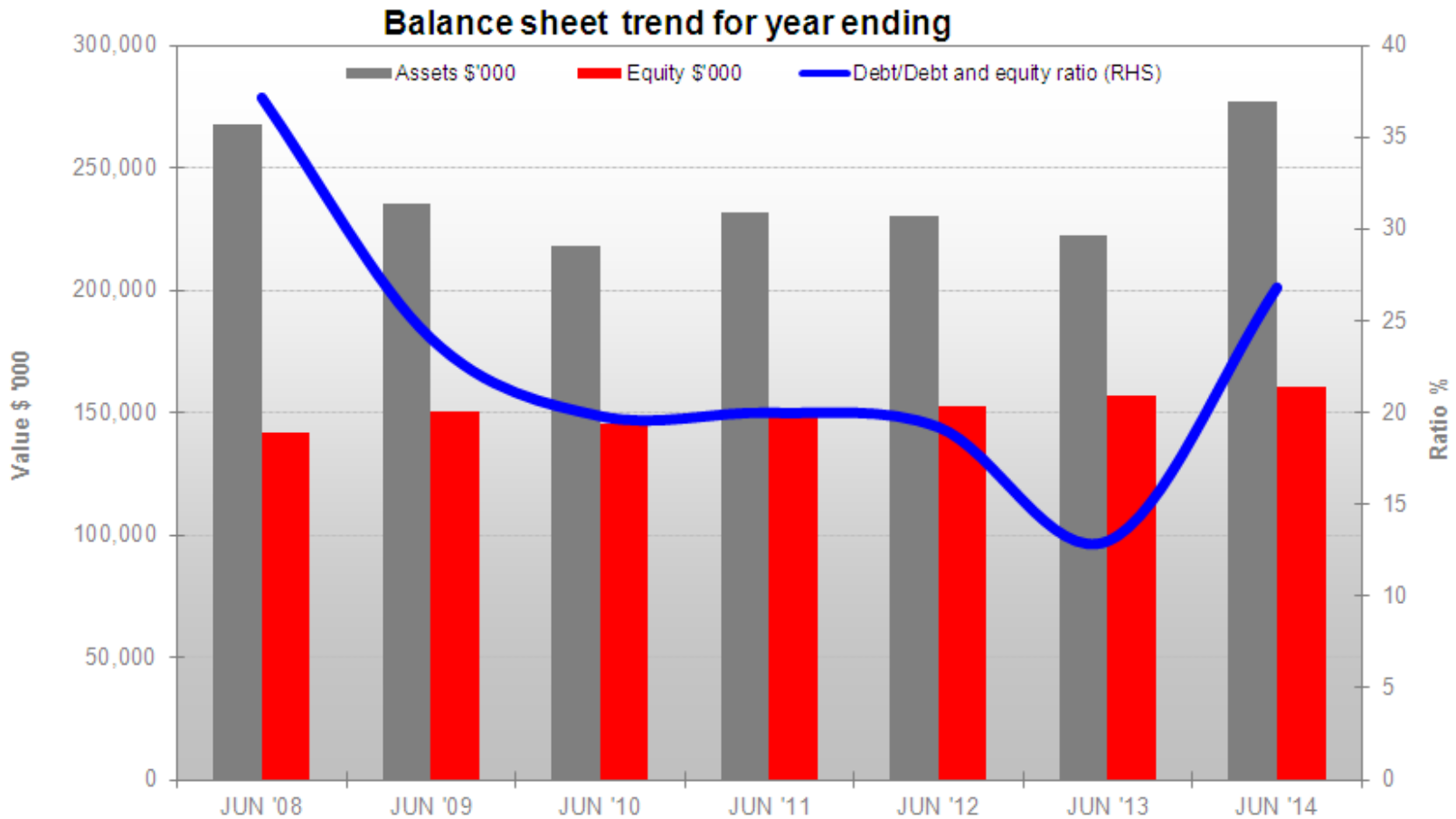


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Source: S&T financial reports

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Business performance – balance sheet and gearing



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Source: S&T financial reports

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Business performance

- Strong year with improved top and bottom-line results, boosted by the acquisition of Tata NZ (now rebranded as S&T Stainless) in April
 - Trading impact was \$13 million and profit after tax was \$612 thousand
- Full trading result for year to 30 June 2014
 - After-tax profit of \$17.9 million, up 14.7 per cent
 - Revenue up by 12.2 per cent to \$441.4 million
 - Operating cashflow of \$12.3 million
 - Net borrowings of \$58.7 million, reflecting the Stainless acquisition and an increase in inventory and debtors associated with increased revenue
 - Final dividend declared of 9 cents per share


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Trading environment

- Economic activity and volumes improved across all the sectors, although volatility remained due to project activity
- Auckland and Christchurch led construction activity - products aligned to this sector saw solid growth
- Government's commitment to infrastructure welcomed. S&T continues to participate in some of NZ's key projects this year - Auckland: Waterview Connection; Wellington: National War Memorial Park; Christchurch: Burwood Hospital complex
- Other sectors: Rural buoyant; Manufacturing steady; Oil & Gas, slow
- Competition remains intense, impacting pressure on margins
- Globally, steel continues to be challenged: China's output continues to increase despite soft domestic demand – multiple western countries (but not NZ) imposing anti-dumping actions
- Globally, finished steel prices remain soft

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One Company reinvigoration

- One Company operating model continues to gain momentum – customers now experiencing the benefits
- Other key customer partnerships formed this year
- \$30 million reinvestment underway – three new facilities being built: 2 in Auckland, 1 in Palmerston North
- Reinvestment includes new plant and machinery that will further boost processing capability and efficiency
- Key ICT projects underway will enhance customer interactions and service
- Health and safety continues to perform well


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Outlook

- Global uncertainties continue:
 - Geopolitical risks increasing and economic forecasts reducing across multiple regions
 - Chinese domestic steel demand softening
 - Steel raw material prices remain soft
- Despite optimism, some signs are that New Zealand economy appears to be moderating
- Expect continued solid results inline with improved economic activity across all sectors, particularly construction, boosted by Stainless


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Thank you

