



2015 H1 Update

Dave Taylor, CEO
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February 2015



Disclaimer

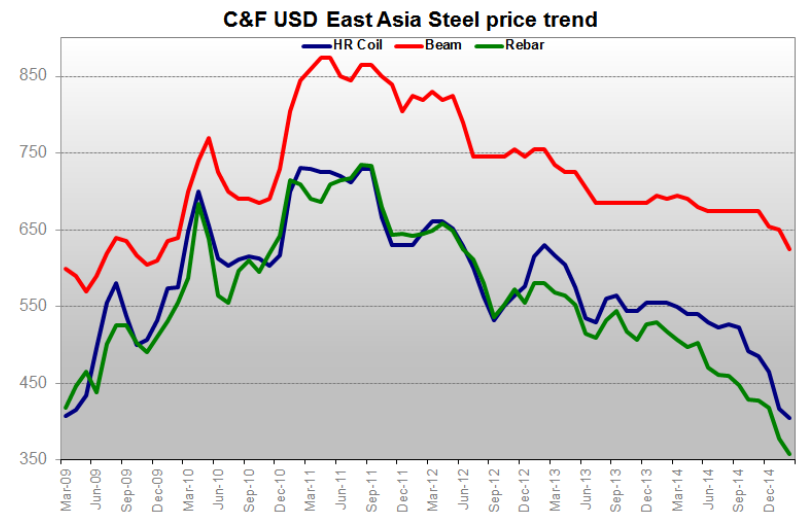
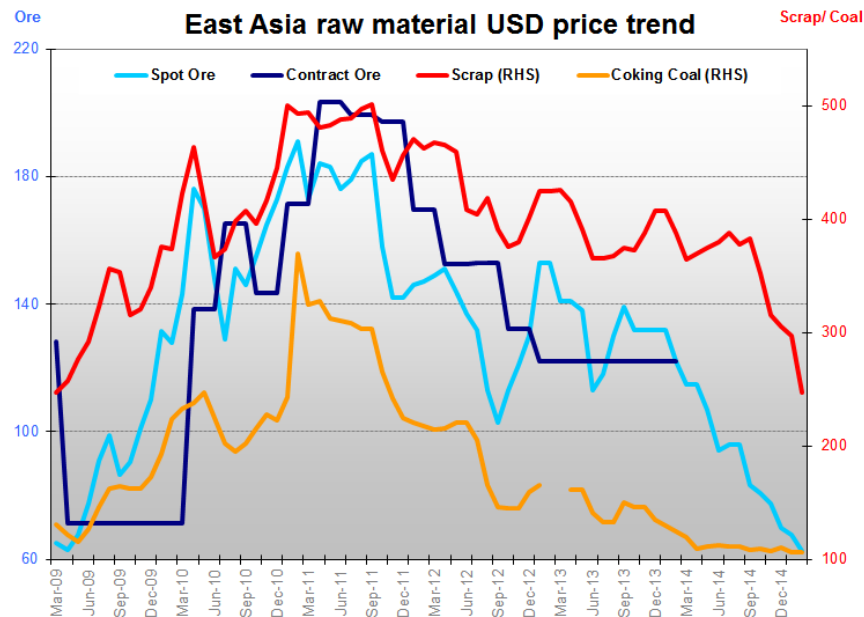
This presentation, February 2015, provides additional comment on Steel & Tube's financial results announcement for the period ending 31 December 2014. It should be read in conjunction with the documents attached to that announcement, which highlight future outlook expectations of earnings, activities and market conditions.


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Global markets

Steel and raw material price movement

- Raw material prices continue to decline, with particular pressure on iron ore
 - Lowest price for five years
 - Forecast to remain low for at least the next two years
- Scrap is also declining



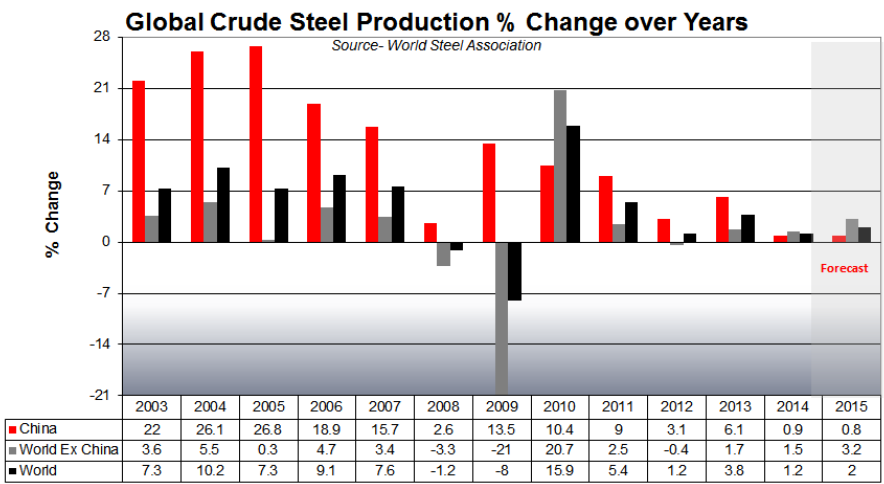
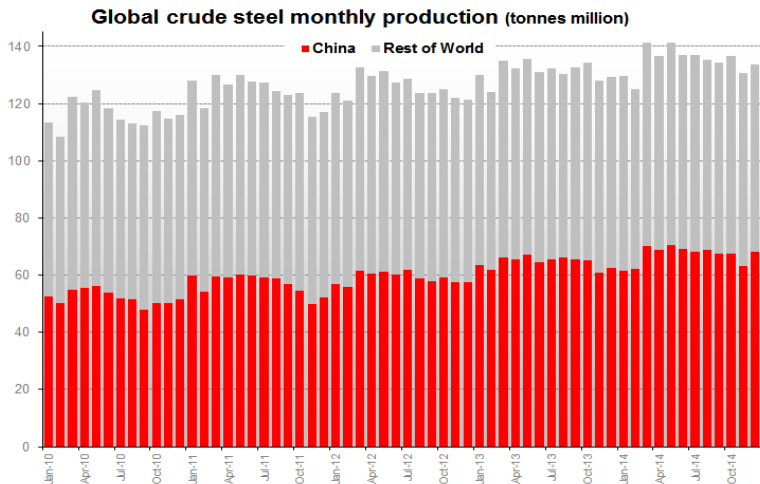
- Finished steel prices mirror the softening in raw material prices
- Slow Chinese domestic demand has led to increases in Chinese steel exports, compounding the issue
- Multiple anti-dumping levies applied worldwide

Global markets

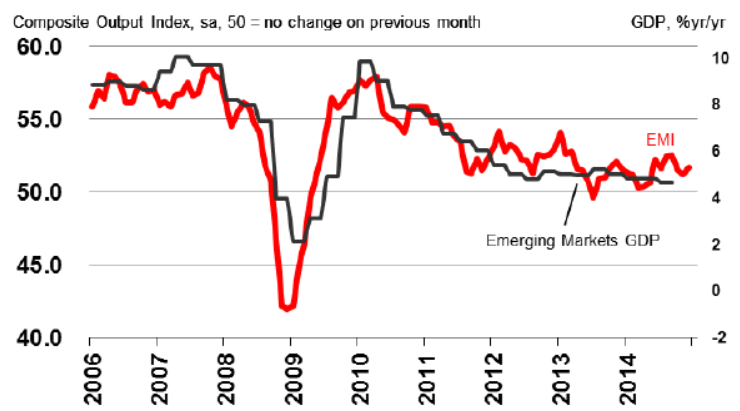
Steel production and industrial activity



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HSBC Emerging Markets Index



Sources: HSBC, Markit

- Global steel output growth has slowed, especially in China
- Soft domestic demand has increased Chinese steel exports to 94 MT in 2014, an increase of 50% over 2013
- This may abate in 2015 following removal of export incentive on boron-treated steel, but may be replaced by chromium

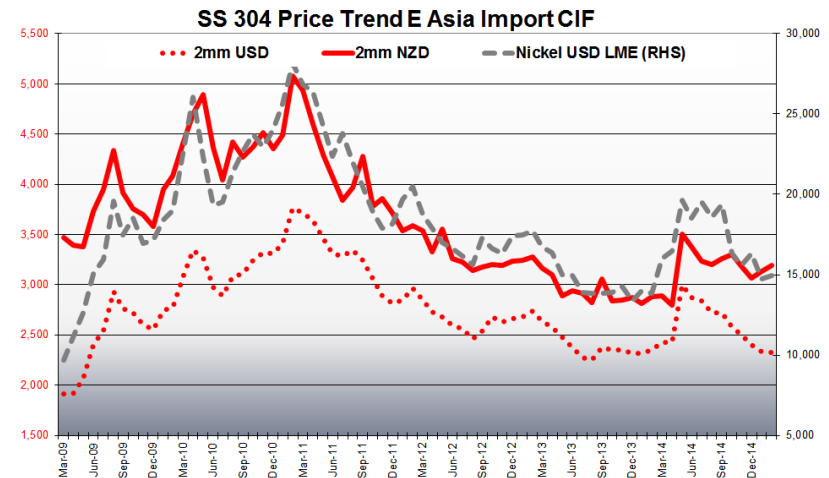
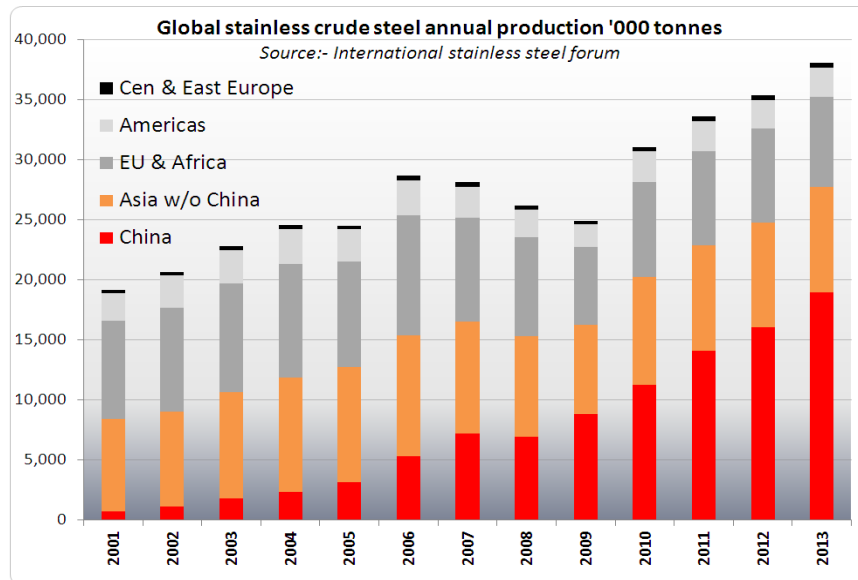


Source: International Steel Association & Markit

Global markets

Stainless steel price and production trends

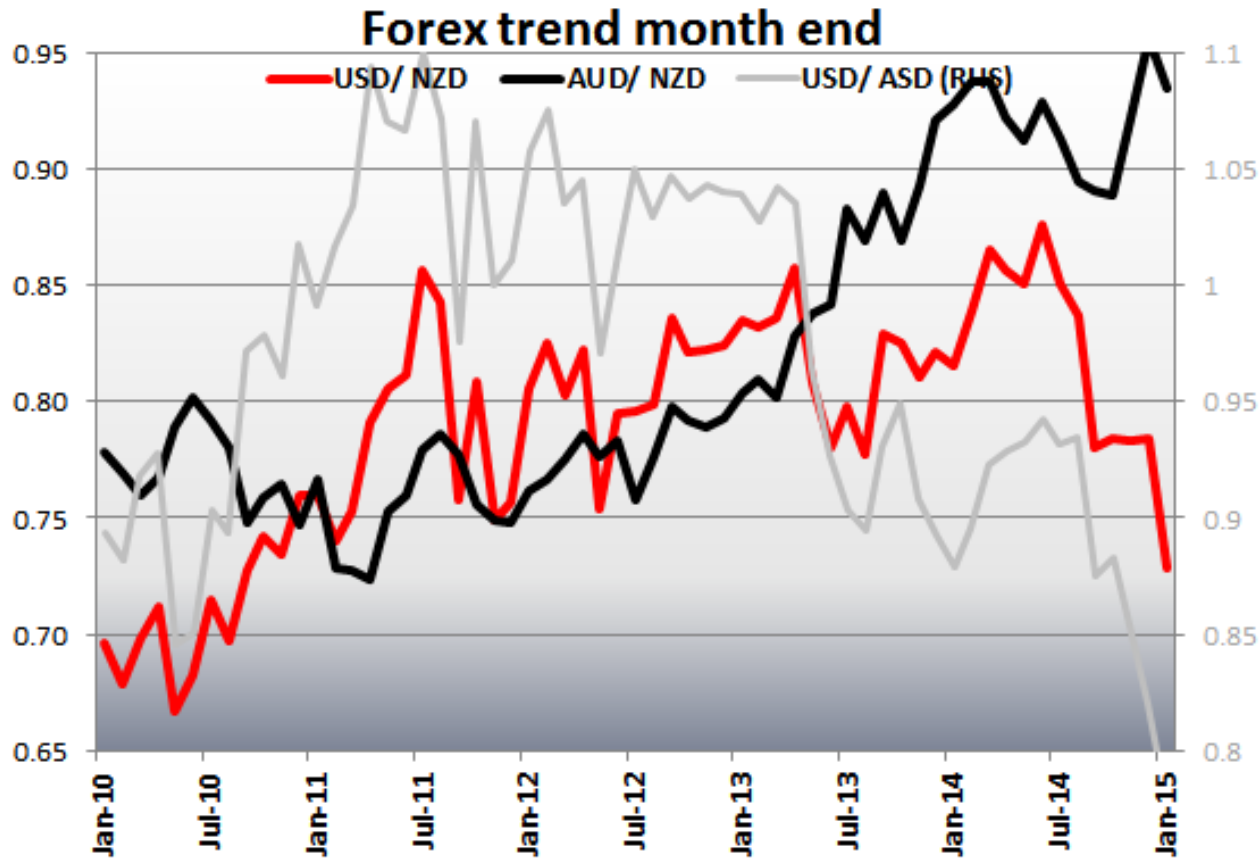
- Production steady since GFC
- Increase led by China – a major exporter
- International prices correlate closely with nickel prices which remain volatile



- Indonesia is a major supplier of nickel ore to China
- Price volatility related to the Indonesian export ban in January 2014, with the Government attempting to encourage downstream processing
- Low-grade nickel ore has started to trade, now softening the market

Global markets

Exchange rates



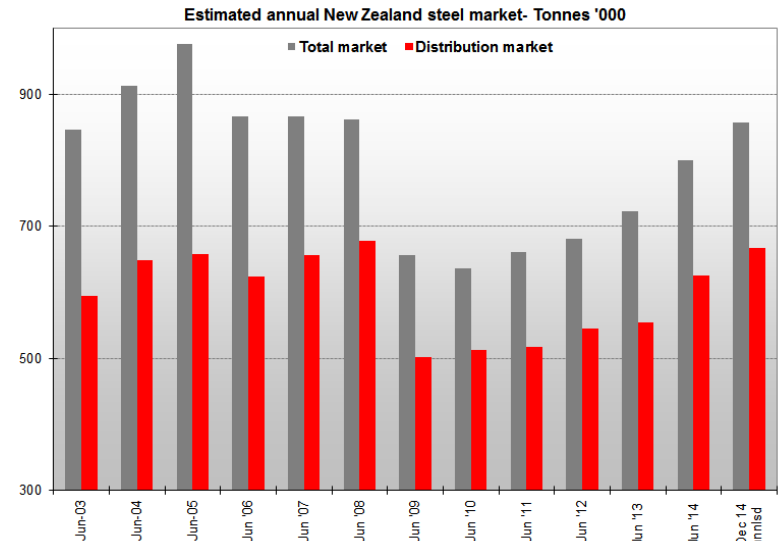
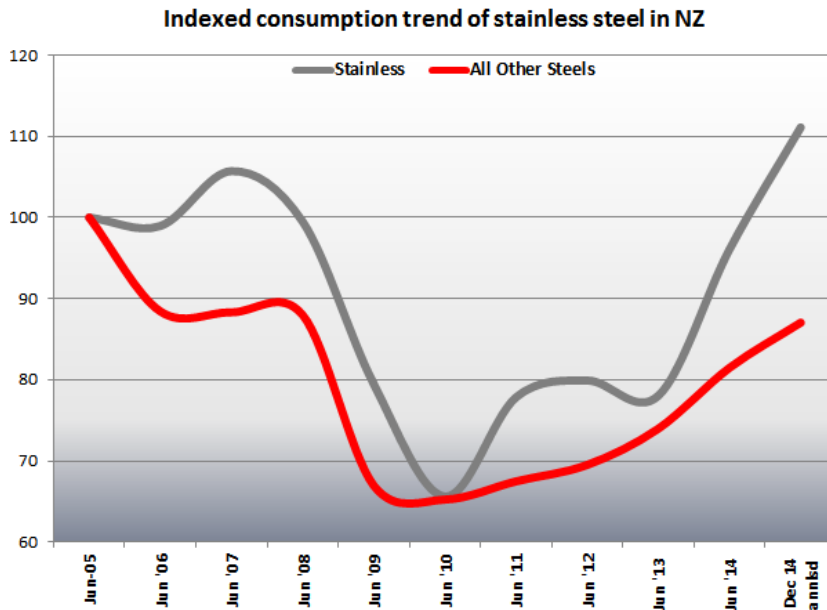
- Significant volatility in recent months
- Effectively off-setting the softening in finished steel prices in Asia
- Which driver will have the greatest impact?
- Compounds the finished products' pricing uncertainty

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New Zealand markets

Steel volumes

- Steel demand is steadily recovering led by construction related-products
- ...almost at pre GFC levels but lower than peak in 2005



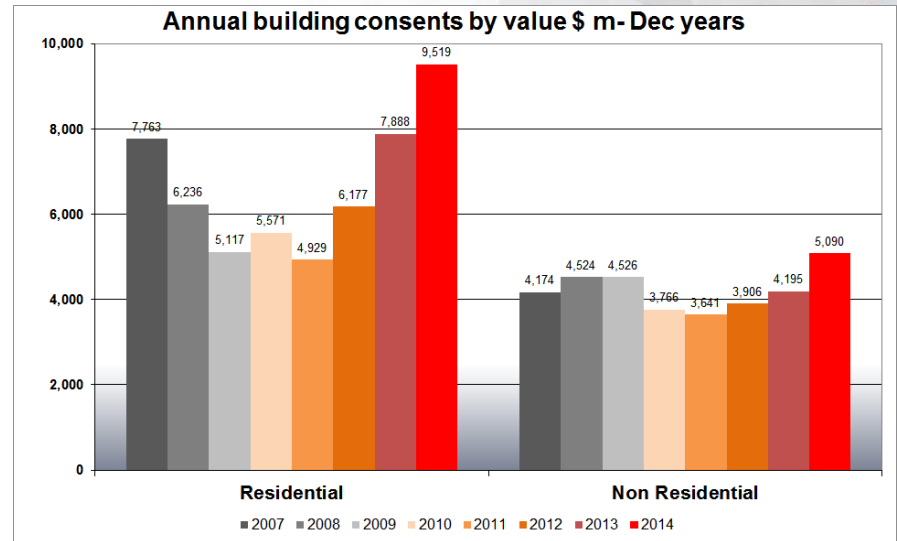
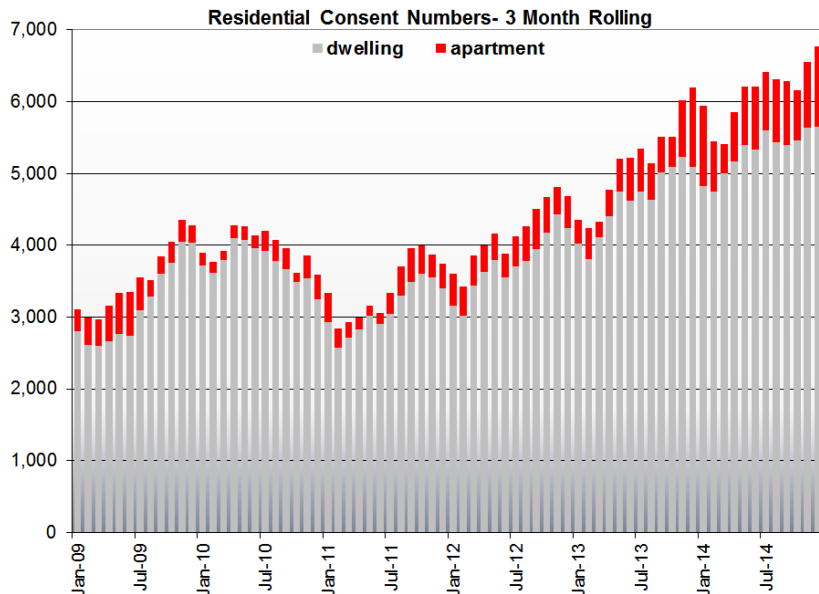
- Stainless steel demand is recovering faster than general steel
- Driven by food and dairy processing and viticulture

New Zealand markets

Key sector trends – building consents (\$m)



- During 2014 **non-residential** consents increased 21% to \$5.1 billion
- Areas contributing to the increase are Canterbury, Auckland, Wellington and Otago



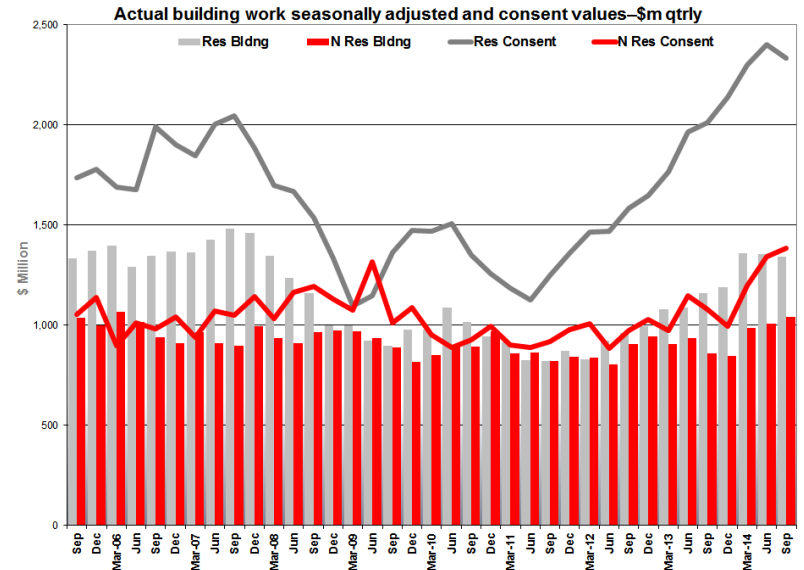
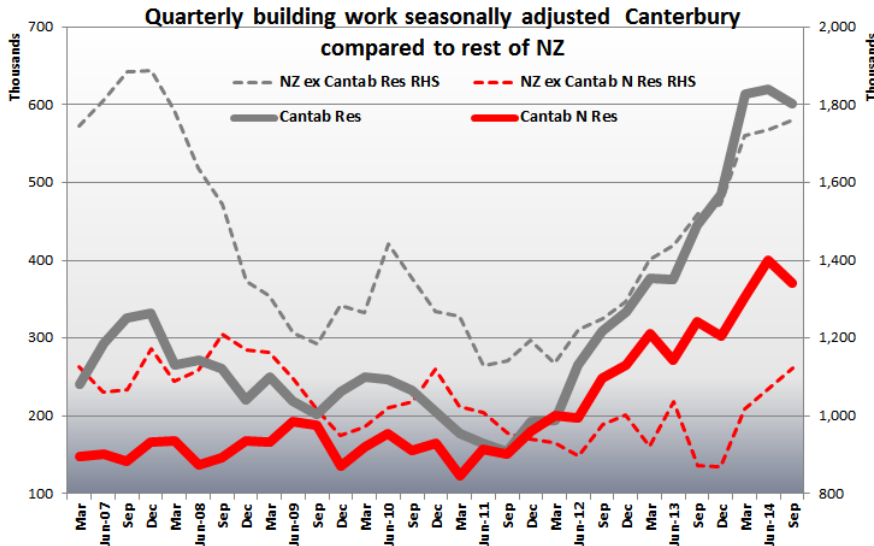
- **Residential** consent numbers during 2014 rose 16% (21% by value) over last year and at 24,680 reached their highest level since 2007
- Led by Canterbury (7308), Auckland (7595), and Waikato (2369)



New Zealand markets

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

- **Non-residential** work increased by just 7% over the year, led by Canterbury, which increased by 23%
- The rest of NZ witnessed marginal improvement, and only in recent periods

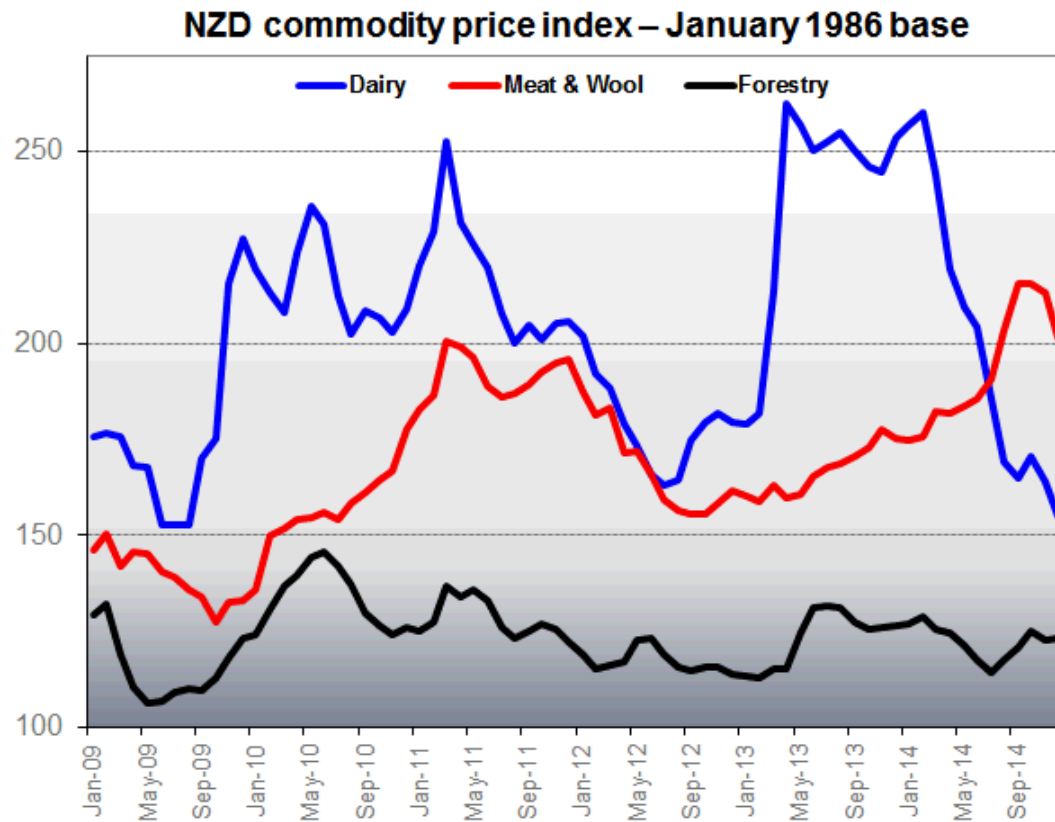


- While **residential** consents are increasing, actual building work lags, as normal
- Despite this, residential building work increased by 21% over the year with Canterbury leading at 52%



New Zealand markets

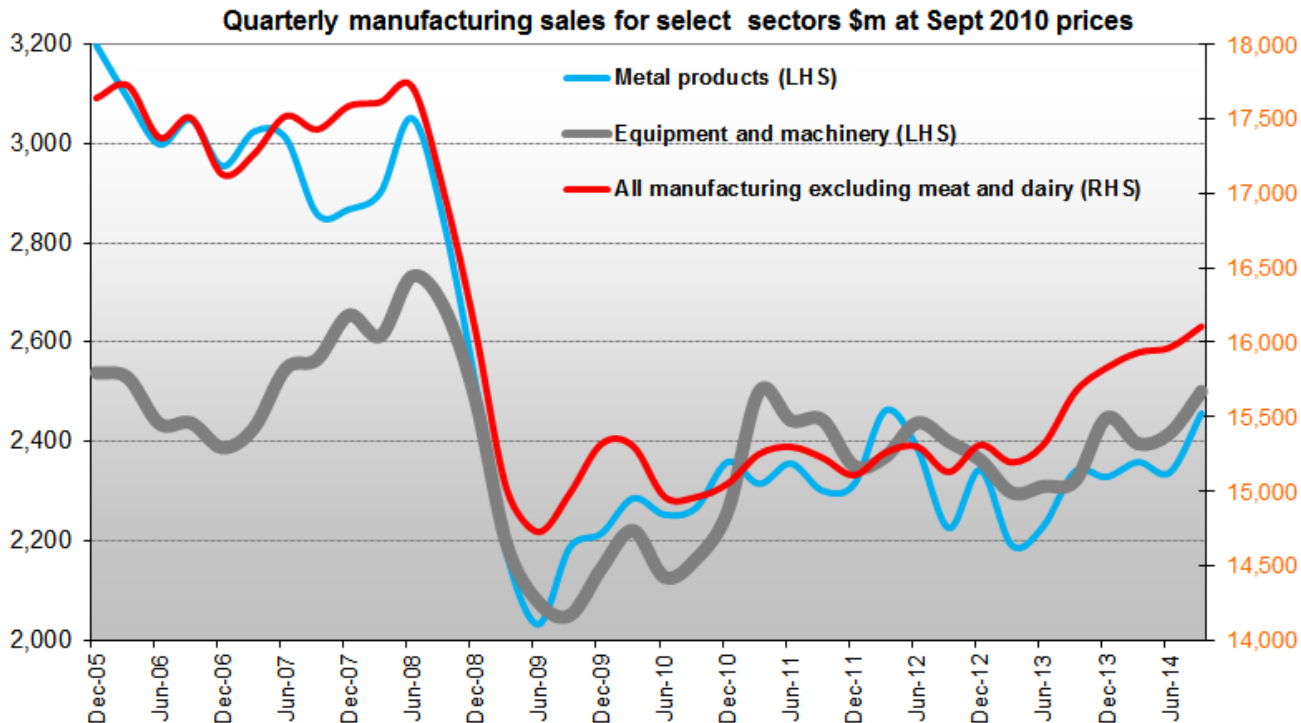
Key sector trends – rural



- After record pay-out (including dividend) of \$8.50 / Kg last year, Fonterra has reduced the pay-out to \$5.00 this year
- Volumes will also reduce due to drought
- It is expected that pay-out during the following year will remain depressed
- The reduced pay-out will have a \$6b effect on the rural economy
- Beef and lamb more stable, but recently declined due to drought conditions

New Zealand markets

Key sector trends – manufacturing (\$m)



- Volatility continues from quarter to quarter
- Excluding food, activity increased by 4% in the year ending Sep 2014
- A similar increase was registered for metal products and equipment manufacturing sub-sectors

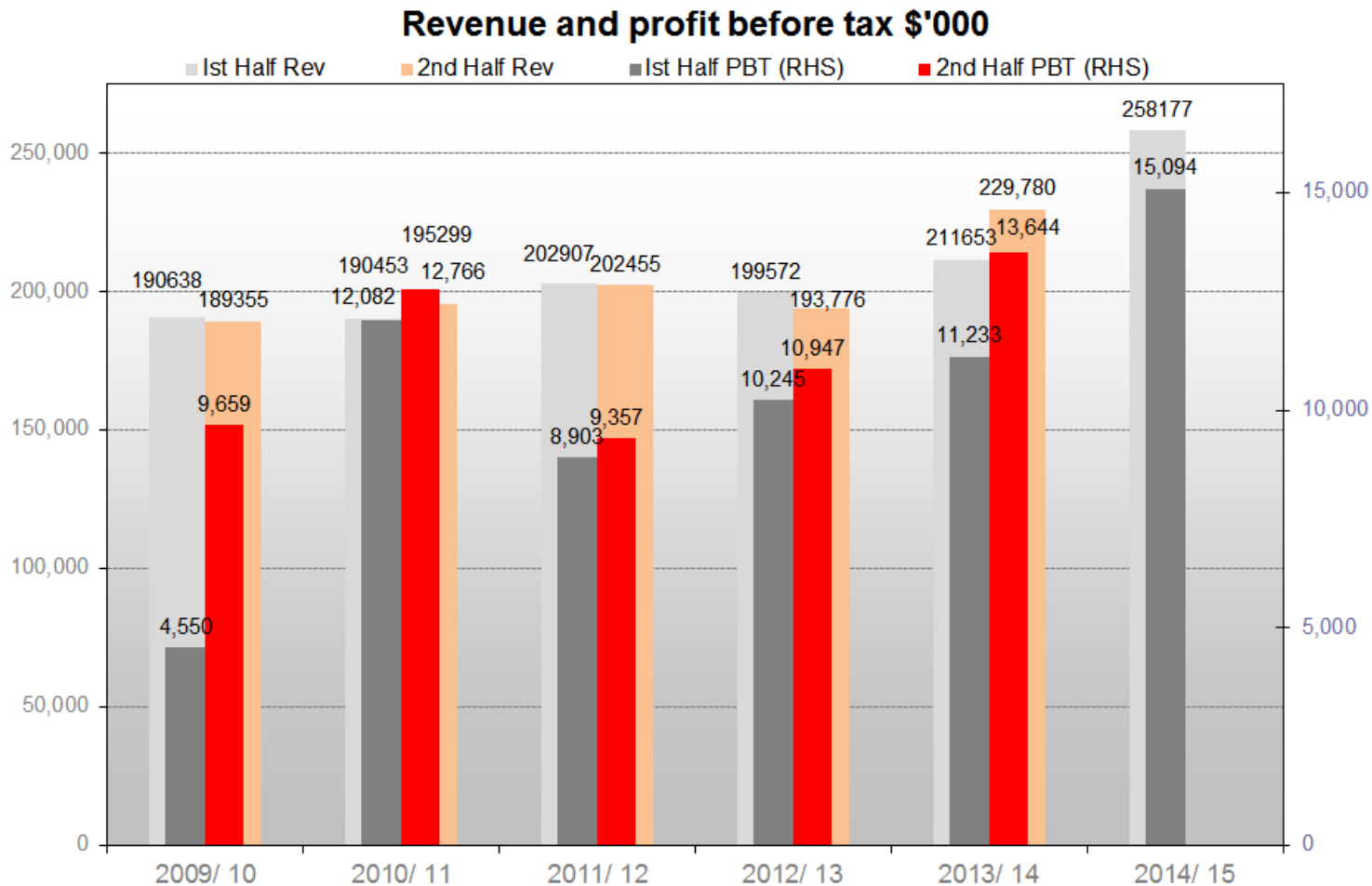
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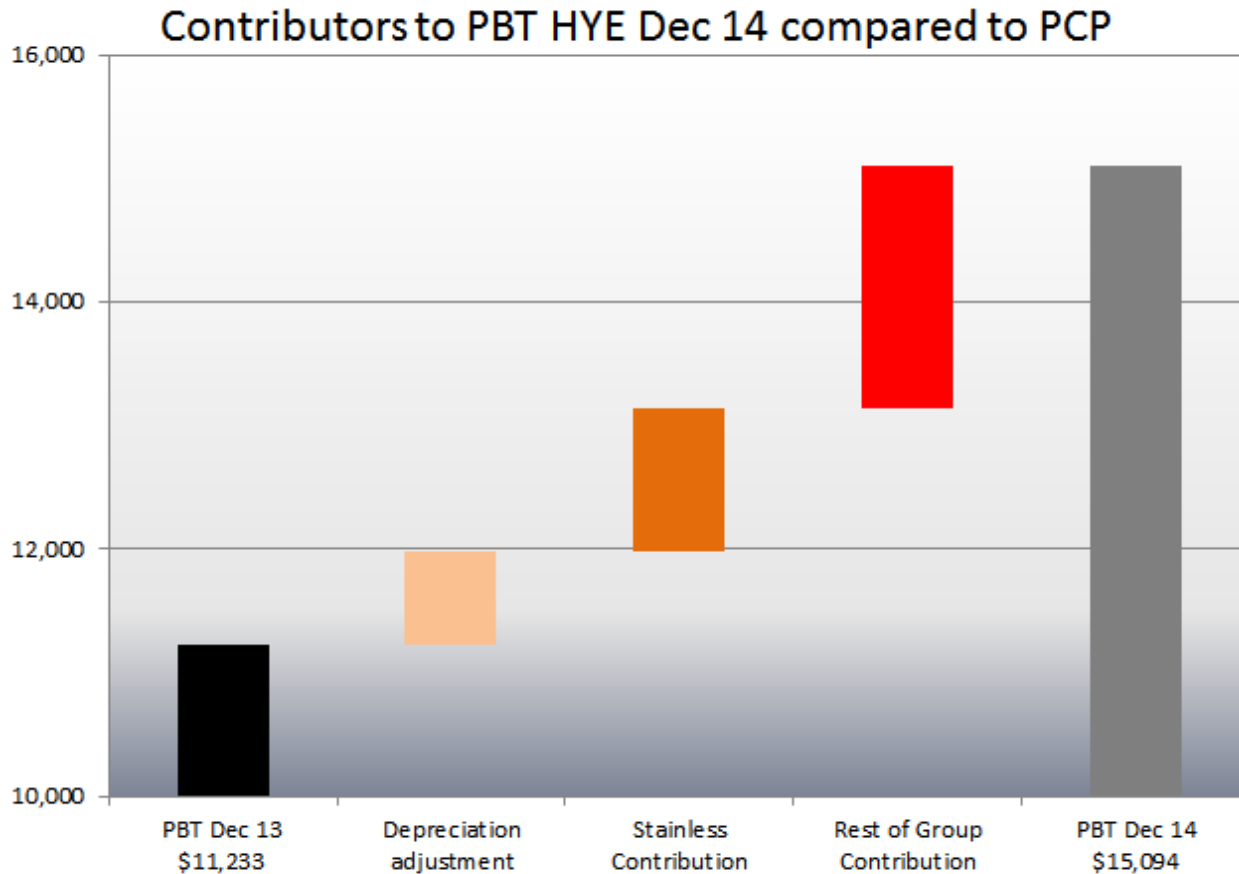
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Business performance – revenue and profit

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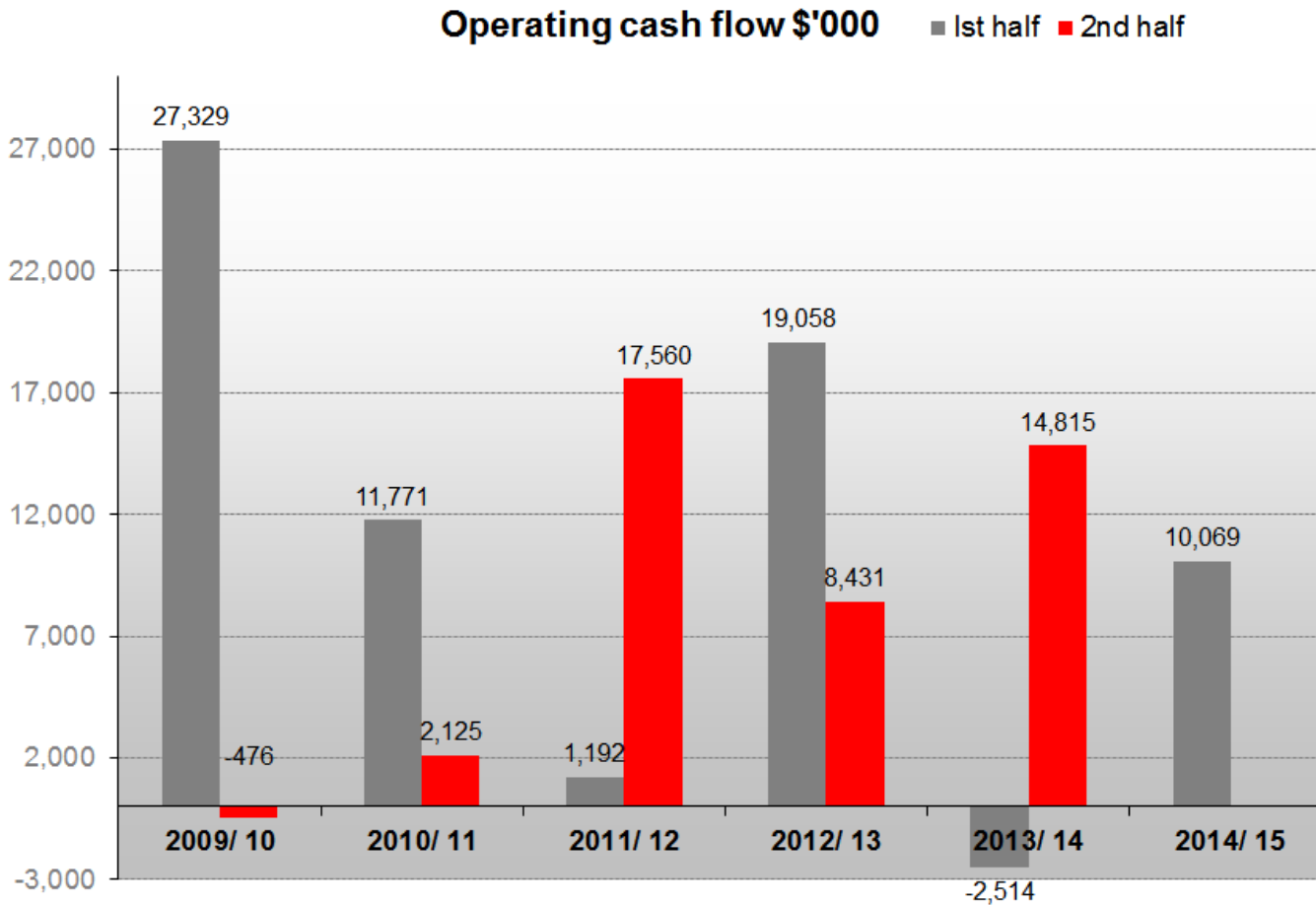
Three main contributors to increase in profit



- The Group contribution reflects improvements in both volumes and prices

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Business performance – operating cash



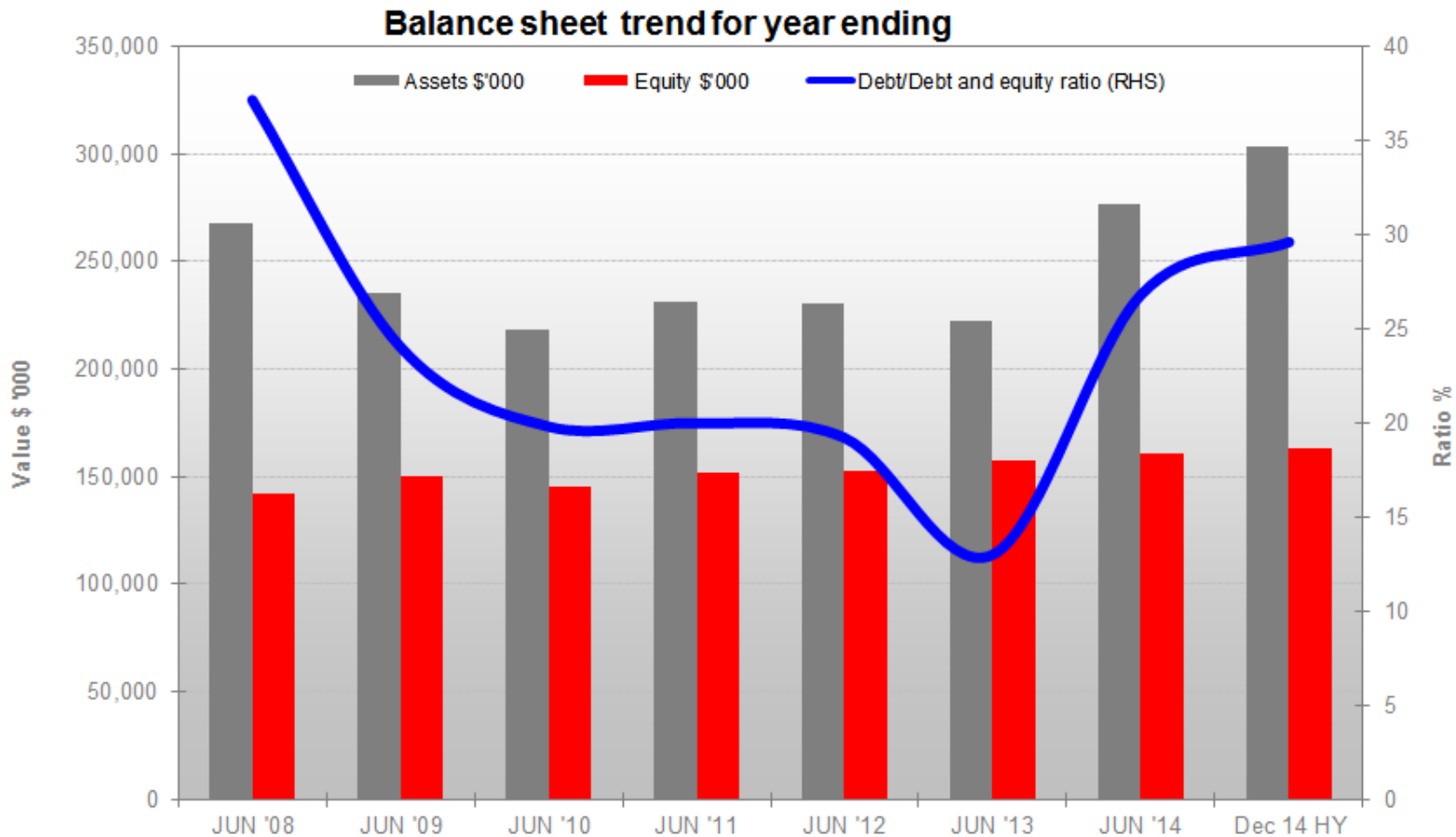
- Contribution from:
 - Improved debtor management
 - Increased trading activity
- Moderated by increase in inventory to service increased demand

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Business performance – balance sheet and gearing



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Notes to the Financials

- Changes to estimated life of assets:
 - Review of “heavy machinery”
 - Machinery estimated life increased from 10 to 20 years; machinery electronics decreased from 10 to 3 years. Applied prospectively only
 - Financial impact: reduction in depreciation \$754k for half year; \$1.5m for full year.
- \$110m funding facilities in place November 2014:
 - BNZ/HSBC \$55m two-year rollover; \$55m three-year rollover; all non-current
 - Blend of trade finance and cash advance facility
- Lewis Holdings litigation: unfavourable decision for S&T. Award not yet determined, subject to further proceedings. Appeal lodged.

S&T Stainless evolution

Delivering on the opportunities

- Integration has created the No.1 stainless player with a nationwide footprint
- Stainless market is improving across all sectors and product groups
- COMFLOR has a strong market presence and continues to benefit from growing construction activity and S&T relationships
- Cost and procurement synergies on target. Full delivery dependent on infrastructure enhancements, such as IT platforms
- Expansion of One Company operating model and ethos


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Business performance

- The company continues to demonstrate earnings and revenue momentum while making significant investments in facilities, plant and connectivity to improve the customer experience
- Trading result for the six months to 31 December 2014 is an after-tax profit of \$10.8 million
- Sales increased by \$46.5 million to \$258.2 million
- Net operating cash flow improved by \$12.6 million to \$10.1 million
- Net tangible assets per share were \$1.58 compared with \$1.56 at 31 December 2013
- An interim dividend of 9.0 cents per share declared payable on 31 March


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Business initiatives

- Substantial (\$30 million) reinvestment underway. Includes three new purpose-built facilities:
 - **Palmerston North** brings Processing, Distribution and Stainless operations under one roof. Opened November 2014
 - **Savill Drive** will augment processing capability and efficiency. Fully operational by end of first quarter 2015
 - **Highbrook** (Coil Processing/Purlins) relocation due to be complete by end of March, 2015
 - Key ICT projects underway will enhance customer interactions and service
-



Steel & Tube

Growing New Zealand

Our One Company ethos, creativity and innovation sees S&T contributing to Kiwi housing, commercial, infrastructure, cultural and leisure projects:

- **Auckland:** Waterview Connection
 - **Canterbury:** Burwood hospital; Central Plains Irrigation Scheme
 - **Regions:** Govett Brewster Art Gallery, New Plymouth; Waiarohia Stream bridge, Whangarei
-



Steel & Tube

Outlook

- Global geo-political uncertainties remain
- Falling commodity and oil prices could slow global growth
 - Forex rates volatility
 - Chinese economy slowing down
 - Steel prices to remain weak on the back of over-supply
- New Zealand's economy continues to advance
- Barring any unforeseen global economic changes that impact New Zealand, the company remains positive about the second half of the year.


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Thank you

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