SIMS METAL MANAGEMENT


Annual Report 2019

Create a **world without waste** to preserve

# our **planet.**

Sims Metal Management is a global leader in metal and electronics recycling, and an emerging leader in the municipal recycling and renewable energy industries. With more than 250 facilities and operations in 18 countries, Sims plays an intrinsic role in the circular economy by making resources available for future use. As a responsible corporate citizen, we continuously seek new ways to broaden our participation in the environmental sector.

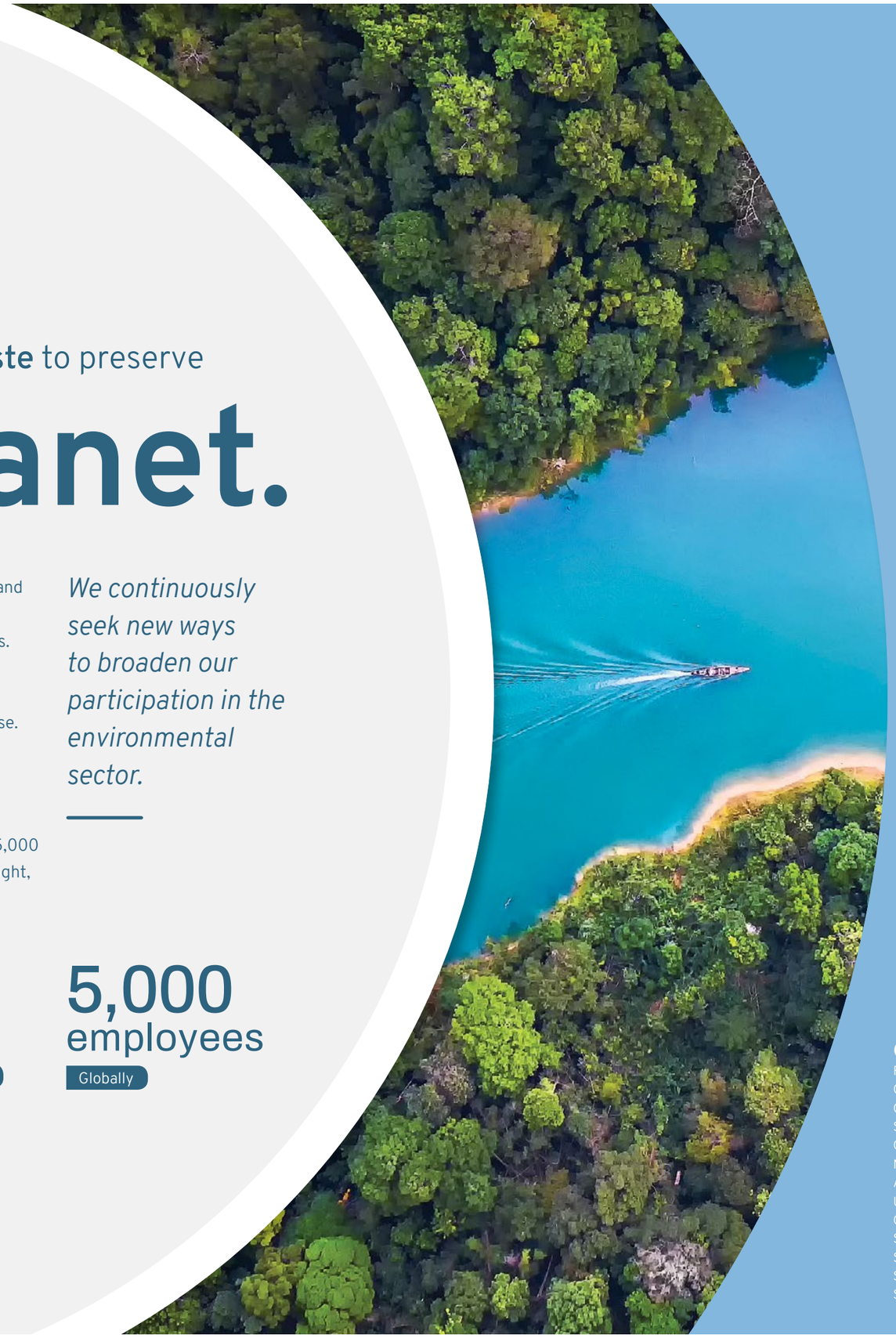
With 102 years of recycling experience and around 5,000 highly-skilled employees, the future of Sims is as bright, safe and secure as at any time in our history.

*We continuously seek new ways to broaden our participation in the environmental sector.*

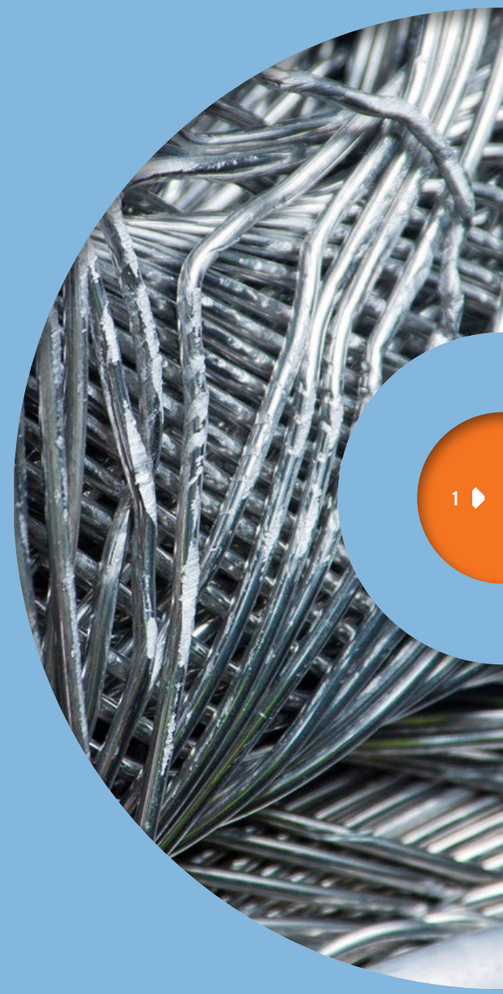
**102** years of
Recycling Experience

**250+** facilities
Across 18 Countries

**5,000** employees
Globally



*With 102 years of recycling experience, the future of Sims is as bright, safe and secure as at any time in our history.*



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# Financial Highlights

**SALES REVENUE**
$6,640m
(▲ up 3.0%)

**UNDERLYING EBIT[1]**
$230m
(▼ 16.3%)

**UNDERLYING NPAT[1]**
$162m
(▼ 14.2%)

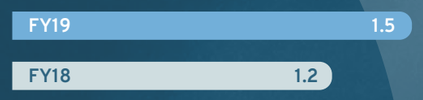
**NET CASH**
$348m
(▲ up 16.6%)

**UNDERLYING RETURN ON CAPITAL**
8.6%
(▼ 18.1%)

**FULL FISCAL YEAR DIVIDENDS**
42¢
(▼ 20.8%)

| YEAR ENDED 30 JUNE (A$ MILLION) | 2019 | 2018 |
|---|---|---|
| Sales Revenue | 6,640.0 | 6,448.0 |
| Statutory EBITDA | 358.1 | 395.8 |
| Underlying EBITDA[1] | 363.4 | 392.3 |
| Depreciation | (122.3) | (108.8) |
| Amortisation | (10.8) | (8.4) |
| Statutory EBIT | 225.0 | 278.6 |
| Underlying EBIT[1] | 230.3 | 275.1 |
| Net Interest Expense | (6.7) | (8.9) |
| Underlying Income Tax Expense | (61.7) | (78.2) |
| Statutory NPAT | 152.6 | 203.5 |
| Underlying NPAT[1] | 161.9 | 188.6 |
| Statutory EPS (Cents per share) - Diluted | 74.2 | 98.7 |
| Underlying EPS[1] (Cents per share) - Diluted | 78.8 | 91.5 |
| Full Fiscal Year Dividend (cents per share) | 42.0 | 53.0 |
| Total Assets | 3,185.4 | 3,201.8 |
| Total Liabilities | 886.7 | 1,013.1 |
| Net Assets | 2,298.7 | 2,188.7 |
| Net Cash | 347.5 | 298.1 |
| Total Capital | 1,951.2 | 1,890.6 |
| Underlying Return on Capital (%) | 8.6 | 10.5 |
| Net Tangible Assets | 2,104.8 | 1,990.0 |
| Net Tangible Assets per share (A$ per share) | 10.38 | 9.82 |
| Net Cash Inflow From Operating Activities | 360.1 | 252.1 |
| Capital Expenditures | 197.1 | 176.1 |
| Free Cash Flow After Capital Expenditures | 163.0 | 76.0 |
| Employees | 4,995 | 4,752 |

**TOTAL RECORDABLE INJURY FREQUENCY RATE[2]**

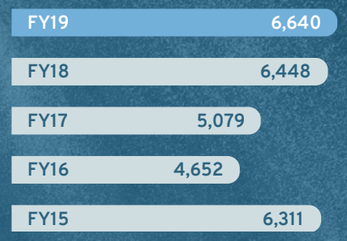



**SALES VOLUMES[3]**

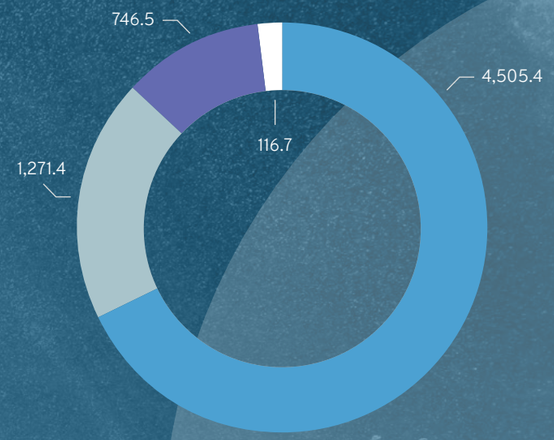

1. Underlying earnings excludes significant non-recurring items and the impact of non-qualifying hedges.
2. Defined as total recordable injuries x 200,000 divided by number of hours worked.
3. Tonnes thousands.

**SALES REVENUE (A$M)**

6,640



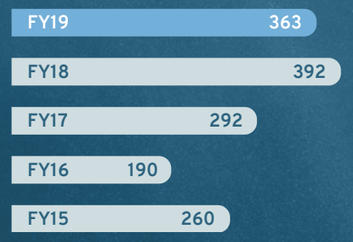

**SALES REVENUE BY PRODUCT (A$M)**



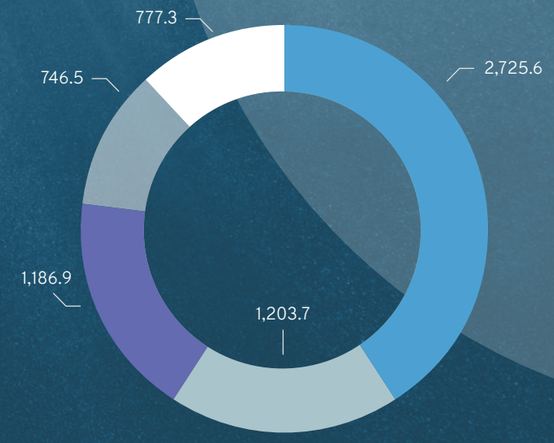

| | |
|---|---|
| Ferrous Metals | 4,505.4 |
| Non-Ferrous Metals | 1,271.4 |
| Global E-Recycling | 746.5 |
| Secondary processing & other | 116.7 |

**UNDERLYING EBITDA (A$M)**

363



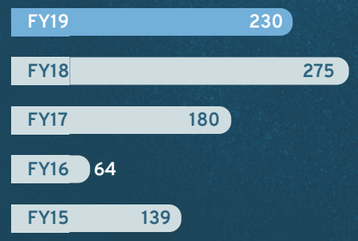

**SALES REVENUE BY BUSINESS (A$M)**




| | |
|---|---|
| North America Metals | 2,725.6 |
| Australia & New Zealand Metals | 1,203.7 |
| UK Metals | 1,186.9 |
| Global E-Recycling | 746.5 |
| Other | 777.3 |

**UNDERLYING EBIT (A$M)**

230



# Chairman's Review

*As Chairman, I am proud of the resilience the Group demonstrated during fiscal year 2019, especially with the challenging market conditions. Trade tensions, concerns over Brexit, slowing economic growth in key markets and quotas resulted in volatile demand and falling commodity prices for ferrous and nonferrous materials.*

Sims' investments in non-ferrous secondary separation plants, cable granulators and upgrades to material recovery plants helped navigate the uncertain market. With smart execution and disciplined deployment of capital, the Group finished the year with strong cash flows and an underlying EBIT of $230.3 million, down 16 percent over the prior year. While Sims strives for year-over-year growth, this performance demonstrates its ability to weather difficult market conditions and deliver good returns through the commodity cycle.

## STRATEGIC GROWTH PLAN

Despite the external market challenges, FY19 was a transformative year for Sims. In April, the Group shared its strategic plan focused on opportunities for growth within its core metal and e-recycling businesses, as well as plans to reduce waste, produce renewable energy and grow some of our smaller businesses. The Board is committed to this strategy and to the Sims purpose: create a world without waste to preserve our planet. Sustainability is at the core of the Group's business, and the purpose guides the management team and the Board in all that we do.

Communication with shareholders is a priority, and the Company's purpose and strategic plan provide a guide for how Sims will operate over the next five years. The strategy outlines significant opportunity for growth. It also provides that the Group will take a measured approach to capital allocation and will only invest in opportunities if there are attractive financial returns.

As we said in April, Sims will innovate and invest in technologies that enable it to both achieve its purpose and generate strong financial returns. We are convinced that by so doing, the Group will continue to prosper for the benefit of its shareholders, employees, the communities in which we operate, our suppliers and our customers.

## CAPITAL MANAGEMENT AND DIVIDENDS

Sims finished FY19 with a strong net cash position of $347.5 million as at 30 June 2019. The Board will continue to balance the need to invest adequate capital in the business to achieve its planned growth with an appropriate level of shareholder returns in the form of dividends and capital growth. The Company's strong cash position and its plan to fund its growth strategy without external debt gives it flexibility that many of its highly geared competitors do not have, especially in down commodity cycles.

Sims declared a final dividend for 2019 of 19.0 cents per share, fully franked. This takes the total dividend for FY19 to 42.0 cents per share, which represents a 53 percent underlying payout, near the top of our 45 percent to 55 percent target range. The final dividend will be paid on 18 October 2019 to shareholders on the Company's register at the record date of 4 October 2019.

## SUSTAINABILITY AND CORPORATE RESPONSIBILITY

The Group's announcement of its purpose and growth strategy is timely. Focus on sustainability and the 'circular economy' continues to grow. Sims, guided by its purpose, is uniquely placed to capitalise on the demand for recycling end-of-life materials. The Company's goal to recycle 200,000 tonnes of cloud material by the end of FY25 is an excellent example of Sims opportunity to be a global leader in the circular economy. As a global company with a more than 100-year history, Sims is able to provide the innovative and secure recycling solutions that its customers require.

Sims is committed to being a leading innovator in the global circular economy. The Company joined the World Business Council for Sustainable Development in FY18, and recently joined the Steering Committee for the Invest NYC SDG Initiative, a two-year project led by NYU Stern Center for Sustainable Business with the goal of creating a more sustainable, inclusive and resilient New York City. The Company will work with other sustainability leaders to develop new ways to contribute toward a safe and sustainable future.

*On behalf of the Board, I would like to thank all Sims employees for their efforts during FY19, as well extend my gratitude to our suppliers and customers for their support and trust.*

## DIVERSITY AND CULTURE

The Board values diversity of background and experience, and it is focused on increasing the diversity within the Group's workforce. Given its global footprint with operations in 18 countries, the workforce is geographically diverse. While we made strides to improve gender diversity in our workforce during 2019, it is still not where we want it to be.

This past fiscal year, Sims added two women to its leadership team, increasing the percentage of female executives from 9 to 25 percent. However, we still need to increase the percentage of women throughout the workforce. We will continue to work hard to ensure that our workplaces are appealing not just for women, but also for anyone who works at Sims. Our approach to hiring is fair, our policies and working environment result in all employees feeling welcome, and our remuneration is equal.

## SAFETY

Safety is our first priority and the foundation of everything we do, and it is with immense sadness I report the loss of two Sims employees as a result of workplace incidents during the course of FY19. On behalf of my fellow directors, I send condolences to their families, friends and Sims colleagues.

No workplace injury is acceptable, and the Board and executive leadership team are committed to conducting a full review of our safety culture and policies in order to design and implement a safety improvement plan.

## THANK YOU

On behalf of the Board, I would like to thank all Sims employees for their efforts during FY19, as well extend my gratitude to our suppliers and customers for their support and trust.

I would also like to thank you for your continued support as shareholders in the Company and invite you to attend our AGM, which will be held in Melbourne on Thursday, 14 November 2019.

**Geoff Brunsdon**
Chairman

# CEO's Review

*Fiscal year 2019 marked 102 years of operations for Sims Metal Management.*

It was a pivotal year for the Group; we introduced our purpose, **create a world without waste to preserve our planet**, and we announced key business growth strategies. However, FY19 was also a difficult year due to the challenging market conditions we experienced. Everything from macro-economic challenges and international trade wars to Brexit, quotas and new regulations affected our business. We saw low and volatile demand for scrap from Turkey, zorba prices fell from an average of $1,350 in FY18, down to an average closer to $1,000 for this year. At times, volatile prices contracted our margin as the gap between our sell price and buy price narrowed.

These geopolitical tensions created a great deal of uncertainty, which impacted our customers and made for an overall challenging year for the Group. While it is disappointing to present results where underlying EBIT and profit are both down between 14 and 16 percent, I believe that in the context of a challenging market it shows that our business is resilient.

I would be remiss if I did not mention the safety issues we also experienced this past fiscal year. I take every safety incident very seriously, and it pains me to share that we lost two employees in FY19: David Luther and Daniel Dyeming. My deepest condolences go out to their families, friends and loved ones.

We have operated for almost a decade without a fatality, and excellent safety records like that require a continued focus in identifying and managing risks. We place a great deal of importance on safety, and each employee at Sims is committed to ensuring that we continue to provide a safe working environment for all of our employees and visitors.

In our core values, we state that the safety of all employees is our first priority – and we mean it. The loss of our employees has galvanized the executive leadership team to improve our safety performance every day.

To show how serious we are about addressing these concerns, we are working on a large-scale, global safety continuous improvement plan to determine the root cause of these incidents so that we can get back to the strong focus on safety that we are accustomed to.

Despite the market challenges, Sims has a strong cash flow with an underlying EBIT of $230.3 million, which was down 16.3 percent over the prior year. We saw improvements from our business units in the second half of the year – namely Australia and New Zealand Metals, UK Metals, Global E-Recycling and SA Recycling.

We made a number of investments, specifically in technology, to support our strategic growth plan for the long-term. These investments contributed $27 million EBIT to the full year's earnings. Most of the quality initiatives will have a full year of operations in the coming year, and I am confident that they will show at least the expected engineering and volume outcomes, as well as any anticipated value add to the raw commodity.

This past April, we announced Sims' long-term strategic growth plan at an investor strategy day and participated in a number of press briefings. Members of the executive leadership team and I shared our plans to drive growth through FY25, as well as addressed how investing in the latest technology can deliver environmental objectives and also make financial sense.

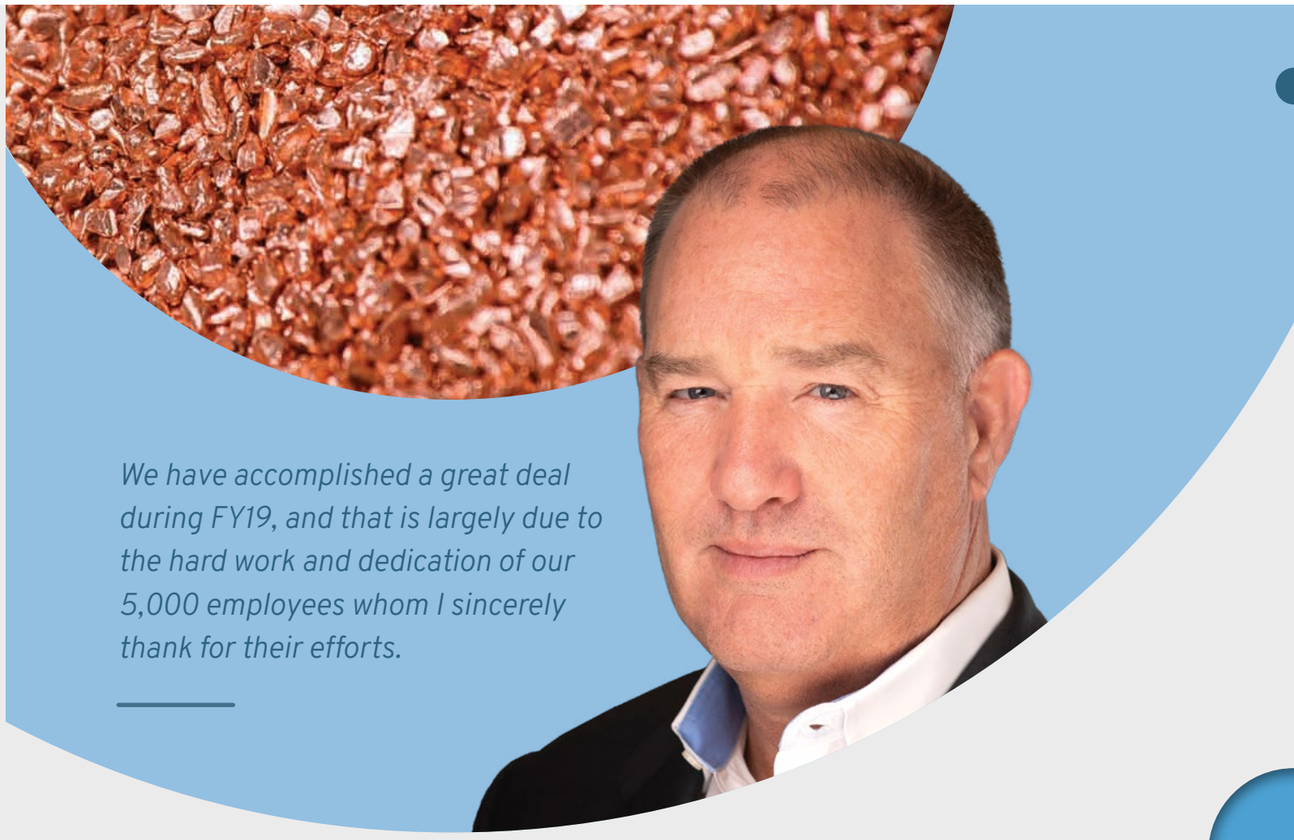
As part of our strategy, we shared our purpose as a way to demonstrate the alignment of our business units with our operating philosophy and shared social value. Our purpose is the foundation of our organizational identity, and it reflects our commitment to sustainability; it also highlights the connection of where Sims is today and with where we would like to be in the future. I've seen our employees embrace this direction, demonstrate an interest in further transforming our corporate culture, and also share ideas on how we can use innovation to fuel growth and drive continuous improvement in our core business and new adjacencies.

## Create a **world without waste** to preserve our **planet.**

My team and I used the Sims purpose as a lens for developing a long-term growth strategy, and we looked far into the future to ensure that we are driving sustainability throughout our organization for the next four or five decades. With this as our focus and the executive leadership team firmly in place, Sims is on course to become a global leader in the circular economy as responsible stewards for the environment.

### EXISTING BUSINESS GOALS

- **Metals:** Continue to lead metal recycling by nearly doubling the non-ferrous business and growing the ferrous business by 40 percent in the United States within the next six years. To this end, we are opening new feeder yard locations and continuing our investments in technology to upgrade our metal output streams.
- **E-Recycling:** Increase e-recycling services and become the leading e-recycler of data storage centers ("the cloud"). We are aggressively developing our cloud recycling capabilities, and we have secured additional contracts with all of the global leading data center providers.
- **Municipal Recycling:** Lead change in municipal recycling by instituting new systems for better solutions. We have expanded our recycling capabilities in New York through our partnership with Nespresso to recycle their aluminum coffee pods and compost the coffee grinds. We have also secured a new contract to operate a municipal recycling facility in another part of the U.S.



*We have accomplished a great deal during FY19, and that is largely due to the hard work and dedication of our 5,000 employees whom I sincerely thank for their efforts.*

### NEW BUSINESS GOALS

- **Waste-to-Energy:** Expand into waste-to-energy by recycling the non-metallic residue from the shredding process (ASR) to generate electricity. We have added additional technical and project management resources to our management team and final technology decisions will be made by the end of 2019. Detailed project planning for our first facility will commence in January 2020.
- **Energy:** Leverage the expertise and best practices from our joint venture partner, LMS Energy, the leading landfill energy company in Australia, to expand that business model into other parts of the world. We have evaluated numerous landfill gas to energy investment opportunities in the U.S. and the UK, and we plan to make our initial investment in new properties in the first half of 2020.

We are now working toward implementing our growth and capital management strategies so that we can establish our blueprint for the future: build long-term value, operate sustainably and grow profitably. Sustainability is not just a buzzword; it is a path to achieve our purpose.

As such, we are developing a set of clear, actionable, outcome-driven sustainability goals that align with our purpose.

As a key enabler of the circular economy, we are looking to deliver value to our stakeholders by doing what is good for our planet, as well as what is good for our business. Having a purpose is only meaningful if it is integrated into how you operate on a day-to-day basis, and it can only be achieved if employees understand and believe in what you're aiming for.

I am already impressed with the small changes I have seen around the company since we launched our purpose. This journey to sustainability is not a sprint; it is a marathon, and my team and I will continue to drive this philosophy throughout our organization.

We understand our role in achieving circularity, and we continue to look for complimentary technologies that will allow us to extract more value from resources. To amplify our positive impact, we are looking to collaborate with our extended value chain to advance the skills and capabilities needed to address this global challenge.

As members of the World Business Council for Sustainable Development, we are fortunate to be able to connect with other businesses that are also on a journey to sustainability and circularity.

Even with the current macro-economic conditions facing our organization, and those that we will encounter in the future, I am confident that Sims has the ability to meet these challenges for the long-term.

We have accomplished a great deal during FY19, and that is largely due to the hard work and dedication of our 5,000 employees whom I sincerely thank for all of their efforts. We are extremely focused on the coming year, and we will need to place an even greater amount of focus on our goals and objectives as we work to further embed, live and accomplish our purpose.

**Alistair Field**
Group CEO & Managing Director

## Sims Integrated Strategy

*Grow our core business and leverage synergies to expand into adjacent markets*

### Sims Group

| Metals | Waste to Energy | Global E-Recycling | Energy | Municipal Recycling |
|---|---|---|---|---|
| Fortify and grow sustainable profits | Utilise waste to create new revenue stream and reduce costs | Grow product stewardship and services for recycling the cloud | Expand proven business model and technology globally | Develop recycling solutions for major cities |
| Globally grow ferrous and non-ferrous business. Including:<br>Double the U.S. non-ferrous business by FY25<br>Growing the U.S. ferrous business ~40 percent by FY25 | Zero waste disposal and energy costs over the long-term<br>Install and operate seven plants within 10 years | Recycle 200,000 tonnes of cloud material by FY25<br>Be the OEM supplier of choice for recycled plastic | Acquire or build 50 MW by FY25 | Secure additional large city contracts by FY25 |




## Target Measures

**Targeting Minimum**

**15%**

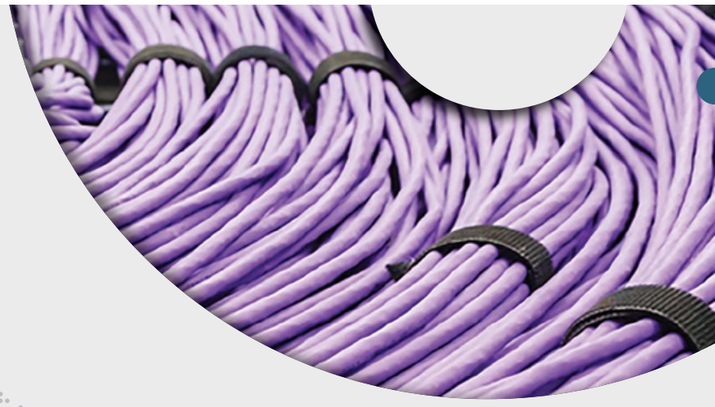
ON GROWTH PROJECTS REQUIRING CAPITAL

*Good progress in FY19 and strong position to further advance strategy in FY20*

| | FY18 | FY19 | FY22 | FY25 |
|---|---|---|---|---|
| Expand metal volumes in favourable geographies | NAM Ferrous Volumes ('000 tonnes) | | | |
| | 4,725 | 4,732 | 5,800 | 6,500 |
| Grow non-ferrous business | NAM Ferrous Volumes ('000 tonnes) | | | |
| | 140 | 155 | 200 | 300 |
| Enter waste to energy | Waste to Energy Status | | | |
| | 0 | Pre-feasibility commenced | First operational WtE site with capacity of 85k ASR tonne | WtE capacity 290k ASR tonne |
| Recycle the cloud | Tonnes of Cloud Material Recycled | | | |
| | 14,00 | 15,200 | 100,000 | 200,000 |
| Take the LMS Energy business model overseas | Landfill Energy Outside Australia[1] (MegaWatts) | | | |
| | 0 | 0 | 15 | 50 |

1. Nearly 60 MW in operation in Australia.

# Global Operations



**Secondary Metals**

**9.8m**

TONNES SOLD ANNUALLY

**Facilities**

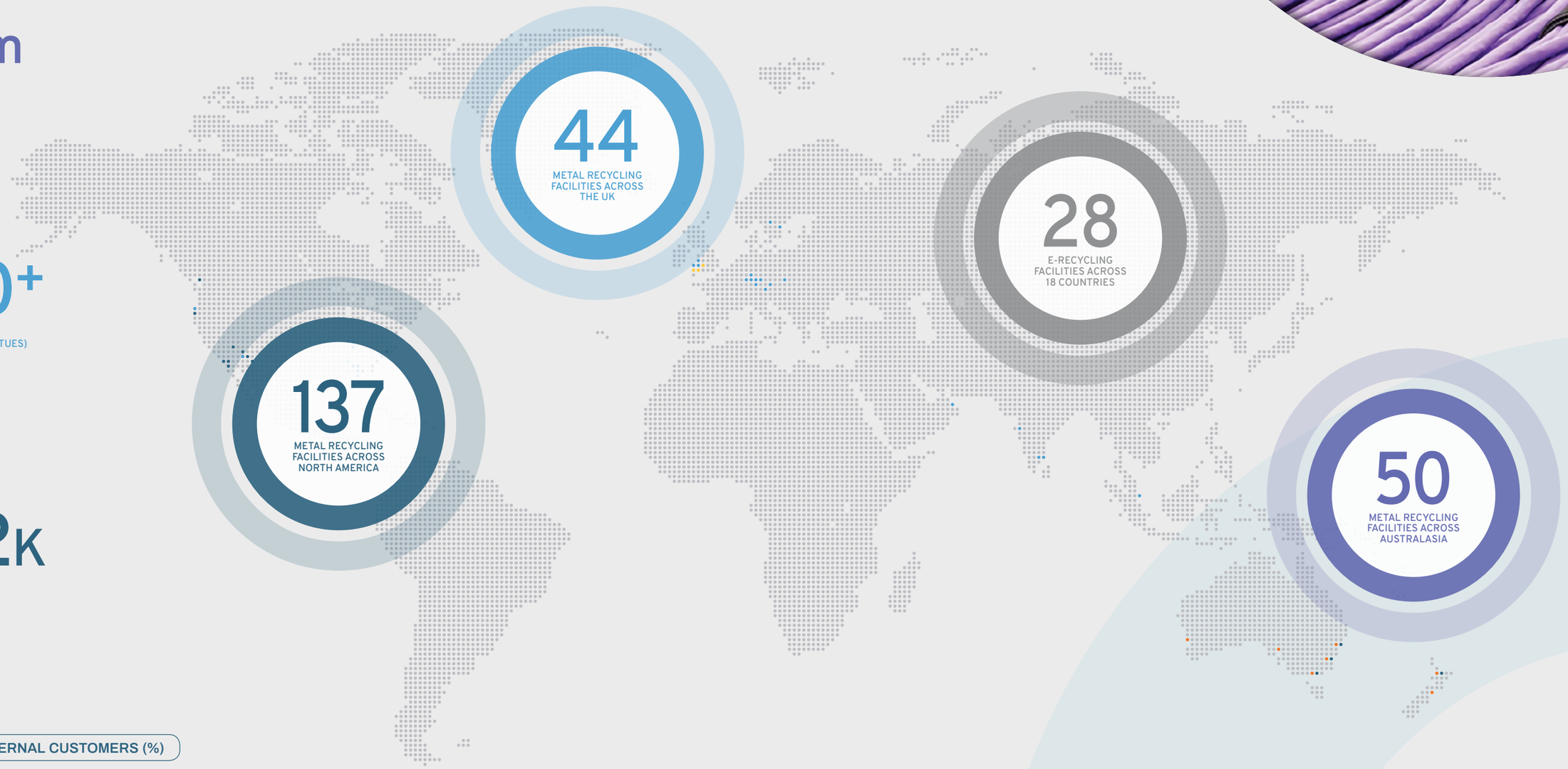
**250+**

ACROSS 18 COUNTRIES (INCLUDING JOINT VENTUES)

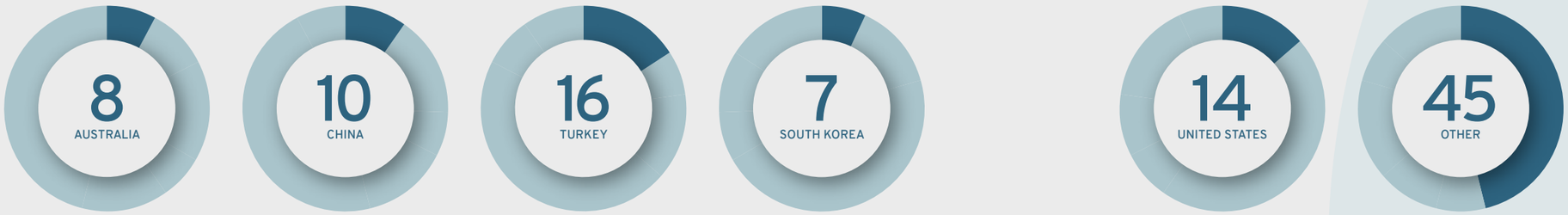
**Electronics**

**15.2K**

TONNES OF CLOUD MATERIAL RECYCLED




## SALES TO EXTERNAL CUSTOMERS (%)



# North America Metals

*North America Metals, Sims Metal Management's largest business unit, operates across the United States and Canada. In FY19, North America Metals accounted for 41 percent of the company's total sales revenue, with sales of 4.9 million tonnes of ferrous and non-ferrous secondary metal and 1,577 employees.*

## EXTERNAL OPERATING ENVIRONMENT

Economic growth was relatively strong, although real GDP declined from March 2019 quarter (3.0 percent annual trailing growth) to June 2019 quarter (2.0 percent). Import volumes in Turkey, the largest import market for ferrous seaborne trade, were down 23 percent in FY19 versus FY18, which resulted in volatile purchasing behavior.

Geopolitical disruption from tariffs continued, China/U.S. trade tensions impacted global economic sentiment and falling ferrous and non-ferrous prices compressed margins.

Supply of ferrous secondary metals into North American steel mills increased 4.3 percent in FY19 compared to FY18, particularly in the East and Midwest regions. This growth was offset by lower export sales.

## PERFORMANCE

Sales revenue for North America Metals in FY19 was 5 percent higher compared to FY18. At constant currency, sales revenue was 4 percent lower compared to FY18. The decrease was primarily due to lower average selling prices, particularly impacting non-ferrous products. Proprietary sales volumes of 4.9 million tonnes were flat despite market volatility and increased competitor activity. Volumes were also impacted by heavy flooding in some southern states (which made it difficult to move material during the June 2019 quarter) and production outages resulting from shredder upgrade works.

## GOING FORWARD

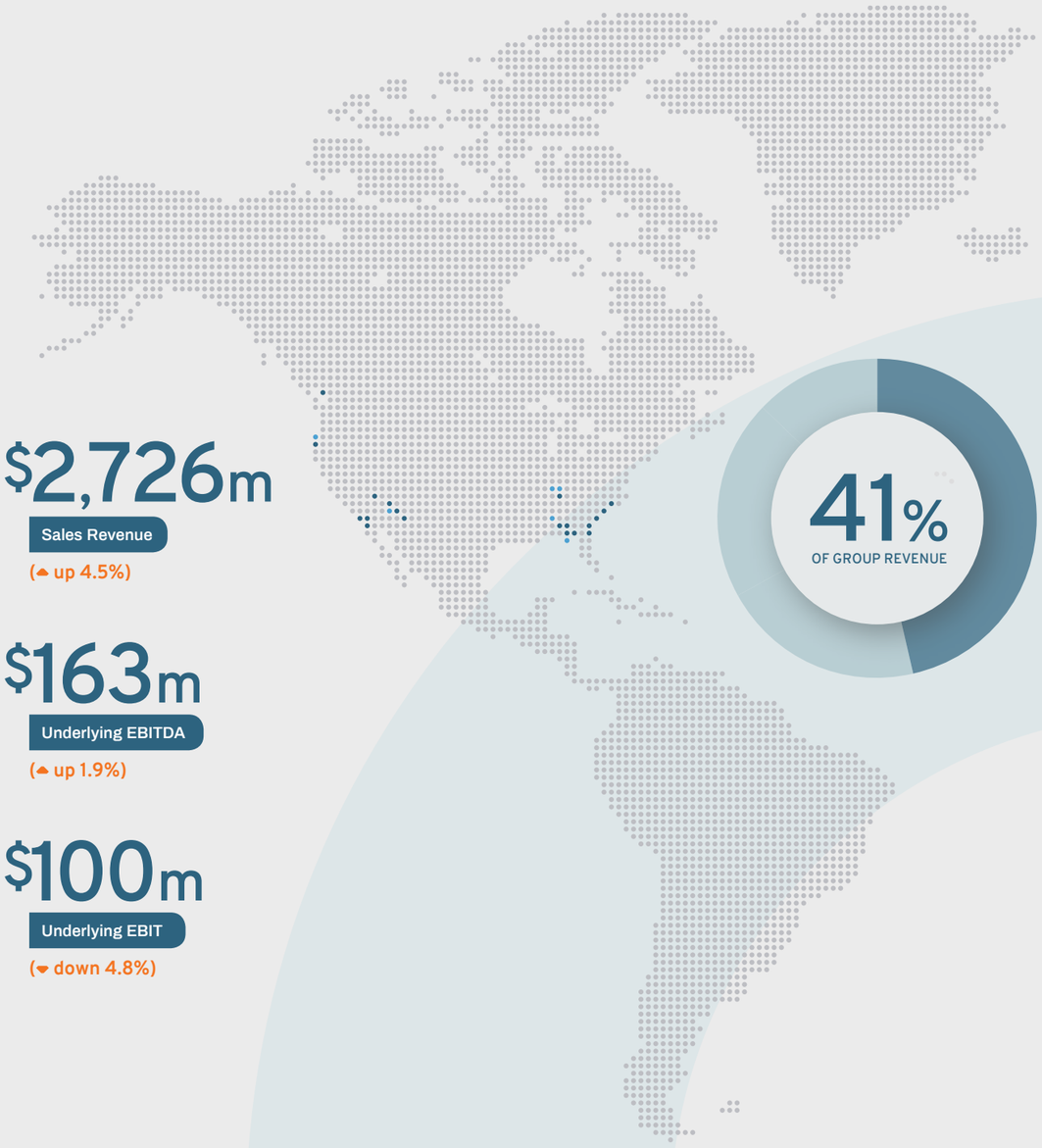
In FY20, North America Metals is scheduled to complete the installation and commissioning of the second zorba separation plant at the Company's facility in New Jersey, targeted for December 2019 quarter completion. Quality initiatives that commenced production in FY19 are exceeding expectations.

Further, additional downstream technology to produce a smelter ready aluminum product and enhance metal out of waste are currently being evaluated.

The North America Metals business is also well placed to expand ferrous volumes in favorable geographies and grow its non-ferrous business nationally.

## INVESTMENT IN SA RECYCLING

SA Recycling (SAR), which is a 50 percent owned by Sims Metal Management, operates 78 facilities in the U.S. The Company's share of underlying results from SAR were A$36 million in FY19, a decrease of A$33 million compared to FY18. The result from SAR declined in FY19 compared to FY18 due to a fall in zorba pricing and general ferrous market compression. However, operation of zorba cleaning technology contributed to a better 2H FY19 compared to 1H FY19.



**$2,726m**
Sales Revenue
(▲ up 4.5%)

**$163m**
Underlying EBITDA
(▲ up 1.9%)

**$100m**
Underlying EBIT
(▼ down 4.8%)

# Australia & New Zealand Metals

*Australia and New Zealand (ANZ) Metals is the leading metal recycler in Australasia and operates 50 facilities across Australia, New Zealand, and Papua New Guinea, with 921 employees. In FY19, ANZ Metals accounted for 18 percent of the Group's total sales revenue with sales of 1.9 million tonnes of ferrous and non-ferrous secondary metal.*

## EXTERNAL OPERATING ENVIRONMENT

Australia's March 2019 quarter showed annual GDP growth at 1.8 percent, slowing from the previous run rate of 2.3 percent. Domestic production of steel in Australia grew 3.0 percent in FY19 and drove robust demand for ferrous scrap. Despite increased consumption from domestic mills, export demand remained strong. Based on Australian customs statistics, the export of ferrous scrap volumes increased 20 percent for FY19 compared to FY18.

Business conditions in Australia were subdued, as strong public infrastructure spending was offset by a softer outlook for household consumption. Consumer confidence was adversely affected by a decline in house prices and a slowing of Australian GDP growth.

## PERFORMANCE

Sales revenue for ANZ Metals in FY19 was 12 percent higher compared to FY18. The increase was primarily due to higher sales volumes which increased by 11 percent due to the full acquisition of the interest in the New Zealand joint arrangement, internal growth and improvement initiatives and robust demand from domestic steel mills.

Underlying EBIT of A$107 million in FY19 was 10 percent higher compared to FY18. The benefit of higher sales volumes led to an increase in metal margin, which was partially constrained by an increase in controllable costs. FY18 underlying EBIT does not reflect results from the acquisition of the remaining 50 percent interest in Sims Pacific Metals, successfully completed at the end of June 2018.

## GOING FORWARD

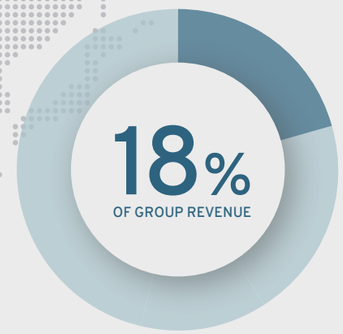
ANZ Metals in FY20 will focus on optimising benefits from the recently installed zorba and zurik separation facility in Adelaide.

ANZ Metals will continue to look at leveraging off the now wholly-owned Sims Pacific Metals business to explore opportunities to further expand in the Pacific region.

**$1,204m**
Sales Revenue
(▲ up 12.4%)

**$138m**
Underlying EBITDA
(▲ up 9.3%)

**$107m**
Underlying EBIT
(▲ up 9.9%)



# UK Metals

*UK Metals is one of the leading metal recyclers in the United Kingdom. The business employs 761 people and operates 44 facilities across the UK. In FY19, UK Metals accounted for 18 percent of the Group's total sales revenue with sales of 1.6 million tonnes of ferrous and non-ferrous secondary metal.*

## EXTERNAL OPERATING ENVIRONMENT

The pace of growth in the UK economy continued to be soft with the June 2019 quarter GDP reduction of 0.2 percent and a prolonged Brexit stifling short-term growth. Slightly lower volumes were a combination of Turkish mills requiring higher quality for the volumes they purchased and alternative ferrous markets also requesting higher quality than normally produced by UK Metals. Competition placed pressure on margins, but the Company delivered an improved half-year ending 30 June 2019 (H2 FY19) due to operation of the zorba separation and copper granulation plants and ferrous quality being at the required level.

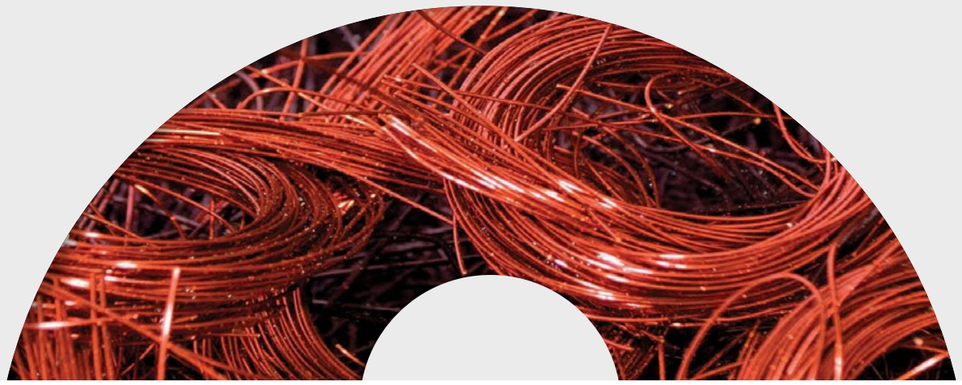
## PERFORMANCE

Sales revenue for UK Metals in FY19 was 1 percent lower compared to FY18, primarily due to ferrous quality improvement requirements due to changes in the Turkish market. Underlying EBIT of A$20 million in FY19 was 43 percent lower compared to FY18. 2H FY19 underlying EBIT was up 99 percent compared to 1H FY19 due to operation of copper granulation and zorba separation plants which provided geographic and customer optionality for differentiated product, disciplined buying as the UK market started to demand better quality recycled metal and increased volumes and improved quality in ferrous business, partially offset by a decline in non-ferrous pricing.

## GOING FORWARD

The major focus of UK Metals in FY20 will be to set a standard for Sims UK product quality in the UK marketplace. We will achieve this through continuous improvement on facilities that came on line in FY19, cable granulation and zorba separation, as well as an ongoing focus on the quality of material arriving at sites.

In FY20, the business will complete a refurbishment of its Avonmouth facility, which will improve throughput capabilities, product quality, operating efficiency and the working environment at the site.



**$1,187m**
Sales Revenue
(▼ down 1.3%)

**$40m**
Underlying EBITDA
(▼ down 21.8%)

**$20m**
Underlying EBIT
(▼ down 42.5%)


# Global E-Recycling

*Our Global E-Recycling business, which operates under the name Sims Recycling Solutions (SRS), is a global leader in electronics reuse and recycling with 28 facilities across 18 countries and 1,350 employees. E-Recycling provides disposition services for all types of retired electrical equipment to local, national and global customers in a wide variety of business sectors. In FY19, E-Recycling accounted for 11 percent of the Group's total sales revenue.*

## EXTERNAL OPERATING ENVIRONMENT

Copper and precious metals, including gold, comprise the two primary commodities recovered from the electronics recycling process. The decline in commodity prices in FY19 compared to FY18 did not see a commensurate adjustment in procurement activities and contributed to margin compression in certain Global E-Recycling businesses.

Beyond commodity price movements, competitive and regulatory issues continued to be the primary driver for local market dynamics. In this regard, governmental sponsors and the regulatory environment for electronics recycling in the European Union, where the Group maintains the majority of its e-waste related operations, remained supportive advocates for the industry. In addition, data security concerns are having a meaningful impact on large corporations seeking secure recycling services.

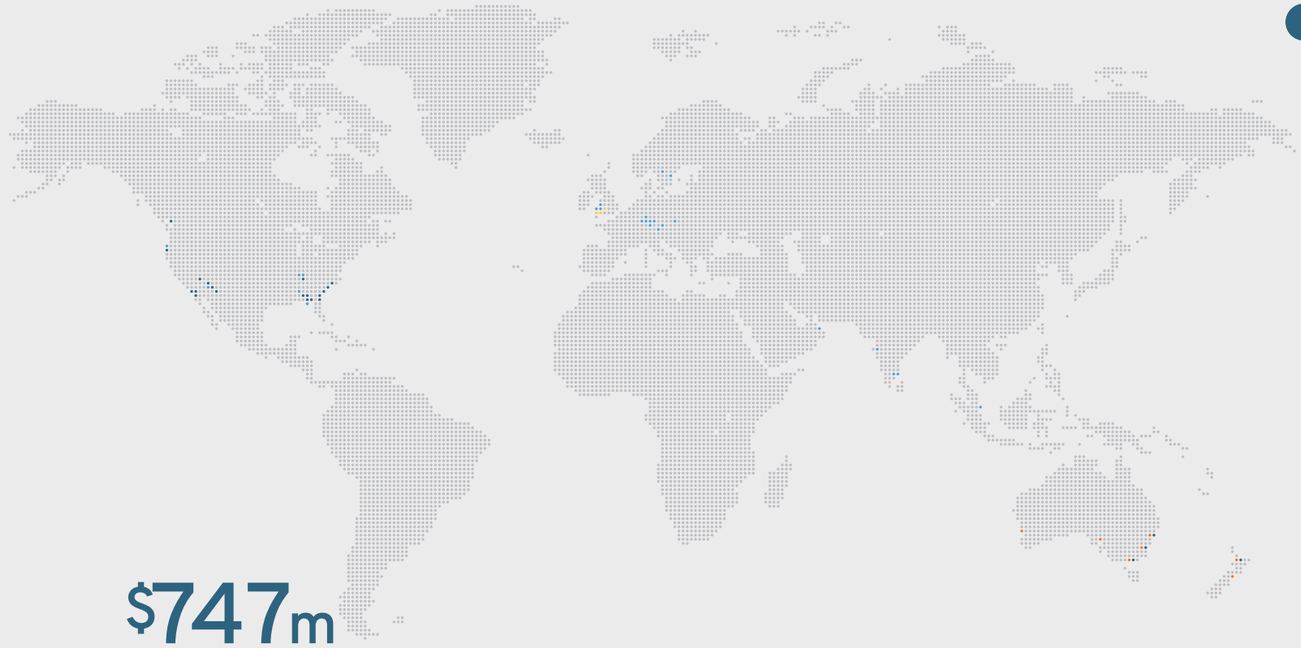
## PERFORMANCE

Sales revenue for Global E-Recycling in FY19 was 2 percent lower compared to FY18. Lower commodity prices primarily lead to the decrease in sales revenue as compared to FY18.

Underlying EBIT of A$26 million in FY19 was 17 percent lower than FY18, primarily attributed to margin compression in continental Europe and some additional costs to produce higher quality product. Global E-Recycling benefited from a strong second half performance, up 60 percent over the first half of FY18 due to adjusted and more selective procurement activities and recent contract wins, some relating to the recycling the cloud initiative.

## GOING FORWARD

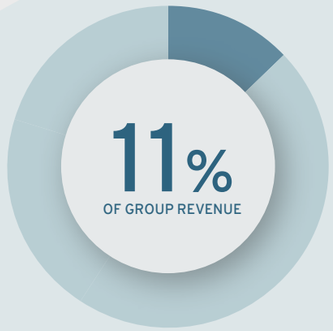
Leveraging off its secure and reliable global footprint, Global E-Recycling offers significant growth opportunities, particularly in the recycling the cloud initiative (IT asset destruction segment), where large global businesses are keen to work with service providers capable of delivering secure asset destruction for large scale cloud storage servers.

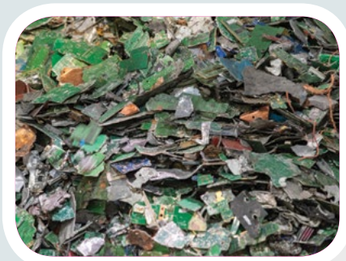


**$747m**
Sales Revenue
(▼ down 1.6%)

**$35m**
Underlying EBITDA
(▼ down 13.1%)

**$26m**
Underlying EBIT
(▼ down 16.9%)



# Spotlight on the Business

## LMS ENERGY

*In 2001, Sims Metal Management entered the renewable energy market with a strategic investment in LMS Energy. This investment has grown into a 50 percent ownership of LMS Energy, one of Australia's premier landfill gas-to-energy and solar renewable energy companies.*

LMS Energy (LMS) entered its 23rd year of business in FY19. It is a national leader in landfill gas to renewable energy and an innovator in solar on landfill technology. LMS has once again achieved strong results in FY19.

LMS commissioned two new projects in Victoria and Tasmania in FY19, with a total of 23 landfill gas-to-energy projects now in operation across Australia. These projects generate more than 400,000 megawatt hours of base-load renewable electricity annually. LMS remains the largest bioenergy generator of Large-Scale Generation Certificates (LGCs) in Australia.

Additionally, LMS has three solar projects across Australia. The company's renewable energy hub at Albury was the first large-scale solar farm on a landfill cap in Australia, and the first electric vehicle charger to be powered by landfill gas. LMS also constructed their first behind the meter project with 1,000 solar panels installed at the Sims Metal Management facility in Gillman, South Australia.

With 41 carbon abatement projects accredited under the Emission Reduction Fund, LMS has also been issued with more than 50 percent of all Australian Carbon Credit Units (ACCUs) under the landfill gas methodologies. In FY19, LMS achieved an estimated 3.4 million tonnes ($CO_2e$) of carbon abatement across all of its activities.

Projects

**23**

ACROSS AUSTRALIA

More than

**400K**

LARGE SCALE GENERATION CERTIFICATES CREATED BY LMS IN FY19

## SIMS MUNICIPAL RECYCLING

*In 2002, Sims Metal Management expanded into curbside recycling in the United States with the creation of Sims Municipal Recycling. The operation has grown to become the cornerstone of New York City's recycling system. In total, the business processes and markets nearly 500,000 tonnes of municipal curbside material annually.*

From its inception, Sims Municipal Recycling (SMR) built on the history and resources of Sims Metal Management: to excel in a segment of the recycling industry typically controlled by waste management companies. SMR's expertise in materials processing, marketing, logistics, technology, and the management of industrial operations has provided a solid foundation for reliable and efficient recycling of bottles, cans, plastics and paper.

SMR developed and operates five facilities in New York and New Jersey. These include two collection facilities in the Bronx and Queens, New York; two large-scale materials recovery facilities (MRF) in Jersey City, New Jersey and Brooklyn, New York; and an advanced glass processing plant in Jersey City, New Jersey.

SMR's first MRF facility was built in 2003 at the Claremont Terminal, a facility in Jersey City, New Jersey. The Claremont MRF is now one of the largest in the New York/New Jersey region. In 2013, the newest MRF was opened in Sunset Park, Brooklyn. Situated on an 11-acre pier, the Sunset Park MRF is the largest and most sophisticated plant for commingled residential recyclables in North America.

In addition to serving the 8.5 million residents of New York City, SMR now processes curbside recyclables from several New Jersey and Long Island municipalities, as well as managing a portion of Chicago's curbside program.

Sims Municipal Recycling continues to evolve and find new opportunities within the ever-changing recycling landscape. With greater restrictions on plastic imports into China, SMR expanded its business of processing mixed plastics produced by other MRFs into sorted, saleable resins.

In early 2018, SMR expanded its glass plant with additional optical sorters to increase recovery of colour-sorted glass for the container market, and toward the end of 2019, SMR will commence additional processing and refinement of some of its mixed non-ferrous products.

# Safety and Sustainability

*By its very nature, our business has sustainability at its core. As the human population grows, the world's resources are consumed at an even faster pace. Many of these resources become waste at the end of their useful life. This pattern is not sustainable, and this is where Sims comes in.*

At Sims, we create long-term value by providing secure and sustainable management of resources within the circular economy. Our purpose, after all, is create a world without waste to preserve our planet.

While the concept of circular economy is not new, the drive to make it the standard business model is, and at Sims, we are ready to take on this exciting challenge.

As explained by the Ellen McArthur Foundation, the "circular economy is a system in which all materials and components are kept at their highest value at all times, and waste is designed out of the system. It can easily be thought of as the opposite of today's linear economy. A circular economy can be achieved through different business models including product as a service, sharing of assets, life extension and finally recycling."

At Sims, we know that transitioning to a circular economy is not only about reducing the negative impacts of the current linear economy, but it is also about sustainable growth that creates economic opportunities, environmental and social benefits, and increases our business resilience. This transition requires a systemic shift where we close, optimise and value the resource loops across the entire value chain.

We are working to make more progress to advance circularity, and our global footprint uniquely positions us to act as a key partner in helping others do the same.

## CLOSING THE LOOP: The Foundation of our Business

We close the resource loops by creating opportunities to restore, repair, refurbish, remanufacture and recycle. We collect, sort and pre-process valuable resources to keep them in the loop at their highest value via each of our various businesses.

**Sims Enables the Circular Economy**


## OPTIMISE: Raising the Bar

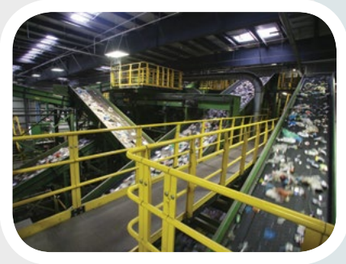
The global and interrelated nature of today's value chains add complexity to the challenge of moving toward a circular economy. With this in mind, it's easy to understand why we need to raise the bar by continuing to invest in innovative technologies that allow us to extract more value from inputs, re-think waste and enable the circular economy.

We continue to improve the quality of our processes to increase metal yields and differentiate our products with investments, such as non-ferrous secondary separation plants, cable granulators, and upgrades to material recovery plants. These investments have provided A$27 million EBIT in FY19. We are also entering new business adjacencies, such as waste to energy, and growing in other markets, such as recycling the cloud and landfill gas to energy to even further support the transition to a circular economy.

## VALUE: Amplifying our Impact

The shift to a circular economy requires innovative business models that either replace and supplement existing ones, or seize new opportunities. With our clients, we can challenge conventional models of product design, manufacturing, distribution, and ultimately reuse and recycling.

In an increasingly value-driven, competitive, regulated and resource-challenged economy, we see the great potential to create shared value by partnering for change across the entire value chain. This is one of the reasons why we joined the World Business Council for Sustainable Development – to collaborate with other businesses as we move further into the circular economy to deliver and scale the solutions needed to build a more sustainable world.



# Safety and Sustainability

**THE CHALLENGE IS THE OPPORTUNITY**

*The future is now, and the need for action rests in our hands. These challenges present us with abundant opportunities for our business that can help make the world vision set forward by the United Nations Sustainable Development Goals (UNSDGs) a reality.*

We share the same vision, and we are ready, willing and able to deliver value to our stakeholders by doing both what is good for our business, as well as what is good for our planet. We are committed to supporting progress on the UNSDGs with particular focus on four of them:

- Decent Work and Economic Growth
- Responsible Consumption and Production
- Climate Action
- Partnerships for the Goals

It's an exciting time for Sims. We are in the process of developing our next set of clear, actionable, outcome-driven sustainability goals. For more information, please refer to the Sims Metal Management FY19 Sustainability Report.


## SAFETY: Continual Improvement and Long-term Strategy

The Group finished FY19 with a Total Recordable Injury Frequency Rate (TRIFR) of 1.47 per 200,000 hours worked and a Lost Time Injury Frequency Rate (LTIFR) of 0.33. This represents significant progress in our safety journey, over 30 percent better performance than FY14 but not yet our goal of zero harm to employees. In comparison, according to the most recent data from the United States Bureau of Labor Statistics in 2016 the metal recycling industry average was 4.2 injury/illness recordable rate (per 200,000 hours worked).

It is with immense sadness to report the loss of two of our employees as a result of workplace incidents during the course of FY19. The impact of these losses on their families and friends cannot be adequately expressed.

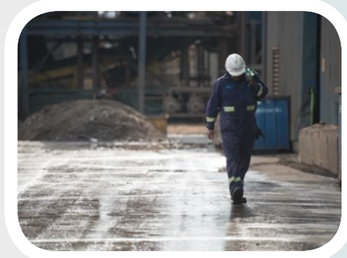
Their loss profoundly affects our extended family of employees and fortifies our determination to learn from these incidents, continuously improve, as well as ensure that we are doing all we can to prevent incidents like this from happening in the future.

These losses are a clear reminder that we have to always be vigilant about safety. As a result, we are resolute in looking at aspects of our management systems and programs to revamp and improve our safety strategy.

We have launched and completed a global survey to understand the Group's safety culture as perceived by our employees. In addition, we completed a taxonomy study using 10 years of incident data to determine and confirm our critical risks. Both the survey and taxonomy study are being used as the foundation of our strategic improvement plan.

At the core of this plan is a relentless focus on managing critical risks. This has led to a comprehensive review of our company standards with a view to streamline, simplify and further standardise employee safety requirements.

Our executive leadership team believes that these efforts utilise both a bottom up and top down approach that will allow us to continue to build upon our safety culture and strengthen our safety performance.

# Sustaining an Inclusive Environment

*During FY19, the Group continued to focus on improving diversity, as well as sustaining the engagement of its already inclusive workforce. Here's a snapshot of the programs and initiatives that were designed to improve the overall atmosphere in our workplaces across the globe.*

### FEMALE LEADERSHIP

Through promotions and new hires, we increased the percentage of women on the executive leadership team from nine to 25 percent, which is on par with the level of female representation on the Group's Board of Directors.

### FACILITIES AUDIT

In an effort to ensure that all of our facilities are accommodating for women and have amenities that enhance the workplace experience for all employees, the Group conducted a facilities audit across the globe that resulted in improved amenities at 35 facilities.

### EMPLOYEE ENGAGEMENT

We conducted an employee engagement survey to take the pulse of a select group of employees. The results of this survey provided valuable insight into opportunities that can help to make Sims a better place to work for all employees.

### DIVERSITY AND CULTURAL CELEBRATIONS

Our Respect & Inclusion Committee launched a series of diversity and cultural celebrations at our facilities located in the U.S. These celebrations allow employees to learn about and honor the contributions of our diverse society through on-line presentations and local events.

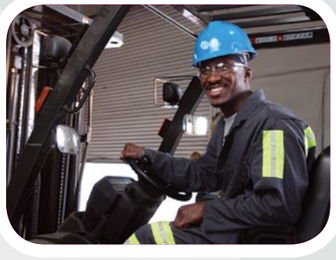
### UNCONSCIOUS BIAS TRAINING

The Respect & Inclusion Committee has also developed an unconscious bias classroom training for managers and supervisors. We designed this soon-to-be-delivered course to raise the awareness of unconscious biases in the workplace, their impact on decision-making and best practices for mitigating the effects.

Improved amenities at

**35**

FACILITIES



Female representation

**25%**

ON EXECUTIVE TEAM

# Board of Directors

The Company seeks to ensure that the Board has a range of attributes necessary for the governance of a global organisation. The Board regularly reviews its skills and performance against the expectation that it will provide outstanding governance; have appropriate input to and development of strategy; establish and oversee a clear risk management framework; set challenging performance targets in all aspects of the Company's activities; and understand the operations of the Company.

**Geoffrey N Brunsdon AM**
B Comm
(age 61)

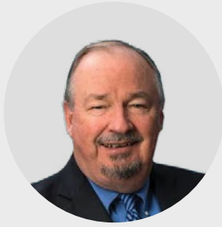
**Chairman and Independent non-executive director**

Mr Brunsdon was appointed as a director in November 2009, appointed Deputy Chairperson in September 2011 and appointed Chairperson of the Company on 1 March 2012. He is Chairperson of the Nomination/Governance Committee, and is a member of the Risk Committee, the Audit Committee and the Remuneration Committee. Until June 2009, Mr Brunsdon was Managing Director and Head of Investment Banking of Merrill Lynch International (Australia) Limited. He is Chairman of APN Funds Management Limited (since November 2009) and MetLife Insurance Limited (since April 2011). He was a member of the listing committee of the Australian Securities Exchange between 1993 and 1997 and was a director of Sims Group Limited between 1999 and 2007. He is a Fellow of the Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australia and a Fellow of the Institute of Company Directors. Mr Brunsdon is also a director of the Wentworth Group of Concerned Scientists and Purves Environmental Custodians and in 2019 was awarded the rank of Member of the Order of Australia (AM).

**Alistair Field**
(NHD) Mech Eng, MBA
(age 55)

**Group Chief Executive Officer and Managing Director**

Mr Field was appointed Group Chief Executive Officer and Managing Director of the Company on 3 August 2017. He is a member of the Safety, Health, Environment, Community & Sustainability Committee, the Nomination/Governance Committee and the Risk Committee. Mr Field joined the Company on 1 October 2015 as the Managing Director of ANZ Metals. He has more than 25 years of experience in the mining and manufacturing industries. He has held a number of senior leadership positions, including most recently as Director of Patrick Terminals & Logistics Division for Asciano Limited, and previously as Chief Operating Officer for Rio Tinto Alcan's Bauxite and Alumina Division. Mr Field is a Mechanical Engineer with an MBA from the Henley Business School.



**Mike Kane**
BA, JD, MS
(age 68)

**Independent non-executive director**

Mr Kane was appointed as a director in March 2019. He is a member of the Safety, Heath, Environment, Community & Sustainability Committee. Mr Kane has served as Chief Executive Officer & Managing Director of Boral Limited, an international building and construction materials company, since October 2012. Prior to that, Mr Kane was President of Boral USA from February 2010. He has extensive experience in the building and construction industry, including 24 years in senior executive roles with US Gypsum, Pioneer/Hanson Building Materials, Johns-Manville Corp and Holcim. Mr Kane holds a Bachelor of Arts in Sociology from Southern Illinois University, a Juris Doctorate from DePaul University's School of Law in Illinois and a Masters in Science from Creighton University, School of Law in Nebraska.

**Hiroyuki Kato**
BA
(age 63)

**Non-independent non-executive director**

Mr Kato was appointed as a director in November 2018. He is Mitsui & Co., Ltd's nominated non-independent director. He is a member of the Audit Committee and the Safety, Health, Environment, Community & Sustainability Committee. Mr Kato started his business career in the iron ore division of Mitsui, where he gained considerable experience relating to the mining industry, which became the backbone of his long career at Mitsui. After completing two assignments in New York and attending MIT Sloan School of Management, Mr Kato held various positions in Mitsui's oil and gas divisions. Since June 2018, he has been a Counsellor to Mitsui.



**Georgia Nelson**
BS, MBA
(age 69)

**Independent non-executive director**

Ms Nelson was appointed as a director in November 2014. She is Chairperson of the Risk Committee, and is a member of the Audit Committee and the Remuneration Committee. Ms Nelson is the former President and CEO of PTI Resources, LLC, an independent consulting company. Prior to establishing PTI Resources, LLC in 2005, Ms Nelson had a 35-year career in the power generation industry, serving in various senior executive capacities for Edison International and its subsidiaries between 1971 and 2005. Ms Nelson is the former founding president of Midwest Generation EME, LLC, an Edison International company with its corporate headquarters in Chicago. Previously, Ms Nelson was senior vice president of worldwide operations for Edison Mission Energy, and she previously spent more than 25 years with Southern California Edison. Ms Nelson serves as a director of two publicly traded U.S. corporations: Cummins Inc (CMI), a global engine and equipment manufacturer, and Ball Corporation (BLL), a global metals container manufacturing company, and one publicly traded Canadian corporation: TransAlta Corporation (TAC), a power generation and wholesale marketing company. Ms Nelson holds an MBA from the University of Southern California and a BS from Pepperdine University.

**Deborah O'Toole**
LLB, MAICD
(age 62)

**Independent non-executive director**

Ms O'Toole was appointed as a director in November 2014. She is Chairperson of the Audit Committee, and is a member of the Risk Committee and the Remuneration Committee. Ms O'Toole has extensive executive experience across a number of sectors including over 20 years in the mining industry and, more recently, in transport and logistics which included managerial, operational and financial roles. She has been Chief Financial Officer in three ASX listed companies: MIM Holdings Limited, Queensland Cotton Holdings Limited and, most recently, Aurizon Holdings Limited. Ms O'Toole's board experience includes directorships of the CSIRO, Norfolk Group, various companies in the MIM and Aurizon Groups, and Government and private sector advisory boards. She has acted as Chairperson of the Audit Committees of CSIRO, Norfolk Group and Pacific Aluminium. Ms O'Toole is a director of Alumina Limited (since December 2017), the Asciano Rail Group of Companies operating as Pacific National Rail and Credit Union Australia.

**Heather Ridout AO**
BEc (Hons), MAICD
(age 65)

**Independent non-executive director**

Mrs Ridout was appointed as a director in September 2011. She is Chairperson of the Remuneration Committee, and is a member of the Safety, Health, Environment, Community & Sustainability Committee, the Risk Committee and the Nomination/Governance Committee. Mrs Ridout is Chair of AustralianSuper – the largest pension fund in Australia; and a director of Australian Securities Exchange Limited (since August 2012). She also serves on the board of the Australian Chamber Orchestra and is a member of ASIC's External Advisory Panel. Mrs Ridout was formerly the Chief Executive Officer of the Australian Industry Group from 2004 until her retirement in April 2012. Her previous appointments include being a Board member of the Reserve Bank of Australia between 2011 and 2017, a member of the Henry Tax Review panel, board member of Infrastructure Australia and the Australian Workforce and Productivity Agency, and a member of the Climate Change Authority and the Prime Minister's Taskforce on Manufacturing. She has an economics degree, with honours, from the University of Sydney and in 2013 was awarded the rank of Officer of the Order of Australia (AO).

**James T Thompson**
BS
(age 69)

**Independent non-executive director**

Mr Thompson was appointed as a director in November 2009. He is Chairperson of the Safety, Health, Environment, Community & Sustainability Committee, and is a member of the Remuneration Committee and the Nomination/Governance Committee. Mr Thompson was, from 2004 until his retirement in 2007, Executive Vice President Commercial for The Mosaic Company, one of the world's largest fertiliser companies, which is publicly traded on the New York Stock Exchange. Prior to that, Mr Thompson had a 30 year career in the steel industry from 1974 to 2004, serving in various roles at Cargill, Inc, leading to the position of President of Cargill Steel Group from 1996–2004. During that period, Mr Thompson also served for a time as Co-Chairman of the North Star BlueScope Steel joint venture, and was a member of various industry boards, including AISI (American Iron and Steel Institute), SMA (Steel Manufacturers Institute) and MSCI (Metals Service Center Institute). He is currently a director of Hawkins, Inc, and serves as Chairman of the Board of Visitors of the University of Wisconsin School of Education. Mr Thompson has a BS from the University of Wisconsin Madison.

# Financial Review

## SENSITIVITY TO MOVEMENTS IN FOREIGN EXCHANGE RATES

The principal currencies in which the Group's subsidiaries conduct business are United States ("US") dollars, Australian dollars ("A$"), Euros, and British pounds sterling. Although the Group's reporting currency is the Australian dollar, a significant portion of the Group's sales and purchases are in currencies other than the Australian dollar. In addition, significant portions of the Group's net assets are denominated in currencies other than the Australian dollar.

The Group's consolidated financial position, results of operations and cash flows may be materially affected by movements in the exchange rate between the Australian dollar and the respective local currencies to which its subsidiaries are exposed.

Some of the results discussed below are presented on a "constant currency" basis, which means that the current period results are translated into Australian dollars using applicable exchange rates in the prior year comparable period. This allows for a relative performance comparison between the two periods before the translation impact of currency fluctuations.

Foreign exchange rates compared with the prior corresponding periods for the major currencies that affect the Group's results are as follows:

| | Average rate – year ended 30 June | | | Closing rate – as at 30 June | | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | % Change | **2019** | 2018 | % Change |
| US dollar | **0.7152** | 0.7751 | (7.7) | **0.7020** | 0.7402 | (5.2) |
| Euro | **0.6270** | 0.6498 | (3.5) | **0.6175** | 0.6336 | (2.5) |
| Pound sterling | **0.5527** | 0.5759 | (4.0) | **0.5531** | 0.5605 | (1.3) |

As at 30 June 2019, the cumulative effect of the retranslation of net assets of foreign controlled entities (recognised through the foreign currency translation reserve) was A$(13.0) million compared to A$56.1 million as at 30 June 2018.

## REVENUE

Sales revenue of A$6,640.0 million in FY19 was up 3.0% compared to sales revenue of A$6,448.0 million during the year ended 30 June 2018 ("FY18"). At constant currency, sales revenue was down 2.5% primarily due to lower average sales prices. Sales volumes decreased by 0.5% to 9.803 million tonnes in FY19 versus 9.856 million tonnes in FY18. Average selling prices were lower for both ferrous and non-ferrous metals.

## EARNINGS

Statutory NPAT in FY19 was A$152.6 million compared to A$203.5 million in FY18. Underlying NPAT was A$161.9 million in FY19, which was 14.2% lower than FY18. Statutory EBITDA was A$358.1 million in FY19 compared to A$395.8 million in FY18.

Statutory EBIT in FY19 was A$225.0 million compared to A$278.6 million in FY18. Underlying EBIT of A$230.3 million was 16.3% lower than FY18. The decrease in underlying EBIT was primarily due to lower operating income in the North America Metals ("NAM"), UK Metals and Global E-Recycling segments, and lower income from the Company's investment in SA Recycling ("SAR"). This was partially offset by higher underlying EBIT from the Australia and New Zealand ("ANZ") Metals segment.

Statutory diluted earnings per share was 74.2 cents in FY19 compared to 98.7 cents per share in FY18. Underlying diluted earnings per share was 78.8 cents in FY19 compared to underlying diluted earnings per share of 91.5 cents in FY18 as lower underlying NPAT was partially offset by a 0.3% decline in dilutive weighted average shares outstanding

## RECONCILIATION OF STATUTORY NPAT TO EBITDA

| | Year ended 30 June | |
|---|---|---|
| A$m | **2019** | 2018 |
| **Statutory NPAT** | **152.6** | 203.5 |
| Depreciation and amortisation | **133.1** | 117.2 |
| Net interest expense | **6.7** | 8.9 |
| Income tax expense | **65.7** | 66.2 |
| **Statutory EBITDA** | **358.1** | 395.8 |

## RECONCILIATION OF STATUTORY RESULTS TO UNDERLYING RESULTS

| A$m | EBITDA[1] | | EBIT | | NPAT | |
|---|---|---|---|---|---|---|
| Year ended 30 June | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| Reported earnings | **358.1** | 395.8 | **225.0** | 278.6 | **152.6** | 203.5 |
| **Significant items:** | | | | | | |
| Non-recurring gain on asset disposition by joint venture | **(5.1)** | – | **(5.1)** | – | **(3.8)** | – |
| Gain on sale of property | **(4.2)** | – | **(4.2)** | – | **(3.0)** | – |
| Impact of Victorian fire, net of insurance recoveries | **(1.8)** | – | **(1.8)** | – | **(1.2)** | – |
| Redundancy expense | **7.6** | 9.2 | **7.6** | 9.2 | **5.7** | 6.6 |
| Net provisional expense/(reversal of provision) related to onerous leases and contracts | **3.9** | (9.1) | **3.9** | (9.1) | **3.2** | (7.4) |
| Non-qualified hedges | **2.2** | (4.1) | **2.2** | (4.1) | **1.9** | (3.5) |
| Other | **2.7** | 0.9 | **2.7** | 0.9 | **2.0** | 0.8 |
| Gain on acquisition of interest of a joint arrangement | **–** | (10.1) | **–** | (10.1) | **–** | (9.8) |
| Yard closure costs, environmental and dilapidations provision net expense | **–** | 5.6 | **–** | 5.6 | **–** | 3.9 |
| Impairment expense of property, plant and equipment | **–** | 4.1 | **–** | 4.1 | **–** | 2.8 |
| Impact of tax remeasurements | **–** | – | **–** | – | **4.5** | (9.8) |
| Impact of tax on return of capital | **–** | – | **–** | – | **–** | 15.6 |
| Recognition of net deferred tax asset[2] | **–** | – | **–** | – | **–** | (14.1) |
| **Underlying results**[3] | **363.4** | 392.3 | **230.3** | 275.1 | **161.9** | 188.6 |

1) EBITDA is a measurement of non-conforming financial information. See table above that reconciles statutory net profit to EBITDA.
2) 2018 amounts reflect the recognition of previously unrecognised deferred tax assets.
3) Underlying result is a non-IFRS measure that is presented to provide an understanding of the underlying performance of the Group. The measure excludes the impacts of impairments and disposals, as well as items that are subject to significant variability from one period to the next. The reconciling items above (before tax) have been extracted from the audited financial statements.

## CASH FLOW AND BORROWINGS

Cash flow from operating activities of A$360.1 million in FY19 increased by A$108.0 million versus FY18 due principally to decreases in working capital in FY19, which resulted in A$89.6 million of increased cash. This was partially offset by a decrease in net income as compared to FY18.

Cash used for capital expenditures was A$197.1 million during FY19 compared to A$176.1 million in FY18. Capital expenditures during FY19 were related primarily to quality initiative investments. The investments included two state of the art Material Recovery Plants (MRPs), four zorba separation plants and nine copper granulation plants across NAM, ANZ and UK Metals. The Group generated A$15.6 million of cash from the sale of proceeds of asset sales in FY19 compared to A$9.3 million in FY18.

During FY19, the Group paid cash dividends of A$107.9 million compared to A$106.8 million in FY18. The Group made payments of A$19.3 million in relation to its share buyback program during FY19 compared to nil in FY18.

At 30 June 2019, the Group had a net cash position of A$347.5 million versus a net cash position of A$298.1 million at 30 June 2018. The Group calculates net cash as cash balances less total borrowings and reflects total borrowings as if borrowings were reduced by cash balances as a pro forma measurement as follows:

| | As at 30 June | |
|---|---|---|
| A$m | **2019** | 2018 |
| Total cash | **382.9** | 339.1 |
| Less: total borrowings | **(35.4)** | (41.0) |
| **Net cash** | **347.5** | 298.1 |

# Corporate Governance Statement

The directors and management of the Company are committed to operating the Company's business ethically and in a manner consistent with high standards of corporate governance. The directors consider the establishment and implementation of sound corporate governance practices to be a fundamental part of promoting investor confidence and creating value for shareholders, through prudent risk management and a culture which encourages ethical conduct, accountability and sound business practices.

A description of the Group's corporate governance practices in place throughout the 2019 financial year is set out in the Corporate Governance Statement of the Company, a copy of which can be viewed at https://www.simsmm.com/investors/governance. The Corporate Governance Statement has been prepared with reference to the Corporate Governance Principles and Recommendations (3rd edition) published by the Australian Securities Exchange Corporate Governance Council. The Company has complied with the Recommendations. The Corporate Governance Statement has been approved by the board.



# Directors' Report

Your Directors present their report on the consolidated entity (referred to hereafter as the "Group") consisting of Sims Metal Management Limited (the "Company") and the entities it controlled at the end of, or during, the year ended 30 June 2019 ("FY19").

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year comprised (1) the buying, processing and selling of ferrous and non-ferrous recycled metals and (2) the provision of environmentally responsible solutions for the disposal of post-consumer electronic products, including IT assets recycled for commercial customers. The Group offers fee-for-service business opportunities in the environmentally responsible recycling of negative value materials including electrical and electronic equipment. The Group's principal activities remain unchanged from the previous financial year.

## OPERATING AND FINANCIAL REVIEW

A review of the operations of the Group during the financial year and the results of those operations are set out in the Chairman's and Chief Executive Officer's Reviews on pages 4 to 7 and the Operational and Financial Review on pages 8 to 27.

## NAMES AND PARTICULARS OF DIRECTORS

The names of the Directors of the Company during the financial year and up to the date of this report together with their qualifications and experience are provided on pages 28 and 29.

## COMPANY SECRETARIES

**Gretchen Johanns BA, JD (Executive)**

Ms Johanns joined the Company in November 2018 as Group General Counsel and Company Secretary. Ms Johanns has more than 20 years of experience as a senior legal advisor with US publicly-listed companies in the information technology, service and media industries. Prior to joining the Company, Ms Johanns served as Deputy General Counsel and Corporate Secretary at Xerox Corporation. Previously, she served in various legal roles at Time Warner Cable Inc.

**Angela Catt BScCom, CA ANZ, GAICD**

Ms Catt was appointed to the position of Company Secretary in 2019. Angela has more than 15 years of experience in commercial roles across the energy industry, investment banking and professional services. Prior to joining the Company, Ms Catt served as General Manager, Commercial at ASX-listed AGL Energy and Executive Director, Energy Delivery at NSW Government.

**Mr Moratti** resigned as Company Secretary on 1 February 2019 having served Company Secretary since 1997.

**Mr Miller** resigned as Company Secretary on 2 November 2018 having served Company Secretary since 2008.

## DIRECTORS' MEETINGS

The following table shows the number of board and committee meetings held during the financial year ended 30 June 2019 and the number of meetings attended by each Director:

| | Board of Directors | | Risk, Audit & Compliance Committee[1] | | Audit Committee[1] | | Risk Committee[1] | | Safety, Health, Environment, Community & Sustainability Committee | | Remuneration Committee | | Finance & Investment Committee[1] | | Nomination/ Governance Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B | A | B | A | B | A | B |
| G Brunsdon | 9 | 9 | 3 | 3 | 3 | 3 | 2 | 2 | | | 5 | 5 | | | 3 | 3 |
| R Bass[2] | 4 | 4 | 3 | 3 | | | | | | | | | 2 | 2 | 2 | 2 |
| J DiLacqua | 9 | 9 | 3 | 3 | 3 | 3 | | | 2 | 2 | | | 2 | 2 | 3 | 3 |
| A Field | 9 | 7 | | | | | 2 | 1 | 4 | 3 | | | 2 | 2 | 3 | 2 |
| M Kane[3] | 3 | 3 | | | | | | | 2 | 2 | | | | | | |
| H Kato[4] | 7 | 7 | | | 3 | 3 | | | 2 | 2 | | | | | | |
| G Nelson | 9 | 9 | | | | | 2 | 2 | 2 | 2 | 5 | 5 | | | | |
| D O'Toole | 9 | 9 | 3 | 3 | 3 | 3 | 2 | 2 | | | 5 | 5 | 2 | 2 | | |
| H Ridout | 9 | 9 | 3 | 3 | 3 | 3 | 2 | 2 | 4 | 4 | 5 | 5 | | | 3 | 3 |
| T Sato[4] | 3 | 3 | | | | | | | 2 | 2 | | | 2 | 2 | | |
| J Thompson | 9 | 9 | | | | | | | 4 | 4 | 5 | 5 | 2 | 2 | 3 | 3 |

Column A: Number of meetings eligible to attend
Column B: Number of Meetings attended

1) On 19 December 2018, the Board established standalone Risk and Audit Committees and discontinued the Finance & Investment Committee.
2) Mr Bass retired on 1 January 2019 having served on the Board since 2013.
3) Mr Kane joined the Board on 20 March 2019.
4) Mr Sato retired from the Board on 8 November 2018 at the conclusion of the 2018 Annual General Meeting and Mr Kato joined on the same date.

Directors also attend meetings of committees of which they are not a member. This is not reflected in the table above.

# Directors' Report continued

## DIRECTORS' INTERESTS

As at the date of this report, the interests of the Directors in the shares, options, or performance rights of the Company are set forth below:

| | Shares |
|---|---|
| G Brunsdon | 33,057 |
| J DiLacqua | 2,500 |
| A Field[1] | 101,342 |
| M Kane | 2,000 |
| H Kato | – |
| G Nelson | 6,700 |
| D O'Toole | 14,500 |
| H Ridout | 5,000 |
| J Thompson | 26,000 |

1) Refer to the Remuneration Report for information on options and performance rights held by Mr Field.

## DIVIDENDS

Since the end of the fiscal year, the Directors have declared a final dividend of 19 cents per share (100% franked) for the year ended 30 June 2019. The dividend will be payable on 18 October 2019 to shareholders on the Company's register at the record date of 4 October 2019. The Directors have determined that the dividend reinvestment plan will not operate in relation to this dividend.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no other significant changes in the state of affairs of the Group during the financial year not otherwise disclosed elsewhere in this report.

## SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Directors are not aware of any items, transactions or events of a material or unusual nature that have arisen since the end of the financial year which will significantly affect, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

## LIKELY DEVELOPMENTS

Information as to the likely developments in the operations of the Group is set out in the Global Operations on pages 10 to 27.

Further information on likely developments in the operations of the Group and the expected results of operations in subsequent financial years have not been included in this annual financial report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

## ENVIRONMENTAL REGULATION

The Group is subject to environmental regulations and reporting requirements in Australia as well as other countries in which it operates. The Group has environmental licenses and consents in place at various operating sites as prescribed by relevant environmental laws and regulations in respective jurisdictions. Conditions associated with these licenses and consents include those which stipulate environmental monitoring requirements and reporting limits to monitor conformance with the requirements of such licenses and consents. Further information on the consolidated entity's performance in respect of environmental regulation is set out in the Group's Annual Sustainability Report available on the Company's website at www.simsmm.com.

Under Australian environmental regulation, an entity is required to provide a summary of its environmental performance as per s299(1)(f) of the *Corporations Act 2001*.

Additionally, the Group's Australian operations are subject to the reporting requirements of the *National Greenhouse and Energy Reporting Act 2007* ("NGER"). The NGER Act requires the Group to report its annual greenhouse emissions and energy use of its Australian operations. The Group has implemented systems and processes for the collection and calculation of the data required so as to prepare and submit the relevant report to the Clean Energy Regulator annually.

In the last 12 months, there have been no material exposure to the risk of breaches of environmental license conditions or legislation.

## CLIMATE CHANGE RAMIFICATIONS

The Company recognises that climate change could have meaningful impacts on the financial performance of the Group over time and has begun the process of identifying key risks and, where possible, commenced action to mitigate their impact.

The key risks identified centre around the potential for increased, and more extreme, weather events impacting:

- health and safety issues for employees operating on sites (extreme temperatures);
- inability to maintain standard operational hours at facilities (extreme temperatures);
- docks, material handling and the transportation of products (intense rain and wind);
- access to a reliable supply of electricity (extended heat waves); and
- reliable operation of critical data storage sites (flooding, extended heat waves).

These risks are currently not expected to have a material impact on the Company's financial performance. However, effective from July 2018, all capex approvals over a threshold value require consideration of the impact of climate change as standard practice.

## INSURANCE AND INDEMNIFICATION OF OFFICERS

During the financial year, the Company had contracts in place insuring all Directors and Executives of the Company (and/or any subsidiary companies in which it holds greater than 50% of the voting shares), including Directors in office at the date of this report and those who served on the board during the year, against liabilities that may arise from their positions within the Company and its controlled entities, except where the liabilities arise out of conduct involving a lack of good faith. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid as such disclosure is prohibited under the terms of the contracts.

## SHARE OPTIONS AND RIGHTS

**Unissued shares**

As of the date of this report, there are 9,084,887 share options outstanding and 5,534,098 rights outstanding in relation to the Company's ordinary shares. Refer to note 26 of the consolidated financial statements for further details of the options and rights outstanding as at 30 June 2019. Option and right holders do not have any right, by virtue of the option or right, to participate in any share issue of the Company.

**Shares issued as a result of the exercise of options and vesting of rights**

During the financial year, there were 167,366 ordinary shares issued upon the exercise of share options and 1,609,177 ordinary shares issued in connection with the vesting of rights. Refer to note 26 of the consolidated financial statements for further details of shares issued pursuant to share-based awards. Subsequent to the end of the financial year and up to the date of this report, there have been nil ordinary shares issued upon the exercise of share options and nil ordinary shares issued in connection with the vesting of rights.

## NON-AUDIT SERVICES

The Company may decide to employ its external auditor (Deloitte Touche Tohmatsu) on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the financial year are set out in note 29 of the consolidated financial statements.

The Board has considered the position and, in accordance with advice received from the Risk, Audit & Compliance Committee and, after 19 December 2018, the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set forth in
note 29 of the consolidated financial statements, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Risk, Audit & Compliance Committee and, after 19 December 2018, the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 110 and forms part of the Directors' Report for the year ended 30 June 2019.

## ROUNDING OF AMOUNTS

The Company is a company of the kind referred to in Australian Securities and Investments Commission ("ASIC") Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest tenth of a million dollars, unless otherwise indicated.

# Directors' Report continued
## Remuneration Report

The Committee presents the Remuneration Report (Report) for the Company and the Group for the performance period from 1 July 2018 to 30 June 2019 (FY19). This Report forms part of the Directors' Report and has been audited by our independent auditor, Deloitte Touche Tohmatsu, in accordance with section 300A of the Corporations Act 2001. The Report sets out remuneration information for the Company's Key Management Personnel (KMP).

### CONTENTS



Listed below are KMPs for FY19 including Executives and Non-Executive Directors (NEDs). "Executives" in this report refers to executive KMP.

**Directors and Executives who were KMP during FY19**

| Name | Position | Country | Appointed/Departed (where applicable) |
|---|---|---|---|
| *Executives* | | | |
| Alistair Field | Group Chief Executive Officer and Managing Director (Group CEO) | USA | – |
| Stephen Mikkelsen | Group Chief Financial Officer (Group CFO) | USA | – |
| William Schmiedel | President – Global Trade | USA | – |
| Stephen Skurnac | Group Chief Development Officer (Group CDO) | USA | – |
| *NEDs* | | | |
| Geoffrey N Brunsdon | Chairperson and Independent NED | Australia | – |
| John T DiLacqua | Independent NED | USA | – |
| Hiroyuki Kato | Non-Independent NED | Japan | Joined (8 November 2018) |
| Mike Kane | Independent NED | USA | Joined (20 March 2019) |
| Georgia Nelson | Independent NED | USA | – |
| Deborah O'Toole | Independent NED | Australia | – |
| Heather Ridout | Independent NED | Australia | – |
| James T Thompson | Independent NED | USA | – |
| *Former NEDs* | | | |
| Robert J Bass | Independent NED | USA | Retired (1 January 2019) |
| Tamotsu (Tom) Sato | Non-Independent NED | Japan | Retired (8 November 2018) |

**Changes to KMP since the end of the reporting period**

Mr DiLacqua retired from the Board on 31 August 2019. There have been no other changes to KMP since the end of the reporting period and the signing of this report.



**SECTION 1: REMUNERATION COMMITTEE CHAIRPERSON'S LETTER TO SHAREHOLDERS**

### INTRODUCTION FROM THE CHAIR OF THE REMUNERATION COMMITTEE

Dear Shareholders,

As the new Chair of the Remuneration Committee of the Board (Committee), I would like to express my gratitude to you for giving me the opportunity to present the Sims Metal Management (Sims or Company) Remuneration Report for the fiscal year which ended 30 June 2019 (FY19). It is an honor to serve as the Committee Chair. I would also like to acknowledge the exceptional team of business leaders at Sims for their hard work in navigating the Company through a challenging economic environment, while keeping the interests of shareholders at the forefront of every decision made.

During FY19, Sims made significant progress towards execution of its growth strategy, in spite of industry-specific challenges related to tariffs and trade tensions, market volatility and downward trending commodity prices which directly impacted the Company's financial performance this past fiscal year.

I am excited to note the Board's confidence that the Company's corporate strategy presented to shareholders back in April 2019 will result in improved long-term financial results for Sims while adding value to all stakeholders of the Company. But first, I would like to provide a summary of some of the key outcomes for the performance year discussed in this year's Remuneration Report.

**KMP Remuneration Overview for FY19**

- Short-Term Incentive (STI) payments averaged approximately 58% of target (down from 138% in FY18). This reflects an achievement of 11.03% Group Return on Control Capital Employed (ROCCE) return on an underlying Earnings Before Interest and Taxes (EBIT) of $230 million[1], or just over 70% of our targeted amount, in a challenging year.
- In agreement with management, the Board exercised its discretion to reduce earned STI awards due to the unsatisfactory safety performance during the fiscal year.
- The Company achieved a 3-year Total Shareholder Return (TSR) of 35.3% compared to the median of the comparator group of 30.1%, representing 64th percentile performance, resulting in 90% vesting of TSR-based long-term performance awards. Long-term performance awards contingent on Return on Invested Capital (ROIC) did not meet threshold performance and achieved nil vesting.
- The CEO and other Executives received no increase to fixed remuneration in FY19 and NEDs' fees remained unchanged.

**Remuneration Framework refinements for FY20**

The Board spent significant time reviewing the Company's incentive programs taking into account shareholder feedback from previous years, as well as evaluating the proper alignment of incentives with the newly announced, strategy for Sims. This review resulted in several improvements to our remuneration practices. In particular, changes have been made to balance the requirements for shorter-term capital investments with multi-year business growth initiatives.

The following enhancements have been made to further refine the remuneration programs for the performance period 1 July 2019 to 30 June 2020 (FY20), which are detailed in Section 4:

- Elimination of the use of share options
- Reduced share dilution from awards earned within the Long-Term Incentive (LTI) plan
- Lengthened the holding requirement of a portion of earned awards to up to 4 years
- Strengthened alignment of long-term incentives tied directly to the commitments made to shareholders in the April 2019 Investor Day presentations
- Long-term strategic awards continue to have a return on capital performance metric

The Board will continuously monitor the performance and alignment of this structure and anticipates that it will remain in place for LTI awards over the next few years in order to drive the execution of the strategy.

As we look forward, even though the global business environment remains a challenge, I am excited to say that the Company's senior management team remains focused on capital project initiatives, internal business capabilities, and continuous improvement across all aspects of the business. Given this outlook, the Committee believes it is important to have in place sound remuneration policies that are fit-for-purpose to support Sims' business strategies, drive Executives' engagement and reward shareholders with positive returns.

I trust this Remuneration Report provides insights into the high priority the Board places on listening and responding to our shareholders while continuously considering local and global market practices, as well as the alignment of our remuneration programs with the Company's execution of its strategies. We are committed to serving your interests and adding sustainable value to you – our shareholders. We hope we can continue to rely on your support at our 2019 Annual General Meeting.

Yours sincerely,

**Heather Ridout**
Remuneration Committee Chairperson
RemCoChair@simsmm.com

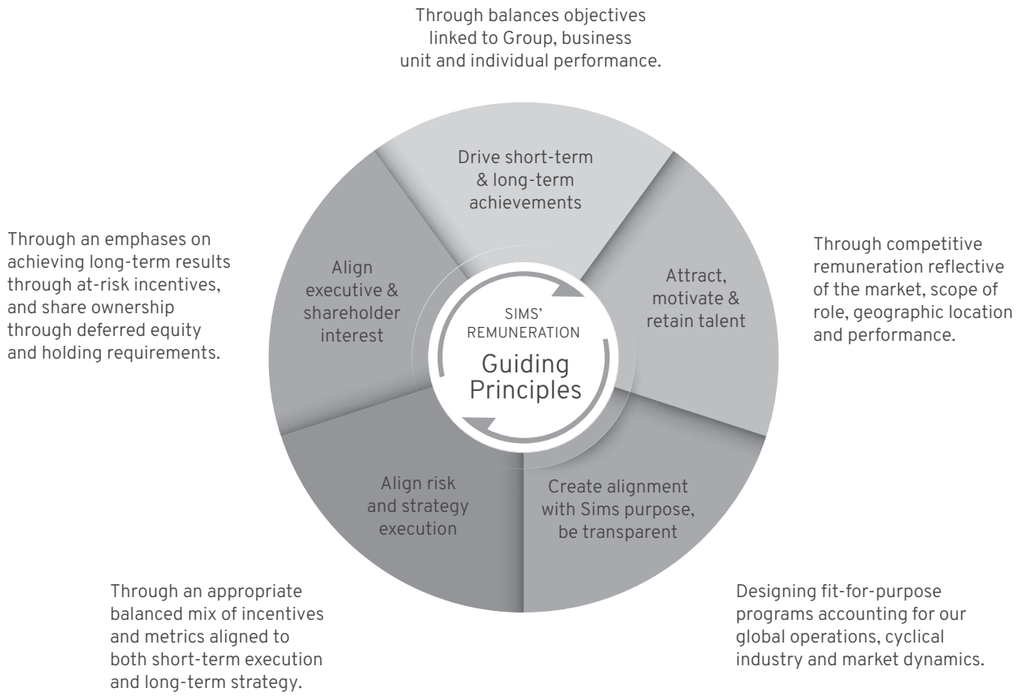
1) Throughout this Report, unless otherwise stated, all dollar values are expressed in Australian dollars.

# Directors' Report continued
## Remuneration Report continued

**SECTION 2: FY19 EXECUTIVE REMUNERATION STRATEGY AND FRAMEWORK**

### 2.1 EXECUTIVE REMUNERATION PHILOSOPHY AND GUIDING PRINCIPLES

At Sims, our remuneration philosophy is designed to underpin the Company's Purpose, Vision and Strategy and ensure the performance culture of the business is strongly aligned to our overarching objective of delivering sustainable value to our shareholders. Aligning to this philosophy are guiding principles used to evaluate our remuneration design, structure and framework decisions.




### 2.2 EXECUTIVE REMUNERATION STRUCTURE AND MIX

Sims' Executive remuneration framework provides the foundation for how remuneration is determined and paid. The framework is aligned with the business' performance objectives, the remuneration guiding principles, and is informed by market practice. The mix of total target remuneration for Executives consists of fixed remuneration for the performance of job duties, short-term incentives for meeting one-year goals to drive improved operations and Company performance, and long-term incentives for achievement of long-term goals and strategic execution.

**FIXED**
**Remuneration**
- Base Salary
- Retirement & Welfare Benefits

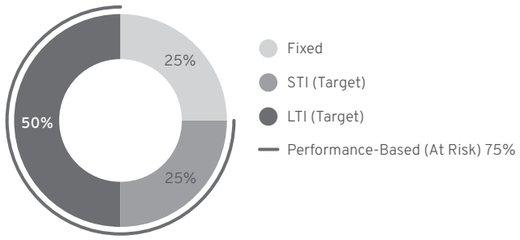
**SHORT-TERM**
**At-Risk Incentive**
- STI Plan
- Financial Metrics
- Strategic Executive Metrics
- Personal Business Metrics

**LONG-TERM**
**At-Risk Incentive**
- LTI Plan
- Strategic Execution
- Shareholder Alignment
- Equity Ownership

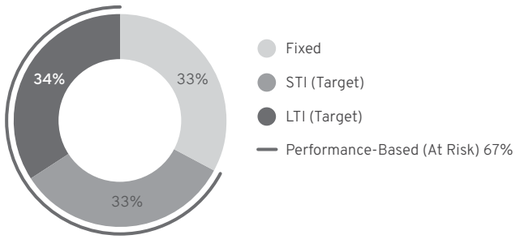
The charts below show the mix of the aggregate remuneration components at target for each of our Executives for FY19. References to actual remuneration outcomes received by the Sims' Executives for FY19 is provided in Section 3.

**Remuneration structure and mix for Sims' Executives**[1]

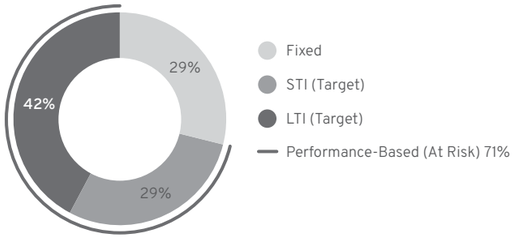
*Managing Director & Group CEO – 2019 Total Target Remuneration Mix*



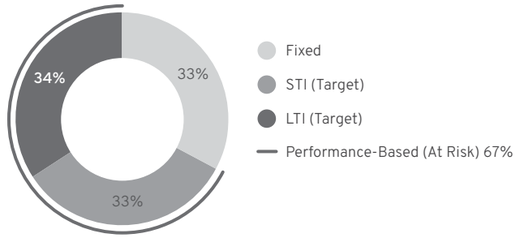

*Group CFO – 2019 Total Target Remuneration Mix*




*President Global Trade – 2019 Total Target Remuneration Mix*




*Group CDO – 2019 Total Target Remuneration Mix*




### 2.3 EXECUTIVE REMUNERATION BENCHMARKING

The Committee believes it is important to understand the relevant market for executive talent in order to ensure Sims' remuneration strategy and programs support the guiding principle to attract, retain and develop a pipeline of highly qualified leaders. Sims has adopted a market positioning strategy where the remuneration program design and total remuneration for Executives are benchmarked against a group of peer companies that are listed on the Australian Stock Exchange, New York Stock Exchange and the NASDAQ Stock Market. The Company competes against the peer companies for executive talent across its different business operations and jurisdictions, globally.

Fixed remuneration acts as a base level of pay for ongoing performance of job responsibilities. A competitive level of fixed remuneration is critical to attract and retain executives.

Total fixed remuneration includes base salary and benefits, such as superannuation or other retirement programs, health insurance, life and disability insurance, and automobile allowances where applicable. At-risk remuneration elements are based on annual bonus and performance-based equity incentives.

Fixed and at-risk remuneration at Sims references an appropriate range around the market median (50th percentile) as one input to the Company's remuneration decisions. In addition, other inputs include:

- The size and complexity of the role;
- Skills and experience required for the role;
- Market pay levels and competitiveness against the benchmark peer group;
- The criticality of the role to successful execution of the business strategy; and
- Market dynamics and cyclicality affecting the industry in which the Company operates.

1) Excluding other cash-based and accrued benefits.

# Directors' Report continued
## Remuneration Report continued

### 2.3 EXECUTIVE REMUNERATION BENCHMARKING CONTINUED

**Executive Benchmarking Peer Group for FY19**

The Remuneration Committee, with assistance from its independent remuneration consultants, regularly monitors composition of the peer group to ensure it continues to serve as an appropriate reference for establishing total remuneration for Sims' Executives. The Committee considers companies within our industry or comparable lines of business, complexity of global operations, of a similar revenue size, country listing and industry dynamics.

The Committee determined that for FY19, the 18 companies listed below continue to closely reflect comparable attributes to Sims. No changes were made to this peer group from FY18.

**Australian listed companies**

| | | |
|---|---|---|
| Ansell Limited | BlueScope Steel Limited | Boral Limited |
| Graincorp Limited | Incitec Pivot Limited | Nufarm Limited |
| Orica Limited | Orora Limited | WorleyParsons Limited |

**US listed companies**

| | | |
|---|---|---|
| AK Steel Holding Corporation | Allegheny Technologies Inc. | Cliffs Natural Resources, Inc. |
| Commercial Metals Company | Reliance Steel & Aluminum Co. | Schnitzer Steel Industries Inc. |
| Steel Dynamics Inc. | The Timken Company | Worthington Industries, Inc. |

### 2.4 SHORT-TERM INCENTIVE PLAN OVERVIEW FOR FY19

Sims' STI provides senior executives an opportunity to earn an annual cash incentive based on achievement of financial, strategic and individual performance goals over one year. Sims' performance at fiscal year-end is measured against goals established at the beginning of each fiscal year. STI is delivered in September following finalisation of the Company's audited financial results.

**Financial Performance Measure**

Financial hurdles are established as part of the Company's budget process which includes consideration of the current economic environment. Sims' Board may reassess the effectiveness of the performance measure under the STI annually and may determine to make adjustments to ensure continued alignment to strategy and delivery of appropriate returns to shareholders.

Sims utilised ROCCE as the financial metric for STI awards in FY19. The Board believed ROCCE effectively rewards investment decisions through efficient use of capital under the FY19 STI.

ROCCE is calculated as profit divided by funds deployed.

- Profit refers to earnings before interest and taxes which represents ordinary earnings within the influence of management and may be adjusted (positively or negatively) at Board discretion for certain underlying items, such as acquisitions, non-qualified hedges and redundancies.
- Controlled capital employed (CCE) is total funds used in the business and represents the average balances of CCE throughout the financial year to generate ordinary earnings. *(CCE=net assets adjusted for cash, external borrowings, taxes and intercompany balances)*

The Company must achieve 70% of the Group ROCCE target in order to fund the financial portion of the STI plan. If 70% of the Group ROCCE target is met, the financial portion of the STI is based on the ROCCE achievement relative to budget for Group and, where applicable, the relevant business unit. Details of the 2019 remuneration outcomes, including key accomplishments, for Sims' Executives are provided in Section 3.

**Non-Financial Performance Measures**

An individual's performance is also a component of the STI awards. Individual performance goals (IPGs) are set in a number of key areas which focus on initiatives critical to the overall success of the Company and execution of its strategic initiatives and operating objectives.

The Remuneration Committee established specific criteria for FY19 individual performance goals pertaining to the Group CEO and other Executives of Sims. Individual performance goals for Executives included objectives in the areas of safety, culture, strategy development, organisational capabilities, and risk management. Additional details regarding achievement against goals are provided for each Executive in Section 3.6.

A minimum achievement of 50% of Group ROCCE target is required for Executives to earn a payout for the achievement of the non-financial component of the STI.

The Group CEO's performance is assessed by the Committee and any earned incentive payment recommendation must be approved by the Board of Directors. The performance of other Executives' is reviewed annually by the Group CEO, and recommended payments are considered and, if appropriate, approved by the Committee.



**Range of Achievement and Payout Levels**

The STI is determined by reference to a range of threshold, target and maximum levels of performance hurdles. The range of financial achievement and potential STI payout opportunity is outlined below. Results between the values are determined on a linear basis.

| Group and Business Unit ROCCE Achievement | STI Payout Percentage |
|---|---|
| Below Threshold | 0% |
| At Threshold (70% of Budget) | 50% |
| At Target (100% of Budget) | 100% |
| At 130% of Budget | 130% |
| At or Above (175% of Budget) | 200% |

The final STI calculation incorporates the target bonus opportunity and the weighted factors for Group and business units' financial achievements, plus weighting for the achievement level of the individual performance component.

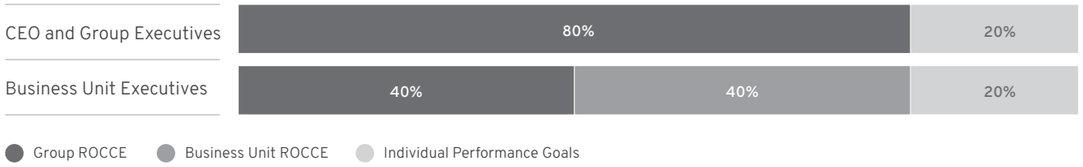
**Total Target Incentive Opportunity**

The Group CEO and other Executives are eligible to participate in the STI at the following target levels:

| Positions | Target Opportunity | Maximum Opportunity |
|---|---|---|
| Group CEO/Other Executives | 100% of Base Salary | 200% of Base Salary |

**Performance Weightings**

The table below outlines financial and non-financial weightings for each Executive, of which 80% is represented by ROCCE.




The Board believes these weightings align to the principle of balancing objectives for which Executives are directly accountable and responsible, while retaining a link to Group performance.

**Additional Plan Rules for FY19 STI Plan**

**Termination:** STI performance for the relevant period will be assessed and paid on a pro rata basis for a qualifying employment cessation event (i.e. generally termination due to death, permanent disability, redundancy, or in other circumstances determined at the discretion of the Board). See Section 5.2 for further information on the treatment of an Executive's STI upon termination. A voluntary termination prior to the last calendar day of the financial year will result in no STI award being paid for the year, unless the Committee determines otherwise. STI awards are not payable in the case of termination for cause.

**Clawback policy:** Sims' Board may exercise clawback provisions related to STI payments in the event of fraud or serious misconduct by Executives, or any other eligible plan participant.

**Board discretion:** The STI rules provide the Sims' Board with discretion over the level of final payouts of any STI awards to Executives. This may include adjustments to the formulaic outcomes for any performance period.

**Target disclosure:** The Company understands the desire for greater transparency of specific targets. However, given the Company's size and position in the industry, the Board believes disclosing precise financial and/or individual strategic goals would put it at a competitive disadvantage due to commercial sensitivities.

### 2.5 LONG-TERM INCENTIVE PLAN OVERVIEW FOR FY19

Consistent with the guiding principles, Sims' Board believes the Company's LTI program should serve to align executive and stakeholder interests through share ownership, focusing on Group results through awards of long-term, at-risk, deferred equity while also motivating and retaining its key Executives. The Company's FY19 LTI design encourages strong alignment of Executives' interest with those of the Company's shareholders, as the ultimate reward is dependent upon the Company's financial and share price performance.

# Directors' Report continued
## Remuneration Report continued

### 2.5 LONG-TERM INCENTIVE PLAN OVERVIEW FOR FY19 CONTINUED

Sims' Executives are offered grants in the form of performance rights and share options under the LTI plan. A performance right is a contractual right to acquire an ordinary share for nil consideration if specified performance conditions are met. A share option is an agreement that gives the holder the right, but not the obligation, to acquire an ordinary share of the Company at a fixed price over a specified period of time.

Performance rights include Relative TSR and ROIC grants which incentivise achievement of higher share returns versus peer companies and targeted returns on capital investments, respectively. Share options reward absolute growth in shareholder value. The mix of incentives provided a balance of metrics and reflect competitive market practices in the jurisdictions where each of the Executives currently work and reside. Vesting of performance rights occur after three years and share options vest ratably over a period of three years from the date of the grant. Both are subject to continued employment conditions.

Sims' long-term incentive awards are granted each year in November and are approved by the Board. The CEO's awards are approved by shareholders at the Company's Annual General Meeting.

All Executives were granted performance rights and options under the LTI for FY19 in value proportionate as follows:

| Position | Relative TSR | ROIC | Share Options |
|---|---|---|---|
| Group CEO & other Executives | 33% | 33% | 33% |

The number of rights and options granted is determined based on the fair value of the rights and options at the time of approval by the Committee. The fair value of rights is calculated by Ernst & Young (EY) for the Committee using a Black-Scholes, Binomial or Monte Carlo simulation option pricing model as appropriate. The Board believes fair value most appropriately reflects the economic value of LTI awards to the Executives and is directly aligned to the associated accounting expense.

Further details and the Company's rationale for the grants offered under the LTI plan is highlighted throughout the remainder of this section. FY19 grants cover the performance period from 1 July 2018 to 30 June 2021.

**Relative TSR Performance Rights for FY19 Grants**

***Relative TSR metric:*** *(50% of performance rights based on value). TSR performance is measured over a three-year period.*

- TSR-based grants vest according to relative positioning of the Company's TSR at the end of the performance period.
- TSR ranking must fall at the 50th percentile or higher when compared against the Company's comparator group.

***Rationale for Relative TSR metric:***

- The relative TSR performance hurdle directly aligns with shareholder's interest as executives are rewarded only when the Company's TSR reaches or outperforms the median comparator companies.

***Comparators for TSR:***

- The international peer group of comparator companies used to measure TSR performance is reflective of the Company's industry, footprint and complexity.

| | | |
|---|---|---|
| AK Steel Holding Corporation | BlueScope Steel Limited | Reliance Steel & Aluminum Co. |
| Alcoa Corporation | Commercial Metals Company | Schnitzer Steel Industries Inc. |
| Arconic Inc. | Gerdau S.A. | Steel Dynamics Inc. |
| Allegheny Technologies Inc. | Nucor Corporation | Tokyo Steel MFG Co. Ltd. |
| ArcelorMittal S.A. | POSCO | U.S. Steel Corporation |

***TSR Rights vesting schedule:***

| Sims' TSR relative to TSR of Comparator group | Proportion of TSR Rights Vesting |
|---|---|
| Below 50th Percentile | 0% |
| At 50th Percentile | 50% |
| Between 50th and 75th Percentile | Straight line between 50% and 100% |
| At or Above 75th Percentile | 100% |

TSR measures the growth over a particular period in the Company's share price plus the value of reinvested dividends.

**ROIC Performance Rights for FY19 Grants**

***ROIC metric:*** *(50% of performance rights based on value). ROIC performance is measured over a three-year performance period.*

- ROIC is an acronym for return on invested capital. It is calculated as earnings before interest and after tax, divided by invested capital. ROIC includes all operating cost and investments in the business. ROIC outcome is subject to adjustments as approved at the Committee's discretion.
- ROIC is determined by taking the sum of the three annual ROIC results for each year of the performance period and dividing by three (i.e. three year average ROIC).
- ROIC-based performance rights are subject to achievement of ROIC goals, in addition to a three-year average earnings gateway which must be achieved during the performance period in order to vest.

***Rationale for ROIC metric:***

- The ROIC performance hurdle measures success of the business in generating a challenging level of return on capital investments that are consistent with the Company's business strategy.
- The earnings gateway balances return on investments with achievement of earnings, and serves as a risk mitigation measure in the LTI.
- ROIC balances the cyclical nature of commodity prices and investments that support working capital.

***ROIC Rights vesting schedule:***

| Sims' Average ROIC over the Performance Period | Proportion of ROIC Performance Rights Vesting |
|---|---|
| Less than 8% | 0% |
| 8.0% (Threshold) | 50% |
| Between 8.0% and 10.75% | Straight line between 50% and 100% |
| 10.75% (maximum) | 100% |

**Share Options for FY19 Grants**

***Share Options:*** *Options are a performance-based LTI vehicle which align participants with shareholders by encouraging behaviors and activities that drive share price increases over time. The share price must increase and exceed the exercise price to deliver value to participants.*

- An option's exercise price is set at the grant date and is determined using the average closing share price for the five days preceding the grant date.
- Options vest in three equal installments over a three-year period and expire seven years after the date of grant.

***Rationale for Share Options:***

- The use of options, which account for a third of the total LTI opportunity, remains a common market practice in the United States. Exclusion of options as a component of our LTI plan could pose challenges to providing a competitive remuneration framework for attracting and retaining highly qualified talent in North America, our largest operating jurisdiction. As discussed in Section 4 of this Report, share options will not be granted in FY20.

***Share Options vesting schedule:***

Options granted in FY19 will vest and become exercisable in equal installments over three years. Each installment vests on the last business day of August in calendar years 2019, 2020 and 2021.

**Additional Plan Rules for FY19 LTI Plan**

***Dividends:*** Holders of rights and options are not entitled to dividends over the term of the relevant vesting period (and in the case of options, until exercised).

***Termination of Employment:*** As all instruments are subject to a continuous service provision, where a participant voluntarily resigns, or is terminated for cause, all unvested awards are forfeited. Where termination of employment is the result of a qualifying cessation (i.e. generally death, permanent disablement, redundancy, or in other circumstances at the discretion of the Board), a participant will be entitled to his or her unvested awards subject to any performance conditions, in accordance with the original vesting schedule.

Any unvested awards that did not meet the required performance conditions will lapse at the end of the relevant performance period.

***Clawback policy:*** Sims' Board may exercise clawback provisions related to LTI payments and future vesting in the event of fraud or serious misconduct by Executives, or any other eligible plan participant.

***Change of Control:*** The Board has the discretion to immediately vest the rights and options prior to their vesting date if there is a change of control event. The rights and options will immediately vest in the event that a takeover bid of the Company is recommended by the Board, or a scheme of arrangement concerning the Company, which would have a similar effect to a full takeover bid, is approved by the Company's shareholders.

**Legacy LTI grants**

The FY17 LTI award, consisting of a relative TSR and ROIC portions, was tested on 30 June 2019, following the end of the performance period as outlined in Section 5. Section 5.3 summarises LTI grants that remain unvested, as well as their vesting dates. Full details can be found in the Remuneration Reports for the relevant financial years.

# Directors' Report continued
## Remuneration Report continued

SECTION 3: FY19 COMPANY PERFORMANCE/EXECUTIVE REMUNERATION OUTCOMES

### 3.1 SIMS' FINANCIAL PERFORMANCE RESULTS

**Year-on-Year Performance**

Despite challenging market conditions in FY19, the Company delivered resilient earnings and strong cash flow during the fiscal year. Quality initiatives through capital investments in recovery, separation and granulation technology contributed to the results. Performance was challenged by low Turkish demand and volatile purchasing behaviours, a fall in ferrous and non-ferrous pricing which compressed margins and geopolitical disruption from tariffs and China/US trade tensions impacting global economic sentiment. As a result, the executives received no base pay increases and incentive outcomes were markedly lower than FY18.

| Financial Year | **2019** | 2018 | 2017 | 2016[1] | 2015 |
|---|---|---|---|---|---|
| Statutory Profit/(loss) before interest and tax (A$m) | **225.0** | 278.6 | 201.2 | (215.5) | 144.8 |
| Statutory diluted earnings/(loss) per share (A¢) | **74.2** | 98.7 | 101.6 | (106.8) | 53.3 |
| Statutory return/(loss) on shareholders' equity | **7.8%** | 9.3% | 10.3% | (11.8%) | 5.2% |
| Net cash (A$m) | **347.5** | 298.1 | 373.0 | 242.1 | 313.9 |
| Return on capital[2] | **8.6%** | 10.5% | 8.2% | 2.9% | 5.6% |
| Group ROCCE | **11.03%** | 16.77% | 12.88% | (9.76%) | 7.45% |
| Total dividends paid (A$m) | **107.9** | 106.8 | 63.2 | 46.8 | 53.2 |
| Share price at 30 June (A$)[3] | **10.86** | 16.08 | 15.18 | 7.82 | 10.42 |

1 FY16 reflects goodwill and other intangible impairment charges of A$53.0 million. There were no intangible impairment charges in FY19, FY18, FY17 or FY15.
2 Return on capital = (underlying EBIT – tax at effective tax rate of 27.5%) / (net assets - net cash).
3 1 July 2014 share price was A$9.60.

FY19 outcomes for Sims' key financial metrics compared to FY18 include:

**Operating Results:**

- Profit before interest and tax of A$225.0 million versus FY18's profit before interest and tax of A$278.6 million; and
- Net cash of A$347.5 million compared to A$298.1 million as at 30 June 2018

**Shareholder Returns:**

- Achieving 35.30% TSR over the three years to the end of FY19, performing in the 64th percentile within the Company's LTI TSR comparator group;
- Achieving 7.98% ROIC for FY19; and
- Full year declared dividends totaling 42 cents per share, representing a 53% underlying payout ratio for the year. The payout ratio at the upper bound of the typical guidance range reflects the Company's strong balance sheet and sustaining operating performance.

### 3.2 TOTAL RETURN TO SHAREHOLDERS

**Cumulative Total Shareholder Return – Sims against the comparator group (excluding Sims)**

The chart below compares the cumulative TSR of Sims and the TSR comparator group for the same time period:


### 3.3 EXECUTIVE STATUTORY REMUNERATION TABLE

**Executive Statutory Remuneration**

The following Executive Statutory Remuneration table has been prepared in accordance with the accounting standards and has been audited by the Company's external auditors:

| | | | Short-term benefits | | | Post-employment benefits | | Share-based payments[5] | |
|---|---|---|---|---|---|---|---|---|---|
| (A$) Name | Location | Financial Year | Cash salary[1] | Cash bonus[2] | Other benefits[3] | Pension and super-annuation | Other long-term benefits[4] | LTI | Total |
| A Field[6] | USA | **2019** | **1,607,945** | **915,176** | **398,979** | **–** | **14,391** | **2,199,394** | **5,135,885** |
| | | 2019[7] | 1,483,682 | 844,451 | 368,146 | – | 14,391 | 2,199,394 | 4,910,064 |
| | | 2018 | 1,448,740 | 1,868,402 | 400,351 | – | 13,150 | 2,009,619 | 5,740,262 |
| S Mikkelsen[6,8] | USA | **2019** | **1,090,613** | **655,213** | **367,651** | **–** | **–** | **580,508** | **2,693,985** |
| | | 2019[7] | 1,006,330 | 604,578 | 339,239 | – | – | 580,508 | 2,530,655 |
| | | 2018 | 430,915 | 507,122 | 281,937 | – | – | 267,680 | 1,487,654 |
| W Schmiedel[6] | USA | **2019** | **1,335,042** | **751,326** | **29,241** | **17,303** | **6,991** | **1,889,531** | **4,029,434** |
| | | 2019[7] | 1,231,870 | 693,263 | 26,981 | 15,966 | 6,451 | 1,889,531 | 3,864,062 |
| | | 2018 | 1,225,886 | 1,990,849 | 747,531 | 15,998 | 6,451 | 2,436,680 | 6,423,395 |
| S Skurnac[6] | USA | **2019** | **943,792** | **557,283** | **59,547** | **17,617** | **6,991** | **853,321** | **2,438,551** |
| | | 2019[7] | 870,855 | 514,217 | 54,945 | 16,256 | 6,451 | 853,321 | 2,316,045 |
| | | 2018 | 870,855 | 1,111,531 | 60,445 | 16,256 | 6,451 | 1,085,648 | 3,151,186 |
| **Total** | | **2019** | **4,977,392** | **2,878,998** | **855,418** | **34,920** | **28,373** | **5,522,754** | **14,297,855** |
| | | 2019[7] | 4,592,737 | 2,656,509 | 789,311 | 32,222 | 27,293 | 5,522,754 | 13,620,826 |
| | | 2018 | 3,976,396 | 5,477,904 | 1,490,264 | 32,254 | 26,052 | 5,799,627 | 16,802,497 |

1) Cash salary includes amounts sacrificed in lieu of other benefits at the discretion of the individual.
2) Cash bonus amounts for FY19 and FY18 reflect the amounts provided for all Executives under the FY19 and FY18 STI plans, respectively.
3) Other short-term benefits include employer contributions to health and life insurance plans, cost of living allowances, relocation expense and associated tax gross-ups, and increased movements in the amounts accrued for annual leave during the period. During the FY18 year the Company relocated the Head Office from New York City to a regional centre at Rye in Westchester County, New York which significantly decreased rent expense and has provided a more effective and appropriate workspace for the business. As a consequence of this move, some additional amounts were paid under the Company's Relocation Policy (administered by an outsourced provider) to executives who were required to relocate to the Westchester area. These expenses are reimbursed and grossed up for tax. Messrs Field, Mikkelsen and Schmiedel's expenses including tax gross-ups incurred in relation to relocation in FY18 were A$326,534, A$270,000 and A$722,141, respectively. The amount of relocation expense reported for Mr Schmiedel in FY18 was adjusted to correct the tax gross-up. In addition, the amount accrued for annual leave during FY18 was corrected. The adjustments to Mr Schmiedel resulted in a reduction of FY18 compensation of A$19,820.
4) Other long-term benefits include Australian accrued long-term leave (for Mr Field) and amount for deferred compensation plans (for Messrs Schmiedel and Skurnac).
5) Share-based payments represent the accounting expense (as computed pursuant to AASB 2 Share-based Payments) recognised by the Company for share-based awards.
6) Executives received their cash payments in United States dollars.
7) The FY19 remuneration has been translated on a constant currency basis for a relative performance comparison to FY18 before the translation impact of currency fluctuations. The current period amounts paid in US dollars are translated into Australian dollars using the prior year US dollar exchange rate.
8) Mr Mikkelsen joined the Company on 29 January 2018.

# Directors' Report continued
## Remuneration Report continued

### 3.4 SUPPLEMENTAL REMUNERATION TABLE

**Total Realised Remuneration received by Executives in FY19** [1]

As part of the Company's commitment to clear and transparent communication with its shareholders, the Committee has included the table below showing the remuneration that was actually paid to Executives in FY19. The figures in this table include the value of LTI grants that vested during FY19.

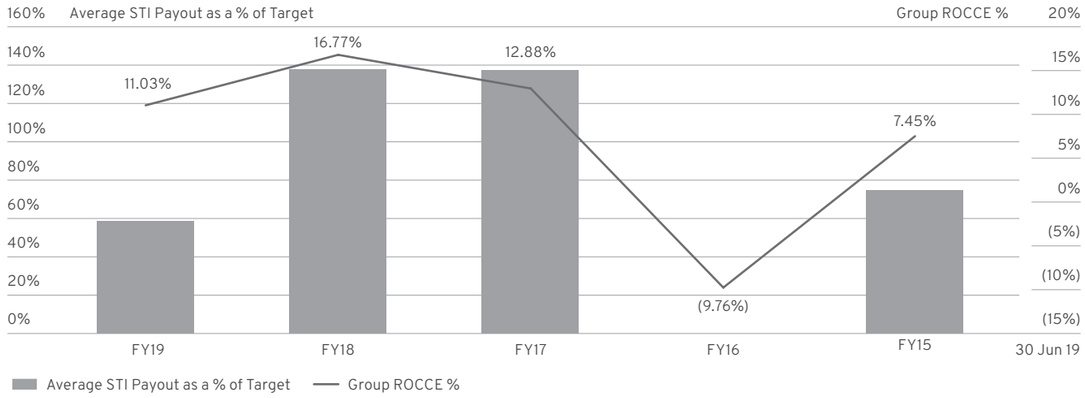
| | | Cash salary | Other Benefits | STI | | LTI | | Total Remun-eration | | Actual total remuneration as % of target total |
|---|---|---|---|---|---|---|---|---|---|---|
| Executives (A$) [2] | Year | Actual $ | Actual $ [3] | Actual $ [4] | Target [5] | Act Vested $ [6] | Target | Actual $ | Target | |
| A Field | **FY19** | **1,607,945** | **256,798** | **915,176** | **1,607,942** | **1,458,924** | **3,215,884** | **4,238,843** | **6,688,569** | **63%** |
| | FY19 [7] | 1,483,682 | 236,952 | 844,451 | 1,483,680 | 1,458,924 | 2,967,359 | 4,024,009 | 6,171,673 | 65% |
| | FY18 | 1,448,740 | 351,874 | 1,868,402 | 1,445,770 | 1,116,865 | 2,967,359 | 4,785,881 | 6,213,743 | 77% |
| S Mikkelsen | **FY19** | **1,090,613** | **313,163** | **655,213** | **1,090,604** | **–** | **1,090,604** | **2,058,989** | **3,584,984** | **57%** |
| | FY19 [7] | 1,006,330 | 288,962 | 604,578 | 1,006,322 | – | 1,006,322 | 1,899,870 | 3,307,936 | 57% |
| | FY18 | 430,915 | 276,259 | 507,122 | 421,828 | – | 1,006,322 | 1,214,296 | 2,135,324 | 57% |
| W Schmiedel | **FY19** | **1,335,042** | **53,534** | **751,326** | **1,335,025** | **2,395,853** | **2,002,538** | **4,535,755** | **4,726,139** | **96%** |
| | FY19 [7] | 1,231,870 | 49,397 | 693,263 | 1,231,854 | 2,395,853 | 1,847,781 | 4,370,383 | 4,360,902 | 100% |
| | FY18 | 1,225,886 | 769,980 | 1,990,849 | 1,225,759 | 2,374,492 | 1,847,781 | 6,361,207 | 5,069,406 | 125% |
| S Skurnac | **FY19** | **943,792** | **48,469** | **557,283** | **943,792** | **1,076,039** | **943,792** | **2,625,583** | **2,879,845** | **91%** |
| | FY19 [7] | 870,855 | 44,723 | 514,217 | 870,855 | 1,076,039 | 870,855 | 2,505,834 | 2,657,288 | 94% |
| | FY18 | 870,855 | 58,415 | 1,111,531 | 870,855 | 1,162,072 | 870,855 | 3,202,873 | 2,670,980 | 120% |

1) The figures in the table are different from those shown in the Executive Statutory Remuneration table in Section 3.3. The table in Section 3.3 is consistent with financial statement recognition and measurement, and includes an apportioned accounting value for all unvested STI and LTI grants (some of which remain subject to satisfaction of performance and service conditions and may not ultimately vest).
2) All Executives received their cash payments in US dollars.
3) Other Benefits for the purposes of this table include employer contributions to defined contribution retirement plans, health and life insurance plans, cost of living allowances and relocation expenses and associated tax gross-ups. During the FY18 year the Company relocated the Head Office from New York City to a regional centre at Rye in Westchester County, New York which significantly decreased rent expense and has provided a more effective and appropriate workspace for the business. As a consequence of this move, some additional amounts were paid under the Company's Relocation Policy (administered by an outsourced provider) to executives who were required to relocate to the Westchester area. These expenses are reimbursed and grossed up for tax. Messrs Field, Mikkelsen and Schmiedel's expenses including tax gross-ups incurred in relation to relocation in FY18 were A$326,534, A$270,000 and A$722,141, respectively. The amount of relocation expense reported for Mr Schmiedel in FY18 was adjusted to correct the tax gross-up. The adjustment to Mr Schmiedel resulted in a reduction of compensation of A$62,403.
4) Actual STI refers to the Executive's total STI provided for in FY19 to be paid in FY20, and provided for in FY18 and paid in FY19.
5) For the definition of target STI, refer to Section 2.4.
6) Actual vested LTI refers to equity grants from prior years that vested during FY18 and FY19. The value is calculated using the Company's closing share price on the day of vesting after deducting any exercise price.
7) The FY19 remuneration has been translated on a constant currency basis for a relative performance comparison to FY18 before the translation impact of currency fluctuations. The current period amounts paid in US dollars are translated into Australian dollars using the prior year US dollar exchange rate.

### 3.5 HISTORICAL AVERAGE STI PAYOUT AS % OF TARGET

**Average Executive STI Payout (as a % of target) compared to Sims' ROCCE performance**

Sims' statutory ROCCE over the past five years is shown in the chart below. The chart confirms that historical average STI outcomes for Executives are aligned with the Company's ROCCE results.




### 3.6 REMUNERATION OUTCOME FOR SIMS EXECUTIVES

At the beginning of FY19, as part of the annual remuneration review process, the Committee approved the various remuneration payments for Sims' Executives. There were no increases to fixed remuneration for the KMPs for FY19. At risk or variable payments took into consideration the Company's performance against pre-established ROCCE targets, achievements against LTI plan metrics, as well as each Executive's individual performance.

An Executive's STI payout is based on two fundamental factors: how well the Company performed and how well the individual Executive performed against pre-established goals.

Based on the Company's FY19 performance against pre-established ROCCE targets, as well as assessment of individual performance, the Committee and the Board approved the FY19 STI payments for Executives as highlighted on the following pages. The Board, in alignment with management, exercised its discretion to reduce awards from the formulaic calculation to reflect the unsatisfactory safety performance of the business.

The individual goals for the Executives included specific initiatives and targets around the advancement of several key areas of focus for the Company. For FY19, each Executive could have one or more of the following goals with specified achievement expectations for their area of business unit responsibility, functional responsibility and/or leading a global initiative for Sims:

- Safety, Health, Environment, Community & Sustainability (SHECS) framework & systems alignment for Sims
- Development and communication of the Long-term Strategy & Purpose across the Group
- Communication of key aspects of the strategy and capital structure framework to the market and investors
- Development of a cultural framework for Sims, aligning behavior with Long-term strategy & purpose
- Complete the Organisational Capability program for Sims - covering all leadership
- Improve and enhance the risk management processes and test and process-verify regional governance structures
- Complete the long-term strategy for the Company's enterprise systems architecture

The Board evaluates and approves the achievement level of the CEO against his individual goals. The CEO evaluates the other Executives and presents his assessments and recommendations to the Board for approval.

The LTI values shown include grants that vested during FY19. The value of actual vested LTI grants reflect awards from prior years that vested during FY19. Grant values were calculated using the Company's closing share price on the day of vesting after deducting any exercise price. Other remuneration reflects cash benefits received by the KMP and does not include accrued benefits or other long-term benefits.

The Company maintains its commitment to reward Executives based on Sims' current remuneration structure and philosophy. The KMP's remuneration reflected in the snapshots on the following pages reflect the Committee's overall view of the Company's strategic direction and financial performance, as well as each of the executive's individual performance relative to goals, business challenges and opportunities that arose during FY19.

# Directors' Report continued
## Remuneration Report continued

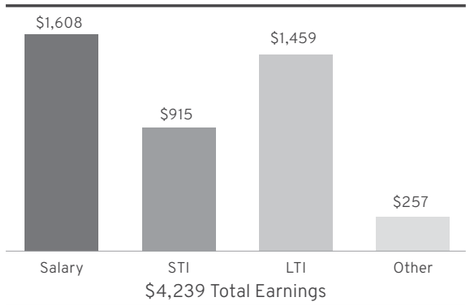
### 3.6 REMUNERATION OUTCOME FOR SIMS EXECUTIVES CONTINUED

### MANAGING DIRECTOR & GROUP CEO – REALISED REMUNERATION SNAPSHOT

**Alistair Field**
*Managing Director & Group CEO*

| FY19 STI Earned | | (AUD $000) |
|---|---|---|
| Actual | | $915 |
| % of Target / % of Maximum | | 57% / 28% |
| Measures / Weights | | 80% Group ROCCE / 20% IPG |
| **FY19 LTI Earned (AUD $000)** | **Vested %** | **Value $** |
| Restricted Share Units | 100% | $216 |
| Share Options | 100% | $193 |
| TSR Performance Rights | 96.6% | $422 |
| ROIC Performance Rights | 187.0% | $628 |
| Total LTI Earned | | $1,459 |

Realised FY19 Remuneration (AUD $000)




| FY19 vesting | Shares Earned | Shares Forfeited |
|---|---|---|
| FY16 Sign-on Restricted Share Unit (RSU) granted 1 October 2015 3rd and final tranche vested on 1 October 2018 | 17,235 | – |
| Share Options vested on 31 August 2018 (3rd tranche of FY16 grant, 2nd tranche of FY17 grant and 1st tranche of FY18 grant) in accordance with terms of each respective grants | 150,575 | – |
| FY16 TSR-based Performance Share Unit (PSU) award partially vested on 31 August 2018 | 33,629 | 1,184 |
| FY16 ROIC-based PSU award partially vested on 31 August 2018 | 50,017 | 3,477 |

**Responsibilities**

Mr Field was appointed Group Chief Executive Officer and Managing Director of the Company on 3 August 2017 and has overall responsibility for implementing the Sims purpose and leading the development and execution of the organisation's long-term growth strategy with the goal of increasing shareholder value.

He is a member of the SHECS Committee, the Nomination/Governance Committee and the Risk Committee. Additionally, Mr Field was also invited to join the World Business Council for Sustainable Development, a global CEO-led organisation of more than 200 leading businesses working to accelerate the transition to a sustainable world.

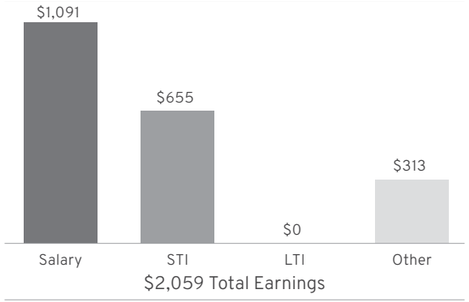
Mr Field is a highly experienced executive with a proven track record of leading organisations through business transition and improvement. He has worked internationally and held residence in South Africa, Saudi Arabia, Canada and Australia.

### GROUP CFO – REALISED REMUNERATION SNAPSHOT

**Stephen Mikkelsen**
*Group Chief Financial Officer*

| FY19 STI Earned | | (AUD $000) |
|---|---|---|
| Actual | | $655 |
| % of Target / % of Maximum | | 60% / 30% |
| Measures / Weights | | 80% Group ROCCE / 20% IPG |
| **FY19 LTI Earned (AUD $000)** | **Vested %** | **Value $** |
| Restricted Share Units | NA | |
| Share Options | 100% | $0 |
| TSR Performance Rights | NA | |
| ROIC Performance Rights | NA | |
| Total LTI Earned | | $0 |

Realised FY19 Remuneration (AUD $000)




| FY19 vesting | Shares Earned | Shares Forfeited |
|---|---|---|
| Share Options vested on 31 August 2018 (1st tranche of FY18 grant) in accordance with terms of the respective grant, with an exercise price above the market price on the date of vesting | 18,389 | – |

**Responsibilities**

Mr Mikkelsen has been serving in the role of Group Chief Financial Officer since January 2018. He works closely with the executive leadership team to drive the development of the Company's operating and strategic agenda. Mr Mikkelsen plays an integral role in Sims' continuous improvement, integration, and capital reinvestment growth initiatives.

With more than three decades of finance experience, Mr Mikkelsen has oversight of Sims' global corporate finance function, including treasury, accounting, financial planning, taxation, investor relations and the CFOs of the business units.

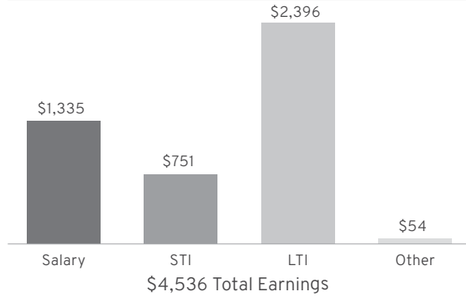
Mr Mikkelsen has an expansive experience in finance and executive management. He is a chartered accountant and a member of Chartered Accountants Australia & New Zealand.

### PRESIDENT GLOBAL TRADE – REALISED REMUNERATION SNAPSHOT

**William Schmiedel**
*President Global Trade*

| FY19 STI Earned | | (AUD $000) |
|---|---|---|
| Actual | | $751 |
| % of Target / % of Maximum | | 56% / 28% |
| Measures / Weights | | 80% Group ROCCE / 20% IPG |
| **FY19 LTI Earned (AUD $000)** | **Vested %** | **Value $** |
| Restricted Share Units | NA | |
| Share Options | 100% | $398 |
| TSR Performance Rights | 96.6% | $803 |
| ROIC Performance Rights | 187.0% | $1,195 |
| Total LTI Earned | | $2,396 |

Realised FY19 Remuneration (AUD $000)




| FY19 vesting | Shares Earned | Shares Forfeited |
|---|---|---|
| Share Options vested on 31 August 2018 (3rd tranche of FY16 grant, 2nd tranche of FY17 grant and 1st tranche of FY18 grant) in accordance with terms of each respective grants | 203,767 | – |
| FY16 TSR-based PSU award partially vested on 31 August 2018 | 63,942 | 2,251 |
| FY16 ROIC-based PSU award partially vested on 31 August 2018 | 95,101 | 6,611 |

**Responsibilities**

As President Global Trade, Mr Schmiedel is focused on developing the strategy and leading the structure and execution of the Company's export sales. He is responsible for all ferrous and non-ferrous export sales – both deep sea and container exports – from all of Sims' entities globally, as well as domestic sales in North America.

Mr Schmiedel also leads Sims' global trading business with responsibility for all third party transactions for ferrous scrap, iron and semi-finished steel products.

With an extensive career in the recycling industry, Mr Schmiedel has dedicated his time to industry organisations, such as the Bureau of International Recycling (BIR) where he served on the governing board. He also served as the President of BIR's ferrous board and successfully worked to improve the relationship between BIR and the Institute of Scrap Recycling Industries.

# Directors' Report continued
## Remuneration Report continued

### 3.6 REMUNERATION OUTCOME FOR SIMS EXECUTIVES CONTINUED

### GROUP CDO – REALISED REMUNERATION SNAPSHOT

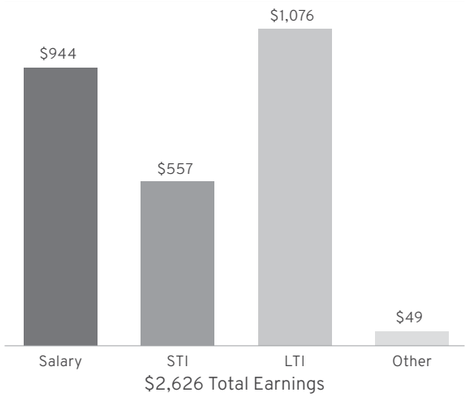
**Stephen Skurnac**
*Group Chief Development Officer*

| FY19 STI Earned | (AUD $000) |
|---|---|
| Actual | $557 |
| % of Target / % of Maximum | 59% / 30% |
| Measures / Weights[1] | 40% Group ROCCE<br>40% Business Unit ROCCE<br>20% IPG |

1) 80% Group ROCCE from 1 February 2019; 40% Business Unit ROCCE through 1 February 2019.

| FY19 LTI Earned (AUD $000) | Vested % | Value $ |
|---|---|---|
| Restricted Share Units | NA | |
| Share Options | 100% | $175 |
| TSR Performance Rights | 96.6% | $362 |
| ROIC Performance Rights | 187.0% | $539 |
| Total LTI Earned | | $1,076 |

Realised FY19 Remuneration (AUD $000)




| FY19 vesting | Shares Earned | Shares Forfeited |
|---|---|---|
| Share Options vested on 31 August 2018 (3rd tranche of FY16 grant, 2nd tranche of FY17 grant and 1st tranche of FY18 grant) in accordance with terms of each respective grants | 90,699 | – |
| FY16 TSR-based PSU award partially vested on 31 August 2018 | 28,837 | 1,015 |
| FY16 ROIC-based PSU award partially vested on 31 August 2018 | 42,888 | 2,982 |

**Responsibilities**

As Group Chief Development Officer, Mr Skurnac is responsible for identifying and developing new growth opportunities for Sims through new lines of business, expansion of our current business units, and our Australia-based joint venture energy recovery business, LMS Energy. He works closely with the Chief Executive Officer to achieve the Company's revenue goals by growing and gaining market share.

Mr Skurnac serves on the board of numerous industry associations. He is also a key contributor to major cooperative e-scrap policy groups, including the Environmental Protection Agency's Common Sense initiative, the National Product Stewardship Initiative (NEPSI), and UN Basel Workgroup standards development.

**SECTION 4: FY20 EXECUTIVE REMUNERATION STRATEGY AND FRAMEWORK**

### 4.1 REMUNERATION FRAMEWORK LINK TO CORPORATE STRATEGY

In early April 2019, the Company outlined to shareholders a number of global strategies for its businesses to support its purpose of creating a world without waste to preserve our planet. To align with the Company's purpose and support the long-term strategy, the Committee recognised that the incentives structure needed to be reviewed. The Committee engaged with senior management in a process of evaluating Sims' remuneration programs to further strengthen shareholder alignment and support the Company's strategic goals around workplace safety, business growth, managing volatility and operational risk, and playing a key role as a steward of the environment.

This assessment resulted in a redesign of the remuneration framework for FY20. Changes were made to specifically ensure the long-term incentive structure was appropriately aligned to the strategic objectives communicated to shareholders, and to reflect feedback from key stakeholders regarding the Company's remuneration framework and pay practices.

The Committee believes that the remuneration framework outlined below will focus executives' efforts on Sims' multi-year performance and result in creating value for shareholders. The FY20 remuneration framework will support a balanced delivery of the Company's business strategy with shorter-term key financial and operational objectives by aligning overall incentive outcomes based on:

- achieving multi-year goals tied to the Company's business strategy
- growing the business and delivering on earnings targets
- linking a significant portion of executives' remuneration to "at risk" incentives
- maintaining a portion of the incentives to relative total shareholder return performance
- increasing executive and shareholder alignment by requiring certain earned incentives to be delivered in shares and held for up to four years

### 4.2 CHANGES TO SIMS' REMUNERATION FRAMEWORK FOR FY20

A summary of the key changes to the remuneration framework are as follows:

| Plan | Key Changes | Rationale |
|---|---|---|
| STI | **Changed the financial hurdle** for the STI from ROCCE to underlying Earnings Before Interest Tax Depreciation and Amortisation (EBITDA). | – ROCCE has historically been a more complicated measure to communicate and measure for both STI participants and shareholders. EBITDA serves as a key indicator of the financial health of the Company and its ability to generate the necessary cash to fund the initial capital investments of the new business strategy.<br>– Underlying EBITDA is a reporting metric which provides a consistent and comparable year-over-year measure. This improves transparency, line of sight, communication and simplicity. EBITDA associated with the acquisition or disposal of an asset will be excluded from the calculation. |
| | **Eliminated the Group earnings gateway** which required a minimum financial achievement before any payout of either financial or non-financial metrics under the STI could be earned. | – For FY20, the financial and non-financial measures within the STI will be independently earnable. This allows participants to be appropriately rewarded for achievement of Group financial metrics, business unit financial metrics, and/or individual goals.<br>– This drives behaviors to maximise the achievement of each metric and goal whenever possible. All participants will continue to maintain a portion of their STI subject to Group financial performance. |
| LTI | **Eliminated Share Options** as a component of the LTI framework. | – Elimination of Share Options addresses concerns voiced by shareholders and mitigates the dilutive impact of the LTI program. |
| | **Modified Performance Share Units (PSU)** from a ROIC metric to a three-year strategic goals metric with a Return on Capital (ROC) modifier. Strategic PSUs will be assessed by the Board for achievement of the strategic goals at the end of the three-year performance period. Payout upon vesting ranges from 0% to 100%.<br>The amount of PSUs earned, if any, will also be subject to a Return on Capital (ROC) hurdle, as a modifier of 70% to 100% based on pre-established ROC goals. | – The performance shares are based on a balanced scorecard of three-year objectives linked to the Company's long-term business strategy.<br>– The ROC modifier provides a balance metric to ensure Executives focus on delivering returns from strategic initiatives. ROC for this purpose is underlying EBIT divided by average non-current assets. |
| | **Changed Sims' Relative TSR comparator group** to a broader representation of companies using the constituent companies of the ASX200 Materials and Energy sector as of 1 July 2019. | – This new comparator group is made up of companies in related sectors and of similar size to Sims, that are subject to many of the same economic trends as Sims. |
| | **Reallocated the Share Option component of the LTI to Strategic Share Incentives (SSI)** which is a performance-based "at risk" incentive. SSI is based on a balanced scorecard which measures one-year strategic and operational goals directly tied to the Company's overall business strategy.<br>Any amount of the SSI earned will be based on the Board's assessment of results achieved against the one-year goals, with payouts ranging from 0% to 100% of each KMP's FY20 SSI award. Earned awards will be delivered, after tax withholding, in ordinary shares of the Company. Executives will be required to hold these shares for three years for 50% of the award and four years for the remaining 50%. | – Providing a performance-based incentive vehicle in replacement of options under the LTI directly ties Executives' performance to the achievement of the Company's strategic goals. The SSI goals are the year one achievements necessary to deliver the Company's multi-year strategy.<br>– The holding requirement strengthens the link between executives' on-going SSI value with that of shareholders. SSI balanced scorecard is linked directly to critical near-term execution goals aligned to delivering on the longer-term business strategy.<br>– This structure serves to address shareholder dilution concerns through on-market equity purchases. |
| | **Changed valuation methodology to face value** for Strategic PSUs and SSI. | – The use of a face value methodology for awards of Strategic PSUs and SSI will result in lower dilution to shareholders. |

# Directors' Report continued
## Remuneration Report continued

SECTION 5: EXECUTIVE REMUNERATION GOVERNANCE AND DISCLOSURE TABLES

### 5.1 REMUNERATION GOVERNANCE

The Committee assists the Board in fulfilling its oversight responsibility relative to the integrity of the Company's remuneration framework, and works closely with other Board Committees to ensure the Company's policies and procedures on risk management, organisational culture, and Board effectiveness are consistent with the long-term best interests of the Company and its shareholders.

### BOARD

The Sims' Board has responsibility for the Company's executive remuneration programs which include:

- Establishing remuneration philosophy and guiding principles
- Oversight of remuneration practices and policies
- Reviewing and approving recommendations from the Remuneration Committee

### REMUNERATION COMMITTEE

The Committee includes 5 independent NEDs and advises the Board on:

- Remuneration strategy, framework, performance goals, recruitment, retention, termination and NED fees and framework
- Considers recommendations from Sims' management in making remuneration decisions based on the Company's remuneration guiding principles

### MANAGEMENT

Sims' management provides information relevant to remuneration decisions and makes recommendations to the Committee on:

- Remuneration structure , policies and market trends
- Remuneration recommendations

### REMUNERATION CONSULTANT

- The Remuneration Committee may, at its discretion, select independent consultants to provide advice and information relevant to make informed remuneration decisions.

For the purposes of the Corporations Act no remuneration recommendations in relation to KMP were provided by the Remuneration Consultant or other advisor during FY19.

### 5.2 EXECUTIVE CONTRACTS

**Termination Entitlements under Executive Contracts**

The table below outlines termination provisions for the Group CEO and other KMP, in accordance with formal contracts of a continuing nature with no fixed term of service. For FY19, there were no changes to the terms of the contacts for Executives reported in this year's Remuneration Report. These Termination Entitlements were approved by shareholders at the Company's 2014 Annual General Meeting.

| Termination Entitlements if Terminated by the Company or by the Executive for good reason | Group CEO and Other Executives |
|---|---|
| Notice Period | – 3 months; provided by either the CEO or the Board |
| Fixed Remuneration | – 12 months of fixed remuneration |
| STI | – Pro-rata STI payment subject to performance testing and Board discretion based on Executive performance |
| LTI | – Eligible for continued vesting of LTI awards, subject to performance testing and original vesting |
| Other Entitlements | – Eligible for any accrued but unpaid remuneration (leave and accrued benefits)<br>– Up to 12 months Company paid health insurance premiums |
| Termination due to Death or Permanent Disability or Other Circumstances at the Board's discretion | – Entitlements as shown above relating to treatment of Fixed Remuneration, Treatment of STI, Treatment of LTI and Treatment of Other Entitlements |



### 5.3 SHARE BASED PAYMENT AND EQUITY HOLDINGS

**Options provided as remuneration**

The following table summarises the terms of outstanding option grants for Executives:

| Name | Grant date | Number granted | Exercise price | Fair value at grant date | Date next tranche can be exercised | Expiry date | % of options that have vested | Maximum total value of unvested grant[1] |
|---|---|---|---|---|---|---|---|---|
| *Ordinary Shares (A$)* | | | | | | | | |
| A Field | 10 Nov 16 | 112,109 | $10.51 | $3.78 | 31 Aug 19 | 10 Nov 23 | 66.7% | $8,882 |
| | 9 Nov 17 | 230,076 | $13.43 | $4.33 | 31 Aug 19 | 9 Nov 24 | 33.3% | $173,949 |
| | 9 Nov 18 | 294,673 | $12.34 | $3.47 | 31 Aug 19 | 9 Nov 25 | 0% | $559,801 |
| S Mikkelsen | 5 Feb 18 | 55,168 | $17.10 | $4.89 | 31 Aug 19 | 5 Feb 25 | 33.3% | $52,359 |
| | 9 Nov 18 | 99,933 | $12.34 | $3.47 | 31 Aug 19 | 9 Nov 25 | 0% | $189,846 |
| W Schmiedel | 10 Nov 16 | 259,761 | $10.51 | $3.78 | 31 Aug 19 | 10 Nov 23 | 66.7% | $20,580 |
| | 9 Nov 17 | 143,269 | $13.43 | $4.33 | 31 Aug 19 | 9 Nov 24 | 33.3% | $108,318 |
| | 9 Nov 18 | 183,494 | $12.34 | $3.47 | 31 Aug 19 | 9 Nov 25 | 0% | $348,589 |
| S Skurnac | 10 Nov 16 | 110,648 | $10.51 | $3.78 | 31 Aug 19 | 10 Nov 23 | 66.7% | $8,767 |
| | 9 Nov 17 | 67,522 | $13.43 | $4.33 | 31 Aug 19 | 9 Nov 24 | 33.3% | $51,050 |
| | 9 Nov 18 | 86,480 | $12.34 | $3.47 | 31 Aug 19 | 9 Nov 25 | 0% | $164,288 |

1) No options will vest if the vesting conditions are not satisfied, hence the minimum value of unvested awards is nil. The maximum value of the unvested awards has been determined as the amount of the grant date fair value that is yet to be expensed. Options are granted for nil consideration.

**Movement in options during the year ended 30 June 2019**

The number of options over fully paid ordinary shares or American Depositary Shares (ADSs) in the Company held during the financial year by each Executive is set out below. Values are in Australian dollars for ordinary shares and US dollars for ADSs.

| Name | Balance at 1 July 2018 | Number Granted | Number Exercised | Number Forfeited/ Expired | Balance at 30 Jun 2019 | Vested | Unvested | Number of options that vested during FY19 | Value of options granted during FY19 |
|---|---|---|---|---|---|---|---|---|---|
| *Ordinary shares (A$)* | | | | | | | | | |
| A Field | 451,722 | 294,673 | – | – | 746,395 | 260,968 | 485,427 | 150,575 | $1,021,533 |
| S Mikkelsen | 55,168 | 99,933 | – | – | 155,101 | 18,389 | 136,712 | 18,389 | $346,434 |
| W Schmiedel | 385,867 | 183,494 | (69,424) | – | 499,937 | 134,343 | 365,594 | 203,767 | $636,112 |
| S Skurnac | 341,001 | 86,480 | – | – | 427,481 | 259,103 | 168,378 | 90,699 | $299,797 |
| *ADSs (US$)* | | | | | | | | | |
| W Schmiedel | 53,193 | – | – | (53,193) | – | – | – | – | – |
| S Skurnac | 33,548 | – | – | (12,506) | 21,042 | 21,042 | – | – | – |

# Directors' Report continued
## Remuneration Report continued

### 5.3 SHARE BASED PAYMENT AND EQUITY HOLDINGS CONTINUED

**Performance Rights and Restricted Share Units provided as remuneration**

The following table summarises the terms of outstanding performance rights and RSUs for Executives. Some of these performance rights and RSUs have vested.

| Name | Grant date | Number granted | Fair value at grant date | Date next tranche vests | Maximum total value of unvested grant [1] |
|---|---|---|---|---|---|
| *Ordinary Shares (A$)* | | | | | |
| A Field | 13 Sep 16 | 37,474 | $8.46 | 30 Aug 19 | $18,149 |
| | 13 Sep 16 | 37,474 | $8.21 | 31 Aug 20 | $90,876 |
| | 10 Nov 16 | 40,511 | $8.86 | 30 Aug 19 | $19,234 |
| | 10 Nov 16 | 60,834 | $11.38 | 30 Aug 19 | $692,291 [2] |
| | 09 Nov 17 | 104,087 | $9.40 | 31 Aug 20 | $361,626 |
| | 09 Nov 17 | 73,691 | $13.09 | 31 Aug 20 | $508,547 [3] |
| | 09 Nov 18 | 184,882 | $6.30 | 31 Aug 21 | $797,627 |
| | 09 Nov 18 | 84,976 | $11.55 | 31 Aug 21 | $826,793 [4] |
| S Mikkelsen | 05 Feb 18 | 25,602 | $10.53 | 31 Aug 20 | $99,641 |
| | 05 Feb 18 | 17,041 | $15.82 | 31 Aug 20 | $142,127 [3] |
| | 09 Nov 18 | 62,699 | $6.30 | 31 Aug 21 | $270,499 |
| | 09 Nov 18 | 28,818 | $11.55 | 31 Aug 21 | $280,391 [4] |
| W Schmiedel | 13 Sep 16 | 67,454 | $8.46 | 30 Aug 19 | $32,669 |
| | 13 Sep 16 | 67,454 | $8.21 | 31 Aug 20 | $163,579 |
| | 10 Nov 16 | 93,866 | $8.86 | 30 Aug 19 | $44,566 |
| | 10 Nov 16 | 140,956 | $11.38 | 30 Aug 19 | $1,604,079 [2] |
| | 09 Nov 17 | 64,815 | $9.40 | 31 Aug 20 | $225,185 |
| | 09 Nov 17 | 45,887 | $13.09 | 31 Aug 20 | $316,670 [3] |
| | 09 Nov 18 | 115,127 | $6.30 | 31 Aug 21 | $496,687 |
| | 09 Nov 18 | 52,915 | $11.55 | 31 Aug 21 | $514,849 [4] |
| S Skurnac | 13 Sep 16 | 28,106 | $8.46 | 30 Aug 19 | $13,612 |
| | 13 Sep 16 | 28,106 | $8.21 | 31 Aug 20 | $68,158 |
| | 10 Nov 16 | 39,983 | $8.86 | 30 Aug 19 | $18,983 |
| | 10 Nov 16 | 60,042 | $11.38 | 30 Aug 19 | $683,278 [2] |
| | 09 Nov 17 | 30,547 | $9.40 | 31 Aug 20 | $106,128 |
| | 09 Nov 17 | 21,627 | $13.09 | 31 Aug 20 | $149,250 [3] |
| | 09 Nov 18 | 54,259 | $6.30 | 31 Aug 21 | $234,087 |
| | 09 Nov 18 | 24,939 | $11.55 | 31 Aug 21 | $242,650 [4] |

1) No performance rights or RSUs will vest if the vesting conditions are not satisfied, hence the minimum value of unvested awards is nil. The maximum value of the unvested performance rights and RSUs has been determined as the amount of the grant date fair value that is yet to be expensed. Performance rights and RSUs are granted for nil consideration.
2) These grants relate to performance rights issued in FY17 subject to a ROIC performance hurdle achievement in FY19. As these performance rights did not achieve threshold return of 8.0% in the final year of the three-year period, the performance right did not vest and no expense was incurred.
3) These grants relate to performance rights issued in FY18 subject to a 3-year cumulative ROIC performance hurdle achievement in FY20.
4) These grants relate to performance rights issued in FY19 subject to a 3-year cumulative ROIC performance hurdle achievement in FY21.

**Movement in Performance Rights and Restricted Shares Units during the year ended 30 June 2019**

The number of performance rights and RSUs to ordinary shares or ADSs in the Company held during the financial year by each Executive is set out below:

| Name | Instrument that performance rights and RSUs are over | Balance at 1 July 2018 | Number Granted | Number Vested | Number Forfeited | Balance at 30 June 2019 |
|---|---|---|---|---|---|---|
| A Field | Ordinary shares | 459,613 | 269,858 | (100,881) | (4,661) | 623,929 |
| S Mikkelsen | Ordinary shares | 42,643 | 91,517 | – | – | 134,160 |
| W Schmiedel | Ordinary shares | 648,337 | 168,042 | (159,043) | (8,862) | 648,474 |
| S Skurnac | Ordinary shares | 284,133 | 79,198 | (71,725) | (3,997) | 287,609 |

**KMP share holdings as at the end of the financial year ended 30 June 2019**

KMP share holdings as at the end of the financial year and activity during the financial year, including personally related parties, is set out below:

| Name | Balance at 1 July 2018 | Received on exercise of options, performance rights and RSUs | Purchases/ (sales) | Other changes during the year | Balance at 30 June 2019 |
|---|---|---|---|---|---|
| *NEDs* | | | | | |
| R Bass | 18,000 | – | 2,000 | (20,000) [1] | – |
| G Brunsdon | 22,057 | – | 11,000 | – | 33,057 |
| J DiLacqua | 2,500 | – | – | – | 2,500 |
| M Kane | – | – | 2,000 | – | 2,000 |
| H Kato | – | – | – | – | – |
| G Nelson | 6,700 | – | – | – | 6,700 |
| D O'Toole | 8,000 | – | 6,500 | – | 14,500 |
| H Ridout | 5,000 | – | – | – | 5,000 |
| T Sato | – | – | – | – [1] | – |
| J Thompson | 22,000 | – | 4,000 | – | 26,000 |
| *Executives* | | | | | |
| A Field | 51,994 | 100,881 | (51,533) | – | 101,342 |
| S Mikkelsen | – | – | – | – | – |
| W Schmiedel | – | 228,467 | (228,467) | – | – |
| S Skurnac | 48,367 | 71,725 | (30,868) | – | 89,224 |

1) Represents shares held at time of retirement from the Board.

# Directors' Report continued
## Remuneration Report continued

### 5.4 NON-EXECUTIVE DIRECTOR FEES

**NED Fees**

The level of NED fees reflects the need to reward directors for their commitment to the corporate governance of the Company, their active participation in the affairs of the business and the contribution they make generally to the maximisation of shareholder value. The Company aims to provide a level of fees for NEDs taking into account, among other things, fees paid for similar roles in comparable companies, the time commitment, risk and responsibility accepted by NEDs, and recognition of their commercial expertise and experience.

The maximum aggregate amount available for NED fees (including superannuation) is the greater of A$3 million and US$3 million per annum as approved by shareholders at the Company's 2015 Annual General Meeting. Total aggregate NED fees for FY19 were A$2,518,976 / US$1,805,145.

During FY19, the Company established a policy of paying all NED fees based on the Australian dollar, regardless of where the director is resident. US resident NEDs who joined the Board prior to FY19 will continue to receive their fees based on the US dollar.

There have been no changes to NED base fees since July 2011, other than a temporary 10% reduction during FY14 to reflect the financial results of the Company at that time. The table below outlines NED base fees for FY19 and FY18:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **A** | **B** | A | B |
| (A$) / (US$) | **A$** | **US$** | A$ | US$ |
| *Base Fees* | | | | |
| Chairperson | **493,330** | **450,528** | 493,330 | 450,528 |
| NED | **222,750** | **203,424** | 222,750 | 203,424 |
| *Committee Fees* | | | | |
| Committee Chairperson [1, 2] | **27,375** | **25,000** | 27,375 | 25,000 |
| NED Committee Member | **8,760** | **8,000** | 8,760 | 8,000 |

Column A: All Directors, except for US resident Directors who joined the Board prior to FY19.
Column B: US resident Directors who joined the Board prior to FY19.

1) On 19 December 2018, the Board established standalone Risk and Audit Committees and discontinued the Finance & Investment Committee. The NEDs received pro-rated fees based on the time served on each Committee.
2) Chairperson of the Nomination/Governance Committee does not receive any fee for the role.

NEDs also receive reimbursement for essential travel, accommodation and other expenses incurred in travelling to and/or from meetings of the Board, or when otherwise engaged in the business of the Company in accordance with Board policy.

NEDs are not currently covered by any contract of employment; therefore, they have no contract duration, notice period for termination, or entitlement to termination payments. NEDs do not participate in any incentive (cash or equity-based) arrangements.

For Australian resident NEDs, superannuation is deducted from the above fees disclosed in Column A. The Company pays superannuation at 9.5% of the maximum contribution (A$55,270) for each Australian resident NED. Superannuation is not paid in respect of overseas NEDs. NEDs do not receive any retirement benefits.



### 5.5 NON-EXECUTIVE DIRECTOR REMUNERATION

**Non-Executive Director Remuneration**

For NEDs who receive payments in US dollars, the table below also reflects the Australian dollar equivalent based on the exchange rate at the date of payment. For NEDs who receive payments in Australian dollars, the table below also reflects the US dollar equivalent based on the exchange rate at the date of payment. Accordingly, exchange rate movements have influenced the disclosed fee level.

| | | | Short-term benefits | Post-employment benefits | | |
|---|---|---|---|---|---|---|
| A$ unless noted<br>Name | Location | Financial Year | Cash fees | Superannuation [1] | Total A$ | Total US$ |
| *Non-Executive Directors* | | | | | | |
| G Brunsdon | Australia | **2019** | **474,619** | **40,609** | **515,228** | **368,637** |
| | | 2018 | 466,528 | 44,320 | 510,848 | 395,368 |
| J DiLacqua [2] | USA | **2019** | **328,952** | **–** | **328,952** | **235,924** |
| | | 2018 | 315,666 | – | 315,666 | 244,424 |
| M Kane [2, 3] | USA | **2019** | **83,463** | **–** | **83,463** | **59,676** |
| H Kato [4] | Japan | **2019** | **145,490** | **–** | **145,490** | **102,557** |
| G Nelson [2] | USA | **2019** | **323,873** | **–** | **323,873** | **231,924** |
| | | 2018 | 283,380 | – | 283,380 | 219,424 |
| D O'Toole | Australia | **2019** | **244,872** | **22,772** | **267,644** | **191,514** |
| | | 2018 | 244,424 | 23,220 | 267,644 | 207,142 |
| H Ridout | Australia | **2019** | **244,499** | **22,598** | **267,097** | **191,043** |
| | | 2018 | 235,424 | 22,365 | 257,789 | 199,514 |
| J Thompson [2] | USA | **2019** | **341,014** | **–** | **341,014** | **244,424** |
| | | 2018 | 315,666 | – | 315,666 | 244,424 |
| *Former Non-Executive Directors* | | | | | | |
| R Bass [2, 5] | USA | **2019** | **167,588** | **–** | **167,588** | **122,212** |
| | | 2018 | 315,666 | – | 315,666 | 244,424 |
| T Sato [4] | Japan | **2019** | **78,627** | **–** | **78,627** | **57,234** |
| | | 2018 | 219,424 | – | 219,424 | 170,185 |
| **Total** | | **2019** | **2,432,997** | **85,979** | **2,518,976** | **1,805,145** |
| | | 2018 | 2,396,178 | 89,905 | 2,486,083 | 1,924,905 |

1) Superannuation contributions are made on behalf of Australian resident NEDs to satisfy the Company's obligations under Australian Superannuation Guarantee legislation.
2) Messrs Bass, DiLacqua, Kane and Thompson and Ms Nelson are residents of the USA and receive their payments in US dollars.
3) Mr Kane was appointed to the Board on 20 March 2019.
4) Mr Kato was appointed by Mitsui as their representative Director on 8 November 2018. Mr Sato served as the representative Director for Mitsui until 8 November 2018.
5) Mr Bass retired from the Board on 1 January 2019.

### 5.6 OTHER TRANSACTIONS WITH KMP

Transactions entered into with any KMP of the Group, including their personally related parties, are at normal commercial terms.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Board of Directors.

**G N Brunsdon**
Chairperson
Sydney
23 August 2019

**A Field**
Managing Director and Group CEO
Sydney
23 August 2019

# Financial Report

**Financial Statements**



**Notes to the Consolidated Financial Statements**





# Consolidated Income Statements

For the year ended 30 June 2019

| | Note | 2019 A$m | 2018 A$m |
|---|---|---|---|
| **Revenue** | 3 | **6,650.2** | 6,457.9 |
| Other income | 3 | **47.6** | 21.4 |
| Raw materials used and changes in inventories | | **(4,593.1)** | (4,485.8) |
| Freight expense | | **(523.4)** | (466.8) |
| Employee benefits expense | | **(664.1)** | (620.0) |
| Depreciation and amortisation expense | 5 | **(133.1)** | (117.2) |
| Repairs and maintenance expense | | **(95.0)** | (104.1) |
| Other expenses | | **(519.4)** | (489.8) |
| Finance costs | 5 | **(7.9)** | (10.8) |
| Share of results of joint ventures | 24 | **56.5** | 84.9 |
| **Profit before income tax** | | **218.3** | 269.7 |
| Income tax expense | 12 | **(65.7)** | (66.2) |
| **Profit for the year** | | **152.6** | 203.5 |
| | | **A¢** | A¢ |
| **Earnings per share** | | | |
| Basic | 7 | **75.1** | 101.1 |
| Diluted | 7 | **74.2** | 98.7 |

The consolidated income statements should be read in conjunction with the accompanying notes.

# Consolidated Statements of Comprehensive Income

For the year ended 30 June 2019

| | Note | 2019 A$m | 2018 A$m |
|---|---|---|---|
| Profit for the year | | **152.6** | 203.5 |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Changes in the fair value of cash flow hedges, net of tax | 20 | **0.8** | (2.2) |
| Foreign exchange translation differences arising during the period, net of tax | 20 | **69.1** | 62.0 |
| Recycling of foreign currency translation reserve on increase in ownership interest of joint arrangement, net of tax | | **–** | (1.3) |
| *Item that will not be reclassified to profit or loss:* | | | |
| Re-measurements of defined benefit plans, net of tax | | **(5.8)** | 2.9 |
| **Other comprehensive income for the year, net of tax** | | **64.1** | 61.4 |
| **Total comprehensive income for the year** | | **216.7** | 264.9 |

The consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.



# Consolidated Statements of Financial Position

As at 30 June 2019

| | Note | 2019 A$m | 2018 A$m |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 17 | **382.9** | 339.1 |
| Trade and other receivables | 8 | **386.7** | 461.7 |
| Inventories | 9 | **442.8** | 567.0 |
| Other financial assets | 16 | **17.5** | 18.9 |
| Assets classified as held for sale | 31 | **0.1** | 2.1 |
| **Total current assets** | | **1,230.0** | 1,388.8 |
| **Non-current assets** | | | |
| Investments in joint ventures | 24 | **312.7** | 267.4 |
| Other financial assets | 16 | **18.1** | 16.7 |
| Property, plant and equipment | 10 | **1,267.2** | 1,155.8 |
| Retirement benefit assets | 15 | **2.7** | 7.7 |
| Deferred tax assets | 12 | **160.9** | 166.8 |
| Intangible assets | 11 | **193.8** | 198.6 |
| **Total non-current assets** | | **1,955.4** | 1,813.0 |
| **Total assets** | | **3,185.4** | 3,201.8 |
| **Current liabilities** | | | |
| Trade and other payables | 13 | **536.0** | 645.1 |
| Borrowings | 18 | **0.2** | 1.6 |
| Other financial liabilities | 16 | **2.5** | 6.5 |
| Current tax liabilities | | **19.5** | 30.4 |
| Provisions | 14 | **100.5** | 110.8 |
| **Total current liabilities** | | **658.7** | 794.4 |
| **Non-current liabilities** | | | |
| Payables | 13 | **13.8** | 13.6 |
| Borrowings | 18 | **35.2** | 39.4 |
| Deferred tax liabilities | 12 | **115.2** | 89.1 |
| Provisions | 14 | **60.9** | 75.0 |
| Retirement benefit obligations | 15 | **2.9** | 1.6 |
| **Total non-current liabilities** | | **228.0** | 218.7 |
| **Total liabilities** | | **886.7** | 1,013.1 |
| **Net assets** | | **2,298.7** | 2,188.7 |
| **Equity** | | | |
| Contributed equity | 19 | **2,750.2** | 2,767.8 |
| Reserves | 20 | **236.3** | 147.6 |
| Accumulated deficit | 20 | **(687.8)** | (726.7) |
| **Total equity** | | **2,298.7** | 2,188.7 |

The consolidated statements of financial position should be read in conjunction with the accompanying notes.

# Consolidated Statements of Changes in Equity

For the year ended 30 June 2019

| | Note | Contributed equity A$m | Reserves A$m | Accumulated deficit A$m | Total equity A$m |
|---|---|---|---|---|---|
| **Balance at 1 July 2017** | | 2,733.8 | 60.1 | (826.3) | 1,967.6 |
| Profit for the year | | – | – | 203.5 | 203.5 |
| Other comprehensive income | | – | 58.5 | 2.9 | 61.4 |
| **Total comprehensive income for the year** | | – | 58.5 | 206.4 | 264.9 |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Dividends paid | 6 | – | – | (106.8) | (106.8) |
| Share options exercised | 19 | 34.0 | – | – | 34.0 |
| Share-based payments expense, net of tax | | – | 29.0 | – | 29.0 |
| | | 34.0 | 29.0 | (106.8) | (43.8) |
| **Balance at 30 June 2018** | | 2,767.8 | 147.6 | (726.7) | 2,188.7 |
| Profit for the year | | **–** | **–** | **152.6** | **152.6** |
| Other comprehensive income | | **–** | **69.9** | **(5.8)** | **64.1** |
| **Total comprehensive income for the year** | | **–** | **69.9** | **146.8** | **216.7** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Dividends paid | 6 | **–** | **–** | **(107.9)** | **(107.9)** |
| Share options exercised | 19 | **1.7** | **–** | **–** | **1.7** |
| Buy-back of ordinary shares | 19 | **(19.3)** | **–** | **–** | **(19.3)** |
| Share-based payments expense, net of tax | | **–** | **18.8** | **–** | **18.8** |
| | | **(17.6)** | **18.8** | **(107.9)** | **(106.7)** |
| **Balance at 30 June 2019** | | **2,750.2** | **236.3** | **(687.8)** | **2,298.7** |

The consolidated statements of changes in equity should be read in conjunction with the accompanying notes.



# Consolidated Statements of Cash Flows

For the year ended 30 June 2019

| | Note | 2019 A$m | 2018 A$m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **6,860.6** | 6,555.1 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(6,473.5)** | (6,265.6) |
| | | **387.1** | 289.5 |
| Interest received | | **1.2** | 1.9 |
| Interest paid | | **(6.5)** | (8.4) |
| Insurance recoveries | | **15.8** | – |
| Dividends received from joint ventures | 24 | **23.4** | 29.2 |
| Income taxes paid | | **(60.9)** | (60.1) |
| **Net cash inflows from operating activities** | 17 | **360.1** | 252.1 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(197.1)** | (176.1) |
| Payments for businesses, net of cash acquired | 22 | **(9.4)** | (56.3) |
| Payments for increase in ownership interest of joint venture | | **–** | (38.4) |
| Payments for other financial assets | | **(3.2)** | (2.9) |
| Proceeds from sale of property, plant and equipment | | **6.1** | 4.6 |
| Proceeds from sale of assets held for sale | | **7.2** | 4.7 |
| Proceeds from sale of other financial assets | | **2.3** | 1.9 |
| Proceeds from repayment on third party loans | | **–** | 0.1 |
| **Net cash outflows from investing activities** | | **(194.1)** | (262.4) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **1,613.1** | 854.9 |
| Repayment of borrowings | | **(1,617.2)** | (817.9) |
| Fees paid for loan facilities | | **(0.2)** | – |
| Repayment of finance leases | | **(1.6)** | (2.2) |
| Payments for ordinary shares bought back | 19 | **(19.3)** | – |
| Proceeds from issue of ordinary shares | | **1.7** | 35.4 |
| Dividends paid | 6 | **(107.9)** | (106.8) |
| **Net cash outflows from financing activities** | | **(131.4)** | (36.6) |
| **Net increase/(decrease) in cash and cash equivalents** | | **34.6** | (46.9) |
| Cash and cash equivalents at the beginning of the financial year | | **339.1** | 378.5 |
| Effects of exchange rate changes on cash and cash equivalents | | **9.2** | 7.5 |
| **Cash and cash equivalents at the end of the financial year** | 17 | **382.9** | 339.1 |

The consolidated statements of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

OVERVIEW

## 1 – BASIS OF PREPARATION

Sims Metal Management Limited (the "Company") is a for-profit company incorporated and domiciled in Australia. The consolidated financial statements for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in joint ventures.

**Basis of preparation**

This general purpose financial report:

- has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*;
- has been prepared on the basis of historical cost, except for certain financial assets and liabilities which have been measured at fair value (note 21);
- complies with International Financial Reporting Standards as issued by the International Accounting Standards Board;
- is presented in Australian Dollars;
- presents all values as rounded to the nearest tenth of a million dollars, unless otherwise stated under ASIC Corporations (rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016;
- adopts all new and amended Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the Group and effective for reporting periods beginning on or after 1 July 2018, all of which did not have a material impact on the financial statements; and
- does not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective. Refer to note 30.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

In preparing the consolidated financial statements, all intercompany balances and transactions are eliminated.

The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**Critical accounting estimates and judgements**

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions about future events. Information on material estimates and judgements can be found in the following notes:

- Revenue (note 3)
- Inventory (note 9)
- Impairment (note 11)

**Currency**

Each entity in the Group determines its own functional currency, reflecting the currency of the primary economic environment in which it operates.

*Transactions*

Transactions in foreign currencies are recorded at the rate of exchange ruling on the date of each transaction. At balance date, amounts payable and receivable in foreign currencies are converted at the rates of exchange ruling at that date with any resultant gain or loss recognised in the income statement.

*Translation*

The financial statements of overseas subsidiaries are maintained in their functional currencies and are converted to the Group's presentation currency as follows:

- assets and liabilities are translated at the rate of exchange as at balance date;
- income statements are translated at average exchange rates for the reporting period which approximate the rates ruling at the dates of the transactions; and
- all resultant exchange differences are recorded in the foreign currency translation reserve.

On consolidation, exchange differences arising from borrowings and any other currency instruments designated as hedges of investments in overseas subsidiaries are transferred to the foreign currency translation reserve on a net of tax basis where applicable. When an overseas subsidiary is sold, the cumulative amount recognised in the foreign currency translation reserve relating to the subsidiary is recognised in the income statement as part of the gain or loss on sale.



FINANCIAL PERFORMANCE

## 2 – SEGMENT INFORMATION

**Description of segments**

Operating segments have been identified based on separate financial information that is regularly reviewed by the Group CEO, the Chief Operation Decision Maker ("CODM").

The Group operates in six principal operating segments: North America Metals ("NAM"), Australia/New Zealand Metals ("ANZ"), UK Metals ("UK"), Global Trading, Investment in SA Recycling ("SAR") and Global E-Recycling ("E-Recycling"). The segments are based on a combination of factors including geography, products and services. All other operating segments are included within the "Unallocated" segment.

On 21 January 2019, the Company announced changes to its segment reporting in order to enhance financial disclosure by providing greater transparency over its operations. The following changes have been made to align with the Group's operating segments:

- North America Metals was previously impacted by the results of Sims Municipal Recycling ("SMR") and Global Ferrous Trade. These results are now reported under the Unallocated and Global Trading segments, respectively; and
- the Global Trading segment incorporates Global Ferrous Trade, which had previously been shown within North America Metals, and Global Non-Ferrous Trade, previously shown within the Unallocated segment.

Details of the segments are as follows.

- **NAM** – comprising subsidiaries and joint ventures in the United States of America and Canada which primarily perform ferrous and non-ferrous secondary recycling functions.
- **ANZ Metals** – comprising subsidiaries and joint arrangements in Australia, New Zealand and Papua New Guinea which primarily perform ferrous and non-ferrous secondary recycling functions.
- **UK** – comprising subsidiaries in the United Kingdom which primarily perform ferrous and non-ferrous secondary recycling functions.
- **Global Trading** – comprising the Group's ferrous and non-ferrous marketing subsidiaries that coordinate sales of ferrous bulk cargo shipments, non-ferrous sales into primarily China and Southeast Asia and brokerage sales on behalf of third and related parties.
- **Investment in SAR** – comprising the Group's share of results from its investment in the SA Recycling joint venture.
- **E-Recycling** – comprising subsidiaries which provide electronic recycling solutions in the following countries: Australia, Austria, Belgium, Czech Republic, Dubai, Germany, India, Ireland, Netherlands, New Zealand, Norway, Poland, Republic of South Africa, Singapore, Sweden, the United Kingdom and the United States of America.
- **Unallocated** – comprising unallocated corporate costs, interests in a joint venture in Australia, and SMR.

**Intersegment sales**

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's-length" basis and are eliminated on consolidation.

**Sales to external customers**[1]

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| Australia | **524.3** | 430.9 |
| China | **648.2** | 689.2 |
| Turkey | **1,040.9** | 1,186.9 |
| South Korea | **471.0** | 202.2 |
| United States | **906.2** | 1,051.2 |
| Other | **3,049.4** | 2,887.6 |
| **Total sales revenue** | **6,640.0** | 6,448.0 |

1) Amounts reflect the customer geographic location.

No single customer contributed 10% or more to the Group revenue for all the periods presented.

# Notes to the Consolidated Financial Statements continued

## 2 – SEGMENT INFORMATION CONTINUED

**Information about reportable segments**

| 2019 | NAM A$m | ANZ A$m | UK A$m | Global Trading A$m | SAR A$m | E–Recycling A$m | Unallocated A$m | Total A$m |
|---|---|---|---|---|---|---|---|---|
| Total sales revenue | 2,725.6 | 1,203.7 | 1,186.9 | 690.9 | – | 746.5 | 86.4 | 6,640.0 |
| Other revenue | 5.2 | 0.9 | – | 0.4 | – | 0.1 | 3.6 | 10.2 |
| **Total segment revenue** | 2,730.8 | 1,204.6 | 1,186.9 | 691.3 | – | 746.6 | 90.0 | 6,650.2 |
| **Segment EBIT** | 61.9 | 94.2 | 0.5 | 23.1 | 41.0 | 17.9 | (13.6) | 225.0 |
| Interest income | | | | | | | | 1.2 |
| Finance costs | | | | | | | | (7.9) |
| **Profit before tax** | | | | | | | | 218.3 |
| Assets | 1,065.4 | 614.1 | 389.9 | 67.2 | 211.1 | 340.6 | 497.1 | 3,185.4 |
| Liabilities | 247.6 | 144.5 | 155.8 | 60.6 | 0.6 | 139.2 | 138.4 | 886.7 |
| **Net assets** | 817.8 | 469.6 | 234.1 | 6.6 | 210.5 | 201.4 | 358.7 | 2,298.7 |
| **Other items:** | | | | | | | | |
| Depreciation and amortisation | (62.9) | (31.4) | (19.2) | (0.2) | – | (8.5) | (10.9) | (133.1) |
| Share of results of joint ventures | 5.9 | – | – | – | 41.0 | – | 9.6 | 56.5 |
| Investments in joint ventures | 39.0 | 0.2 | – | – | 211.1 | – | 62.4 | 312.7 |
| Property, plant and equipment additions | 101.0 | 37.8 | 26.5 | 1.3 | – | 8.0 | 8.1 | 182.7 |
| **2018** | | | | | | | | |
| Total sales revenue | 2,607.1 | 1,071.0 | 1,203.0 | 733.5 | – | 758.4 | 75.0 | 6,448.0 |
| Other revenue | 4.7 | 1.4 | 0.2 | 0.3 | – | 0.1 | 3.2 | 9.9 |
| **Total segment revenue** | 2,611.8 | 1,072.4 | 1,203.2 | 733.8 | – | 758.5 | 78.2 | 6,457.9 |
| **Segment EBIT** | 66.2 | 92.3 | 26.8 | 18.8 | 67.8 | 26.1 | (19.4) | 278.6 |
| Interest income | | | | | | | | 1.9 |
| Finance costs | | | | | | | | (10.8) |
| **Profit before tax** | | | | | | | | 269.7 |
| Assets | 1,070.4 | 625.2 | 431.4 | 95.6 | 180.7 | 397.3 | 401.2 | 3,201.8 |
| Liabilities | 279.8 | 192.0 | 171.4 | 84.4 | 0.6 | 155.4 | 129.5 | 1,013.1 |
| **Net assets** | 790.6 | 433.2 | 260.0 | 11.2 | 180.1 | 241.9 | 271.7 | 2,188.7 |
| **Other items:** | | | | | | | | |
| Depreciation and amortisation | (54.8) | (29.3) | (15.2) | (0.1) | – | (8.4) | (9.4) | (117.2) |
| Share of results of joint ventures | 5.9 | – | – | – | 68.5 | – | 10.5 | 84.9 |
| Investments in joint ventures | 31.3 | 0.1 | – | – | 180.7 | – | 55.3 | 267.4 |
| Property, plant and equipment additions | 124.3 | 31.4 | 24.7 | 0.2 | – | 14.0 | 9.7 | 204.3 |



## 3 – REVENUE AND OTHER INCOME

| | 2019 A$m | 2018 A$m |
|---|---|---|
| **Sales revenue** | | |
| Ferrous secondary recycling | 4,505.4 | 4,381.6 |
| Non-ferrous secondary recycling | 1,271.4 | 1,215.6 |
| Recycling solutions | 746.5 | 758.4 |
| Secondary processing and other services | 116.7 | 92.4 |
| | 6,640.0 | 6,448.0 |
| **Other revenue** | | |
| Interest income | 1.2 | 1.9 |
| Rental and dividend income | 9.0 | 8.0 |
| | 10.2 | 9.9 |
| **Total revenue** | 6,650.2 | 6,457.9 |
| Net gain on commodity derivatives | 10.4 | – |
| Net foreign exchange gain | 1.2 | – |
| Net gain on disposal of property, plant and equipment | 5.4 | 1.4 |
| Gain on acquisition of interest of a joint arrangement | – | 10.1 |
| Net gain on revaluation of financial assets at fair value through profit or loss | 0.4 | 0.5 |
| Government grants | 2.5 | 1.0 |
| Insurance Recoveries | 16.5 | – |
| Third party commissions | 3.4 | 1.4 |
| Management Fees | 1.7 | 2.1 |
| Other | 6.1 | 4.9 |
| **Total other income** | 47.6 | 21.4 |

**Recognition and measurement**

*Ferrous secondary recycling*

Ferrous secondary recycling comprises the collection, processing and trading of iron and steel secondary raw material. The Group sells a significant portion of its ferrous secondary material on cost and freight or cost, insurance and freight Incoterms. Under these arrangements, revenue from the sale of goods is recognised prior to when the vessel arrives at the destination port as control has passed and performance obligations have been met. A material portion of the Group's ferrous bulk cargo sales arrangements specify that title passes once material has been loaded onto a vessel (i.e. passed the ship's rail). These sales are primarily sold on a letter of credit basis.

*Non-ferrous secondary recycling*

Non-ferrous secondary recycling comprises the collection, processing and trading of other metal alloys and residues, principally aluminium, lead, copper, zinc and nickel bearing materials. Revenue for non-ferrous secondary recycling is recognised when control passes and performance obligations are satisfied. According to the specific contract terms, control of the goods will pass to the customer at the point in time when the goods are loaded in a container, delivered to the customer or cash is received as that is the point in time the original bills of lading are passed to the buyer and title is transferred. Contract terms are determined based upon customer, product and/or destination and are typically sold on a cash in advance, deposit, letter of credit or open credit basis.

*Recycling solutions*

Recycling solutions comprises the provision of environmental and data security responsible services for the refurbishment, resale or commodity reclamation of IT assets recycled for commercial and post-consumer suppliers. For recycling solutions, service revenue is recognised based upon completion of the agreed performance obligations, including services such as hard disk cleansing and data capture and reporting. These performance obligations are based upon amount collected, processed and/or on a time basis amongst other contractual terms. For precious metals reclaimed, revenue is recognised upon completion and agreement of an assay, and when price and quantity can be determined and acceptance is finalised. Contractual terms can involve a deposit received in advance for which revenue is deferred until performance obligations are satisfied.

# Notes to the Consolidated Financial Statements continued

## 3 – REVENUE AND OTHER INCOME CONTINUED

*Secondary processing and other services*

Secondary processing and other services comprises the recycling of municipal curbside materials, stevedoring, and other sources of service based revenue. Municipal curbside revenue predominantly consists of the sale of paper, plastics or tin cans which involve standard pricing and title passing upon collection. The collection of the product satisfies requisite performance obligations of the entity, allowing revenue to be recognised. Other service revenue is typically recognised based upon completion of the performance obligations in the contract.

*Interest income*

Interest income is recognised as it is earned, using the effective interest method.

*Rental and dividend income*

Rental income consists of rentals from sub-lease rentals. Rentals received under operating leases and initial direct costs are recognised on a straight-line basis over the term of the lease.

Dividends are recognised when the Group's right to receive the payment is established.

**Critical accounting estimate and judgement**

Revenue is recognised when all performance obligations contained within a contract have been satisfied for which the recognition, timing and measurement vary across businesses. Judgement may be required to determine when all performance obligations have been satisfied and as a result the period in which revenue should be recognised.

## 4 – SIGNIFICANT ITEMS

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| Impairment of property, plant and equipment (note 10)[1] | **–** | 4.1 |
| Gain on sale of property | **(4.2)** | – |
| Gain on acquisition of interest of a joint arrangement (note 22) | **–** | (10.1) |
| Redundancy expense[2] | **7.6** | 9.2 |
| Net provisional expense/(reversal of provision) related to onerous leases and contracts | **3.9** | (9.1) |
| Yard closure costs, environmental and dilapidation provision expense | **–** | 5.6 |
| Non-qualified hedges[3] | **2.2** | (4.1) |
| Non-recurring gain on asset disposition by joint venture[4] | **(5.1)** | – |
| Impact of Victorian fire, net of insurance recoveries to date | **(1.8)** | – |

1) Amount represents the impairments of property, plant and equipment primarily as a result of the construction of improved facilities.
2) Redundancies in 2018 include A$3.5 million of termination benefits made to former members of the Group management team.
3) Non-qualified hedges include the impact of financial hedges that do not qualify for hedge accounting.
4) The non-recurring gain on asset disposition by joint venture is included within the share of results of joint ventures in the consolidated income statements.

**Recognition and measurement**

Significant items are those which by their size and nature or incidence are relevant in explaining the financial performance of the Group and as such are disclosed separately.

## 5 – EXPENSES

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| **Depreciation and amortisation:** | | |
| Depreciation expense | **122.3** | 108.8 |
| Amortisation expense | **10.8** | 8.4 |
| | **133.1** | 117.2 |
| Finance costs | **7.9** | 10.8 |
| Net loss on currency derivatives | **2.1** | 0.8 |
| Net loss on commodity derivatives | **–** | 3.8 |
| Net foreign exchange loss | **–** | 9.0 |
| Rental expenses relating to operating leases | **98.4** | 94.5 |

**Recognition and measurement**

*Depreciation and amortisation*

Refer to note 10 for depreciation and note 11 for amortisation.

*Finance costs*

Finance costs mainly comprise commitment fees on the Group's loan facilities of A$3.2 million (2018: A$7.8 million).

*Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## 6 – DIVIDENDS

| | Cents per share | Amount A$m |
|---|---|---|
| **2019** | | |
| Interim 2019 (100% franked) | **23.0** | **46.6** |
| Final 2018 (100% franked) | **30.0** | **61.3** |
| | | **107.9** |
| **2018** | | |
| Interim 2018 (100% franked) | 23.0 | 46.5 |
| Final 2017 (100% franked) | 20.0 | 40.2 |
| Special 2017 (0% franked) | 10.0 | 20.1 |
| | | 106.8 |

Since the end of the financial year, the Directors have determined to pay a final dividend of 19.0 cents per share, 100% franked. The aggregate amount of the proposed dividend expected to be paid on 18 October 2019, but not recognised as a liability at the end of the reporting period, is A$38.5 million.

**Dividend franking account**

The franked components of all dividends paid or declared were franked based on an Australian corporate tax rate of 30%.

At 30 June 2019, there are A$2.3 million (2018: A$9.5 million) estimated franking credits available to shareholders for subsequent financial years.

## 7 – EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net profit by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing net profit by the weighted average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares.

| | **2019** | 2018 |
|---|---|---|
| **Basic earnings per share (in A¢)** | **75.1** | 101.1 |
| **Diluted earnings per share (in A¢)** | **74.2** | 98.7 |
| **Weighted average number of shares used in the denominator ('000)** | | |
| Basic shares | **203,102** | 201,226 |
| Dilutive effect of share-based awards | **2,473** | 4,897 |
| **Diluted shares** | **205,575** | 206,123 |

# Notes to the Consolidated Financial Statements continued

ASSETS AND LIABILITIES

## 8 – TRADE AND OTHER RECEIVABLES

| | 2019 A$m | 2018 A$m |
|---|---|---|
| Trade receivables | **279.4** | 365.0 |
| Loss allowance | **(1.5)** | (6.0) |
| **Net trade receivables** | **277.9** | 359.0 |
| Other receivables | **55.6** | 67.5 |
| Tax receivable | **22.3** | 12.0 |
| Prepayments | **30.9** | 23.2 |
| **Total current receivables** | **386.7** | 461.7 |
| **Movement in loss allowance** | | |
| Balance at 1 July | **6.0** | 3.3 |
| Provision (written back)/ recognised during the year | **(4.7)** | 2.5 |
| Foreign exchange differences | **0.2** | 0.2 |
| **Balance at 30 June** | **1.5** | 6.0 |
| **Past due but not impaired** | | |
| *Days overdue* | | |
| 1 – 30 days | **16.5** | 14.0 |
| 31 – 60 days | **3.9** | 2.7 |
| Over 60 days | **3.5** | 3.5 |
| | **23.9** | 20.2 |

**Recognition and measurement**

Trade and other receivables are recognised at fair value, net of loss allowance. Trade receivables are generally due for settlement within 30 to 60 days following shipment, except in the case of certain ferrous shipments made to export destinations, which are generally secured by letters of credit that are collected on negotiated terms but generally within 10 days of shipment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written-off by reducing the carrying amount directly. An allowance account, a provision for impairment of trade receivables, is used based upon a 12-month expected credit loss model as required by AASB 9 *Financial Instruments*. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument or asset.

When a trade receivable for which a loss allowance provision had been recognised becomes uncollectible in a subsequent period, it is written-off against the provision for impairment account. Subsequent recoveries of amounts previously written-off are credited against other expenses in profit or loss.

## 9 – INVENTORIES

| | 2019 A$m | 2018 A$m |
|---|---|---|
| Raw materials | **63.5** | 84.6 |
| Finished goods | **350.4** | 462.1 |
| Stores and spare parts | **28.9** | 20.3 |
| | **442.8** | 567.0 |

The cost of inventories recognised as expense during the year ended 30 June 2019 amounted to A$4,720.9 million (2018: A$4,604.0 million).

**Recognition and measurement**

Inventories are stated at the lower of cost and net realisable value. Cost is based on first-in, first-out or weighted average and comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditures, the latter being allocated on the basis of normal operating capacity.

Stores and spare parts consist of consumable and maintenance stores and spare parts when they do not meet the definition of property, plant and equipment.

**Critical accounting estimate and judgement**

*Valuation of inventories*

Quantities of inventories are determined using various estimation techniques, including observation, weighing and other industry methods and are subject to periodic physical verification.

*Net realisable value*

The Group reviews its inventory at the end of each reporting period to determine if it is properly stated at net realisable value. Net realisable value is based on estimated future selling prices. Impairment losses may be recognised on inventory if management needs to revise its estimates of net realisable value in response to changing market conditions.

## 10 – PROPERTY, PLANT AND EQUIPMENT

| | Land A$m | Buildings A$m | Leasehold improvements A$m | Plant & equipment[1] A$m | Capital work in progress A$m | Total A$m |
|---|---|---|---|---|---|---|
| **At 30 June 2019** | | | | | | |
| Cost | **358.2** | **467.0** | **97.0** | **1,336.0** | **231.5** | **2,489.7** |
| Accumulated depreciation | **–** | **(198.3)** | **(64.5)** | **(959.7)** | **–** | **(1,222.5)** |
| Net book amount | **358.2** | **268.7** | **32.5** | **376.3** | **231.5** | **1,267.2** |
| **Movement** | | | | | | |
| Balance at 1 July | **343.5** | **250.6** | **30.0** | **366.9** | **164.8** | **1,155.8** |
| Acquisitions (note 22) | **–** | **–** | **–** | **8.2** | **–** | **8.2** |
| Additions | **–** | **3.2** | **6.8** | **22.0** | **150.7** | **182.7** |
| Disposals | **–** | **(1.2)** | **(0.1)** | **(1.1)** | **–** | **(2.4)** |
| Transfers | **(0.7)** | **29.8** | **0.1** | **62.3** | **(91.5)** | **–** |
| Depreciation expense | **–** | **(23.2)** | **(5.0)** | **(94.1)** | **–** | **(122.3)** |
| Foreign exchange differences | **15.4** | **9.5** | **0.7** | **12.1** | **7.5** | **45.2** |
| Balance at 30 June | **358.2** | **268.7** | **32.5** | **376.3** | **231.5** | **1,267.2** |
| **At 30 June 2018** | | | | | | |
| Cost | 343.5 | 422.6 | 90.0 | 1,247.1 | 164.8 | 2,268.0 |
| Accumulated depreciation | – | (172.0) | (60.0) | (880.2) | – | (1,112.2) |
| Net book amount | 343.5 | 250.6 | 30.0 | 366.9 | 164.8 | 1,155.8 |
| **Movement** | | | | | | |
| Balance at 1 July | 319.0 | 227.6 | 25.8 | 335.3 | 63.2 | 970.9 |
| Acquisitions (note 22) | 8.9 | 4.8 | 1.8 | 35.9 | 2.2 | 53.6 |
| Additions | 1.0 | 3.2 | 7.1 | 26.1 | 166.9 | 204.3 |
| Disposals | (0.8) | (1.5) | – | (1.7) | (0.4) | (4.4) |
| Transfers | 0.6 | 25.8 | (1.3) | 48.1 | (73.2) | – |
| Reclassified from assets held for sale | – | 3.7 | – | – | – | 3.7 |
| Fair value adjustments on increase in joint arrangement | 3.7 | 0.8 | 1.0 | 2.3 | – | 7.8 |
| Impairments | – | – | (1.1) | (2.8) | (0.2) | (4.1) |
| Depreciation expense | – | (20.5) | (4.2) | (84.1) | – | (108.8) |
| Foreign exchange differences | 11.1 | 6.7 | 0.9 | 7.8 | 6.3 | 32.8 |
| Balance at 30 June | 343.5 | 250.6 | 30.0 | 366.9 | 164.8 | 1,155.8 |

1) The net book value of assets acquired through finance leases was A$0.2 million as at 30 June 2019 (2018: A$1.7 million).

# Notes to the Consolidated Financial Statements continued

## 10 – PROPERTY, PLANT AND EQUIPMENT CONTINUED

**Recognition and measurement**

*Carrying value*

Property, plant and equipment is recorded at historical cost less accumulated depreciation and accumulated impairment. Historical cost includes expenditures that are directly attributable to the acquisition and installation of the items.

*Depreciation*

Assets are depreciated on a straight-line basis over their estimated useful lives. Useful lives are reassessed at the end of each reporting period. The expected useful lives are as follows:

- Buildings – 25 to 40 years
- Plant and equipment – One to 20 years
- Leasehold improvements – lesser of life of asset or life of the lease

*Proceeds from sale of assets*

The gross proceeds from sale of assets are recognised at the date that an unconditional contract of sale is exchanged with the purchaser and control of the asset is transferred. Gains and losses on disposals are determined by comparing proceeds with the asset's carrying amounts and recognised in profit or loss.

*Impairment*

The carrying amounts of the Group's property, plant and equipment are reviewed for impairment when there is an indication that the asset may be impaired. If the asset's carrying amount is greater than its estimated recoverable amount, then an impairment loss is recognised.

## 11 – INTANGIBLE ASSETS

| | Goodwill A$m | Supplier relationships A$m | Permits A$m | Licenses/ Contracts A$m | Tradenames A$m | Total A$m |
|---|---|---|---|---|---|---|
| **At 30 June 2019** | | | | | | |
| Cost | **1,691.0** | **302.1** | **13.1** | **50.5** | **42.5** | **2,099.2** |
| Accumulated impairment | **(1,543.8)** | **(14.2)** | **(9.8)** | **(0.4)** | **(0.1)** | **(1,568.3)** |
| Accumulated amortisation | **–** | **(263.8)** | **–** | **(49.2)** | **(24.1)** | **(337.1)** |
| Net book amount | **147.2** | **24.1** | **3.3** | **0.9** | **18.3** | **193.8** |
| **Movement** | | | | | | |
| Balance at 1 July | **143.5** | **31.2** | **3.1** | **1.4** | **19.4** | **198.6** |
| Acquisitions (note 22) | **0.9** | **(0.3)** | **–** | **–** | **–** | **0.6** |
| Amortisation expense | **–** | **(8.1)** | **–** | **(0.6)** | **(2.1)** | **(10.8)** |
| Foreign exchange differences | **2.8** | **1.3** | **0.2** | **0.1** | **1.0** | **5.4** |
| Balance at 30 June | **147.2** | **24.1** | **3.3** | **0.9** | **18.3** | **193.8** |
| **At 30 June 2018** | | | | | | |
| Cost | 1,612.5 | 287.9 | 12.4 | 48.1 | 41.0 | 2,001.9 |
| Accumulated impairment | (1,469.0) | (13.6) | (9.3) | (0.4) | (0.6) | (1,492.9) |
| Accumulated amortisation | – | (243.1) | – | (46.3) | (21.0) | (310.4) |
| Net book amount | 143.5 | 31.2 | 3.1 | 1.4 | 19.4 | 198.6 |
| **Movement** | | | | | | |
| Balance at 1 July | 110.0 | 24.7 | 2.2 | 0.9 | 20.6 | 158.4 |
| Acquisitions (note 22) | 29.3 | 11.6 | 0.9 | 1.3 | – | 43.1 |
| Disposals | – | (0.1) | – | (0.2) | – | (0.3) |
| Amortisation expense | – | (5.8) | – | (0.6) | (2.0) | (8.4) |
| Foreign exchange differences | 4.2 | 0.8 | – | – | 0.8 | 5.8 |
| Balance at 30 June | 143.5 | 31.2 | 3.1 | 1.4 | 19.4 | 198.6 |



**Recognition and measurement**

*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net identifiable assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

*Other intangible assets*

Other intangible assets, comprising supplier relationships, permits, trade names and contracts, are acquired individually or through business combinations and are stated at cost less accumulated amortisation and impairment losses. Permits have an indefinite life.

*Amortisation*

Intangible assets with finite useful lives are amortised either on a straight-line basis or on the expected period of future consumption of embodied economic benefits. Customer relationships are amortised over a period of one to seven years, tradenames over 20 years and contracts over a period of one to three years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

*Impairment*

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they may be impaired. Other definite lived intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the cash generating unit ("CGU") level. CGU's represent the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting period.

Goodwill has been allocated, for impairment testing purposes, to the CGUs as follows:

| CGU | Segment | **2019 A$m** | 2018 A$m |
|---|---|---|---|
| Continental Europe Recycling Solutions | Global E-Recycling | **69.8** | 68.0 |
| Australia Metals | ANZ Metals | **42.7** | 42.0 |
| New Zealand Metals | ANZ Metals | **15.3** | 15.5 |
| UK Metals | UK Metals | **15.7** | 14.4 |
| North America Metals | North America Metals | **1.6** | 1.5 |
| All other CGUs | | **2.1** | 2.1 |
| **Total** | | **147.2** | 143.5 |

*Sensitivities*

The Group believes that for all CGUs, any reasonably likely change in the key assumptions would not cause the carrying value of the CGUs to exceed their recoverable amount. Sufficient headroom was indicated for all CGUs following assessment of the impact of possible changes in key assumptions incorporated within evaluations as at 30 June 2019.

*Critical accounting estimate and judgement*

Determination of potential impairment requires an estimation of the recoverable amount of the CGUs to which the goodwill and intangible assets with indefinite useful lives are allocated. The recoverable amount of each CGU is determined based on the higher of its value in use or fair value less costs to sell. These calculations require the use of assumptions such as discount rates, growth rates and other assumptions.

*Key assumptions used for goodwill and intangible asset impairment tests*

The value in use calculations primarily use a five year cash flow projection, which is based initially on the budget for the year ended 30 June 2020 (as approved by the Board) and a four year forecast prepared by management. The four year forecast is developed using historical averages derived from four years of historical results and the budget for the year ended 30 June 2020.

These five year projections also incorporate management estimates related to the inherent impact of future volatility in volumes, commodity prices and margins drawn from past experience and factor in current and expected future economic conditions. A terminal value is determined from the final year of cash flow based on application of the Gordon Growth model.

The cash flows are discounted using rates that reflect management's estimate of the time value of money and the risks specific to each CGU that are not already reflected in the cash flows. In determining appropriate discount rates for each CGU, consideration has been given to a weighted average cost of capital of the entity as a whole and adjusted for country and business risk specific to the CGU.

The cash flow projections are based on management's best estimates, with reference to historical results, to determine income, expenses, capital expenditures and cash flows for each CGU. Expected future cash flows used to determine the value in use of goodwill are inherently uncertain and could materially change over time. Should management's estimate of the future not reflect actual events, further impairments may be identified.

# Notes to the Consolidated Financial Statements continued

## 11 – INTANGIBLE ASSETS CONTINUED

For CGUs utilising the value in use calculation to determine the recoverable amount, the key assumptions used for the value in use calculations were as follows:

| | Discount rate (pre-tax) | | Growth rate | |
|---|---|---|---|---|
| CGU | **2019 %** | 2018 % | **2019 %** | 2018 % |
| US Recycling Solutions | **10.9** | 11.7 | **1.6** | 1.7 |
| North America Metals | **10.9** | 11.3 | **1.6** | 1.7 |
| Continental Europe Recycling Solutions | **12.6** | 11.8 | **1.2-1.9** | 1.3–2.0 |
| Australia Metals | **14.7** | 13.6 | **2.1** | 2.4 |
| New Zealand Metals | **14.0** | 13.0 | **1.6** | 1.9 |
| United Kingdom Metals | **10.1** | 10.7 | **2.3** | 2.4 |

## 12 – INCOME TAXES

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| **Income tax expense** | | |
| Current income tax charge | **30.9** | 68.9 |
| Adjustments for prior years | **1.4** | (2.5) |
| Deferred income tax | **33.4** | (0.2) |
| Income tax expense recognised in profit or loss | **65.7** | 66.2 |
| **Reconciliation of income tax expense to prima facie income tax expense** | | |
| **Profit before income tax** | **218.3** | 269.7 |
| Tax at the standard Australian rate of 30% | **65.5** | 80.9 |
| Effect of tax rates in other jurisdictions | **(9.1)** | 7.0 |
| Deferred tax assets not recognised | **1.8** | 2.4 |
| Utilisation of tax losses | **–** | (5.9) |
| Non-deductible expenses | **2.8** | 2.2 |
| Remeasurement of net deferred balances | **4.5** | (9.8) |
| Impact of US tax reform at 28% for FY18 | **–** | 7.1 |
| Recognition of tax effect of previously unrecognised deferred tax assets | **(8.0)** | (14.1) |
| Share of results of joint ventures | **(4.3)** | (4.9) |
| Non-assessable income | **(0.7)** | (0.2) |
| Share-based payments | **0.7** | 5.0 |
| State and local taxes | **6.1** | 4.3 |
| Adjustments for prior years | **1.4** | (2.5) |
| Other | **5.0** | (5.3) |
| **Income tax expense recognised in profit or loss** | **65.7** | 66.2 |
| **Income tax charged/(credited) directly to equity** | | |
| Share-based payments | **1.2** | (5.0) |
| Exchange gain on foreign denominated intercompany loans | **9.8** | 6.0 |
| | **11.0** | 1.0 |
| **Tax (benefit)/expense relating to items of other comprehensive income** | | |
| Cash flow hedges | **0.3** | (1.0) |
| Defined benefit plans | **(1.4)** | 1.6 |
| | **(1.1)** | 0.6 |

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| **Deferred tax assets and liabilities** | | |
| ***Deferred tax assets*** | | |
| The balance comprises temporary difference attributable to: | | |
| *(amounts recognised in profit or loss)* | | |
| Provisions and other accruals | **10.2** | 10.9 |
| Employee benefits | **17.3** | 25.7 |
| Property, plant and equipment | **17.3** | 20.1 |
| Intangible assets | **14.5** | 15.3 |
| Joint ventures | **22.9** | 21.2 |
| Tax loss carryforwards and tax credits | **57.0** | 54.9 |
| Share-based payments | **0.2** | – |
| Other | **4.0** | 1.2 |
| | **143.4** | 149.3 |
| *(amounts recognised directly in equity)* | | |
| Defined benefit plans | **3.4** | 2.5 |
| Share-based payments | **14.1** | 15.0 |
| | **17.5** | 17.5 |
| **Movements** | | |
| Balance at 1 July | **166.8** | 166.4 |
| Charged to income statement | **(5.9)** | (8.5) |
| Adjustments for prior years | **(5.0)** | 0.4 |
| Charged directly to equity and other comprehensive income | **–** | 3.1 |
| Foreign exchange differences | **5.0** | 5.4 |
| Balance at 30 June | **160.9** | 166.8 |
| ***Deferred tax liabilities*** | | |
| The balance comprises temporary differences attributable to: | | |
| *(amounts recognised in profit or loss)* | | |
| Intangible assets | **3.3** | 3.5 |
| Property, plant and equipment | **69.3** | 56.8 |
| Inventory and consumables | **2.7** | 2.3 |
| Joint ventures | **2.1** | 2.4 |
| Share-based payments | **8.7** | – |
| Employee benefits | **5.1** | 9.4 |
| Other | **0.2** | 1.0 |
| | **91.4** | 75.4 |
| *(amounts recognised directly in equity)* | | |
| Cash flow hedges | **(0.2)** | (0.5) |
| Exchange gain on foreign denominated intercompany loans | **24.0** | 14.2 |
| | **23.8** | 13.7 |
| **Movements** | | |
| Balance at 1 July | **89.1** | 84.5 |
| Charged to income statement | **14.0** | (5.1) |
| Charged directly to equity and other comprehensive income | **10.1** | 5.0 |
| Adjustments for prior years | **1.9** | 2.8 |
| Foreign exchange differences | **0.1** | 1.9 |
| Balance at 30 June | **115.2** | 89.1 |

# Notes to the Consolidated Financial Statements continued

## 12 – INCOME TAXES CONTINUED

**Recognition and measurement**

*Current tax*

The income tax expense or benefit for the period is the tax payable on the current period taxable income using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect to prior years.

*Deferred tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities and the corresponding tax base. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realisation of deferred tax assets. The net deferred tax assets are all reviewed for realisability each reporting period.

At 30 June 2019, the Group has not recognised deferred tax assets totaling A$22.9 million (2018: A$19.4 million) as it is not probable that they will be realised. A portion of the unrecognised deferred tax asset relates to unused tax losses of A$16.9 million (2018: A$12.1 million) due to either a history of tax losses or it is not considered probable that there will be sufficient future taxable profits to realise the benefit of deferred tax assets within certain subsidiary entities. Unrecognised tax losses include A$12.5 million (2018: A$11.3 million) of tax losses that will expire in five to 20 years. Other unused tax losses may be carried forward indefinitely.

Effective 1 April 2020, the U.K. has reduced its corporate income tax rate from 19% to 17% resulting in additional tax expense of A$4.5 million at 30 June 2019 from the reduction in the deferred tax asset balance. In addition, after an analysis and review, it was determined that one of the US affiliates should recognise the remaining deferred tax asset due to certainty in future earnings, resulting in a tax benefit of A$8.0 million.

During the year ended 30 June 2018, it was determined after significant analysis that the deferred tax asset for one of the US affiliates should be adjusted. The deferred tax asset increased at 30 June 2018 for this specific adjustment resulting in a deferred tax benefit of A$14.1 million.

*UK Brexit*

As the UK is scheduled to leave the European Union on 31 October 2019, the Group is taking appropriate planning to manage this transition to ensure there is minimal impact to the Company. The Company is reviewing current areas that may have an impact due to a "no deal" Brexit so that all processes and procedures can be managed and updated to minimise risk to the Company.

*US Tax Cuts and Jobs Act*

On 22 December 2017, the US enacted the Tax Cuts and Jobs Act (the "TCJA"). Among other things, the TCJA reduced the US federal corporate tax rate from 35% to 21% percent effective on 1 January 2018. The rate change is administratively effective at the beginning of the Group's fiscal year beginning 1 July 2018. The blended federal statutory tax rate for the Group's US subsidiaries for the year ended 30 June 2018 was 28%.

*Tax consolidation legislation*

The Company and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 31 October 2005. The Company is the head entity of the tax consolidated group. Members of the tax consolidated group have entered into a tax sharing and funding agreement that provides for the allocation of income tax liabilities between entities should the head entity default on its tax payment obligations. No amounts have been recognised in the consolidated financial statements in respect of this agreement on the basis that the probability of default is remote.

## 13 – TRADE AND OTHER PAYABLES

| | 2019 A$m | 2018 A$m |
|---|---|---|
| **Current:** | | |
| Trade payables | **328.0** | 379.4 |
| Other payables | **162.5** | 201.3 |
| Deferred income | **45.5** | 64.4 |
| | **536.0** | 645.1 |
| **Non-current:** | | |
| Other payables | **13.8** | 13.6 |

**Recognition and measurement**

Trade and other payable amounts represent liabilities for goods and services provided to the Group prior to the end of a financial year, which are unpaid.

Movements in deferred income during the fiscal year relate to revenue recognised upon the satisfaction of performance obligations. Deferred income of A$64.4 million at 30 June 2018 was earned during the fiscal year ended 30 June 2019 and A$45.5 million at 30 June 2019 relates to new performance obligations.

## 14 – PROVISIONS

| | 2019 A$m | 2018 A$m |
|---|---|---|
| Employee benefits | **79.2** | 93.9 |
| Self-insured risks | **26.1** | 25.6 |
| Onerous lease provisions | **15.6** | 19.9 |
| Legal provisions | **2.0** | 2.2 |
| Property "make-good" | **33.7** | 38.9 |
| Other | **4.8** | 5.3 |
| | **161.4** | 185.8 |
| Current | **100.5** | 110.8 |
| Non-current | **60.9** | 75.0 |
| | **161.4** | 185.8 |

Movements in each class of provision during the year ended 30 June 2019, other than employee benefits, are set out below:

| | Self-insurance risks A$m | Onerous Leases A$m | Legal A$m | Property "make-good" A$m | Other A$m |
|---|---|---|---|---|---|
| Balance at 1 July | 25.6 | 19.9 | 2.2 | 38.9 | 5.3 |
| Provisions (reversed)/ recognised | (0.8) | (2.2) | 1.4 | 4.9 | (0.1) |
| Payments | – | (2.5) | (1.7) | (11.7) | (0.3) |
| Foreign exchange differences | 1.3 | 0.4 | 0.1 | 1.6 | (0.1) |
| Balance at 30 June | 26.1 | 15.6 | 2.0 | 33.7 | 4.8 |

# Notes to the Consolidated Financial Statements continued

## 14 – PROVISIONS CONTINUED

**Recognition and measurement**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Other than for loss contracts, provisions are not recognised for future operating losses.

*Employee benefits*

Provisions are made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and other employee obligations. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

*Self-insurance*

Certain of the Group's subsidiaries are self-insured for health, workers' compensation and general liability claims. Provisions are recognised based on claims reported, and an estimate of claims incurred but not reported. These provisions are determined on a discounted basis, using an actuarially determined method.

*Onerous leases*

Onerous lease provisions comprise obligations for future rents payable, net of rents receivable on onerous leases. Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting the lease or contract obligations exceed the economic benefits expected to be received under the lease or contract.

*Property "make-good"*

Provisions are recorded for estimated "make-good" expenses for the Group's leased properties and environmental rehabilitation costs. The provision is an estimate of costs for property remediation that is expected to be required in the future.

The Group is subject to comprehensive environmental requirements relating to, among others, the acceptance, storage, treatment, handling and disposal of solid waste and hazardous waste; the discharge of materials and storm water into the environment; the management and treatment of wastewater and storm water and the remediation of soil and groundwater contamination. As a consequence, the Group has incurred, and will continue to incur, environmental costs and liabilities associated with site and facility operation, closure, remediation, monitoring and licensing.

Provisions have been made in respect of estimated environmental liabilities where obligations are known to exist and can be reasonably measured. However, additional liabilities may emerge due to a number of factors, including changes in environmental laws and regulations in each of the jurisdictions in which the Group operates or has operated. The Group cannot predict the extent to which it may be impacted in the future by any such changes in legislation or regulation.

*Legal claims*

Various Group companies are parties to legal actions and claims that arise in the ordinary course of their business. While the outcome of such legal proceedings cannot be readily foreseen, the Group believes that they will be resolved without material effect on its financial statements. Provision has been made for known obligations where the existence of the liability is probable and can be reasonably estimated.



## 15 – RETIREMENT BENEFIT OBLIGATIONS

The Group operates a number of pension plans for the benefit of its employees throughout the world. The Group's pension plans are provided through either defined contribution or defined benefit plans.

**Defined contribution plans**

Defined contribution plans offer employees individual funds that are converted into benefits at the time of retirement. The defined contribution plans receive fixed contributions from Group companies with the Group's legal obligation limited to these contributions. The Group made contributions of A$12.0 million in the year ended 30 June 2019 (2018: A$11.2 million).

**Defined benefit plans**

The Group operates different defined benefit plans in the UK, Australia and US. The specific characteristics (benefit formulas, funding policies and types of assets held) of the defined benefit plans vary according to the regulations and laws in the country where the defined benefit plans are offered.

The amounts recognised in the statement of financial position are determined as follows:

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| Fair value of defined benefit plan assets | **96.9** | 94.2 |
| Present value of accumulated defined benefit obligations | **(97.1)** | (88.1) |
| **Net amount** | **(0.2)** | 6.1 |
| Net amount comprised of: | | |
| Retirement benefit assets | **2.7** | 7.7 |
| Retirement benefit obligations | **(2.9)** | (1.6) |
| **Net defined benefit (obligation)/asset** | **(0.2)** | 6.1 |

The movements in the net defined benefit balance during the year ended 30 June 2019 are outlined below:

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| Balance at the beginning of the financial year | **6.1** | 0.7 |
| Actuarial (losses)/gains recorded in comprehensive income | **(7.2)** | 4.6 |
| Current service cost | **(0.7)** | (0.7) |
| Past service cost | **(0.6)** | – |
| Net interest income | **0.2** | – |
| Employer contributions | **1.9** | 1.4 |
| Foreign exchange differences | **0.1** | 0.1 |
| **Balance at the end of the financial year** | **(0.2)** | 6.1 |

The principal actuarial assumptions, as expressed as a weighted average, used to calculate the net defined benefit balance were as follows:

| | **2019** | 2018 |
|---|---|---|
| Discount rate | **2.6%** | 3.1% |
| Rate of increase in salaries | **3.3%** | 3.3% |
| Rate of increase in Retail Price Index (UK defined benefit plan only) | **3.2%** | 3.1% |

The Group expects to make contributions of A$1.0 million to the defined benefit plans during the next financial year.

# Notes to the Consolidated Financial Statements continued

## 15 – RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The major categories of plan assets are as follows:

| | 2019 A$m | 2018 A$m |
|---|---|---|
| Cash | **6.6** | 6.5 |
| Equity investments | **38.0** | 51.6 |
| Debt instruments | **51.0** | 34.9 |
| Property and other assets | **1.3** | 1.2 |
| **Total plan assets** | **96.9** | 94.2 |

**Recognition and measurement**

The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. Remeasurements of the net defined benefit balance, excluding interest, are recognised immediately in other comprehensive income.

The Group determined the net interest income on the net defined benefit balance for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the opening net defined benefit balance, adjusted for any changes in the net defined benefit balance during the period resulting from contributions and benefit payments. Net interest income related to the defined benefit plans is recognised in the income statement.

## 16 – OTHER FINANCIAL ASSETS AND LIABILITIES

| | 2019 A$m | 2018 A$m |
|---|---|---|
| **Other financial assets – Current:** | | |
| Investments in marketable securities | **14.1** | 11.3 |
| Loans to third parties carried at amortised cost | **0.5** | 0.6 |
| Derivative financial instruments: | | |
| Forward foreign exchange contracts | **0.1** | 0.1 |
| Forward commodity contracts | **2.8** | 6.9 |
| | **17.5** | 18.9 |
| **Other financial assets – Non-current:** | | |
| Other receivables | **18.1** | 16.7 |
| | **18.1** | 16.7 |
| **Other financial liabilities – Current:** | | |
| Derivative financial instruments: | | |
| Forward foreign exchange contracts | **2.5** | 6.5 |
| | **2.5** | 6.5 |

**Recognition and measurement**

*Derivative financial instruments*

Refer to note 21.

*Investments in marketable securities*

Investments in marketable securities are designated as a financial asset at fair value through profit or loss. Investments in marketable securities are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. The fair value of the investment is based on last quoted price. Unrealised gains and losses arising from changes in the fair value are recognised in profit or loss.



CAPITAL STRUCTURE AND RISK MANAGEMENT

## 17 – CASH AND CASH EQUIVALENTS

| | 2019 A$m | 2018 A$m |
|---|---|---|
| Cash at bank and on hand | **382.9** | 339.1 |
| **Cash and cash equivalents** | **382.9** | 339.1 |
| **Reconciliation of profit for the year ended 30 June to net cash inflows from operating activities** | | |
| **Profit for the year ended 30 June** | **152.6** | 203.5 |
| **Adjustments for non-cash items:** | | |
| Depreciation and amortisation | **133.1** | 117.2 |
| Non-cash interest expense | **1.4** | 1.3 |
| Equity accounted results net of dividends received | **(33.1)** | (55.7) |
| Non-cash share-based payments expense | **20.0** | 24.0 |
| Unrealised loss/(gain) on held for trading derivatives | **1.6** | (2.5) |
| Non-cash retirement benefit expense | **0.7** | 0.7 |
| Non-cash forgiveness of debt | **(0.4)** | (0.4) |
| Net gain on disposal of property, plant and equipment | **(5.4)** | (1.4) |
| Non-cash gain on acquisition of interest of a joint arrangement | **–** | (10.1) |
| Impairment of property, plant and equipment | **–** | 4.1 |
| Disposal of intangible assets | **–** | 0.3 |
| **Change in operating assets and liabilities:** | | |
| Decrease/(increase) in trade and other receivables | **100.4** | (4.7) |
| Decrease/(increase) in inventories | **139.1** | (135.4) |
| Increase in prepayments | **(6.4)** | (15.8) |
| (Decrease) in provisions | **(33.3)** | (16.8) |
| (Decrease)/increase in income taxes | **(20.9)** | 11.8 |
| Decrease in deferred taxes | **24.1** | 1.9 |
| (Decrease)/increase in trade and other payables | **(113.4)** | 130.1 |
| **Net cash inflows from operating activities** | **360.1** | 252.1 |

**Reconciliation of liabilities arising from financing activities**

| | Borrowings A$m | Finance Leases A$m | Total A$m |
|---|---|---|---|
| **Balance at 30 June 2018** | 39.2 | 1.8 | 41.0 |
| Cash flows | **(4.1)** | **(1.6)** | **(5.7)** |
| Non–cash forgiveness of debt | **(0.4)** | **–** | **(0.4)** |
| Non–cash foreign exchange movement | **0.5** | **–** | **0.5** |
| **Balance at 30 June 2019** | **35.2** | **0.2** | **35.4** |

**Recognition and measurement**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

# Notes to the Consolidated Financial Statements continued

## 18 – BORROWINGS

Current borrowings of A$0.2 million outstanding at the balance sheet date represent finance leases. Non-current borrowings consist of A$35.2 million, primarily related to bank loans.

The Group has access to unsecured global multi-currency/multi-option loan facilities, all of which are subject to common terms. The Group had access to the following credit standby arrangements at the balance date. The amount of credit available is subject to limits from loan covenants as specified in the loan facilities.

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| Unsecured global multi-currency/multi-option loan facilities | **627.4** | 617.2 |
| Amount of credit unused | **528.4** | 548.1 |

On 1 February 2018, the Group renewed its loan facilities which, among other things, reduced the maximum amount of credit available, extended the maturity date through 31 October 2020 and amended certain loan covenants. As a result, the Group's commitment fees will be lower.

There have been no breaches of the Group's bank covenants during the period.

**Recognition and measurement**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption amount is recognised in profit or loss over the period of the borrowings, using the effective interest method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has the unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

## 19 – CONTRIBUTED EQUITY

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Number of shares** | **A$m** | Number of shares | A$m |
| On issue per share register at the beginning of the period | **202,662,448** | **2,767.8** | 198,156,400 | 2,733.8 |
| Share buy-back | **(1,708,114)** | **(19.3)** | – | – |
| Issued under long-term incentive plans | **1,776,543** | **1.7** | 4,506,048 | 34.0 |
| **On issue per share register at the end of the period** | **202,730,877** | **2,750.2** | 202,662,448 | 2,767.8 |

Holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders' meetings.

**Share buy-back**

On 16 October 2018, the Company announced a new share buy-back program for 12 months with a maximum number of shares that can be purchased of approximately 20.4 million. During the year ended 30 June 2019, the Company purchased and cancelled 1,708,114 ordinary shares for total consideration of A$19.3 million under its current buy-back programs.

**Recognition and measurement**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

When the Company purchases any of its own equity instruments, for example, as a result of a share buy-back, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from contributed equity and any reacquired shares are cancelled upon their purchase.



## 20 – RESERVES AND ACCUMULATED DEFICIT

**Reserves**

| | Share-based payments A$m | Cash flow hedging A$m | Foreign currency translation A$m | Total A$m |
|---|---|---|---|---|
| **Balance at 1 July 2017** | 175.9 | 1.0 | (116.8) | 60.1 |
| Equity-settled share-based payment expense | 24.0 | – | – | 24.0 |
| Revaluation – gross | – | (1.8) | – | (1.8) |
| Transfer to profit or loss – gross | – | (1.4) | (1.3) | (2.7) |
| Foreign currency translation differences | – | – | 68.0 | 68.0 |
| Deferred tax | 5.0 | 1.0 | (6.0) | – |
| **Balance at 30 June 2018** | 204.9 | (1.2) | (56.1) | 147.6 |
| Equity-settled share-based payment expense | **20.0** | **–** | **–** | **20.0** |
| Revaluation – gross | **–** | **(0.7)** | **–** | **(0.7)** |
| Transfer to profit or loss – gross | **–** | **1.8** | **–** | **1.8** |
| Foreign currency translation differences | **–** | **–** | **78.9** | **78.9** |
| Deferred tax | **(1.2)** | **(0.3)** | **(9.8)** | **(11.3)** |
| **Balance at 30 June 2019** | **223.7** | **(0.4)** | **13.0** | **236.3** |

**Nature and purpose of reserves**

*Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of share-based awards issued to employees.

*Cash flow hedging reserve*

The cash flow hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income. Amounts are recognised in profit or loss when the associated hedged transaction impacts profit or loss. The Group primarily uses forward foreign exchange contracts.

*Foreign currency translation reserve*

Exchange differences arising on translation of foreign operations are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the Group disposes of the foreign operation.

**Accumulated deficit**

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| Balance at 1 July | **(726.7)** | (826.3) |
| Profit after tax | **152.6** | 203.5 |
| Dividends paid | **(107.9)** | (106.8) |
| Actuarial gain on defined benefit plans, net of tax | **(5.8)** | 2.9 |
| **Balance at 30 June** | **(687.8)** | (726.7) |

## 21 – FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk, commodity price risk and equity securities price risk), credit risk and liquidity risk. The Group's overall financial risk management strategy seeks to mitigate these risks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by a limited number of employees as authorised by the Board. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity.

The Risk Committee ("RC") of the Board oversees the monitoring of compliance by management with the Group's risk management framework. The RC is assisted in its oversight role by Internal Audit which undertakes reviews of key management controls and procedures.

The Group uses derivative financial instruments in certain circumstances in accordance with Board approved policies to hedge exposure to fluctuations in foreign exchange rates and commodity prices. Derivative financial instruments are used for hedging purposes and not as trading or other speculative instruments.

# Notes to the Consolidated Financial Statements continued

## 21 – FINANCIAL RISK MANAGEMENT CONTINUED

**Capital risk management**

The primary objective of managing the Group's capital is to ensure that there is sufficient capital available to support the funding requirements of the Group, including capital expenditure, in a way that optimises the cost of capital, maximises shareholders' returns and ensures that the Group remains in a sound financial position. In order to manage the capital structure, the Group may periodically adjust dividend policy, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital structure primarily using the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as total equity as shown in the statement of financial position plus net debt. As at 30 June 2019, the Group had a net cash position of A$347.5 million (2018: A$298.1 million).

**Market risk**

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates, will affect the Group's net profit or the value of its holdings of financial instruments.

*i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk, primarily with respect to transactions settled in US dollars. The exposure of an entity to transaction risk is minimised by matching local currency income with local currency costs.

The Group enters into forward foreign exchange contracts to hedge sales or purchase commitments denominated in currencies that are not the functional currency of the relevant entity. These contracts are typically entered for a period of three to six months based on when the transaction is expected to settle.

The Group's exposure to foreign exchange risk at the end of the reporting period, expressed in Australian dollars, was as follows:

| | Net financial assets/(liabilities) | |
|---|---|---|
| Currency: | **2019 A$m** | 2018 A$m |
| US dollar | **121.3** | 92.5 |
| Euro | **15.3** | 7.7 |
| British pounds sterling | **(0.1)** | 0.3 |

The table below shows the net impact of a 10% appreciation of the relevant currency against the Australian dollar for the balances above with all other variables held constant and the corresponding effect on the Group's forward foreign exchange contracts with all other variables held constant.

| | Impact on post-tax profit – (lower) | |
|---|---|---|
| | **2019 A$m** | 2018 A$m |
| US dollar | **(6.3)** | (8.9) |
| Euro | **(0.7)** | (0.8) |

| | Impact on equity – higher | |
|---|---|---|
| | **2019 A$m** | 2018 A$m |
| US dollar | **33.5** | 32.9 |

The impact on equity includes the effect from intragroup long-term borrowings which, in substance, form part of the Group's investment in an entity. Exchange gains and losses on these balances are recorded in the foreign currency translation reserve.

A 10% depreciation of the relevant currency against the Australian dollar would have an equal and opposite effect.

*ii) Commodity price risk*

The Group is exposed to risks associated with fluctuations in the market price for ferrous and non-ferrous metals and precious metals, which are at times volatile. The Group seeks to mitigate commodity price risk by seeking to turn over its inventories quickly, instead of holding inventories in anticipation of higher commodity prices.

The Group uses forward commodity contracts matched to purchases or sales of non-ferrous metals (primarily copper, nickel and aluminium) and certain precious metals (primarily gold, silver and palladium) where viable forward commodity contracts are available to minimise price risk exposure. The hedges undertaken aim to protect margins and provide downside protection of the underlying value of on-site finished goods inventories and unpriced in-transit sales.

At the end of the reporting period, none of the Group's forward commodity contracts qualified for hedge accounting, despite being valid economic hedges of the relevant risk. Accordingly, any movement in commodity rates that impact the fair value of these forward commodity contracts are recorded in profit or loss. Note 16 shows the carrying amount of the Group's forward commodity contracts at the end of the reporting period.

A 10% appreciation in commodity prices on outstanding forward commodity contracts, with all other variables held constant, would result in lower net profit of A$14.1 million (2018: A$13.8 million). A 10% depreciation of the stated commodity prices would have an equal and opposite effect.

*iii) Interest rate risk*

The Group is exposed to interest rate risk as entities borrow funds at variable interest rates. The Group does not use any derivative financial instruments to manage its exposure to interest rate risk. Cash deposits, loans to third parties and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The interest rate risk for interest-bearing liabilities is immaterial in terms of possible impact on profit or loss.

**Credit risk**

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amount of financial assets represents the maximum credit exposure.

The Group establishes credit limits for its customers. Trade and other receivables consist of a large number of customers, spread across various metal producing sectors in international markets. Ongoing credit evaluation is performed on the financial condition of the Group's customers and, where appropriate, a loss allowance is raised. For certain customers, the Group purchases credit insurance to protect itself against collection risks.

The Group is also exposed to credit risk arising from the Group's transactions in derivative contracts. For credit purposes, there is only a credit risk where the counterparty is liable to pay the Group in the event of a closeout.

The Group has policies that limit the amount of credit exposure to any financial institution. Derivative counterparties and cash transactions are limited to financial institutions that have a minimum credit rating of "A" by either Standard & Poor's or Moody's, unless otherwise approved by the Board. Management also monitors the current credit exposure with each counterparty. Any changes to counterparties or their credit limits must be approved by the Group Chief Financial Officer.

**Liquidity risk**

Liquidity risk is associated with ensuring that there is sufficient cash and cash equivalents on hand and the availability of funding through an adequate amount of committed credit facilities to meet the Group's obligations as they mature and the ability to close out market positions.

The Group manages liquidity risk by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic and volatile nature of the underlying businesses, the Group aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Included in note 18 is a summary of undrawn facilities that the Group can draw upon if required.

# Notes to the Consolidated Financial Statements continued

## 21 – FINANCIAL RISK MANAGEMENT CONTINUED

The contractual cash flows of the Group's financial liabilities are shown in the table below. The contractual amounts represent the future undiscounted cash flows. The amounts for interest bearing liabilities also include interest cash flows and therefore, do not equate to the carrying amount. The expected timing of cash outflows are set out below:

| | Less than 1 year A$m | Between 1 and 2 years A$m | Between 2 and 5 years A$m | Over 5 years A$m | Total A$m |
|---|---|---|---|---|---|
| **2019** | | | | | |
| **Non-derivatives:** | | | | | |
| Trade and other payables | **536.0** | **4.2** | **4.4** | **5.2** | **549.8** |
| Borrowings | **0.2** | **34.4** | **0.8** | **–** | **35.4** |
| **Derivatives:** | | | | | |
| Net settled (forward commodity contracts) | **–** | **–** | **–** | **–** | **–** |
| Gross settled (forward foreign exchange contracts): | | | | | |
| – (inflows) | **(309.0)** | **–** | **–** | **–** | **(309.0)** |
| – outflows | **311.5** | **–** | **–** | **–** | **311.5** |
| | **538.7** | **38.6** | **5.2** | **5.2** | **587.7** |
| Interest on financial commitments | **4.6** | **1.5** | **–** | **–** | **6.1** |
| Financial guarantees [1] | **74.8** | **–** | **–** | **–** | **74.8** |
| | **618.1** | **40.1** | **5.2** | **5.2** | **668.6** |
| **2018** | | | | | |
| **Non-derivatives:** | | | | | |
| Trade and other payables | 645.1 | 6.5 | 2.6 | 4.5 | 658.7 |
| Borrowings | 1.6 | 0.2 | 39.2 | – | 41.0 |
| **Derivatives:** | | | | | |
| Net settled (forward commodity contracts) | – | – | – | – | – |
| Gross settled (forward foreign exchange contracts): | | | | | |
| – (inflows) | (347.7) | – | – | – | (347.7) |
| – outflows | 354.2 | – | – | – | 354.2 |
| | 653.2 | 6.7 | 41.8 | 4.5 | 706.2 |
| Interest on financial commitments | 4.2 | 4.2 | 1.4 | – | 9.8 |
| Financial guarantees [1] | 43.7 | – | – | – | 43.7 |
| | 701.1 | 10.9 | 43.2 | 4.5 | 759.7 |

1) Refer to note 28 for details on financial guarantees. The amounts disclosed above are the maximum amounts allocated to the earliest period in which the guarantee could be called. However, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement.

**Fair value**

The carrying amounts and estimated fair values of the Group's financial assets and liabilities are materially the same.

The fair value of financial instruments traded on active markets (such as publicly traded derivatives and investments in marketable securities) is based on quoted market prices at the reporting date. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (such as forward foreign exchange contracts) is determined using readily observable broker quotes. These instruments are included in level 2.

There were no transfers between levels during the year.

*Valuation of financial assets and liabilities*

Financial instruments carried at fair value are classified by valuation method using the following hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Recognition and measurement**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Certain derivative instruments do not qualify for hedge accounting, despite being valid economic hedges of the relevant risks. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

The Group documents, at the inception of the hedging transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

*i) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

*ii) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item impacts profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within revenue.

Where the hedged item is the cost of a non-financial asset or liability, such as a forecast transaction for the purchase of property, plant and equipment, the amounts recognised within other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gains or losses that were deferred in equity are immediately transferred to profit or loss.

GROUP STRUCTURE

## 22 –BUSINESS ACQUISITIONS

The accounting for the below acquisitions has been finalised as of the reporting date. In accordance with the requirements of AASB 3 *Business Combinations*, the consolidated entity completed all purchase accounting within 12 months of the date of the acquisition.

During the year ended 30 June 2019, the Group acquired one business in the ANZ segment. On a combined basis, had the acquisition occurred on 1 July 2018, there would not have been a significant change to the Group's revenue and net profit. Additionally, revenue and net profit contribution by the business acquired to the Group post-acquisition was not significant.

Details of the aggregate purchase consideration and cash outflow, assets and liabilities arising from the acquisition and goodwill recognised from the acquisition are as follows:

| | A$m |
|---|---|
| Property, plant and equipment | 8.2 |
| Inventories | 0.4 |
| Net identifiable assets acquired | 8.6 |
| Goodwill on acquisition | 0.8 |
| Total consideration and net cash outflow | 9.4 |

*Acquisition of Sims Pacific Metals*

On 29 June 2018, the Group completed the acquisition of the remaining 50% interest in Sims Pacific Metals ("SPM"), increasing its ownership from 50% to 100%. The consideration paid was A$37.6 million. The Group also acquired 100% of the voting shares in Sims Pacific Metals Limited.

SPM is the leading metal recycling business in New Zealand operating nine facilities, including two metal shredders across the North and South Islands of New Zealand. The business is supported by over 170 employees and handles approximately 350,000 tonnes of ferrous and non-ferrous metal recyclables per annum.

Acquisition-related costs amounting to A$0.2 million have been excluded from the consideration paid and have been recognised as an expense in the year ended 30 June 2018, within the 'other expenses' line item in the income statement. From the date of acquisition, the additional 50% interest in SPM contributed immaterial revenue or profit before tax of the consolidated entity. The estimated impact of revenue and profit before tax of the consolidated entity during FY18 would have been an increase of A$99.2 million and A$11.9 million, respectively, if the acquisition had been effected at 1 July 2017.

# Notes to the Consolidated Financial Statements continued

## 22 –BUSINESS ACQUISITIONS CONTINUED

*Fair value of pre-existing interest in SPM*

Prior to completing the SPM acquisition, the Group's 50% interest in SPM was accounted for as a joint operation. Under AASB 3, the pre-existing equity interest was required to be remeasured at the acquisition date fair value with the resulting gain or loss recognised in the income statement. The remeasurement to fair value of the Group's existing 50% interest in SPM resulted in a gain of A$8.8 million, which has been included in other income in note 3.

AASB 3 also requires that any amounts previously recognised in other comprehensive income are reclassified to the income statement. The Group's share of gains recognised in the foreign currency translation reserve at date of acquisition of A$1.3 million have been reclassified to the income statement and are included in other income in note 3. The A$10.1 million aggregate gain on acquisition of the remaining interest in the joint arrangement is displayed as a significant item in note 4.

*Other acquisitions*

During the year ended 30 June 2018, the Group acquired four additional businesses, two in the NAM segment and two in the UK Metals segment, including the Morley Waste Traders and Lord and Midgley ("Morley") acquisition. On a combined basis, it was considered impracticable to estimate what the revenue and profit before tax of the consolidated entity would have been I FY18 if the acquisitions had been effected at 1 July 2017. Additionally, revenue and net profit contribution by the businesses acquired to the Group post-acquisition in FY18 was not significant.

The fair value of the identifiable assets acquired and liabilities assumed at the respective dates of acquisition were as follows:

| Assets acquired and liabilities assumed | SPM[1] A$m | Morley[2] A$m | Others A$m | Total A$m |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | – | 18.8 | – | 18.8 |
| Trade and other receivables | 2.4 | 8.5 | – | 10.9 |
| Inventories | 7.8 | 1.0 | – | 8.8 |
| Other financial assets | 0.2 | – | – | 0.2 |
| **Total current assets** | 10.4 | 28.3 | – | 38.7 |
| **Non-current assets** | | | | |
| Property, plant and equipment (note 10) | 18.5 | 29.9 | 5.2 | 53.6 |
| Intangible assets (note 11) | 0.8 | 9.3 | 3.4 | 13.5 |
| **Total non-current assets** | 19.3 | 39.2 | 8.6 | 67.1 |
| **Total assets** | 29.7 | 67.5 | 8.6 | 105.8 |
| **Current liabilities** | | | | |
| Trade and other payables | 4.0 | 4.8 | – | 8.8 |
| Current tax liabilities | – | 0.7 | – | 0.7 |
| Provisions | 0.9 | 0.9 | – | 1.8 |
| **Total current liabilities** | 4.9 | 6.4 | – | 11.3 |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | 1.1 | 3.0 | – | 4.1 |
| Provisions | 0.2 | – | – | 0.2 |
| **Total non-current liabilities** | 1.3 | 3.0 | – | 4.3 |
| **Total liabilities** | 6.2 | 9.4 | – | 15.6 |
| **Fair value of identifiable net assets acquired** | 23.5 | 58.1 | 8.6 | 90.2 |
| Goodwill arising on acquisitions (note 11) | 14.1 | 15.3 | – | 29.4 |
| **Purchase consideration** | | | | |
| Cash Paid | 38.4 | 71.2 | 3.9 | 113.5 |
| Cash acquired | – | (18.8) | – | (18.8) |
| **Net cash outflow acquisitions** | 38.4 | 52.4 | 3.9 | 94.7 |
| Deferred Consideration (receivable)/payable | (0.8) | 2.2 | 4.7 | 6.1 |
| **Total consideration** | 37.6 | 54.6 | 8.6 | 100.8 |

1) Upon completion of purchase accounting, adjustments were made to goodwill and intangible assets balances related to the SPM acquisition.
2) Upon completion of purchase accounting, adjustments were made to goodwill, intangible assets, and deferred tax liability balances related to the Morley acquisition.

## 23 – SUBSIDIARIES

| Name of entity | Country of Incorporation | Equity holding % 2019 | Equity holding % 2018 |
|---|---|---|---|
| **Sims Metal Management Limited** [1] | **Australia** | | |
| Electronic Product Stewardship Australasia Pty Limited | Australia | **90%** | 90% |
| Sims Aluminium Pty Limited [1] | Australia | **100%** | 100% |
| Sims E-Recycling Pty Limited | Australia | **90%** | 90% |
| Sims Group Australia Holdings Limited [1] | Australia | **100%** | 100% |
| Sims Group Holdings 1 Pty Ltd | Australia | **100%** | 100% |
| Sims Group Holdings 2 Pty Ltd | Australia | **100%** | 100% |
| Sims Group Holdings 3 Pty Limited | Australia | **100%** | 100% |
| Sims Industrial Pty Limited | Australia | **100%** | 100% |
| Simsmetal Holdings Pty Limited | Australia | **100%** | 100% |
| Simsmetal Properties NSW Pty Limited | Australia | **100%** | 100% |
| Simsmetal Properties Qld Pty Limited | Australia | **100%** | 100% |
| Simsmetal Services Pty Limited [1] | Australia | **100%** | 100% |
| Universal Inspection and Testing Company Pty Limited | Australia | **100%** | 100% |
| Sims metrade GmbH | Austria | **100%** | 100% |
| Sims Recycling Solutions Austrian Holding GmbH | Austria | **100%** | 100% |
| Sims Recycling Solutions Austrian Intermediate Holdings GmbH | Austria | **100%** | 100% |
| Sims Recycling Solutions NV | Belgium | **100%** | 100% |
| Sims Group Canada Holdings Limited | Canada | **100%** | 100% |
| Sims Group Recycling Solutions Canada Ltd | Canada | **100%** | 100% |
| Sims Recycling Solutions s.r.o. | Czech Republic | **100%** | 100% |
| Sims Recycling Solutions FZE | Dubai | **100%** | 100% |
| Sims Group German Holdings GmbH | Germany | **100%** | 100% |
| Sims Lifecycle Services GmbH | Germany | **100%** | 100% |
| Sims M+R GmbH | Germany | **100%** | 100% |
| Sims Metal Management Asia Limited | Hong Kong | **100%** | 100% |
| Sims Metal Management China Holdings Limited | Hong Kong | **100%** | 100% |
| Sims Recycling Solutions India Private Limited | India | **100%** | 100% |
| Trishyiraya Recycling India Private Limited | India | **100%** | 100% |
| Sims Recycling Solutions Ireland Limited | Ireland | **100%** | 100% |
| Mirec BV | Netherlands | **100%** | 100% |
| Sims Lifecycle Services BV | Netherlands | **100%** | 100% |
| Sims Recycling Solutions Coöperatief B.A. | Netherlands | **100%** | 100% |
| Sims E - Recycling (NZ) Limited | New Zealand | **90%** | 90% |
| Sims Pacific Metals Limited | New Zealand | **100%** | 100% |
| Simsmetal Industries Limited | New Zealand | **100%** | 100% |
| Sims Recycling Solutions AS | Norway | **100%** | 100% |
| Gaukara Company No. 2 Limited | Papua New Guinea | **100%** | 100% |
| PNG Recycling Limited | Papua New Guinea | **100%** | 100% |
| Sims Recycling Solutions Sp. z.o.o. | Poland | **100%** | 100% |
| Sims Recycling Solutions Africa Pty Ltd | Republic of South Africa | **100%** | 100% |
| Sims Global Commodities Pte. Ltd. | Singapore | **100%** | 100% |
| Sims Recycling Solutions Pte. Ltd. | Singapore | **100%** | 100% |
| Sims Recycling Solutions AB | Sweden | **100%** | 100% |
| Cooper Metal Recycling Ltd | UK | **100%** | 100% |
| Deane Wood Export Limited | UK | **100%** | 100% |
| Dunn Brothers (1995) Limited | UK | **100%** | 100% |
| Kaystan Holdings Limited | UK | **100%** | 100% |
| Lord & Midgley Limited | UK | **100%** | 100% |

# Notes to the Consolidated Financial Statements continued

## 23 – SUBSIDIARIES CONTINUED

| Name of entity | Country of Incorporation | Equity holding % 2019 | 2018 |
|---|---|---|---|
| Morley Waste Traders Limited | UK | **100%** | 100% |
| Sims Energy Limited | UK | **90%** | 90% |
| Sims Foundry Limited | UK | **100%** | 100% |
| Sims Renewable Energy Limited | UK | **100%** | 100% |
| Sims Group UK Holdings Limited | UK | **100%** | 100% |
| Sims Group UK Intermediate Holdings Limited | UK | **100%** | 100% |
| Sims Group UK Limited | UK | **100%** | 100% |
| Sims Group UK Pension Trustees Limited | UK | **100%** | 100% |
| Sims Metal Management Finance Limited | UK | **100%** | 100% |
| Sims Metal Management U.K. Limited | UK | **100%** | 100% |
| Sims Recycling Solutions Limited | UK | **100%** | 100% |
| United Castings Limited | UK | **100%** | 100% |
| CIM Trucking, Inc. | US | **100%** | 100% |
| Converge Engineering LLC | US | **100%** | 100% |
| Dover Barge Company | US | **100%** | 100% |
| Metal Dynamics Detroit LLC | US | **100%** | 100% |
| Metal Management Indiana, Inc. | US | **100%** | 100% |
| Metal Management Memphis, L.L.C. | US | **100%** | 100% |
| Metal Management Midwest, Inc. | US | **100%** | 100% |
| Metal Management Northeast, Inc. | US | **100%** | 100% |
| Metal Management Ohio, Inc. | US | **100%** | 100% |
| Metal Management Pittsburgh, Inc. | US | **100%** | 100% |
| Metal Management, Inc. | US | **100%** | 100% |
| Naporano Iron & Metal, Inc. | US | **100%** | 100% |
| New York Recycling Ventures, Inc. | US | **100%** | 100% |
| Port Albany Ventures, LLC | US | **100%** | 100% |
| Sims Southwest Corporation (formerly Proler Southwest Corporation) | US | **100%** | 100% |
| Schiabo Larovo Corporation | US | **100%** | 100% |
| Sims Group Global Trade Corporation | US | **100%** | 100% |
| Sims Group USA Corporation | US | **100%** | 100% |
| Sims Group USA Holdings Corporation | US | **100%** | 100% |
| Sims Metal Management USA GP | US | **100%** | 100% |
| Sims Municipal Recycling of New York, LLC | US | **100%** | 100% |
| Sims Recycling Solutions Holdings Inc. | US | **100%** | 100% |
| Sims Recycling Solutions Inc. | US | **100%** | 100% |
| Simsmetal East LLC | US | **100%** | 100% |
| Simsmetal West LLC | US | **100%** | 100% |
| SMM – North America Trade Corporation | US | **100%** | 100% |
| SMM Gulf Coast LLC | US | **100%** | 100% |
| SMM New England Corporation | US | **100%** | 100% |
| SMM South Corporation | US | **100%** | 100% |
| SMM Southeast LLC | US | **100%** | 100% |

1) These subsidiaries and the Company are parties to a Deed of Cross Guarantee ("DCG") under which each entity guarantees the debts of the others. The above entities represent a Closed Group and an Extended Closed Group for the purposes of the relevant Australian Securities and Investments Commission Class Order.

**Deed of Cross Guarantee**

Sims Metal Management Limited, Sims Group Australia Holdings Limited, Sims Aluminium Pty Limited and Simsmetal Services Pty Limited are parties to a DCG under which each company guarantees the debts of the others. By entering into the DCG, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (Wholly owned Companies) Instrument 2016/785, which was issued 28 September 2016.

The above companies represent a "Closed Group" for the purposes of the Class Order. As there are no other parties to the DCG that are controlled by Sims Metal Management Limited, they also represent the "Extended Closed Group".

Set out below is a condensed consolidated income statement, a consolidated statement of comprehensive income, a summary of movements in consolidated accumulated deficit and a consolidated statement of financial position for the Closed Group.

| | 2019 A$m | 2018 A$m |
|---|---|---|
| *i) Condensed consolidated income statement* | | |
| **Profit before income tax** | **110.2** | 234.1 |
| Income tax expense | **(37.9)** | (42.9) |
| **Profit after tax** | **72.3** | 191.2 |
| *ii) Consolidated statement of comprehensive income* | | |
| **Profit after tax** | **72.3** | 191.2 |
| **Other comprehensive income:** | | |
| *Items that may be reclassified to profit or loss:* | | |
| Changes in the fair value of derivatives held as cash flow hedges, net of tax | **0.8** | (2.2) |
| *Item that will not be reclassified to profit or loss:* | | |
| Actuarial (loss)/gain on defined benefit plans, net of tax | **(1.0)** | 0.1 |
| **Other comprehensive income for the year, net of tax** | **(0.2)** | (2.1) |
| **Total comprehensive income for the year** | **72.1** | 189.1 |
| *iii) Summary of movements in consolidated accumulated deficit* | | |
| Balance at 1 July | **(898.7)** | (983.2) |
| Profit for the year | **72.3** | 191.2 |
| Actuarial (loss)/gain on defined benefit plans, net of tax | **(1.0)** | 0.1 |
| Dividends provided for or paid | **(107.9)** | (106.8) |
| Balance at 30 June | **(935.3)** | (898.7) |

# Notes to the Consolidated Financial Statements continued

## 23 – SUBSIDIARIES CONTINUED

**Deed of Cross Guarantee** continued

| | 2019 A$m | 2018 A$m |
|---|---|---|
| *iv) Consolidated statement of financial position* | | |
| **Current assets** | | |
| Cash and cash equivalents | **86.8** | 139.3 |
| Trade and other receivables | **207.2** | 167.5 |
| Inventories | **72.6** | 94.6 |
| Other financial assets | **–** | 0.1 |
| Assets held for sale | **–** | 2.0 |
| **Total current assets** | **366.6** | 403.5 |
| **Non-current assets** | | |
| Investments in joint ventures | **62.4** | 55.3 |
| Other financial assets | **1,588.6** | 1,581.6 |
| Property, plant and equipment | **235.5** | 224.8 |
| Retirement benefit assets | **–** | 1.4 |
| Deferred tax assets | **23.2** | 29.7 |
| Intangible assets | **42.4** | 41.8 |
| **Total non-current assets** | **1,952.1** | 1,934.6 |
| **Total assets** | **2,318.7** | 2,338.1 |
| **Current liabilities** | | |
| Trade and other payables | **202.4** | 173.0 |
| Borrowings | **0.1** | 0.4 |
| Other financial liabilities | **0.9** | 1.9 |
| Current tax liabilities | **11.1** | 23.5 |
| Provisions | **23.1** | 27.7 |
| **Total current liabilities** | **237.6** | 226.5 |
| **Non-current liabilities** | | |
| Payables | **4.3** | 3.7 |
| Borrowings | **–** | 0.1 |
| Retirement benefit obligations | **0.4** | – |
| Deferred tax liabilities | **34.7** | 29.7 |
| Provisions | **4.9** | 6.7 |
| **Total non-current liabilities** | **44.3** | 40.2 |
| **Total liabilities** | **281.9** | 266.7 |
| **Net assets** | **2,036.8** | 2,071.4 |
| **Equity** | | |
| Contributed equity | **2,750.2** | 2,767.8 |
| Reserves | **221.9** | 202.3 |
| Accumulated deficit | **(935.3)** | (898.7) |
| **Total equity** | **2,036.8** | 2,071.4 |

## 24 – INTERESTS IN OTHER ENTITIES

*Joint ventures*

| Name | Principal Activity | Country of Incorporation | Ownership interest % 2019 | Ownership interest % 2018 |
|---|---|---|---|---|
| SA Recycling, LLC ("SAR") | Recycling | US | **50** | 50 |
| LMS Energy Pty Ltd ("LMS") | Renewable energy | Australia | **50** | 50 |
| Sims Pacific Metals Limited[1] | Recycling | New Zealand | **–** | – |
| Richmond Steel Recycling Limited | Recycling | Canada | **50** | 50 |
| Rondout Iron & Metal Company LLC | Recycling | US | **50** | 50 |
| Simstar Alloys Pty Limited | Recycling | Australia | **50** | 50 |

1) The Group held a 50% interest in Sims Pacific Metals Limited until 29 June 2018 when the remaining 50% interest was acquired. Refer to note 22 for further detail.

*Movements in carrying amounts of joint ventures*

| | SAR A$m | Other A$m | Total A$m |
|---|---|---|---|
| **2019** | | | |
| Balance at 1 July | **180.7** | **86.7** | **267.4** |
| Share of results | **41.0** | **15.5** | **56.5** |
| Dividends received | **(20.9)** | **(2.5)** | **(23.4)** |
| Foreign exchange differences | **10.3** | **1.9** | **12.2** |
| Balance at 30 June | **211.1** | **101.6** | **312.7** |
| **2018** | | | |
| Balance at 1 July | 131.9 | 72.1 | 204.0 |
| Share of results | 68.5 | 16.4 | 84.9 |
| Dividends received | (26.7) | (2.5) | (29.2) |
| Foreign exchange differences | 7.0 | 0.7 | 7.7 |
| Balance at 30 June | 180.7 | 86.7 | 267.4 |

*Summarised financial information of joint ventures*

| | SAR A$m | Other A$m | Total A$m |
|---|---|---|---|
| **2019** | | | |
| **Statement of financial position** | | | |
| Current assets | **146.6** | **50.1** | **196.7** |
| Non-current assets | **256.0** | **61.1** | **317.1** |
| Current liabilities | **64.2** | **11.8** | **76.0** |
| Non-current liabilities | **122.9** | **4.1** | **127.0** |
| **Income statement** | | | |
| Revenue | **1,061.5** | **106.9** | **1,168.4** |
| Share of net profit for the year | **41.0** | **15.5** | **56.5** |
| **2018** | | | |
| **Statement of financial position** | | | |
| Current assets | 206.0 | 54.6 | 260.6 |
| Non-current assets | 225.5 | 42.2 | 267.7 |
| Current liabilities | 61.5 | 13.5 | 75.0 |
| Non-current liabilities | 179.7 | 2.8 | 182.5 |
| **Income statement** | | | |
| Revenue | 1,013.3 | 108.1 | 1,121.4 |
| Share of net profit for the year | 68.5 | 16.4 | 84.9 |

# Notes to the Consolidated Financial Statements continued

## 24 – INTERESTS IN OTHER ENTITIES CONTINUED

*Balances and transactions with joint ventures*

| | SAR A$m | Other A$m | Total A$m |
|---|---|---|---|
| **2019** | | | |
| Sales of goods and services | **–** | **0.2** | **0.2** |
| Purchases of goods and services | **549.4** | **2.7** | **552.1** |
| Management and other fees and commissions | **2.4** | **1.6** | **4.0** |
| Current receivables | **2.5** | **0.4** | **2.9** |
| Current payables | **16.0** | **0.4** | **16.4** |
| **2018** | | | |
| Sales of goods and services | – | – | – |
| Purchases of goods and services | 557.2 | 1.5 | 558.7 |
| Management and other fees and commissions | 1.3 | 1.6 | 2.9 |
| Current receivables | 1.9 | 1.1 | 3.0 |
| Current payables | 25.9 | – | 25.9 |

**Recognition and measurement**

Investments in joint ventures have been accounted for under the equity method of accounting. The Group's share of net profit of joint ventures is recorded in the income statement.

Investments in joint ventures are annually tested for impairment and whenever the Group believes events or changes in circumstances indicate that the carrying value amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the investment exceeds its recoverable amount. The recoverable amount is the higher of an investment's fair value less costs to sell and value in use.

*Joint operations*

The Group acquired the additional 50% interest in a joint operation SPM during the year ended 30 June 2018 (note 22).

**Recognition and measurement**

The partners in the joint operation owned the assets as tenants in common and were jointly and severally liable for the liabilities incurred by the joint operation. SPM was therefore classified as a joint operation prior to the acquisition of the remaining 50% interest and the Group recognised its direct right to the jointly held assets, liabilities, revenues and expenses.



## 25 – PARENT ENTITY INFORMATION

The Company was incorporated on 20 June 2005. Under the terms of a scheme of arrangement entered into between Sims Metal Management Limited (formerly known as Sims Group Limited from 20 June 2005 to 21 November 2008) and Sims Group Australia Holdings Limited ("SGAHL") (formerly known as Sims Group Limited prior to 20 June 2005) on 31 October 2005, the shareholders in SGAHL exchanged their shares in that entity for the shares in Sims Metal Management Limited.

SGAHL was deemed to be the acquirer in this business combination. This transaction has therefore been accounted for as a reverse acquisition. Accordingly, the consolidated financial statements of Sims Metal Management Limited have been prepared as a continuation of the consolidated financial statements of SGAHL.

*Summary financial information*

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| *Statement of financial position:* | | |
| Current assets | **162.4** | 156.9 |
| Total assets | **2,368.4** | 2,355.0 |
| Current liabilities | **33.3** | 22.8 |
| Total liabilities | **37.0** | 26.0 |
| *Shareholders' equity:* | | |
| Contributed equity | **4,070.9** | 4,088.5 |
| Reserves | **223.7** | 204.9 |
| Profits reserve | **98.0** | 96.8 |
| Accumulated deficit | **(2,061.2)** | (2,061.2) |
| Total equity | **2,331.4** | 2,329.0 |
| *Statement of comprehensive income:* | | |
| **Profit for the year**[1] | **109.2** | 150.7 |
| **Total comprehensive income** | **109.2** | 150.7 |

1) The parent entity's profit for the year ended 30 June 2018 includes a realised foreign exchange gain of A$52.2 million resulting from a capital distribution from a foreign subsidiary. Sims Metal Management Limited held 100% of the equity of the subsidiary at 30 June 2018. The pre-tax foreign exchange gain is eliminated on consolidation and remains in the foreign exchange translation reserve until the Group disposes of the foreign operation. The tax expense of A$15.6 million is recognised in the fiscal year ended 30 June 2018 due to the cash distribution from the subsidiary resulting in a taxable event.

*Guarantees entered into by the parent entity*

The Company has not provided financial guarantees for which a liability has been recognised in the Company's statement of financial position. The Company has given guarantees in respect of the performance of contracts entered into in the ordinary course of business. The amount of these guarantees provided by the Company as at 30 June 2019 was A$74.7 million (2018: A$41.3 million).

The Company has provided a guarantee for its proportional share of a lease obligation of a joint venture of the Group. The Company's proportional amount of the lease obligation remaining as at 30 June 2019 was A$1.0 million (2018: A$3.7 million).

The Company is party to a number of financing facilities and a DCG under which it guarantees the debts of a number of its subsidiaries.

*Lease commitments*

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| Not later than one year | **3.0** | 2.7 |
| Later than one year, but not later than five years | **12.2** | 11.5 |
| Later than five years | **35.6** | 36.7 |
| **Total lease commitments not recognised as liabilities** | **50.8** | 50.9 |

# Notes to the Consolidated Financial Statements continued

OTHER DISCLOSURES

## 26 – SHARE-BASED PAYMENTS

The Company's long-term incentive plan ("LTIP") is designed as a reward and retention tool for eligible employees. The maximum number of shares that can be outstanding at any time under the LTIP is limited to 5% of the Company's issued capital. Grants under the share ownership plans can be in the form of options or share rights. Certain share ownership plans also provide for cash-settlement, which are determined by the Board.

Historically, the Company issued share-based awards to US-based employees that were settled in American Depositary Shares ("ADSs"). However, beginning in November 2013, all new share-based awards are settled in ordinary shares.

*Share-based payment expense*

| | **2019 A$m** | 2018 A$m |
|---|---|---|
| Equity-settled share-based payments expense | **20.0** | 24.0 |
| Cash-settled share-based payments expense | **(2.0)** | 0.4 |
| | **18.0** | 24.4 |

*Equity-settled options*

| Equity-settled options outstanding | **Number of options 2019** | **Weighted average exercise price 2019** | Number of options 2018 | Weighted average exercise price 2018 |
|---|---|---|---|---|
| **Ordinary shares:** | | | | |
| Balance at 1 July | **6,527,020** | **A$10.98** | 7,260,707 | A$10.28 |
| Granted | **2,058,195** | **A$12.32** | 1,539,367 | A$13.56 |
| Forfeited/expired | **(120,163)** | **A$12.73** | (87,118) | A$17.62 |
| Exercised | **(159,526)** | **A$9.84** | (2,185,936) | A$10.22 |
| Balance at 30 June | **8,305,526** | **A$11.31** | 6,527,020 | A$10.98 |
| Exercisable at 30 June | **4,339,458** | **A$10.48** | 2,375,381 | A$10.18 |
| **ADSs:** | | | | |
| Balance at 1 July | **1,924,861** | **US$11.78** | 3,759,798 | US$12.37 |
| Forfeited/expired | **(1,137,660)** | **US$13.37** | (871,719) | US$16.83 |
| Exercised | **(7,840)** | **US$9.49** | (963,218) | US$9.49 |
| Balance at 30 June | **779,361** | **US$9.49** | 1,924,861 | US$11.78 |
| Exercisable at 30 June | **779,361** | **US$9.49** | 1,924,861 | US$11.78 |

For equity-settled options exercised during the year ended 30 June 2019, the weighted average share price at the date of exercise was A$12.79 for ordinary shares and US$11.99 for ADSs (2018: A$15.66 for ordinary shares and US$12.41 for ADSs).

Information about outstanding and exercisable equity-settled options as at 30 June 2019 is as follows:

| | Outstanding | | | Exercisable | | |
|---|---|---|---|---|---|---|
| Exercise price range | Number of options | Weighted average exercise price | Weighted average remaining contractual life (years) | Number of options | Weighted average exercise price | Weighted average remaining contractual life (years) |
| **Ordinary shares:** | | | | | | |
| A$9.29–A$9.38 | 1,392,899 | A$9.37 | 3.18 | 1,392,899 | A$9.37 | 3.18 |
| A$9.39–A$10.51 | 2,852,831 | A$10.40 | 3.77 | 1,921,939 | A$10.35 | 3.47 |
| A$10.52–A$17.10 | 4,059,796 | A$12.61 | 5.49 | 1,024,620 | A$12.21 | 3.88 |
| | **8,305,526** | **A$11.31** | **4.52** | **4,339,458** | **A$10.48** | **3.47** |
| **ADSs:** | | | | | | |
| US$9.49 | 779,361 | US$9.49 | 0.38 | 779,361 | US$9.49 | 0.38 |
| | **779,361** | **US$9.49** | **0.38** | **779,361** | **US$9.49** | **0.38** |

*Cash-settled options*

| Cash-settled options outstanding | **Number of options 2019** | **Weighted average exercise price 2019** | Number of options 2018 | Weighted average exercise price 2018 |
|---|---|---|---|---|
| Balance at 1 July | **594,786** | **A$11.10** | 1,138,842 | A$12.29 |
| Forfeited/Expired | **(172,195)** | **A$13.07** | (204,410) | A$17.62 |
| Exercised | **–** | **–** | (339,646) | A$11.16 |
| Balance at 30 June | **422,591** | **A$10.30** | 594,786 | A$11.10 |
| Exercisable at 30 June | **422,591** | **A$10.30** | 594,786 | A$11.10 |

*Performance rights*

Performance rights vest after a period of three to five years, subject to the performance hurdle being met. Performance hurdles are either based on Total Shareholder Return ("TSR"), or Return on Invested Capital ("ROIC") criteria. Details of the performance and service conditions are provided in the Remuneration Report.

*Performance rights outstanding*

| | **Number of shares 2019** | **Weighted average fair value at grant date 2019** | Number of shares 2018 | Weighted average fair value at grant date 2018 |
|---|---|---|---|---|
| **Ordinary shares:** | | | | |
| Non-vested balance at 1 July | **3,883,375** | **A$8.21** | 5,048,607 | A$7.98 |
| Granted | **1,884,870** | **A$7.95** | 1,002,042 | A$10.56 |
| Forfeited/cancelled | **(92,917)** | **A$4.87** | (1,508,428) | A$9.43 |
| Vested | **(1,355,439)** | **A$6.60** | (658,846) | A$7.49 |
| Non-vested balance at 30 June | **4,319,889** | **A$9.18** | 3,883,375 | A$8.21 |
| **ADSs:** | | | | |
| Balance at 1 July | **–** | **–** | 312,465 | US$4.27 |
| Forfeited/cancelled | **–** | **–** | (312,465) | US$4.27 |
| Vested | **–** | **–** | – | – |
| Non-vested balance at 30 June | **–** | **–** | – | – |

In the year ended 30 June 2019, 92,917 share rights (2018: 747,226) were forfeited as the performance conditions were not satisfied.

# Notes to the Consolidated Financial Statements continued

## 26 – SHARE-BASED PAYMENTS CONTINUED

*Restricted share units*

Restricted share units granted to employees typically vest over a period up to three years.

*Restricted share units outstanding*

| | Number of shares 2019 | Weighted average fair value at grant date 2019 | Number of shares 2018 | Weighted average fair value at grant date 2018 |
|---|---|---|---|---|
| **Ordinary shares:** | | | | |
| Non-vested balance at 1 July | **1,433,520** | **A$9.43** | 2,303,785 | A$9.34 |
| Granted | **52,256** | **A$9.70** | 215,641 | A$13.27 |
| Forfeited/cancelled | **(17,829)** | **A$12.09** | (387,858) | A$10.33 |
| Vested | **(253,738)** | **A$7.02** | (698,048) | A$9.80 |
| Non-vested balance at 30 June | **1,214,209** | **A$9.91** | 1,433,520 | A$9.43 |

*Fair value*

The significant weighted assumptions used to determine the fair value were as follows:

| | Options | | Performance rights | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Risk-free interest rate | **2.3%** | 2.1% | **2.1%** | 1.9% |
| Dividend yield | **3.9%** | 3.0% | **3.9%** | 3.0% |
| Volatility | **38.0%** | 40.0% | **38.0%** | 40.0% |
| Expected life (years) | **4.4** | 4.4 | **n/a** | n/a |
| Share price at grant date | **A$12.89** | A$14.24 | **A$12.89** | A$14.24 |

**Recognition and measurement**

The grant date fair value is recognised as an employee benefit expense with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of shares that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

For cash-settled share-based arrangements, the fair value of the amount payable is recognised as an employee benefit expense with a corresponding increase to a liability. The liability is re-measured each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as an employee benefit expense in profit or loss.

The fair value of options and performance rights at grant date is independently determined using either a binomial model or a Monte-Carlo simulation model which takes into account any market related performance conditions. Non-market vesting conditions are not considered when determining fair value, but rather are included in the assumptions about the number of rights that are expected to vest. The fair value of restricted share units is determined based on the market price of the Company's shares on the date of grant and the Company's dividend yield.



## 27 – KEY MANAGEMENT PERSONNEL

Total remuneration paid or payable to Directors and key management personnel is set out below:

| | 2019 A$ | 2018 A$ |
|---|---|---|
| Short-term benefits | **11,144,805** | 14,673,620 |
| Long-term benefits | **28,373** | 26,052 |
| Post-employment benefits | **120,899** | 122,159 |
| Termination benefits | **–** | 2,837,054 |
| Share-based payments | **5,522,754** | 9,092,244 |
| | **16,816,831** | 26,751,129 |

Total remuneration paid or payable to Directors and key management personnel during the year ended 30 June 2019 consisted of A$16,816,831 to active Directors and key management personnel (2018: A$19,308,400) and nil to former key management personnel (2018: A$7,442,729). During FY18, former key management personnel received A$1,313,058 of short-term benefits, A$3,292,617 of share-based payments and A$2,837,054 of termination benefits.

## 28 – COMMITMENTS AND CONTINGENCIES

**Commitments**

| | 2019 A$m | 2018 A$m |
|---|---|---|
| **Operating leases** | | |
| Not later than one year | **97.9** | 84.7 |
| Later than one year, but not later than five years | **201.8** | 176.5 |
| Later than five years | **133.0** | 133.3 |
| **Total** | **432.7** | 394.5 |
| **Capital expenditures** | | |
| Payable within one year | **23.4** | 47.9 |

The commitments included above also include the Group's share relating to joint ventures.

**Guarantees**

The Group has given guarantees in respect of the performance of contracts entered into in the ordinary course of business. The amounts of these guarantees provided by the Group, for which no amounts are recognised in the consolidated financial statements, as at 30 June 2019 was A$74.8 million (2018: A$43.7 million).

## 29 – REMUNERATION OF AUDITORS

| | 2019 A$'000 | 2018 A$'000 |
|---|---|---|
| **Deloitte Touche Tohmatsu Australia:** | | |
| Audit and review of financial statements | **1,957** | 1,929 |
| Taxation services | **13** | 10 |
| Other assurance related services | **45** | 40 |
| | **2,015** | 1,979 |
| **Network firms of Deloitte Touche Tohmatsu Australia:** | | |
| Audit and review of financial statements | **1,919** | 1,669 |
| Taxation services | **280** | 289 |
| Other assurance related services | **106** | 157 |
| | **2,305** | 2,115 |
| **Total remuneration for Deloitte Touche Tohmatsu** | **4,320** | 4,094 |

# Notes to the Consolidated Financial Statements continued

## 30 – NEW ACCOUNTING STANDARDS

**New accounting standards not yet applicable**

*AASB 16 Leases*

AASB 16 will primarily affect the accounting treatment of leases by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases. The standard provides certain exemptions from recognising leases on the balance sheet, including where the underlying asset is of a low value or the lease term is less than 12 months. AASB 16 will replace AASB 117 *Leases* and will be effective for the Group on 1 July 2019.

Under AASB 16, the Group will be required to:

- recognise right of use lease assets and lease liabilities on the balance sheet;
- recognise depreciation of right of use lease assets and interest on lease liabilities over the lease term through profit and loss; and
- separately present the principal amount of cash paid and interest in the cash flow statement as a financing activity.

To facilitate implementation in compliance with the standard, the Group assessed the implications of the standard including accounting policy, identification of data and system requirements and implementation approach and financial reporting impacts, including impact assessment. A project team has been assembled to oversee the transition process and a system has been identified to assist with compliance of the new standard as well as go forward automation of lease accounting.

As of the date of this report, the project team has compiled all active leases, determined preliminary incremental borrowing rates to be utilised in each portfolio of leases, input the leases into the lease accounting software, incorporated new leases into the software and is facilitating end user training and development of standard operating policies for end users.

The Group will elect the 'simplified approach' to implementing the new standard. By doing this, the Group does not restate amounts previously reported and it applies specific rules for measuring right-of-use assets and lease liabilities. Additionally, the Group will elect to utilise certain practical expedients as allowed by the standard including those related to hindsight, leases ending within 12 months of the date of initial application and applying a single discount rate to a portfolio of leases with reasonably similar characteristics. While the Group will not be restating amounts previously reported, the new standard is expected to have significant impact on the amounts recognised in the Group's consolidated statement of financial position.

Total assets and liabilities on the balance sheet are expected to increase with a decrease in total net assets, due to the reduction of the capitalised asset being on a straight line basis while the liability reduces by the principal amount of repayments. With respect to assets formerly held under a finance lease the Group will recognise as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117.

Interest expenses will be higher earlier in a lease's life due to higher principal value causing variability over the course of a lease's life. Additionally, repayment of the principal portion of all lease liabilities will be classified as financing activities.

Under AASB 117, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under AASB 16 would be to increase the cash generated by operating activities and to increase net cash used in financing activities by the same amount.

As disclosed at 30 June 2019 in note 28, the Group had non-cancellable operating lease commitments totaling A$432.7 million. Of this total, A$334.8 million relate to leases other than short-term leases. Based on current incremental borrowing rate assumptions and estimates regarding Group-controlled lease extension options, as at the date of adoption, the Group will recognise a right-of-use asset between A$270.0 million and A$330.0 million and a corresponding lease liability between A$275.0 million and A$338.0 million in respect of all these leases.

On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities if material. Based on an analysis of the Group's finance leases as at 30 June 2019 on the basis of the facts and circumstances that exist at that date, the Group has assessed that the impact of this change will not have a material impact on the amounts recognised in the Group's consolidated financial statements.

Under AASB 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, AASB 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets. Based on our assessment, the impact of this change on our leased or subleased assets is not material.

**Accounting standards adopted during the fiscal year**

*AASB 15 Revenue from Contracts with Customers*

The Group has adopted AASB 15 from 1 July 2018 which resulted in changes in accounting policies. The core principle of AASB 15 is that an entity recognises revenue related to the transfer of goods or services when control of the goods or services passes to the customer. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled to receive, in exchange for those goods or services.

Specifically, AASB 15 introduces a five step approach to revenue recognition which the Group has adopted:

1) identify the contract(s) with a customer;
2) identify the performance obligations in the contract;
3) determine the transaction price;
4) allocate the transaction price to the performance obligations; and
5) recognise revenue when (or as) the entity satisfies a performance obligation.

In relation to step 5, an assessment is performed as to whether control of the goods transfer to a customer over time or at a point in time. For a performance obligation satisfied at a point in time, revenue is recognised when the customer obtains control of the goods or service. In most instances, control passes, and revenue is recognised, in line with contract terms and incoterms at the point in time when the goods are loaded on a vessel, delivered to the customer or the service performed. The Group has updated its accounting policies to reflect the terminology utilised in the new standard and the impact on the various revenue product streams.

There may be circumstances when judgement is required based on the five indicators of control below:

- the entity has a present right to payment;
- the customer has legal title;
- the customer has physical possession;
- the customer has significant risks and rewards of ownership; and
- the customer has accepted the asset.

The Group disaggregated its revenue streams into export ferrous, domestic ferrous, export non-ferrous, domestic non-ferrous, recycling solutions, and secondary processing and other services, when assessing the impact of AASB 15. The Group sells a significant portion of its export ferrous material on cost and freight or cost, insurance and freight Incoterms. Under these arrangements, revenue from the sale of goods is recognised prior to when the vessel arrives at the destination port as control has passed and performance obligations have been met. A material portion of the Group's ferrous bulk cargo sales arrangements specify that title passes once material has been loaded onto a vessel (i.e. passed the ship's rail). These sales are primarily sold on a letter of credit basis.

In certain instances, the Group is responsible for providing shipping services, primarily freight, as a separate performance obligation relating to sale of goods transaction. These shipping services would not conclude until after the date at which control of the goods passes to the customer. Under AASB 118 *Revenue*, the Group recognised such shipping revenue and associated costs upon loading the material based upon the contractual price. Under AASB 15, the Group is required to recognise such shipping revenue over time depending on the terms of the contract.

In domestic ferrous, domestic non-ferrous and export non-ferrous sales, revenue is recognised when control passes and performance obligations are satisfied. According to the specific contract terms, control of the goods will pass to the customer at the point in time when the goods are loaded in a container, delivered to the customer or cash is received as that is the point in time the original bills of lading are passed to the buyer and title is transferred. Contract terms are determined based upon customer, product and/or destination and are typically sold on a cash in advance, deposit, letter of credit or open credit basis.

For certain export non-ferrous sales, the performance obligation is predicated on delivery and acceptance of goods based on the terms of the original transactional contract. These contracts contain provisional pricing clauses whereby the final price payable reflects market pricing at settlement date. The right to receive payment from the customer is unconditional as of the acceptance date as the Group has satisfied their performance obligations at acceptance date through the transfer of control and nothing other than the passage of time needs to occur before payment of the consideration is due. Changes in the market price do not impact the Group's right to receive payment and are typically hedged by the Group with the impact flowing through other income or other expense as presented in note 3 and note 4.

For recycling solutions, service revenue is recognised based upon completion of the agreed performance obligations, including services such as hard disk cleansing and data capture and reporting. These performance obligations are based upon amount collected, processed and/or on a time basis amongst other contractual terms. For precious metals reclaimed, revenue is recognised upon completion and agreement of an assay, and when price and quantity can be determined and acceptance is finalised. Contractual terms can involve a deposit received in advance for which revenue is deferred until performance obligations are satisfied.

The majority of secondary processing and other services revenue relates to the Group's municipal recycling operations. Municipal curbside revenue predominantly consists of the sale of paper, plastics or tin cans which involve standard pricing and title passing upon collection. The collection of the product satisfies requisite performance obligations of the entity, allowing revenue to be recognised. Other service revenue is typically recognised based upon completion of the performance obligations in the contract.

The transition provisions in AASB 15 require companies to adopt the new rules retrospectively. The Group adopted the modified transitional approach to implementation where any transitional adjustment are recognised in retained earnings at 1 July 2018, the date of implementation of the standard, without restatement of prior balances. AASB 15 was only applied to contracts that were in force at the transition date.

Following a comprehensive review of revenue recognised in the comparative period, the Group has determined that AASB 15 had no material impact on revenue recognised. As the only impact stemming from adoption of the new standard is related to shipping revenue, of which Sims' takes no margin, there is no impact on prior year earnings. Therefore, there are no adjustments or restatements of comparative information in the current year in relation to the new standard.

# Notes to the Consolidated Financial Statements continued

## 30 – NEW ACCOUNTING STANDARDS CONTINUED

*AASB 9 Financial Instruments*

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for the classification, measurement and derecognition of financial assets and financial liabilities and sets out new hedge accounting requirements. The objective of AASB 9 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows.

The new requirements for AASB 9 can be grouped into 1) classification and measurement of financial assets and liabilities, 2) impairment for financial assets, including a transition to expected credit losses for financial asset impairment considerations and 3) introduction of new general hedge accounting requirements.

The Group adopted AASB 9 on 1 July 2018. The Group undertook an assessment of the classification and measurement impacts of the new standard and noted the following impacts:

- The new standard is based on the concept that financial assets should be classified and measured at fair value, with changes in fair value recognised in profit and loss as they arise ("FVPL"), unless restrictive criteria are met for classifying and measuring the asset at either amortised cost or fair value through other comprehensive income.

  The standard does not have a significant impact on the classification of financial assets or liabilities as the Group does not hold material financial assets or liabilities at FVPL. The financial assets or liabilities held at FVPL are fair value hedges and investments in marketable securities.
- AASB 9 allows more financial exposures to be hedged and establishes new criteria for hedge accounting that are somewhat less complex and more aligned with the way that entities manage their risks than under AASB 139. Certain derivative instruments, including the Group's forward commodity contracts, do not qualify for hedge accounting despite being valid economic hedges of the relevant risks despite the updated requirements for hedge accounting.

  Accordingly, any changes in fair value of the derivative instrument will continue to be recognised immediately in profit or loss and included in other income or other expense. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges will continue to be recognised in other comprehensive income and accumulated in the hedging reserve in equity.
- The new standard replaces the 'incurred loss' model in AASB 139 with a forward-looking expected credit losses ("ECL") model. Under the ECL model, which is available for trade receivables which do not contain a significant financing component, an entity calculates the allowance for credit losses by considering, on a discounted basis, the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The Group has mechanisms in place to mitigate credit risk such as trade credit insurance and credit ratings.

  The mitigating factors in place have, in part, allowed the Group to historically incur insignificant or limited losses as compared to trade receivables. The Group notes the impact of the ECL model is immaterial.

  The Group has assessed its accounting policy to consider the historical losses seen by customer group to ensure that the provision for impairment of receivables is appropriate under the new standard and noted no material changes to policy.

## 31 – ASSETS HELD FOR SALE

Assets held for sale at 30 June 2019 include excess property which the Group expects to sell within the next financial year.

During the year ended 30 June 2019, the Group sold assets with net book value totaling A$2.0 million which were classified as assets held for sale at 30 June 2018. The gain on sale of assets was not significant to the Group.

During the year ended 30 June 2018, the Group sold assets with net book value totaling A$3.8 million which were classified as assets held for sale at 30 June 2017. This amount included the sale of a parcel of property in July 2017 with a net book value of A$3.1 million. The gain on sale of assets was not significant to the Group.



# Directors' Declaration

In the directors' opinion:

a) The financial statements and notes set out on pages 58 to 102 are in accordance with the *Corporations Act 2001*, including:
   i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date, and

b) there are reasonable grounds to believe that Sims Metal Management Limited will be able to pay its debts as and when they become due and payable, and

c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 23 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in note 23.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Group Chief Executive Officer and the Group Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

The declaration is made in accordance with a resolution of the directors.

**G N Brunsdon**
Chairperson
Sydney
23 August 2019

**A Field**
Managing Director and Group CEO
Sydney
23 August 2019

# Independent Auditor's Report

Deloitte.

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## Independent Auditor's Report to the Members of Sims Metal Management Limited

**Report on the Audit of the Financial Report**

**Opinion**

We have audited the financial report of Sims Metal Management Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

**Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Carrying Value and Existence of Inventories**<br><br>At 30 June 2019, the Group's Consolidated Statement of Financial Position includes inventories of A$442.8 million, which primarily consists of ferrous and non-ferrous scrap metals, as disclosed in Note 9.<br><br>Inventories are stated at the lower of cost and net realisable value. Cost is determined by either the first-in-first-out method or the weighted average method and comprises direct purchase costs, direct labour and an appropriate portion of fixed and variable overhead costs.<br><br>The nature of ferrous and non-ferrous inventories means significant judgement is required when determining the net realisable value which considers current assessments of future demand and market conditions.<br><br>Significant judgement is also required to estimate the ferrous quantities on hand. As disclosed in Note 9 'Inventories: Critical accounting estimate and judgement' the quantity of inventory on hand is determined using various estimation techniques including observation and weighing. | Our procedures included, but were not limited to:<br>• Evaluating the robustness of management's processes for determining valuation, net realisable value and existence of inventories, including testing controls on a sample basis;<br>• Testing the existence of inventories by attending inventory counts conducted by management at material locations at or around year end and observing and challenging management's process to determine the quantities on hand;<br>• Testing, on a sample basis, the existence of inventories in transit by obtaining third party confirmations;<br>• Testing, on a sample basis, the specific inputs and allocation of costs in management's models used to determine the weighted average cost of inventories;<br>• Testing, on a sample basis, the recoverability of ferrous and non-ferrous inventories through the recalculation of projected net realisable values based on current and forecast commodity prices; and<br>• Assessing the appropriateness of disclosures in the financial statements. |
| **Revenue Recognition of Ferrous Secondary Recycling**<br><br>Revenue recognition for the sale of goods is determined with reference to the point at which control is transferred and all performance obligations have been satisfied, as disclosed in Note 3 'Revenue and other income'.<br><br>Individual ferrous secondary recycling bulk cargo sales are often individually material and, as disclosed in Note 3, is the product which generates the majority of revenue for the Company.<br><br>Judgement is required to determine when control is transferred and performance | Our procedures included, but were not limited to:<br>• Evaluating management's processes and controls in respect of the recognition of revenue of ferrous secondary recycling;<br>• Testing on a sample basis, the shipments occurring near to and after 30 June 2019 to supporting documentation. We assessed if revenue was appropriately recognised with reference to the following:<br>  ○ the shipping terms contracted for the transaction; |

# Independent Auditor's Report continued

| | |
|---|---|
| obligations are satisfied under certain contractual arrangements. Whilst the majority of ferrous secondary recycling bulk cargo sales arrangements specify that control passes once all material has been loaded onto a vessel, for some ferrous secondary recycling bulk cargo sales, revenue recognition varies depending on the shipping terms used. | ○ The resulting point in time that control is considered to be transferred and all performance obligations satisfied; and<br>○ evaluating whether the recognition of revenue was in accordance with Group policy and accounting standards<br>• Assessing the appropriateness of disclosures in the financial statements. |
| **Carrying Value of Goodwill, Other Intangible Assets and Property, Plant and Equipment**<br><br>At 30 June 2019, the Group has recognised A$147.2 million of goodwill, A$46.6 million of other intangible assets and A$1,267.2 million of property, plant and equipment, contained within several cash generating units (CGUs).<br><br>As disclosed in Note 11 'Intangible assets', the assessment of the recoverable amount of the Group's goodwill, other intangible assets and property, plant and equipment balances involves the exercise of significant judgement. Cash flow projections incorporate management's best estimates relating to the impact of future volatility in volumes, commodity prices and margins. These calculations also require the application of assumptions such as discount rates, inflation rates and expected capital expenditure.<br><br>We have focused on this area as a key audit matter due to the judgement involved in forecasting future cash flows, which are inherently uncertain and susceptible to material change over time, the identification of indicators of impairment and changes in the identification of CGUs in the current period. | In conjunction with Deloitte valuation specialists, our procedures included, amongst others:<br><br>• Understanding and evaluating management's process, including understanding the controls in respect of the preparation and review of forecasts;<br>• Understanding and evaluating the changes in the identification of CGUs in the current period, with reference to the requirements of AASB 136 'Impairment of Assets';<br>• Evaluating the discounted cash flow models developed by management to assess the recoverable value of the goodwill, other intangible assets and property, plant and equipment.<br><br>This included critically assessing the following key assumptions:<br>○ discount rate in comparison to an independently calculated discount rate;<br>○ inflation rate in comparison to external data;<br>○ forecast volumes and pricing, with reference to historical performance and external data; and<br>○ capital expenditure, with reference to historical spend and Board approved forecasts.<br>• Testing, on a sample basis, the mathematical accuracy of the discounted cash flow models;<br>• Agreeing forecast EBTIDA to the latest Board approved forecasts;<br>• Assessing the historical accuracy of management's cash flow forecasts<br>• Performing sensitivity analysis on a number of assumptions, in particular discount rates and future cash flows; and<br>• Evaluating the adequacy of disclosures in the financial report. |



**Other Information**

The directors are responsible for the other information. The other information comprises the Directors' Report and the Operational and Financial Review, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): the Chairman's Review, CEO's Review, Corporate Governance Statement and Other Information, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Review, CEO's Review, Corporate Governance Statement and Other Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

**Responsibilities of the Directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

# Independent Auditor's Report continued

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in 36 to 57 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Sims Metal Management Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Don Pasquariello

Don Pasquariello
Partner
Chartered Accountants
Sydney, 23 August 2019

# Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Sims Metal Management Limited
555 Theodore Fremd Avenue
Rye, NY 10580
United States

23 August 2019

Dear Board Members

**Auditor's Independence Declaration to Sims Metal Management Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Sims Metal Management Limited.

As lead audit partner for the audit of the financial report of Sims Metal Management Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Don Pasquariello

Don Pasquariello
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation



# Shareholder Information

As at 2 September 2019

## EQUITY SECURITIES

**Substantial Shareholders**

| | Number held | % |
|---|---|---|
| Allan Gray Australia P/L | 35,561,690 | 17.5% |
| Mitsui & Co Ltd | 33,450,338 | 16.5% |
| UBS Group AG | 16,945,286 | 8.4% |
| Coopers Investors Pty Limited | 11,917,529 | 6.0% |
| Dimensional Entities | 10,559,559 | 5.2% |

## ORDINARY SHARES

**Distribution of ordinary share holdings**

| Range | Holders |
|---|---|
| 1 to 1,000 | 6,402 |
| 1,001 to 5,000 | 4,765 |
| 5,001 to 10,000 | 641 |
| 10,001 to 100,000 | 293 |
| 100,001 and Over | – |
| **Total** | **12,131** |

There were 726 holders of less than a marketable parcel of shares.

Voting rights attaching to the ordinary shares are, on a show of hands, one vote for every person present as a member, proxy, attorney or representative thereof and upon a poll each share shall have one vote.

## PERFORMANCE RIGHTS/RESTRICTED SHARE UNITS

**Distribution of performance rights/restricted share units holdings**

| Range | Holders |
|---|---|
| 1 to 1,000 | 0 |
| 1,001 to 5,000 | 12 |
| 5,001 to 10,000 | 27 |
| 10,001 to 100,000 | 66 |
| 100,001 and Over | 4 |
| **Total** | 109 |

A total of 3,104,210 performance rights and restricted share units to take up ordinary shares are issued under the Sims Metal Management Limited Long Term Incentive Plan and individual contracts, held by 109 holders.

The performance rights and restricted share units do not have any voting rights.

## OPTIONS

**Distribution of options holdings**

| Range | Holders |
|---|---|
| 1 to 1,000 | 2 |
| 1,001 to 5,000 | 28 |
| 5,001 to 10,000 | 27 |
| 10,001 to 100,000 | 102 |
| 100,001 and Over | 23 |
| **Total** | 182 |

A total of 9,084,887 options to take up ordinary shares or American Depositary Shares are issued under the Sims Metal Management Limited Long Term Incentive Plan, held by 182 holders.

The options do not have any voting rights.

# Shareholder Information continued

## ON-MARKET BUY-BACK

The Company has a current on-market buy-back.

## TWENTY LARGEST SHAREHOLDERS

| | | No. of Shares | % held |
|---|---|---|---|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 50,824,110 | 25.02 |
| 2 | MITSUI & CO LTD | 33,450,338 | 16.46 |
| 3 | CITICORP NOMINEES PTY LIMITED | 30,837,582 | 15.18 |
| 4 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 27,521,935 | 13.55 |
| 5 | NATIONAL NOMINEES LIMITED | 19,281,626 | 9.49 |
| 6 | BNP PARIBAS NOMS PTY LTD <DRP> | 5,260,738 | 2.59 |
| 7 | BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C> | 3,681,765 | 1.81 |
| 8 | CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 1,155,545 | 0.57 |
| 9 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2 | 908,446 | 0.45 |
| 10 | WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C> | 635,563 | 0.31 |
| 11 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA | 627,285 | 0.31 |
| 12 | NATIONAL NOMINEES LIMITED <DB A/C> | 353,166 | 0.17 |
| 13 | PACIFIC CUSTODIANS PTY LIMITED <LT INCENTIVE PLN TST A/C> | 331,000 | 0.16 |
| 14 | MILTON CORPORATION LIMITED | 272,368 | 0.13 |
| 15 | ELIANAELYSIA PTY LTD <ANGUS INVESTMENT A/C> | 249,610 | 0.12 |
| 16 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 244,809 | 0.12 |
| 17 | MR JAMES GARDINER C/- E L & C BAILLIEU (LOGIC) | 200,000 | 0.10 |
| 18 | AMP LIFE LIMITED | 185,621 | 0.09 |
| 19 | MILTON CORPORATION LTD <TRADING A/C> | 180,000 | 0.09 |
| 20 | BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP | 145,720 | 0.07 |
| **Total** | | **176,347,227** | **86.79** |

# Five Year Trend Summary

| | | **2019** | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Continuing operations [1] | | | | | | |
| Revenue [1] | A$m | **6,650.2** | 6,457.9 | 5,089.6 | 4,663.9 | 6,328.1 |
| Profit/(loss) before interest and tax [1] | A$m | **225.0** | 278.6 | 201.2 | (215.5) | 144.8 |
| Net finance costs [1] | A$m | **(6.7)** | (8.9) | (10.2) | (9.7) | (7.8) |
| Tax (expense)/benefit [1] | A$m | **(65.7)** | (66.2) | 12.6 | 8.7 | (27.2) |
| Profit/(loss) from continuing operations [1] | A$m | **152.6** | 203.5 | 203.6 | (216.5) | 109.8 |
| Profit/(loss) from discontinued operations [1] | A$m | **–** | – | – | – | 0.1 |
| Profit/(loss) for the year | A$m | **152.6** | 203.5 | 203.6 | (216.5) | 109.9 |
| Net cash flows from operations | A$m | **360.1** | 252.1 | 266.4 | 131.3 | 298.1 |
| Earnings/(loss) per share – diluted | A¢ | **74.2** | 98.7 | 101.6 | (106.8) | 53.3 |
| Dividends per share [2] | A¢ | **42.0** | 53.0 | 50.0 | 22.0 | 29.0 |
| Return on shareholders'equity | % | **6.6%** | 9.3% | 10.3% | -11.8% | 5.2% |
| Current ratio (to 1) | | **1.87** | 1.75 | 2.07 | 2.05 | 1.99 |
| Gearing ratio | % | **n/a** | n/a | n/a | n/a | n/a |
| Net tangible asset backing per share | A$ | **$10.38** | $9.82 | $9.13 | $8.41 | $9.19 |

1) In 2015, E-Recycling operations in Canada and the UK were closed and are presented within discontinued operations in 2015.
2) 2017 includes a 10.0 cents per share Special Dividend.



# Corporate Directory

## SECURITIES EXCHANGE LISTING

The Company's ordinary shares are quoted on the Australian Securities Exchange under the ASX Code 'SGM'.

The Company's American Depositary Shares (ADSs) are quoted on the Over-the-Counter market under the symbol 'SMSMY'. The Company has a Level I ADS program, and the depositary bank is The Bank of New York Mellon Corporation. ADSs trade under CUSIP number 829160100 with each ADS representing one (1) ordinary share. Further information and investor enquiries on ADSs may be directed to:

**The Bank of New York Mellon**
Transfer Agency Postal Address By Regular Mail:
PO BOX 505000
Louisville, KY 40233-5000 United States

*By Overnight Delivery:*
462 South 4th Street Suite 1600
Louisville, KY 40202 United States

*Telephone*
Toll Free: 888 269 2377
Toll: +1 (201) 680 6825
Email: shrrelations@cpushareownerservices.com
Website: www-us.computershare.com/investor

## REGISTERED OFFICE

Suite 2, Level 9
189 O'Riordan Street Mascot NSW 2020
Telephone: (02) 8113 1600

## HEAD OFFICE

Suite C-300
555 Theodore Fremd Avenue
Rye, NY 10580 United States
Telephone: (1 212) 604-0710

## SHAREHOLDER ENQUIRIES

Enquiries from investors regarding their share holdings should be directed to:

**Link Market Services Limited**
Street Address
Level 12, 680 George Street
Sydney NSW 2000

Postal Address
Locked Bag A14

Sydney South NSW 1235 Australia

Telephone: 1300 554 474
Outside Australia: +61 1300 554 474
Facsimile: +61 2 9287 0303
Website: www.linkmarketservices.com.au

## COMPANY SECRETARIES

Gretchen Johanns
Angela Catt

## AUDITOR

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For more up-to-the-minute investor relations, visit

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SIMS METAL MANAGEMENT