

## Appendix 4E

### Sims Metal Management Limited ABN 69 114 838 630 Preliminary Final Report

#### Results for announcement to the market

**Current period: Year ended 30 June 2016**

Prior corresponding period: Year ended 30 June 2015

| <b>Results</b>                                                     |      |        |    | <b>A\$m</b> |
|--------------------------------------------------------------------|------|--------|----|-------------|
| Revenue from ordinary activities                                   | Down | 26.3%  | to | 4,663.9     |
| Loss from continuing operations after tax attributable to members* | Up   | 297.2% | to | (216.5)     |
| Net loss for the period attributable to members*                   | Up   | 297.0% | to | (216.5)     |

\*Includes A\$53.0 million of impairment of goodwill and other intangible assets and A\$119.1 million of impairment of investment in joint venture during the year ended 30 June 2016.

| <b>Dividends (A¢)</b>              | <b>Cents per Security</b> | <b>% Franked per Security</b> |
|------------------------------------|---------------------------|-------------------------------|
| 2016 Final Dividend <sup>1</sup>   | 12.0                      | 100%                          |
| 2016 Interim Dividend <sup>2</sup> | 10.0                      | 0%                            |
| Record date for final dividend     | 7 October 2016            |                               |
| Payment date for final dividend    | 21 October 2016           |                               |

<sup>1</sup>The Board has determined that the dividend reinvestment plan will not operate in relation to the final dividend.  
<sup>2</sup>Non-resident withholding tax is payable on the unfranked component of the interim dividend as the conduit foreign income component for the period is declared to be nil.

| <b>Net tangible assets (A\$)</b> | <b>30 June 2016</b> | <b>30 June 2015</b> |
|----------------------------------|---------------------|---------------------|
| Net tangible asset per security  | 8.41                | 9.19                |

For further explanation of the above figures, please refer to the Directors' Report and the consolidated financial statements, press release and market presentations filed with the Australian Securities Exchange Limited ("ASX").

The remainder of the information required by Listing Rule 4.3A is contained in the attached additional information.

The accompanying full year financial report has been audited by Deloitte Touche Tohmatsu. A signed copy of their audit report is included in the financial report.

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## 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 2016 ("FY16").

### 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 refrigerators, electrical and electronic equipment. The Group's principal activities remain unchanged from the previous financial year.

### OPERATING AND 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 made in currencies other than the Australian dollar. In addition, a significant portion 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 referred to below are shown 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 |        |          |
|-----------------|-----------------------------------|--------|----------|------------------------------|--------|----------|
|                 | 2016                              | 2015   | % Change | 2016                         | 2015   | % Change |
| US dollar       | 0.7283                            | 0.8382 | (13.1)   | 0.7426                       | 0.7680 | (3.3)    |
| Euro            | 0.6561                            | 0.6963 | (5.8)    | 0.6699                       | 0.6866 | (2.4)    |
| Pounds sterling | 0.4914                            | 0.5307 | (7.4)    | 0.5549                       | 0.4885 | 13.6     |

As at 30 June 2016, the cumulative effect of the retranslation of net assets of foreign controlled entities (recognised through the foreign currency translation reserve) was A\$77.8 million compared to A\$114.1 million as at 30 June 2015.

#### Summary

Sales revenue of A\$4,651.7 million in FY16 was down 26.3% compared to sales revenue of A\$6,310.9 million in the year ended 30 June 2015 ("FY15"). At constant currency, sales revenue was down 33.0% primarily due to lower sales volumes and lower average scrap metal prices. Sales volumes declined by 18.4% to 8.551 million tonnes in FY16 versus 10.481 million tonnes in FY15 due to lower intake volumes driven by lower prices. Average selling prices were lower for both ferrous and non-ferrous metals as prices dropped in the first half of FY16. See further discussion below under *External Operating Environment*.

Statutory net profit after tax (“NPAT”) in FY16 was a loss of A\$216.5 million compared to NPAT of A\$109.9 million in FY15. Underlying NPAT was A\$38.0 million in FY16, which was 62.6% lower than FY15. The decline was primarily attributable to lower metal margins as a result of weak industry conditions throughout most of FY16. The decline was partially offset by a reduction in operating expenses as the Group undertook resetting actions in response to market conditions. See the *Reconciliation of Statutory Results to Underlying Results* included herein for more information.

Statutory earnings before interest and tax (“EBIT”) from continuing operations in FY16 was a loss of A\$215.5 million compared to EBIT of A\$144.8 million in FY15. Underlying EBIT from continuing operations of A\$58.0 million was 59.1% lower than FY15. The decrease in underlying EBIT was primarily due to lower operating income from all the Group’s segments. See further discussion below for results by operating segment.

Statutory diluted loss per share was 106.8 cents in FY16 compared to statutory diluted earnings per share of 53.3 cents per share in FY15. Underlying diluted earnings per share was 18.6 cents in FY16 compared to 49.2 cents in FY15.

The Directors have determined to pay a final dividend for FY16 of 12 cents per share (FY15: 13 cents per share), which will be fully franked. On 31 March 2016, an unfranked interim dividend for FY16 of 10 cents per share was paid.

### **External Operating Environment**

The metals recycling industry faced a challenging set of external conditions in FY16. Excess production of steel in China spilled into international export markets at record levels. Exported finished and semi-finished steel from China increasingly displaced steel production outside China, leading to a decline in the demand for ferrous scrap as a raw material. As well, the combination of lower demand for ferrous scrap and abundant production of iron ore triggered a 22% decline in ferrous scrap metal prices during FY16<sup>1</sup>.

Non-ferrous prices also came under downward pressure over the past fiscal year. Oversupply and concerns of lower global demand have caused prices across major non-ferrous secondary metals of copper, aluminium and nickel to fall 16%, 1% and 21% respectively during FY16<sup>2</sup>.

In addition, despite continued economic growth and generation of end-of-life secondary metal, lower commodity prices have negatively impacted the economic incentive for collection. As a result, the supply of intake material declined significantly across the metal recycling industry globally.

The challenges created by lower levels of secondary metal supply have accelerated the pace of capacity reductions across the metals recycling industry. In the US, over 100 closures of metals recycling facilities were reported in FY16, either through bankruptcy, liquidation, or indefinite idling<sup>3</sup>. This rationalisation process over time should benefit the overall health of the metals recycling industry and assist all market participants to achieve higher economic returns.

#### *North American export demand remains soft across ferrous and non-ferrous metals*

Lower commodity prices and declining export demand placed further pressure on secondary metals volumes in North America. Total US exports of ferrous scrap fell 19% during the fiscal year as demand weakened across key EAF steel markets, particularly in East Asia. Similarly, US exports of copper and aluminium scrap also weakened, declining 9% and 13%, respectively, during FY16 over FY15<sup>4</sup>.

Intake volumes of secondary metal in North America continue to be caught between two conflicting drivers. The steady rate of economic growth achieved in the US has supported the inherent generation of secondary metal. Specifically, improving consumer spending, residential construction and industrial production have added to the underlying reservoir of secondary metal in the US.

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<sup>1</sup> Source: American Metal Market, US East Coast Export HMS US\$/tonne

<sup>2</sup> Source: London Metals Exchange

<sup>3</sup> Source: American Metal Market

<sup>4</sup> Source: US Commerce Department

However, supportive economic growth has been more than offset by the substantial decline in commodity prices. Lower prices have negatively impacted the economic attractiveness of secondary metal collection. At lower price levels, the costs related to sourcing and transport of secondary metal, have reduced the incentive for collection, particularly in regions with low population bases and longer transport distances. For the 12 month period ending May 2016, US ferrous scrap generation was roughly 51 million tonnes<sup>5</sup>. This level of scrap generation is down 27% since early 2012.

*Australian construction boom helping ease the impact from a slowdown in mining*

The health of the Australian economy remains strong relative to other developed countries with the IMF forecasting GDP growth of 2.8% in 2017. While new mining investment has declined, Australia's position as a low cost producer across many commodities has kept mining output at high levels. In turn, the decline in new mine construction has been offset by a boom in residential, non-residential and public infrastructure projects. Growth from non-mining related construction has stimulated firm ferrous secondary metal demand from domestic steel mills. This domestic demand has provided a cushion from lower export shipments to steel mills in East Asia.

While the Australian economy has remained surprisingly resilient, mixed signals on the outlook remain. Manufacturing activity and spending on capital investments continue to be soft. As well, similar to other regions, the drop in commodity prices has lowered secondary metal collection levels. Despite stabilising in the second half of the fiscal year, sales volumes dropped 24% in FY16 over the prior year.

*UK economic growth continues, but Brexit clouds the outlook*

The UK economy continued to expand in FY16. Annual GDP growth of 2.2% in Q2 of calendar 2016 remained healthy relative to many developed economies. However, the decision by the UK in June 2016 to leave the EU has cast significant uncertainty on the outlook. Subsequent to the vote to exit, the British pound sterling fell by a meaningful 8% against the US dollar in June 2016<sup>6</sup>.

In the near-term, a lower currency should prove positive for secondary metal exporting from the UK. A decline in the British pound sterling improves the competitiveness of UK-origin material in international markets and should drive higher returns in local currency terms. A boost from export markets would help offset a decline in demand from domestic UK steel mills, where crude steel production fell 30% in FY16 due to several large mill closures and production slowdowns<sup>7</sup>.

*Electronics recycling benefiting from stronger precious metal prices*

The 15% rally during FY16 in the price of gold, which is one of the key commodities recovered from electronics recycling, provided a tailwind to the industry during the second half. However, challenges across the industry remain. The prices for other key recovered commodities such as copper and plastics fell throughout the fiscal year, while competitive and regulatory issues continue to impact local market dynamics.

The longer-term outlook for the electronics recycling industry is attractive. Total e-waste generated in 2014 contained an estimated 16.5 million tonnes of iron, 1.9 million tonnes of copper, and 300 tonnes of gold, as well as silver, aluminium, palladium, plastic and other resources with a combined estimated value of US\$52 billion<sup>8</sup>. Given continued growth of electronic components in all manner of consumer items and the need for its sustainable reuse or recycling, this generation of e-waste is expected to rise.

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<sup>5</sup> Source: US Geological Survey

<sup>6</sup> Source: Bloomberg

<sup>7</sup> Source: World Steel Association

<sup>8</sup> Source: UNU-IAS ('The Global E-waste Monitor')

## Segment Results

### North America Metals (“NAM”)

| A\$m                    | Year ended 30 June |         | Variance % |
|-------------------------|--------------------|---------|------------|
|                         | 2016               | 2015    |            |
| Sales revenue           | 2,352.6            | 3,416.5 | (31.1)     |
| Underlying EBITDA       | 75.7               | 80.7    | (6.2)      |
| Underlying EBIT         | 2.3                | 11.8    | (80.5)     |
| Sales tonnes (millions) | 5.772              | 7.018   | (17.8)     |
| Underlying EBIT margin  | 0.1%               | 0.3%    |            |

Sales revenue for NAM in FY16 was 31.1% lower compared to FY15. At constant currency, sales revenue was 40.1% lower compared to FY15. The decrease was primarily due to lower average selling prices and sales volumes, the latter of which declined by 17.8%.

Underlying EBIT of A\$2.3 million in FY16 was 80.5% lower than FY15. At constant currency, underlying EBIT was A\$2.1 million. The impact of lower sales volumes and lower average sales prices led to a 15.0% reduction in metal margin (on a constant currency basis) which was partially offset by a 13.9% reduction in controllable costs (on a constant currency basis). FY16 results for NAM were impacted by an underlying EBIT loss of A\$19.4 million from businesses to be idled or sold. In FY15, these businesses had an underlying EBIT loss of A\$9.5 million.

### Australia & New Zealand (“ANZ”) Metals

| A\$m                    | Year ended 30 June |         | Variance % |
|-------------------------|--------------------|---------|------------|
|                         | 2016               | 2015    |            |
| Sales revenue           | 743.6              | 1,053.3 | (29.4)     |
| Underlying EBITDA       | 66.6               | 86.9    | (23.4)     |
| Underlying EBIT         | 39.7               | 59.2    | (32.9)     |
| Sales tonnes (millions) | 1.418              | 1.874   | (24.3)     |
| Underlying EBIT margin  | 5.3%               | 5.6%    |            |

Sales revenue for ANZ Metals in FY16 was 29.4% lower compared to FY15. The decrease was primarily due to lower average selling prices and sales volumes, the latter of which decreased by 24.3%.

Underlying EBIT of A\$39.7 million in FY16 was 32.9% lower compared to FY15. The impact of lower sales volumes and lower average sales prices led to an 18.5% reduction in metal margin which was partially offset by a 15.9% reduction in controllable costs.

### Europe Metals

| A\$m                    | Year ended 30 June |         | Variance % |
|-------------------------|--------------------|---------|------------|
|                         | 2016               | 2015    |            |
| Sales revenue           | 759.1              | 1,036.6 | (26.8)     |
| Underlying EBITDA       | 32.4               | 37.1    | (12.7)     |
| Underlying EBIT         | 18.6               | 24.6    | (24.4)     |
| Sales tonnes (millions) | 1.361              | 1.589   | (14.3)     |
| Underlying EBIT margin  | 2.5%               | 2.4%    |            |

Sales revenue for Europe Metals in FY16 was 26.8% lower compared to FY15. At constant currency, sales revenue was 32.2% lower compared to FY15 primarily due to lower average selling prices and sales volumes.

Underlying EBIT of A\$18.6 million in FY16 was 24.4% lower compared to FY15. At constant currency, underlying EBIT was A\$17.3 million. The impact of lower sales volumes and lower average sales prices led to a 15.7% reduction in metal margin (on a constant currency basis) which was partially offset by a 13.7% reduction in controllable costs (on a constant currency basis).

*Global E-Recycling (excluding discontinued operations)*

| <b>A\$m</b>            | <b>Year ended 30 June</b> |             | <b>Variance %</b> |
|------------------------|---------------------------|-------------|-------------------|
|                        | <b>2016</b>               | <b>2015</b> |                   |
| Sales revenue          | 792.7                     | 795.0       | (0.3)             |
| Underlying EBITDA      | 19.2                      | 55.2        | (65.2)            |
| Underlying EBIT        | 7.6                       | 44.0        | (82.7)            |
| Underlying EBIT margin | 1.0%                      | 5.5%        |                   |

Sales revenue for Global E-Recycling in FY16 was flat compared to FY15. At constant currency, sales revenue was down 7.9% compared to FY15. The lower sales revenue was primarily due to lower precious metals prices, primarily in the first half of FY16.

Underlying EBIT of A\$7.6 million in FY16 was 82.7% lower than FY15. At constant currency, underlying EBIT was A\$7.5 million. The lower profitability of Global E-Recycling in FY16 was primarily due to lower operating income from US E-Recycling and Continental Europe. US E-Recycling had an underlying EBIT loss of A\$2.3 million which, among other factors, led to a goodwill impairment charge of A\$41.6 million. Underlying EBIT for Continental Europe was 73.3% lower than FY15, primarily due to operations in Germany.

**Reconciliation of Statutory NPAT to EBITDA**

| <b>A\$m</b>                                  | <b>Year ended 30 June</b> |              |
|----------------------------------------------|---------------------------|--------------|
|                                              | <b>2016</b>               | <b>2015</b>  |
| <b>Statutory net (loss)/profit after tax</b> | <b>(216.5)</b>            | 109.9        |
| Results from discontinued operations         | -                         | (0.1)        |
| Goodwill and intangible impairment charges   | <b>53.0</b>               | -            |
| Impairment of investment in joint venture    | <b>119.1</b>              | -            |
| Depreciation and amortisation                | <b>126.4</b>              | 120.8        |
| Net interest expense                         | <b>9.7</b>                | 7.8          |
| Income tax (benefit)/expense                 | <b>(8.7)</b>              | 27.2         |
| <b>Statutory EBITDA</b>                      | <b>83.0</b>               | <b>265.6</b> |

## Reconciliation of Statutory Results to Underlying Results

| A\$m<br>Year ended 30 June                                  | EBITDA <sup>1</sup> |                  | EBIT        |              | NPAT        |              |
|-------------------------------------------------------------|---------------------|------------------|-------------|--------------|-------------|--------------|
|                                                             | 2016                | 2015             | 2016        | 2015         | 2016        | 2015         |
| Statutory results from continuing operations                | 83.0                | 265.6            | (215.5)     | 144.8        | (216.5)     | 109.8        |
| Statutory results from discontinued operations <sup>5</sup> | -                   | 1.0              | -           | 0.7          | -           | 0.1          |
| Reported earnings                                           | 83.0                | 266.6            | (215.5)     | 145.5        | (216.5)     | 109.9        |
| <b>Significant items:</b>                                   |                     |                  |             |              |             |              |
| Impairment of investment in joint venture                   | N/A <sup>2</sup>    | N/A <sup>2</sup> | 119.1       | -            | 119.1       | -            |
| Goodwill and intangible asset impairment                    | N/A <sup>2</sup>    | N/A <sup>2</sup> | 53.0        | -            | 42.8        | -            |
| Fixed asset impairment                                      | 31.8                | -                | 31.8        | -            | 29.5        | -            |
| Reversal of an impairment of loan receivable                | -                   | (0.6)            | -           | (0.6)        | -           | (0.6)        |
| Net impact from investment in associates                    | -                   | (2.8)            | -           | (2.8)        | -           | (2.8)        |
| Lease settlements/onerous leases                            | 44.5                | (5.9)            | 44.5        | (5.9)        | 41.7        | (5.9)        |
| Redundancies                                                | 9.8                 | 4.0              | 9.8         | 4.0          | 8.6         | 2.7          |
| Net expense relating to yard closure/dilapidations          | 13.9                | 1.4              | 13.9        | 1.4          | 11.4        | 1.4          |
| Multi-employer pension plan withdrawal liability            | -                   | (5.9)            | -           | (5.9)        | -           | (5.9)        |
| Settlement of disputes with third parties                   | 1.4                 | -                | 1.4         | -            | 1.4         | -            |
| Tax asset reversal <sup>3</sup>                             | -                   | -                | -           | -            | -           | (3.9)        |
| <b>Underlying results<sup>4</sup></b>                       | <b>184.4</b>        | <b>256.8</b>     | <b>58.0</b> | <b>135.7</b> | <b>38.0</b> | <b>94.9</b>  |
| Underlying losses from discontinued operations <sup>5</sup> | -                   | 5.7              | -           | 6.0          | -           | 6.6          |
| <b>Underlying results excluding discontinued operations</b> | <b>184.4</b>        | <b>262.5</b>     | <b>58.0</b> | <b>141.7</b> | <b>38.0</b> | <b>101.5</b> |

<sup>1</sup> EBITDA is a measurement of non-conforming financial information. See table above that reconciles EBITDA to statutory net profit.

<sup>2</sup> N/A indicates that statutory EBITDA is calculated to exclude impairment of investment in joint venture and intangible assets in the presentation of both the statutory and underlying results.

<sup>3</sup> 2015 amount reflects utilisation of previously impaired US deferred tax assets.

<sup>4</sup> 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, 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.

<sup>5</sup> Discontinued operations relate to Global E-Recycling businesses in Canada and the UK.

## Cash flow and borrowings

Cash flow from operating activities of A\$131.3 million in FY16 decreased by A\$166.8 million versus FY15 due to lower cash generated from operations, and lower dividends received from associates and joint ventures, partially offset by lower income tax payments and lower interest payments.

Cash used for capital expenditures was A\$108.9 million during FY16 compared to A\$95.3 million in FY15. Capital expenditures during FY16 were related primarily to investments in Western Australia and NAM. In FY15, cash consideration paid for acquisitions totalled A\$5.7 million. The Group generated A\$12.5 million of cash from the sale of property, plant and equipment in FY16, including assets previously classified as held for sale, compared to

A\$16.0 million in FY15. In FY15, the Group received A\$74.5 million of cash from the sale of its interest in Chiho-Tiande Group (“CTG”) and A\$52.2 million of cash from the sale of a convertible bond issued by CTG.

During FY16, the Group paid cash dividends of A\$46.8 million compared to A\$53.2 million in FY15. In December 2015, the Group commenced a share buyback and purchased 7,945,261 ordinary shares for A\$60.3 million in FY16.

At 30 June 2016, the Group had a net cash position of A\$242.1 million compared to a net cash position of A\$313.9 million at 30 June 2015. 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:

| A\$m                   | As at 30 June |              |
|------------------------|---------------|--------------|
|                        | 2016          | 2015         |
| Total cash             | 248.3         | 316.0        |
| Less: total borrowings | (6.2)         | (2.1)        |
| <b>Net cash</b>        | <b>242.1</b>  | <b>313.9</b> |

In December 2015, the Group renewed its loan facilities which, among other things, extended the maturity date through 31 October 2019 and amended certain loan covenants. The Group’s cash flow and balance sheet position provides the capacity to fund the ongoing operational requirements of the business, as well as potential increased working capital requirements.

## Strategic Developments

### *Business resetting actions and cost reductions achieved*

The challenges of lower commodity prices and volumes in FY16 required swift and significant adjustments to the Company’s operational model. In November 2015, the Company announced new initiatives aimed at resetting its operations to account for lower market activity levels.

These actions have better aligned the business with current market conditions. During FY16, twenty-nine loss-making or non-core facilities were sold or idled, overhead costs were lowered, and employee headcount was reduced by 12%. These initiatives lowered controllable costs (on a constant currency basis) by a further A\$137 million during FY16.

Since the start of the strategic plan in FY14, controllable costs have now been reduced by a cumulative A\$234 million per annum. Management of controllable costs, in combination with internal initiatives to improve metal margins, have driven a reduction in the Company’s volume break-even point, with further reductions in the break-even point targeted over FY17-18.

Subsequent to the close of FY16, several initiatives were completed and are expected to provide further benefits during FY17. These included the sale of UK-based aerospace metals recycler FE Mottram, the sale of assets in the Central Region of North America located in Tennessee and Mississippi, as well as the closure of a stainless steel recycling facility located in Chicago. In addition, several small facilities are currently pending sale or closure with related decisions expected to be finalised in the first half of FY17.

### *Commitment to FY18 return on capital target of 10% or higher*

The Company remains committed to the target that, even at the bottom of the cycle, all operations must generate greater than cost of capital returns. Due to the progress achieved through the business resetting actions, underlying return on capital recovered to 5.5% in 2H FY16<sup>9</sup>; while during the fourth quarter of FY16, underlying return on capital reached 11.0%. The internal initiatives of the past three years have now been embedded into the business, and additional initiatives over the next two years are expected to drive progressively stronger return on capital through FY17 and FY18. The Company remains committed to achieving its target return on capital of 10% or higher by the end of FY18.

<sup>9</sup> Return on Capital = (EBIT – tax) / (Net Assets + Net Debt)

## **Market Conditions and Outlook**

Overcapacity of steel production in China, and high levels of exported semi-finished and finished steel, remains an unresolved issue. However, market conditions are showing emerging positive signals.

Steel exports from China to markets in the Mediterranean have recently receded to levels similar to 2014, supporting stronger demand for imported ferrous scrap. At the same time, global inventories held by large international scrap exporters are now at multi-year lows. The combination of these dynamics is expected to improve demand and lower downside price risk for ferrous scrap.

Based on the resetting actions and forecast benefits from internal initiatives in the current fiscal year, the Company expects return on capital in FY17 to be a step towards the Company's FY18 return on capital target of 10% or higher.

## **NAMES AND PARTICULARS OF DIRECTORS**

The following persons, together with their qualifications and experience, were directors of the Company during the financial year and up to the date of this report:

### **Geoffrey N Brunson B Comm (age 58) Chairperson and Independent non-executive director**

Mr Brunson 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, Audit & Compliance Committee and the Remuneration Committee. Until June 2009, Mr Brunson was Managing Director and Head of Investment Banking of Merrill Lynch International (Australia) Limited. He is Chairman of IPE Limited (since 2004), 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 Brunson is also a director of the Wentworth Group of Concerned Scientists and Purves Environmental Custodians.

### **Robert J Bass MBA (age 67) Independent non-executive director**

Mr Bass was appointed as a director on 10 September 2013. He is Chairperson of the Risk, Audit & Compliance Committee, and is a member of the Nomination/Governance Committee and the Finance & Investment Committee. Mr Bass was formerly a partner at Deloitte & Touche from 1982, and Vice Chairman at Deloitte LLP from 2006, until his retirement in June 2012. He practiced at that firm for 39 years and was Lead Client Service Partner responsible for the development, planning, management, administration and delivery of services, including audits of consolidated financial statements to multinational clients in a variety of industries. Mr Bass is currently a director of Groupon Inc (since June 2012) and Apex Tool Group (since December 2014) and is Chairman of the Audit Committee of both companies and a member of the Compensation Committee of Groupon Inc. He is a graduate of Emory University and received an MBA from Columbia University. He is a Certified Public Accountant, New York and Connecticut, and a member of the American Institute of Certified Public Accountants and Connecticut State Society of Certified Public Accountants.

**Galdino Claro B Mech Eng (age 57)**  
**Group Chief Executive Officer and Managing Director**

Mr Claro was appointed Group Chief Executive Officer and Managing Director of the Company on 4 November 2013. He is a member of the Safety, Health, Environment, Community & Sustainability Committee, the Nomination/Governance Committee and the Finance & Investment Committee. Mr Claro has nearly 30 years of global executive leadership experience in the worldwide metals industry. He served as Executive Vice President and Chief Executive Officer of Metals & Minerals at Harsco Corporation from July 2010 to November 2013. He also held various executive positions over a twenty year period with Alcoa Inc such as President of Alcoa China based in Beijing, China and President of Alcoa Extrusions Europe based in Geneva, Switzerland among others. Mr Claro has a Mechanical Engineering background.

**John T DiLacqua MBA (age 64)**  
**Independent non-executive director**

Mr DiLacqua was appointed as a director in September 2011. He is Chairperson of the Finance & Investment Committee, and is a member of the Risk, Audit & Compliance Committee and the Nomination/Governance Committee. Mr DiLacqua was formerly a director of Metal Management, Inc (since 2001), and was a director of Sims Metal Management Limited between March and November 2008. He was the Executive Chairman of Envirosource, Inc from May 2004 to December 2004 and had served as President and Chief Executive Officer of Envirosource from January 1999 to May 2004. From October 1997 to December 1998, Mr DiLacqua served as President of the US Ferrous Operations of Philip Metals, Inc, and, prior to that, from May 1994, as the President of Luria Brothers. He is a graduate of Temple University and received an MBA from Carnegie Mellon University. Mr DiLacqua is a Certified Public Accountant.

**Georgia Nelson BS, MBA (age 66)**  
**Independent non-executive director**

Ms Nelson was appointed as a director in November 2014. She is a member of the Safety, Health, Environment, Community & Sustainability Committee and the Remuneration Committee. Ms Nelson provides consulting services through her company PTI Resources, LLC, on a variety of environmental and energy policy matters. 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. Ms Nelson previously spent more than 25 years with Southern California Edison, a large US electric utility. Ms Nelson serves as a director of two publicly traded US 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 59)**  
**Independent non-executive director**

Ms O'Toole was appointed as a director in November 2014. She is a member of the Risk, Audit & Compliance Committee, the Finance & Investment 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: M.I.M 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 Boart Longyear Limited (since September 2015), Credit Union Australia and the Wesley Research Institute.

**Christopher J Renwick AM, FAIM, FAIE, FTSE - BA, LLB (age 73)**  
**Independent non-executive director**

Mr Renwick was appointed as a director in June 2007. Mr Renwick is Chairperson of the Remuneration Committee, and is a member of the Safety, Health, Environment, Community & Sustainability Committee and the Nomination/Governance Committee. Mr Renwick was employed with the Rio Tinto Group for over 35 years, rising, in 1997, to Chief Executive, Rio Tinto Iron Ore, a position he held until his retirement in 2004. He has previously served as Chairman and director of Coal and Allied Industries Limited (2004 to 2011), Chairman of the Rio Tinto Aboriginal Fund (2004 to 2011) and director of Downer EDI Limited (2004 to 2010). Mr Renwick is a director of South East Regional Touring Opera Company Limited, a “not-for-profit” public company limited by guarantee, which operates as “Melbourne Opera”, and Bayley House Foundation Ltd, which is trustee for Brighton & Helping Hand Association for Intellectually Disabled Inc Foundation.

**Heather Ridout AO BEc (Hons) (age 62)**  
**Independent non-executive director**

Mrs Ridout was appointed as a director in September 2011. She is a member of the Safety, Health, Environment, Community & Sustainability Committee, the Remuneration Committee, the Risk, Audit & Compliance Committee and the Nomination/Governance Committee. Mrs Ridout was formerly the Chief Executive Officer of the Australian Industry Group from 2004 until her retirement in April 2012. She is a member of the Board of the Reserve Bank of Australia (since December 2011), and is a director of Australian Securities Exchange Limited (since August 2012) and Chair of the Australian Super Trustee Board, the largest industry fund in Australia. Mrs Ridout also serves on the Board of the Australian Chamber Orchestra and is a member of ASIC’s External Advisory Panel. She has an economics degree, with honours, from the University of Sydney.

**Tamotsu (Tom) Sato BA (age 64)**  
**Non-independent non-executive director**

Mr Sato was appointed as a director in April 2013. He is Mitsui & Co., Ltd’s nominated non-independent director. Mr Sato is a member of the Finance & Investment Committee and the Safety, Health, Environment, Community & Sustainability Committee. He joined Mitsui in 1975 and held various positions mainly in the steel making raw materials business within that company including Executive Director of Mitsui Coal Holdings (2002-2004) based in Brisbane, Senior Vice President of Mitsui Singapore (2006-2009) responsible for Asia Pacific, and from 2009 until his retirement in 2013 he was the President & CEO of Mitsui Raw Materials Development based in New York.

**James T Thompson BS (age 66)**  
**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 Finance & Investment Committee and the Remuneration 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, with sales of US\$9 billion and some 8,000 employees, which is publicly traded on the New York Stock Exchange. Prior to that, he was engaged for 30 years in the steel industry from 1974–2004 in various roles at Cargill, Inc of Minnesota, United States, 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.

## COMPANY SECRETARIES

### Frank Moratti B Comm, LLB, MBA (Executive)

Mr Moratti was appointed to the position of Company Secretary in 1997. Before joining the Company, he held positions of assistant company secretary/legal counsel in a number of publicly listed companies over a period of some 12 years and, prior to that, worked as a solicitor with a major legal practice.

### Scott Miller BS, MS, JD, PE

Mr Miller was appointed to the position of Company Secretary in 2008. Since joining the Company in 1997, Mr Miller has held positions as legal counsel and manager for environmental affairs for North American operations. Before joining the Company, he held positions at an environmental mediation firm, as an attorney with a major legal practice and as a consulting engineer.

## DIRECTORS' MEETINGS

The following table shows the actual board and committee meetings held during the financial year and the number of meetings attended by each director:

|               | Board of Directors | Risk, Audit & Compliance Committee | Safety, Health, Environment, Community & Sustainability Committee | Remuneration Committee | Finance & Investment Committee | Nomination/ Governance Committee |
|---------------|--------------------|------------------------------------|-------------------------------------------------------------------|------------------------|--------------------------------|----------------------------------|
| Meetings held | 10                 | 5                                  | 5                                                                 | 6                      | 8                              | 4                                |
| G Brunson     | 10                 | 5                                  |                                                                   | 6                      |                                | 4                                |
| R Bass        | 10                 | 5                                  |                                                                   |                        | 8                              | 4                                |
| G Claro       | 10                 |                                    | 5                                                                 |                        | 8                              | 4                                |
| J DiLacqua    | 10                 | 5                                  |                                                                   |                        | 8                              | 4                                |
| G Nelson      | 10                 |                                    | 5                                                                 | 6                      |                                |                                  |
| D O'Toole     | 10                 | 5                                  |                                                                   | 2*                     | 8                              |                                  |
| C Renwick     | 10                 |                                    | 5                                                                 | 6                      |                                | 4                                |
| H Ridout      | 10                 | 5                                  | 5                                                                 | 6                      |                                | 4                                |
| T Sato        | 10                 |                                    | 5                                                                 |                        | 8                              |                                  |
| J Thompson    | 10                 |                                    | 5                                                                 | 6                      | 8                              |                                  |

\*Ms O'Toole was appointed as a member of the Remuneration Committee on 12 April 2016.

## 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 Brunson  | 22,057 |
| R Bass     | 18,000 |
| G Claro*   | 96,505 |
| J DiLacqua | 2,500  |
| G Nelson   | 6,700  |
| D O'Toole  | 8,000  |
| C Renwick  | 13,144 |
| H Ridout   | 5,000  |
| T Sato     | -      |
| J Thompson | 22,000 |

\* refer to the Remuneration Report for information on options and rights held by Mr Claro

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

There were no 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**

Other than disclosed in the notes to the consolidated financial statements, 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 Operating and Financial Review.

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 operating licenses and consents in place at each of its operating sites as prescribed by relevant environmental laws and regulations in each respective location and comprehensive environmental management systems and audit procedures to support compliance. Further information on the consolidated entity's performance in respect of environmental regulation is set out in the Group's Annual Sustainability Report.

Under s299(1)(f) of the Corporations Act, an entity is required to provide a summary of its environmental performance in terms of compliance with Australian environmental regulation. The Group's Australian operations are subject to the reporting requirements of the *National Greenhouse and Energy Reporting Act 2007* (NGER). While the Group previously was required to report under the *Energy Efficiency Opportunities Act 2006* (EEO), that Act has been repealed and the Group is no longer required to report in this respect.

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 Greenhouse and Energy Data Officer annually.

There have been no significant known breaches of the Group's license conditions or any environmental regulations to which it is subject.

## **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 10,096,546 share options outstanding and 5,339,736 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 2016. 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 20,036 ordinary shares issued upon the exercise of share options and 745,502 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 no ordinary shares issued in connection with the exercise of share options or in connection with 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, 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 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*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 52.

## ROUNDING OF AMOUNTS

The Company is a company of the kind referred to in 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.

## REMARKS BY THE CHAIRPERSON OF THE REMUNERATION COMMITTEE

Dear Shareholders,

We are pleased to present our Remuneration Report for financial year 2016 (FY16).

FY16 was a difficult year for our Company, as evidenced by our large statutory loss. Notwithstanding the excellent progress made delivering on the Streamline and Optimise components of our strategic plan, very difficult market conditions prevented this progress being borne out in improved financial results. The collapse of prices in the metals recycling industry, particularly in the first half of the year, and the consequent impact on source material feedstocks, made operating conditions extremely challenging.

Cognisant of these conditions, the Committee had the onerous task of trying to balance the non-achievement of financial goals with a recognition that considerable progress had been made in reducing costs and improving efficiency. The Committee was concerned to ensure that the Group CEO and his team should believe that their efforts were being appropriately recognised. Accordingly, the Committee and the Board concluded it was appropriate to use their discretion to reflect the progress that had been made in circumstances where rewards under the Company's short-term incentive (STI) plan would otherwise not have been achieved.

During FY16, our focus had been to align our STI performance goals to the strategic plan of the Company. When market conditions precluded the budget being achieved notwithstanding continued good strategic progress being evident, the Committee and the Board took the decision to establish a discretionary pool of Restricted Stock Units (RSUs) from which to award our Executives. The RSUs to be awarded to the Executives will amount to A\$2.733 million (of which A\$1.05 million will be allocated to the Group CEO) and will vest, subject to the respective Executive's continued employment, one year from the date of grant.

Even though it is increasingly difficult for us to attract and hold key talent in the global labour market, particularly in the USA, we believe that the senior management we have in place, under the leadership of our Group CEO, Galdino Claro, is an excellent team. We will take sensible steps, as far as possible, to ensure that we keep the team in place, not just for the delivery of our strategic plan through to the end of FY18, but beyond.

Coupled with the fact that limited rewards have been achieved under the Company's long-term incentive (LTI) plan, the Committee and the Board were sufficiently concerned about the potential of losing any of our Executives that they took steps to address this risk by implementing a second award of RSUs. The RSUs to be awarded to the Executives will amount to A\$5.817 million (of which A\$2.45 million will be allocated to the Group CEO) and will vest, subject to the respective Executive's continued employment, in two equal tranches, three and four years, respectively, from the date of grant.

In relation to FY17, the STI performance goals in each portfolio of our businesses will be measured against the FY17 budget. Once again, there will be a financial gateway in the STI plan, whereby there must be a specific return on controlled capital employed (ROCCE) achieved for each part of the business, before any STI payment is made for that part of the business. As in FY16, Regional Executives will see 25% of their financial goals tied to Group ROCCE results.

The following pages outline the actual remuneration outcomes for FY16 in light of Company performance, as well as providing further detail on our remuneration framework in FY17.

Yours sincerely



Christopher Renwick  
Remuneration Committee Chairperson  
[RemCoChair@simmm.com](mailto:RemCoChair@simmm.com)

The Remuneration Committee of the Board of Directors of Sims Metal Management Limited (Committee) presents the Remuneration Report for the Company and the Group for FY16. The Remuneration Report provides details on elements of the Company's remuneration program and actions taken by the Committee in FY16, to support the program's goal of attracting, retaining and motivating key executives who lead our businesses. The information provided in this Remuneration Report has been audited by our independent external auditor, Deloitte Touche Tohmatsu.

The Remuneration Report is set out as follows:

| Section                          | What it covers                                                                    | Page                                                                                                                                                                                                                                                            |    |
|----------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| <b>1 Remuneration snapshot</b>   |                                                                                   | <b>17</b>                                                                                                                                                                                                                                                       |    |
| <a href="#">1.1</a>              | Key management personnel (KMP)                                                    | Lists the names, roles and tenure of the KMP whose remuneration details are disclosed in the Remuneration Report                                                                                                                                                | 17 |
| <a href="#">1.2</a>              | Actual remuneration outcomes for FY16                                             | Lists the actual remuneration received by reportable Executives during FY16                                                                                                                                                                                     | 18 |
| <a href="#">1.3</a>              | Executive remuneration approach for FY17                                          | Provides an overview of the remuneration program's structure for FY17 which supports the Company's strategic imperatives and aligns with shareholder values                                                                                                     | 20 |
| <b>2 Remuneration governance</b> |                                                                                   | <b>21</b>                                                                                                                                                                                                                                                       |    |
| <a href="#">2.1</a>              | Remuneration philosophy                                                           | Describes the Company's remuneration philosophy; ensures alignment with our strategic plan and shareholder interests                                                                                                                                            | 21 |
| <a href="#">2.2</a>              | The Remuneration Committee                                                        | Outlines the Committee's role in making remuneration decisions, and its relationship with the Board and the Committee's external remuneration consultant                                                                                                        | 22 |
| <a href="#">2.3</a>              | Committee activities                                                              | Lists items reviewed by the Committee during FY16                                                                                                                                                                                                               | 23 |
| <a href="#">2.4</a>              | Remuneration benchmark peer group and competitive positioning                     | Lists companies identified as peers for competitive remuneration benchmarking                                                                                                                                                                                   | 23 |
| <a href="#">2.5</a>              | External remuneration consultant                                                  | Describes professional services provided by the Committee's remuneration consultant in FY16                                                                                                                                                                     | 24 |
| <a href="#">2.6</a>              | Risk management                                                                   | Outlines the Company's remuneration-related risk assessment and risk management practices                                                                                                                                                                       | 24 |
| <b>3 Remuneration framework</b>  |                                                                                   | <b>25</b>                                                                                                                                                                                                                                                       |    |
| <a href="#">3.1</a>              | Remuneration principles and strategy                                              | Defines the Company's remuneration framework, set by the Committee, which is to align executives' remuneration with short and long-term performance goals, provide incentives for goal attainment and attract talent critical for sustainable financial success | 25 |
| <a href="#">3.2</a>              | Total target remuneration mix                                                     | Provides the proportion of total target remuneration that is fixed and 'at-risk' for Executives                                                                                                                                                                 | 27 |
| <a href="#">3.3</a>              | Fixed remuneration                                                                | Defines an element of remuneration for performing day-to-day areas of responsibilities                                                                                                                                                                          | 27 |
| <a href="#">3.4</a>              | Variable remuneration                                                             | Defines 'at-risk', remuneration under the STI and LTI plans, and summarizes link between pay and performance                                                                                                                                                    | 28 |
|                                  | <a href="#">3.4.1</a> STI plan                                                    | Details elements of the STI program                                                                                                                                                                                                                             | 28 |
|                                  | <a href="#">3.4.2</a> LTI plan                                                    | Details elements of the LTI program                                                                                                                                                                                                                             | 32 |
|                                  | <a href="#">3.4.3</a> Link between 'at-risk' remuneration and Company performance | Highlights the Company's historical performance and key performance metrics                                                                                                                                                                                     | 37 |

|                                                              |                                                                               |                                                                                           |           |
|--------------------------------------------------------------|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-----------|
| <b>4 Executive statutory remuneration disclosures</b>        |                                                                               |                                                                                           | <b>40</b> |
| <a href="#">4.1</a>                                          | Executive remuneration disclosures                                            | Lists FY15 and FY16 Executive remuneration and other payments reported for the Executives | 40        |
| <b>5 Executive contracts</b>                                 |                                                                               |                                                                                           | <b>42</b> |
| <a href="#">5.1</a>                                          | Executive Director and Group CEO                                              | Outlines key terms of the Executive Director and Group CEO's employment agreement         | 42        |
| <a href="#">5.2</a>                                          | Executives                                                                    | Outlines key terms of the Executives' employment agreements                               | 43        |
| <b>6 Non-Executive directors' fees</b>                       |                                                                               |                                                                                           | <b>44</b> |
| <a href="#">6.1</a>                                          | Approach to determining the fees of Non-Executive Directors (NEDs)            | Describes the approach for determining NEDs' fees for services rendered                   | 44        |
| <a href="#">6.2</a>                                          | NEDs' fees                                                                    | Lists NEDs' fees under the current remuneration framework                                 | 44        |
| <a href="#">6.3</a>                                          | Superannuation; no retirement benefits                                        | Describes superannuation benefits for certain NEDs                                        | 45        |
| <b>7 Share-based payment disclosures and equity holdings</b> |                                                                               |                                                                                           | <b>46</b> |
| <a href="#">7.1</a>                                          | Options provided as remuneration                                              | Shows outstanding option grants for each of our Executives                                | 46        |
| <a href="#">7.2</a>                                          | Performance rights and restricted stock units (RSUs) provided as remuneration | Shows unvested and outstanding performance rights and RSUs for each of our Executives     | 48        |
| <a href="#">7.3</a>                                          | Share holdings                                                                | Shows number of Company's shares beneficially owned by each of our KMP                    | 50        |
| <b>8 Other transactions with KMP</b>                         |                                                                               |                                                                                           | <b>51</b> |
| <b>9 Shareholder outreach</b>                                |                                                                               |                                                                                           | <b>51</b> |

## 1 REMUNERATION SNAPSHOT

### 1.1 Key Management Personnel (KMP)

The Remuneration Report is focused on the Company's executive remuneration program for FY16 and proposed changes for FY17. It also explains the Committee's remuneration decisions made in FY16 for the KMP, consisting of the below NEDs and Executives.

| Name                                           | Position                                             | Country   | Term as KMP  |
|------------------------------------------------|------------------------------------------------------|-----------|--------------|
| <b>NEDs</b>                                    |                                                      |           |              |
| Geoffrey N Brunson                             | Chairperson and Independent NED                      | Australia | Full Year    |
| Robert J Bass                                  | Independent NED                                      | USA       | Full Year    |
| John T DiLacqua                                | Independent NED                                      | USA       | Full Year    |
| Georgia Nelson                                 | Independent NED                                      | USA       | Full Year    |
| Deborah O'Toole                                | Independent NED                                      | Australia | Full Year    |
| Christopher J Renwick                          | Independent NED                                      | Australia | Full Year    |
| Heather Ridout                                 | Independent NED                                      | Australia | Full Year    |
| Tamotsu (Tom) Sato                             | Non-Independent NED                                  | Japan     | Full Year    |
| James T Thompson                               | Independent NED                                      | USA       | Full Year    |
| <b>Executives</b>                              |                                                      |           |              |
| <b><i>Executive Director and Group CEO</i></b> |                                                      |           |              |
| Galdino Claro                                  | Group Chief Executive Officer and Managing Director  | USA       | Full Year    |
| <b><i>Executives</i></b>                       |                                                      |           |              |
| Fred Knechtel                                  | Group Chief Financial Officer                        | USA       | Full Year    |
| William Schmiedel                              | President – Global Trade                             | USA       | Full Year    |
| Alistair Field <sup>1</sup>                    | Managing Director – Australia and New Zealand Metals | Australia | Partial Year |
| Stephen Skurnac                                | President – Global Sims Recycling Solutions (SRS)    | USA       | Full Year    |
| <b><i>Former Executives</i></b>                |                                                      |           |              |
| Darron McGree <sup>1</sup>                     | Managing Director – Australia and New Zealand Metals | Australia | -            |

<sup>1</sup> Mr McGree's employment with the Company ended on 30 June 2015. Mr McGree entered into a consulting agreement from 1 July 2015 to 30 June 2016, as part of his agreement to transition the Australia and New Zealand Metals business to Mr Field. Mr McGree's role was succeeded by Mr Field who joined the Company on 1 October 2015.

## 1.2 Actual Remuneration Outcomes for FY16

| Remuneration component     | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fixed remuneration         | <ul style="list-style-type: none"> <li>The Remuneration Committee approved pay increase recommendations for existing Executives in FY16 after reviewing overall individual achievements and competitive market data. <ul style="list-style-type: none"> <li>The Group CEO received a merit increase of 10.9% on 1 September 2015.</li> <li>The Group CFO received a merit increase of 14.3% on 1 September 2015.</li> <li>The President-Global Trade received a merit increase of 7.3% on 1 September 2015. On 1 June 2016, he received a salary adjustment of 5.9% for assuming additional responsibilities for non-ferrous trade/operations.</li> <li>The Managing Director-Australia and New Zealand Metals was not eligible for a merit increase based on his 1 October 2015 date of hire.</li> <li>The President-Global SRS received a merit increase of 12.3% on 1 September 2015.</li> </ul> </li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Short-term incentive (STI) | <ul style="list-style-type: none"> <li><b>No short-term incentive payments</b> were made to the Executives under the FY16 STI plan for the FY16 performance period, as the Company's ROCCE goals that were established for the fiscal year for those Executives were not met.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Long-term incentive (LTI)  | <ul style="list-style-type: none"> <li><b>Performance rights</b> in respect of the FY12 LTI award vested on 21 August 2015 and were paid out at 68.75% to those Executives who received that award. This was the result of the Company's relative Total Shareholder Return (TSR) ranking being above the 51<sup>st</sup> percentile against its peer companies for the performance period 1 July 2011 to 30 June 2015 (being the second performance period for that grant).</li> <li><b>Restricted stocks units</b> <ul style="list-style-type: none"> <li>On his hire date, 15 November 2013, the Group CEO received an RSU award valued at US\$1 million. The first tranche, representing one-half of the award, vested on 1 December 2014, and the second tranche, representing the remaining half, vested on 1 December 2015.</li> <li>On his hire date, 3 November 2014, the Group CFO received an RSU award valued at US\$1 million. The first tranche, representing one-third of that award, vested on 28 October 2015. The second and third tranche will, subject to his continued employment, vest on 28 October 2016 and 28 October 2017, respectively.</li> <li>In recognition of his taking on significant additional responsibilities related to global non-ferrous trade/operations, the President-Global Trade received an RSU award valued at US\$500,000 on 1 March 2016. The first tranche, representing one-third of that award, vested immediately on 1 March 2016. The second and third tranche will, subject to his continued employment, vest on 1 September 2016 and 1 March 2017, respectively.</li> <li>In recognition of his new expanded role, the President-Global SRS received an RSU award valued at US\$125,000 on 27 June 2013. The total award vested on 27 June 2016.</li> </ul> </li> <li><b>Options</b> vested during the year in accordance with the terms of their grant.</li> </ul> |

In the context of the above comments, actual remuneration received by Executives during FY16 is set out below. This disclosure is provided on a voluntary basis to provide additional transparency and to clearly demonstrate the strong linkage between 'at-risk' pay and Company performance.

As seen in the table below, actual remuneration was lower than target, reflecting the difficult challenges the Company faced in FY16. The LTI values outlined in the table below differ to those in the statutory remuneration tables in Section 4, as the statutory remuneration tables reflect the amortised value of the entire LTI award in accordance with the accounting standards.

| Executives (A\$)         | Fixed remuneration <sup>1</sup> | Actual cash bonus <sup>2</sup> | Target cash bonus <sup>3</sup> | Actual long-term incentives <sup>4</sup> | Target long-term incentives | Actual total remuneration | Target total remuneration | Actual total remuneration as % of target total remuneration |
|--------------------------|---------------------------------|--------------------------------|--------------------------------|------------------------------------------|-----------------------------|---------------------------|---------------------------|-------------------------------------------------------------|
| G Claro <sup>5</sup>     | 1,765,295                       | -                              | 2,013,250                      | <b>504,685</b>                           | 4,814,294                   | <b>2,269,980</b>          | 8,592,839                 | 26%                                                         |
| F Knechtel <sup>5</sup>  | 1,123,200                       | -                              | 1,098,448                      | <b>377,870</b>                           | 1,647,673                   | <b>1,501,070</b>          | 3,869,321                 | 39%                                                         |
| W Schmiedel <sup>5</sup> | 1,209,836                       | -                              | 1,235,754                      | <b>516,883</b>                           | 1,853,632                   | <b>1,726,719</b>          | 4,299,222                 | 40%                                                         |
| A Field                  | 643,893                         | 250,000                        | 600,000                        | -                                        | 800,000                     | <b>893,893</b>            | 2,043,893                 | 44%                                                         |
| S Skurnac <sup>5</sup>   | 1,109,160                       | -                              | 592,132                        | <b>217,509</b>                           | 789,510                     | <b>1,326,669</b>          | 2,490,802                 | 53%                                                         |

<sup>1</sup> Fixed remuneration includes cash salary, other benefits, pension and superannuation, and annual leave accruals. It is the same as the statutory remuneration disclosures.

<sup>2</sup> Actual cash bonus refers to the Executive's total bonus that was earned in FY16 which resulted in nil payout. Mr Field received a \$250,000 sign-on bonus upon commencement of employment.

<sup>3</sup> For the definition of target cash bonus, refer to section 3.4.

<sup>4</sup> Actual LTI refers to options granted in prior years that vested during FY16. The value has been calculated using the closing share price of the Company's shares on the day of vesting after deducting the exercise price. Mr Schmiedel and Mr Skurnac had performance rights vest in FY16 based on achievement of TSR results compared to the Company's comparator group. Mr Claro had an RSU award which fully vested on 1 December 2015. Mr Knechtel had RSUs vest on 28 October 2015. Mr Schmiedel had RSUs vest on 1 March 2016. Mr Skurnac had RSUs vest on 27 June 2016. The value is determined based on the share price on the day of vest. The LTI value is significantly lower than target LTI and is different to the LTI figures in the statutory remuneration table. This is because the LTI figures in the statutory remuneration table reflect the amortised value of the entire LTI award (that may or may not vest) in accordance with the accounting standards.

<sup>5</sup> All Executives received their cash payments in US dollars except for Mr Skurnac who received his payments related to his UK secondment in British pounds and Mr Field who received his cash payments in Australian dollars.

### 1.3 Executive Remuneration Approach for FY17

In FY16 the Company continued its robust investor outreach program to solicit valuable feedback regarding the Company's remuneration plan design. Investor feedback has historically been positive towards the Company's executive remuneration programs and their link between executive pay and the Company's performance.

Although this past fiscal year's performance was, due to extremely challenging macroeconomic forces, below expectations, the Committee and the Board felt it was critical to recognise the significant milestones the Executives have made towards the Company's growth and long-term financial future. Consequently, the Committee and the Board agreed to the grant of a one-time special discretionary pool of time-based RSUs with a total value of approximately A\$2.733 million (of which A\$1.05 million will be allocated to the Group CEO) and will vest, subject to the respective Executive's continued employment, one year from the date of grant.

In addition, in order to ensure that the Company retains the services of its Executives in an increasingly competitive global labour marketplace, the Committee and the Board agreed to an award comprising the grant of RSUs with a total value of approximately A\$5.817 million (of which A\$2.45 million will be allocated to the Group CEO) and will vest, subject to the respective Executive's continued employment, in two equal tranches, three and four years, respectively, from the date of grant.

The Committee intends to grant competitive merit increases commensurate with each Executive's performance in FY17.

As was the case in FY16, the STI performance goals will continue to be linked to the achievement of ROCCE for each part of the business. No STI payment will be made for any part of the portfolio of the Company's business unless FY17 Budget has been achieved at a minimum Threshold level performance. Financial goal attainment will be measured at Threshold (75% of Target) and Maximum (125% of Target). In addition, FY17 regional Executives will continue to have 25% of their financial goals tied to Group ROCCE results.

The Company's LTI plan will continue to evolve as the Company attempts to align its incentive framework with the external market. For FY17, the Committee plans to retain a return on invested capital (ROIC) performance measure with threshold set at 8%, target at 10% and maximum at 12%. With Arrium Limited to be excluded from the Company's peer group from FY17, the achievement metrics for TSR-based performance rights will be based on relative positioning compared to the 14 companies within the Company's peer group (i.e. 15 positions in total including the Company) for the FY17-FY19 performance period. No rights will vest at or below the 10<sup>th</sup> position, while 45% vesting will occur if the Company achieves 9<sup>th</sup> position, rising to 100% vesting at the 5<sup>th</sup> position. In addition, the Company will continue to assess its comparator groups and address any modifications to its peers, as needed.

The table below indicates how the Company's remuneration framework will be aligned to its key performance drivers in FY17.

| Performance driver                     | How the driver is incorporated into the Executive remuneration framework                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Increasing alignment with shareholders | LTI <ul style="list-style-type: none"> <li>A significant portion of the Executives' total remuneration opportunity (56% for the Group CEO and between 36% and 42% for Executives) is delivered as equity in the LTI plan</li> <li>50% of the performance rights in the LTI plan are based on relative TSR</li> <li>100% of the options are expected to be exercised only if there has been absolute share price growth</li> </ul> |
| Strong financial performance           | STI <ul style="list-style-type: none"> <li>80% of the Group CEO's and Group Executives' STI is based on Group ROCCE</li> <li>80% of the Regional Executives' STI target is based on financial measures, of which 25% is based on Group ROCCE, with 75% being based on business unit ROCCE</li> </ul>                                                                                                                              |
| Strong safety performance              | LTI <ul style="list-style-type: none"> <li>50% of the performance rights in the LTI plan are based on ROIC</li> </ul>                                                                                                                                                                                                                                                                                                             |
|                                        | STI <ul style="list-style-type: none"> <li>Long-term injury frequency rate and medically-treated injury frequency rate are included in the 20% allocated to non-financial measures in the STI plan</li> </ul>                                                                                                                                                                                                                     |

| Performance driver                   | How the driver is incorporated into the Executive remuneration framework |                                                                                                                                                                                                                                          |
|--------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Alignment with 5 year strategic plan | STI                                                                      | • Goals that are directly linked to the execution of the 5-year strategic plan for the financial year will be included in the 20% allocated to non-financial measures in the STI plan. This encourages a focus on multi-year performance |
| Strong compliance performance        | STI                                                                      | • Maintaining a strong internal control structure as well as procedures for financial reporting will be included in the 20% allocated to non-financial measures in the STI plan                                                          |
| Drive a strong human capital culture | STI                                                                      | • Leading a strong global organization culture which fosters high productivity and a sense of ownership will be included in the 20% allocated to non-financial measures in the STI plan.                                                 |

## 2 **REMUNERATION GOVERNANCE**

We have a strong remuneration governance framework, with the Board being ultimately responsible for the Company's executive remuneration practices. The Remuneration Committee advises the Board in making remuneration decisions.

### 2.1 Remuneration Philosophy

Our remuneration philosophy is designed to provide remuneration that:

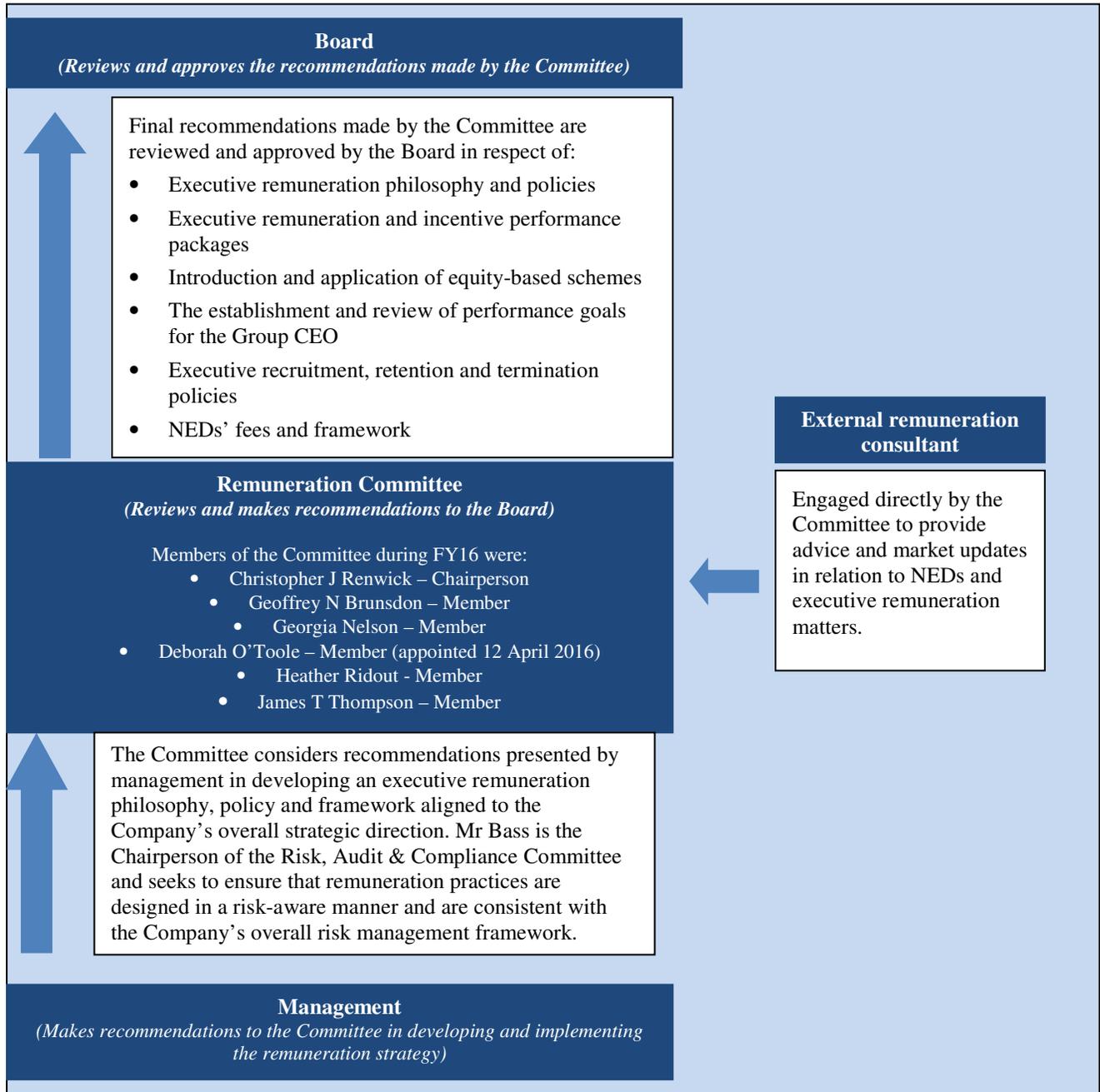
- attracts, motivates and retains the best and brightest senior executives, leadership and staff personnel;
- drives the Company's strategic plan; and
- aligns reward opportunities with shareholder interests.

Due to our global scale, our remuneration practices aim to take into account local market practice, particularly in the USA, our largest geographic region, where we compete for much of our talent and business. Our executive remuneration framework consists of fixed remuneration, short-term incentives and long-term incentives.

## 2.2 The Remuneration Committee

The primary role of the Remuneration Committee (Committee) is to support and advise the Board on the implementation and maintenance of coherent, fair and responsible remuneration policies and practices, which are observed by the Company and which enables it to attract and retain executives who will create value for shareholders. The Remuneration Committee Charter, a copy of which is available on the Company's website at [www.simsmm.com](http://www.simsmm.com), provides further information on the role and responsibilities of the Committee.

The diagram below illustrates the role of the Board, the Committee, management and external advisors (including remuneration consultants) in relation to remuneration.



During FY16, it was agreed that the Company's Workforce Diversity Policy responsibilities be assumed by the Company's Nomination/Governance Committee in lieu of the Remuneration Committee.

## 2.3 Committee Activities

During FY16, the Committee met on six occasions, with remuneration matters a standing agenda item on each occasion. The Committee has a strong focus on the relationship between business performance, risk management and remuneration, with the following activities occurring during the financial year:

- Review of key senior executive appointments and terminations
- Review of STI and LTI
- Review of reward outcomes (Fixed, STI and LTI) for key senior executives
- Review of succession plans for key senior executives

## 2.4 Remuneration Benchmark Peer Group and Competitive Positioning

Our remuneration program is designed to reward achievement of financial, strategic and personal goals and to attract, retain and motivate our leaders in our highly competitive market for top talent.

The Committee, in consultation with its independent external remuneration consultant Ernst & Young, periodically examines the composition, pay practices and remuneration data for a group of domestic and international listed companies, as a source of benchmarking data to better understand the appropriate total value and mix of pay for our Executives. Our remuneration decisions are based on the level of Company and individual performance; hence, the comparator group is used:

- as an input to developing salary and package ranges, annual incentive targets and long-term incentive award ranges
- to benchmark the form and mix of equity awarded to Executives
- to assess the competitiveness of remuneration across our comparator group within our industry

The Committee looks at each company in the comparator group and each component of remuneration – fixed; STI and LTI (and the nature of the performance hurdles) – to satisfy itself that Executive remuneration is both competitive in the markets in which the Company operates and competes for talent, and can be regarded as reasonable from the views and interest of the Company’s shareholders.

Based on the Committee’s annual review, with input from Ernst & Young, no changes were made to the remuneration benchmark peer group in FY16, which comprises the 15 listed companies below. The Committee believes that these companies continue to be a relevant group to benchmark the Company’s remuneration programs and practices against.

### FY16 Sims Metal Management Remuneration Peer Group – Australian listed companies

|                             |                  |
|-----------------------------|------------------|
| Arrium Limited <sup>1</sup> | Boral Limited    |
| BlueScope Steel Limited     | Brambles Limited |

### FY16 Sims Metal Management Remuneration Peer Group – USA listed companies

|                               |                                 |
|-------------------------------|---------------------------------|
| AK Steel Holding Corporation  | Republic Services Inc.          |
| Allegheny Technologies Inc.   | Schnitzer Steel Industries Inc. |
| Commercial Metals Co.         | Steel Dynamics Inc.             |
| Masco Corporation             | USG Corporation                 |
| Nucor Corporation             | Waste Management Inc.           |
| Reliance Steel & Aluminum Co. |                                 |

The Committee recognises that while data may be available on the performance of our non-US listed peer companies, the remuneration data is limited in terms of comparable benchmarks and other information for certain non-US peers. Therefore, the remuneration benchmark peer group differs from the TSR peer group considering size of the companies and the availability of publicly disclosed executive remuneration levels.

Given the disparate measures of size in the remuneration benchmark peer group, the Committee does not set a specific target remuneration percentile based on peer market data alone. Based on recent benchmark analyses, the target total remuneration at the Group CEO level is below median of comparable CEOs within the remuneration benchmark peer group.

<sup>1</sup> To be excluded from FY17 remuneration benchmark peer group.

## 2.5 External Remuneration Consultant

During the financial year, Ernst & Young, the Committee's remuneration advisor, provided the Committee with market updates and advice in relation to executive remuneration matters.

During FY16, no remuneration recommendations, as defined under the *Corporations Act 2001*(Cth), were provided by Ernst & Young.

## 2.6 Risk Management

The Company's remuneration framework is structured to provide a balance of cash and equity; short-term and long-term incentives with individual and financial objectives over various performance periods. The Company's remuneration programs are designed to help discourage imprudent risk taking. The remuneration programs are also designed to support the Company's commitment to operating in a manner consistent with the highest standards of corporate governance, which is fundamental to promoting investors' confidence and creating long-term value.

The following policies and procedures relating to the Company's remuneration programs help discourage imprudent risk taking:

- The remuneration programs incorporate performance metrics over multiple time frames to discourage undue focus on near term results, or on any one specific metric in order to reinforce a balance in performance measures
- The STI and LTI plans contain a cap on the maximum payout achievable
- Under our LTI plan, annual awards are unvested for at least three years under the plan's performance-based vesting schedule
- Performance rights are used for the annual awards to Executives
- The remuneration plan design requires all payouts under our STI and LTI plans to be subject to the discretion of the Committee

### 3 REMUNERATION FRAMEWORK

Our executive remuneration framework is heavily skewed towards variable pay to drive Company performance, with 80% of the Group CEO's target pay, and between 64-71% of target pay for the other Executives, being at-risk, subject to challenging short-term and long-term performance hurdles.

#### 3.1 Remuneration Principles and Strategy

The Group operates from more than 200 locations across five continents. Given our global scale, it is imperative that the executive remuneration policy and framework reflect the international nature of the Company and the fact that our executives are based throughout the world.

As the Company's success is dependent upon the quality of its people, the primary aim of the Company's executive remuneration policy is to recognise and reward outstanding achievement, and to attract, motivate and retain high calibre leaders to support our long-term growth objectives and return value to our shareholders.

The executive remuneration policy also seeks to ensure alignment with the Company's remuneration philosophy, strategic plan and shareholder interests. The Committee believes this practice ensures that the Company's remuneration policies and principles reflect the global environment through appropriately balancing competitive market practice in the USA, UK and Australia.

The remuneration framework is continually reviewed by the Committee to promote good governance and serve the best interests of the Company's shareholders and stakeholders. The Company annually reviews its remuneration practices to determine the total remuneration positioning of its executives relative to the market. Changes in remuneration structures in the global environment occur quickly, and it has become an increasingly difficult task to remain competitive, particularly in North America. It is the Company's intention to continue to review the appropriateness and effectiveness of its remuneration structure in FY17. It is not intended, however, to implement any major changes until after the strategic plan period (end of FY18) has concluded.

A snapshot of the Company's remuneration principles and its components, and how they support the Company's overall vision is illustrated in the diagram below.

## Mission

Our mission is to be the best in class recycler of metals and electronics in all markets we operate. Our industry leadership will be driven by the strengths of our partnership with our suppliers, the excellence of our products and services to our customers, and the attractiveness of our returns to shareholders.

## Remuneration Principles

Reward capability, experience and performance against business strategy

Provide a competitive reward for contribution to growth in shareholder wealth

Provide a clear structure for earning rewards

Provide recognition for individual performance contributions in line with the Company's strategic plan

Support the Company's core values of safety, integrity, respect, transparency and social responsibility

## Remuneration Components

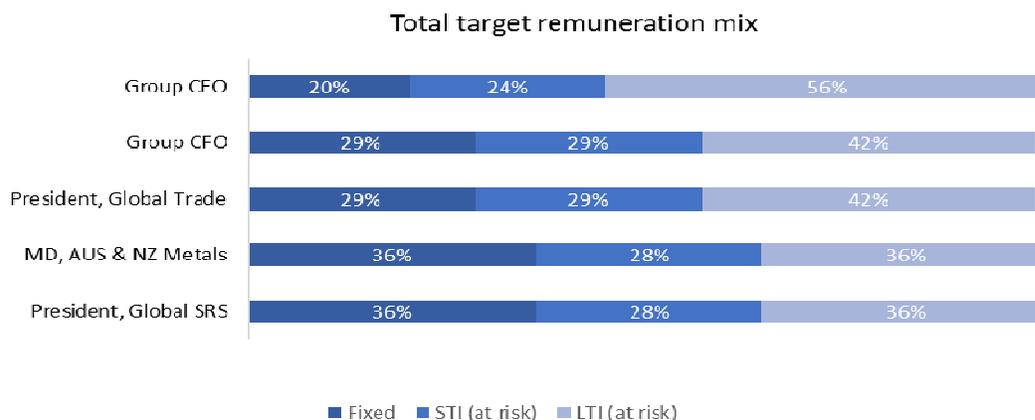
|                                                            | Fixed remuneration                                                                                                                                                    | Short-term incentive                                                                                                                                                                                                   | Long-term incentive                                                                                                                                                                                                                     |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>What is the purpose of this remuneration component?</b> | To be able to attract and retain quality talent.                                                                                                                      | To reward executives for Company, business unit and individual contributions.                                                                                                                                          | To retain executives and ensure their interests and rewards are aligned with the longer term interests and rewards of shareholders.                                                                                                     |
| <b>How is this remuneration component determined?</b>      | Based on capability, experience, responsibilities and accountability, commensurate with role.<br><br>Set with reference to market data against a relevant peer group. | Based on financial targets (ROCCE) and individual performance goals (such as safety, environment and sustainability, implementation of the strategic plan, talent management and shareholder and community relations). | All equity is subject to continued service.<br><br>Performance hurdles are based on relative TSR, ROIC and earnings per share (measure used for FY14 and FY15 grants), and absolute share price appreciation (inherent in the options). |
| <b>Over what period is performance assessed?</b>           | Not applicable.                                                                                                                                                       | 12 months.                                                                                                                                                                                                             | Performance rights have a 3 year performance period.<br><br>Options vest over 1-3 years, and can be exercised up to the end of Year 7.                                                                                                  |
| <b>How is this remuneration component delivered?</b>       | Annual salary, benefits and pension / superannuation.                                                                                                                 | Cash.                                                                                                                                                                                                                  | Performance rights and options.                                                                                                                                                                                                         |

### 3.2 Total Target Remuneration mix

Under our remuneration framework, a mix of fixed and variable pay components is included with different time horizons and payout forms used to reward both annual and long-term sustainable performance. A strong pay-for-performance culture inherent in our incentive plan designs provides a direct link between pay and financial outcomes through the use of performance measures that are tied directly to financial achievement and our strategic initiatives.

In line with the Company’s intent to ensure our Executive remuneration framework is aligned to the Company’s performance, a significant portion of an Executive’s remuneration is ‘at-risk’. ‘At-risk’ means an absence of certainty regarding the payment of a particular component of remuneration in the event agreed-upon performance hurdles or employment conditions are not met during the performance period. Details on each of these plans are outlined below.

The following chart sets out the FY16 total target remuneration mix; that is, fixed remuneration (salary / package), target STI, and LTI for the Executives.



### 3.3 Fixed remuneration

Fixed remuneration primarily seeks to attract and retain high calibre Executives. It provides competitive opportunities for remuneration commensurate with job scope, required competencies and performance.

Fixed remuneration comprises base salary and benefits:

- Base salary is determined on an individual basis, taking into consideration the individual’s capability, experience, responsibilities and accountability, as well as external market factors and benchmark data.
- Benefits programs vary by market and may include health insurance, life and disability insurance, retirement programs (depending on national government and tax regulations) and automobile allowances.

Remuneration packages (including fixed components of base salaries and benefits) are reviewed annually. In reviewing any changes to Executive remuneration, the Committee references individual performance, as well as its competitiveness against the remuneration peer group (provided under Section 2.4 of this report).

There are no guaranteed increases to any components of fixed remuneration for any of the Executives.

### 3.4 Variable Remuneration

The 'at-risk' component of remuneration comprises both short-term and long-term incentives.

#### 3.4.1 STI Plan

**Key developments in FY16:**

During FY16, we continued to align our STI and LTI performance goals to the strategic plan of the Company. We set achievement of Budget as a key performance metric in a portfolio of our businesses and continued the practice of achieving a specific return on controlled capital employed (ROCCE). A threshold ROCCE performance must be achieved under the STI in order to generate a bonus payout. In light of the strategic actions the Company has taken to reignite growth and deliver on our 5-year strategic plan, the Board approved a number of enhancements in FY16 to further link the Company's remuneration programs with our business and talent strategies, as well as the views of our shareholders. During FY16:

- Achievement of Budget would generate a Target STI payout
- Financial goal achievement were measured at Threshold (80% of Target) and Maximum (130% of Target)
- Threshold Group ROCCE for the full financial year had to be achieved before any STI payments were awarded to the Group CEO and Group Executives
- The Group CEO and Group Executives continued to have 80% of their target STI based on Group ROCCE
- Regional Executives had 25% of the financial portion of their STI tied to Group ROCCE

Executives are eligible to participate in the Company's STI plan. The Committee believes that the STI plan is a key motivator to drive alignment with Company strategy and values, by rewarding for a mix of Company, business unit and individual contributions.

The table below summarises the key aspects of the STI plan.

|                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>What is the STI plan?</p>                 | <ul style="list-style-type: none"> <li>- Under the STI plan, eligible employees have an opportunity to earn an annual cash incentive based on the achievement of pre-defined financial (ROCCE) targets and individual goals over the financial year.</li> <li>- Company, business unit and individual goals are set on an annual basis, to align with achievement of the Company's financial, business, and strategic priorities.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <p>What is ROCCE and why is it used?</p>     | <ul style="list-style-type: none"> <li>- ROCCE is an acronym that means return on controlled capital employed and is calculated as profit divided by funds deployed: <ul style="list-style-type: none"> <li>o Profit in the numerator refers to earnings before interest and taxes which the Committee believes represents ordinary earnings within the influence of management.</li> <li>o Controlled capital employed (CCE) in the denominator is total funds used by management in the business and represents the average balances of CCE (net assets adjusted for cash, external borrowings, taxes and intercompany balances) throughout the financial year to generate ordinary earnings.</li> <li>o ROCCE rewards investment decisions that deliver higher returns (efficient use of capital) rather than just increased profits.</li> </ul> </li> <li>- Debt capital cannot be used by management to manipulate higher net asset returns since debt is not subtracted in determining the funds employed in the denominator.</li> <li>- For these reasons ROCCE is selected as the most appropriate measure of management's success in delivering shareholder value.</li> <li>- ROCCE is subject to adjustments as approved at the Committee's discretion.</li> </ul> |
| <p>What is the range of STI opportunity?</p> | <ul style="list-style-type: none"> <li>- The STI is determined by reference to three performance hurdles: <ul style="list-style-type: none"> <li>o Threshold</li> <li>o Target</li> <li>o Maximum</li> </ul> </li> <li>- For FY16, the threshold was determined by reference to 80% of target. At threshold, a portion of target STI is paid depending on an individual's position and this increases in a linear fashion to 100% at target. STI payments as they relate to individual performance goals cannot be paid unless the ROCCE threshold performance is reached.</li> <li>- The STI target opportunity is 115% of fixed remuneration for the Group CEO, and ranges from 75% to 100% of fixed remuneration for Executives.</li> <li>- The actual STI award can range from a minimum of nil to a maximum of 200% of the target opportunity for all Executives depending upon performance achieved against pre-defined goals.</li> </ul>                                                                                                                                                                                                                                                                                                                              |
| <p>What is the financial gateway?</p>        | <ul style="list-style-type: none"> <li>- In FY14, a financial gateway was introduced into the STI plan. This means that a financial threshold must be achieved before any STI payment is made: <ul style="list-style-type: none"> <li>o For the Group CEO and Group Executives, the financial gateway is threshold Group ROCCE (for the full financial year), which must be achieved before any of the payment is awarded.</li> <li>o For Regional Executives, the Group ROCCE threshold must be achieved before any of the Group financial component is awarded. The business unit ROCCE threshold must be achieved before any payment can be made against the business unit ROCCE or individual goals.</li> </ul> </li> <li>- A financial gateway creates stronger alignment between STI payments and Company financial performance.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                            |

| <p>What is the weighting between Group, business unit and individual performance goals?</p> | <ul style="list-style-type: none"> <li>- Once the financial gateway is achieved, the STI plan rewards eligible employees for both financial and individual goals. The below table shows the weight attributable to each STI measure.</li> </ul> <table border="1" data-bbox="488 239 1354 569"> <thead> <tr> <th rowspan="2">Position</th> <th colspan="2">Financial measures</th> <th rowspan="2">Individual goals <i>(subject to ROCCE threshold)</i></th> </tr> <tr> <th>Group ROCCE</th> <th>Business unit ROCCE</th> </tr> </thead> <tbody> <tr> <td>Group CEO</td> <td>80%</td> <td>N/A</td> <td>20%</td> </tr> <tr> <td>Group Executives</td> <td>80%</td> <td>N/A</td> <td>20%</td> </tr> <tr> <td>Regional Executives</td> <td>20%</td> <td>60%</td> <td>20%</td> </tr> </tbody> </table>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Position            | Financial measures                                   |                                                                 | Individual goals <i>(subject to ROCCE threshold)</i>                                                                                                                                                                                                                   | Group ROCCE | Business unit ROCCE                                                                              | Group CEO          | 80%                                                                                                                                       | N/A               | 20%                                                                                                                                                                                                                                                       | Group Executives | 80% | N/A | 20% | Regional Executives | 20% | 60% | 20% |
|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------------------------------------------------|-----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--------------------------------------------------------------------------------------------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----|-----|-----|---------------------|-----|-----|-----|
| Position                                                                                    | Financial measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                     | Individual goals <i>(subject to ROCCE threshold)</i> |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |
|                                                                                             | Group ROCCE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Business unit ROCCE |                                                      |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |
| Group CEO                                                                                   | 80%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | N/A                 | 20%                                                  |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |
| Group Executives                                                                            | 80%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | N/A                 | 20%                                                  |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |
| Regional Executives                                                                         | 20%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 60%                 | 20%                                                  |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |
| <p>What are the Group and business unit measures and why were they chosen?</p>              | <ul style="list-style-type: none"> <li>- The Group CEO and Group Executives have 80% of their STI dependent upon Group ROCCE.</li> <li>- The Regional Executives have 75% of the financial portion of their STI (or 60% of their total STI target) based on business unit ROCCE, creating strong line of sight to the level of ROCCE that they can influence. The remaining 25% of the financial portion of their STI (or 20% of their total STI target) is based on Group ROCCE to encourage collaboration at the Group level and a focus on Group results.</li> <li>- ROCCE was chosen to represent 80% of the STI measures because it is the Company's key financial measure. See above for further information on ROCCE.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                     |                                                      |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |
| <p>What are the individual goals and why were they chosen?</p>                              | <ul style="list-style-type: none"> <li>- Individual non-financial goals are set in several key performance areas focusing on individual initiatives that are critical to the overall success of the Company and the execution of the Company's 5 year strategic plan.</li> <li>- For the Group CEO, the Committee established for FY16 a matrix of approximately 10 specific criteria summarised into such categories as, safety (reduction in Long-Term Injury Frequency Rate and recordable injuries), sustainability, compliance, HR and people development (talent management and driving a diverse and inclusive culture) and strategic objectives.</li> <li>- For the other Executives, the individual goals may include:</li> </ul> <table border="1" data-bbox="488 1241 1360 1772"> <thead> <tr> <th>Individual goals</th> <th>Description</th> </tr> </thead> <tbody> <tr> <td>Safety, Health, Environment, Community &amp; Sustainability (SHECS)</td> <td> <ul style="list-style-type: none"> <li>• Reduction in critical safety incident metrics (i.e. Long-Term Injury Frequency Rate and Medically-Treated Injury Frequency Rate) and environmental incidents</li> <li>• Increase in community involvement activity</li> </ul> </td> </tr> <tr> <td>Compliance</td> <td> <ul style="list-style-type: none"> <li>• Ensure a strong internal control environment</li> </ul> </td> </tr> <tr> <td>Strategic measures</td> <td> <ul style="list-style-type: none"> <li>• Achievement of critical initiatives in support of the Company's 5 year strategic plan</li> </ul> </td> </tr> <tr> <td>Talent management</td> <td> <ul style="list-style-type: none"> <li>• Include measures such as succession planning (eg identifying 1-3 year succession candidates) and management development (eg addressing talent gaps identified during the succession planning process)</li> </ul> </td> </tr> </tbody> </table> | Individual goals    | Description                                          | Safety, Health, Environment, Community & Sustainability (SHECS) | <ul style="list-style-type: none"> <li>• Reduction in critical safety incident metrics (i.e. Long-Term Injury Frequency Rate and Medically-Treated Injury Frequency Rate) and environmental incidents</li> <li>• Increase in community involvement activity</li> </ul> | Compliance  | <ul style="list-style-type: none"> <li>• Ensure a strong internal control environment</li> </ul> | Strategic measures | <ul style="list-style-type: none"> <li>• Achievement of critical initiatives in support of the Company's 5 year strategic plan</li> </ul> | Talent management | <ul style="list-style-type: none"> <li>• Include measures such as succession planning (eg identifying 1-3 year succession candidates) and management development (eg addressing talent gaps identified during the succession planning process)</li> </ul> |                  |     |     |     |                     |     |     |     |
| Individual goals                                                                            | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                     |                                                      |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |
| Safety, Health, Environment, Community & Sustainability (SHECS)                             | <ul style="list-style-type: none"> <li>• Reduction in critical safety incident metrics (i.e. Long-Term Injury Frequency Rate and Medically-Treated Injury Frequency Rate) and environmental incidents</li> <li>• Increase in community involvement activity</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                     |                                                      |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |
| Compliance                                                                                  | <ul style="list-style-type: none"> <li>• Ensure a strong internal control environment</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                     |                                                      |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |
| Strategic measures                                                                          | <ul style="list-style-type: none"> <li>• Achievement of critical initiatives in support of the Company's 5 year strategic plan</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                                                      |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |
| Talent management                                                                           | <ul style="list-style-type: none"> <li>• Include measures such as succession planning (eg identifying 1-3 year succession candidates) and management development (eg addressing talent gaps identified during the succession planning process)</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                                                      |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |
| <p>Why aren't the specific performance targets disclosed?</p>                               | <p>The Committee understands the desire for greater transparency of specific targets. However, given the Company's size and position in the industry, the Company believes disclosing precise financial / individual goals would put it at a competitive disadvantage due to commercial sensitivity.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                     |                                                      |                                                                 |                                                                                                                                                                                                                                                                        |             |                                                                                                  |                    |                                                                                                                                           |                   |                                                                                                                                                                                                                                                           |                  |     |     |     |                     |     |     |     |

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|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| How are the performance measures determined? | <ul style="list-style-type: none"> <li>- The financial performance hurdles are determined by referencing the Company's current year budget and cost of capital in consideration of the current economic cycle.</li> <li>- The individual goals are determined taking into consideration the areas of specific focus by the Group CEO and Executives to support delivery of the Company's 5 year strategic plan.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| How is performance assessed?                 | <p><b>Assessing Company performance:</b></p> <ul style="list-style-type: none"> <li>- First, the financial gateway of Group ROCCE / business unit ROCCE is assessed. If the financial gateway is not met, there are no payments made under the STI plan.</li> <li>- Second, if the financial gateway is met, payment is then determined by reference to ROCCE and individual goals. Once the threshold performance hurdle is met, awards against the ROCCE targets are linear in calculation until the maximum performance hurdle is reached.</li> <li>- Actual performance against the financial targets is set out in Section 3.4.3</li> </ul> <p><b>Assessing individual performance:</b></p> <ul style="list-style-type: none"> <li>- An individual's performance is rated on a scale of 0 to 4. Participants must receive a weighted average rating of at least 2.0 (meets expectations) in order to receive target payment based on the individual performance component. A rating below 1.75 results in no award with regard to the individual performance component.</li> <li>- The Group CEO's performance is assessed by the Committee and a recommended payment is approved by the Board. Each Executive's performance is assessed by the Group CEO, and recommended payments are considered and, if appropriate, approved by the Committee.</li> </ul> |
| Does the Board have discretion?              | <ul style="list-style-type: none"> <li>- The Board maintains full discretion over the level of any STI awards paid to the Group CEO and Executives.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| How is the STI delivered?                    | <ul style="list-style-type: none"> <li>- The STI is delivered as cash. Any payments are made in September following the finalisation of the Company's audited financial results.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Why is there no STI deferral and clawback?   | <ul style="list-style-type: none"> <li>- The Committee considered the introduction of STI deferral for the Group CEO and Executives. Following another review and given that the Group CEO and Executives have a meaningful weighting on the LTI in their FY16 remuneration mix (ranging from 36% to 56%), the Committee concluded that it was not necessary at this time to introduce STI deferral for shareholder alignment or retention purposes.</li> <li>- The Company currently does not have a policy that allows for the clawback of STI payments. The Committee recognises that the clawback of STI payments may be appropriate in certain circumstances and the Company may consider introducing a clawback policy in the future.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| What are the termination provisions?         | <ul style="list-style-type: none"> <li>- A voluntary termination prior to the last calendar day of the financial year will result in no STI being paid for the year unless the Committee determines otherwise. Upon a qualifying cessation (i.e. generally, termination due to death, permanent disability, redundancy, or in other circumstances determined at the discretion of the Board), STI performance for the relevant period will be assessed and paid. See Section 5 for further information on the Group CEO's entitlement to any STI on termination.</li> <li>- No STI payments will be made in the case of termination for cause.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

### 3.4.2 LTI Plan

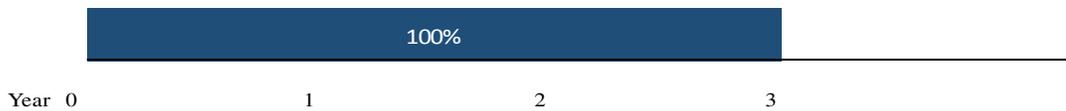
The LTI plan seeks to be competitive across the Company’s key geographical areas, being the USA, UK and Australia. Accordingly, a portion of an annual grant under the LTI plan is based on rights subject to relative TSR and ROIC, and a portion is based on options which an Executive would only be expected to exercise, and realise the rewards of, if there has been absolute share price growth.

The Company believes that the LTI plan is one of the more rigorous in the market because Executives only receive full LTI vesting if there has been earnings growth, absolute share price growth, and superior relative total shareholder returns. Both rights and options are also subject to continued service.

The diagram below outlines the key characteristics of the annual grant under the FY16 LTI plan:

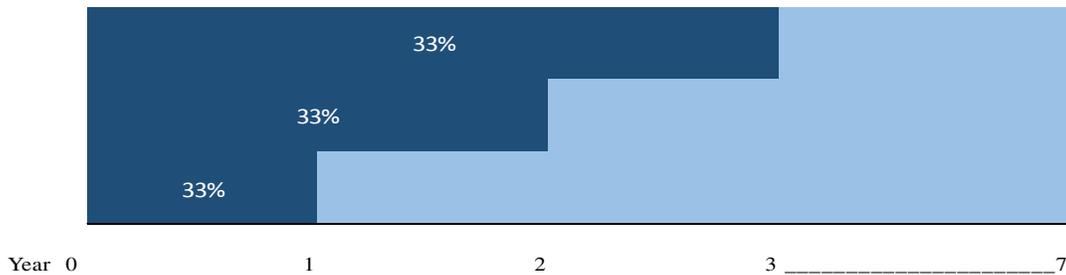
#### Performance rights

- Constitutes 80% of the Group CEO LTI award and 67% of the Executive LTI award
- 50% subject to relative TSR, 50% subject to ROIC. All rights are based on continued service



#### Options

- Constitutes 20% of the Group CEO LTI award and 33% of the Executive LTI award
- 100% based on absolute share price growth and continued service



 Vesting period. Note that the options vest on the last business day of August at the end of the relevant vesting period

 Exercise period

Further detail on the annual grants under the FY16 LTI plan is outlined in the table below:

| <p>What is the purpose of the LTI plan?</p>              | <ul style="list-style-type: none"> <li>- The LTI plan incentivises Executives to achieve earnings, share price and relative total shareholder return targets over a 1-3 year period (80% of the Group CEO's grant and 2/3 of the other Executives' grants are not eligible for vesting until the third year). Executive rewards under the LTI plan are aligned with the shareholder experience as the ultimate reward an Executive receives is dependent upon the Company's share price.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |            |             |                    |                                                                                                                                                                                                                                                |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                 |                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------------|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>What is the frequency and timing of the awards?</p>   | <ul style="list-style-type: none"> <li>- The Company's shareholders approved an LTI award for the Group CEO at the Company's 2015 Annual General Meeting (AGM). In conjunction with the AGM, the Committee approved and granted LTI awards for the Executives.</li> <li>- Awards are typically made on an annual basis.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |            |             |                    |                                                                                                                                                                                                                                                |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                 |                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p>What is ROIC and why is it used under the LTI?</p>    | <ul style="list-style-type: none"> <li>- ROIC is an acronym which means return on invested capital and is calculated as profit divided by invested capital.</li> <li>- ROIC includes all operating cost and investment in the business; it balances the cyclical nature of commodity prices and the investments required to support working capital. It is subject to adjustments as approved at the Committee's discretion.</li> <li>- ROIC aligns the Company's long-term goals with the interests of shareholders.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |            |             |                    |                                                                                                                                                                                                                                                |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                 |                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p>What instruments are offered under the LTI plan?</p>  | <p>The table below provides further information on the three equity instruments:</p> <table border="1" data-bbox="380 793 1396 1518"> <thead> <tr> <th data-bbox="380 793 553 884">Instrument</th> <th data-bbox="553 793 1396 884">Description</th> </tr> </thead> <tbody> <tr> <td data-bbox="380 884 553 993">Performance rights</td> <td data-bbox="553 884 1396 993"> <ul style="list-style-type: none"> <li>- A performance right is a contractual right to acquire an ordinary share for nil consideration if specified performance conditions are met. All the Executives received performance rights.</li> </ul> </td> </tr> <tr> <td data-bbox="380 993 553 1304">Options</td> <td data-bbox="553 993 1396 1304"> <ul style="list-style-type: none"> <li>- An option is a contract that gives the holder the right, but not the obligation, to acquire an ordinary share at a fixed price over a specified period of time. In respect of option grants prior to FY14, USA participants have their options settled in American Depositary Shares (ADSs) unless otherwise determined by the Board.</li> <li>- Options reward Executives for absolute share price performance because the options only have value if the Company's share price exceeds the exercise price at the end of the vesting period. All the Executives received options as part of the annual grant cycle.</li> </ul> </td> </tr> <tr> <td data-bbox="380 1304 553 1518">Phantom options</td> <td data-bbox="553 1304 1396 1518"> <ul style="list-style-type: none"> <li>- Phantom options operate in the same manner as options; however, they are cash-settled rather than equity-settled. Accordingly, rather than receiving an ordinary share in the Company upon exercise, the Executive receives the equivalent value in cash.</li> <li>- Phantom options were discontinued under the LTI plan commencing in FY16</li> </ul> </td> </tr> </tbody> </table> | Instrument | Description | Performance rights | <ul style="list-style-type: none"> <li>- A performance right is a contractual right to acquire an ordinary share for nil consideration if specified performance conditions are met. All the Executives received performance rights.</li> </ul> | Options | <ul style="list-style-type: none"> <li>- An option is a contract that gives the holder the right, but not the obligation, to acquire an ordinary share at a fixed price over a specified period of time. In respect of option grants prior to FY14, USA participants have their options settled in American Depositary Shares (ADSs) unless otherwise determined by the Board.</li> <li>- Options reward Executives for absolute share price performance because the options only have value if the Company's share price exceeds the exercise price at the end of the vesting period. All the Executives received options as part of the annual grant cycle.</li> </ul> | Phantom options | <ul style="list-style-type: none"> <li>- Phantom options operate in the same manner as options; however, they are cash-settled rather than equity-settled. Accordingly, rather than receiving an ordinary share in the Company upon exercise, the Executive receives the equivalent value in cash.</li> <li>- Phantom options were discontinued under the LTI plan commencing in FY16</li> </ul> |
| Instrument                                               | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |             |                    |                                                                                                                                                                                                                                                |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                 |                                                                                                                                                                                                                                                                                                                                                                                                  |
| Performance rights                                       | <ul style="list-style-type: none"> <li>- A performance right is a contractual right to acquire an ordinary share for nil consideration if specified performance conditions are met. All the Executives received performance rights.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |            |             |                    |                                                                                                                                                                                                                                                |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                 |                                                                                                                                                                                                                                                                                                                                                                                                  |
| Options                                                  | <ul style="list-style-type: none"> <li>- An option is a contract that gives the holder the right, but not the obligation, to acquire an ordinary share at a fixed price over a specified period of time. In respect of option grants prior to FY14, USA participants have their options settled in American Depositary Shares (ADSs) unless otherwise determined by the Board.</li> <li>- Options reward Executives for absolute share price performance because the options only have value if the Company's share price exceeds the exercise price at the end of the vesting period. All the Executives received options as part of the annual grant cycle.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |            |             |                    |                                                                                                                                                                                                                                                |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                 |                                                                                                                                                                                                                                                                                                                                                                                                  |
| Phantom options                                          | <ul style="list-style-type: none"> <li>- Phantom options operate in the same manner as options; however, they are cash-settled rather than equity-settled. Accordingly, rather than receiving an ordinary share in the Company upon exercise, the Executive receives the equivalent value in cash.</li> <li>- Phantom options were discontinued under the LTI plan commencing in FY16</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |            |             |                    |                                                                                                                                                                                                                                                |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                 |                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p>Why are options included as part of the LTI plan?</p> | <ul style="list-style-type: none"> <li>- Options are a small component of the LTI award, representing 20% of the LTI opportunity for the Group CEO and 33% of the LTI opportunity for the Executives.</li> <li>- Options are included in the LTI plan because it is critical that the Company, in light of the geographic spread of its operations and talent pool, has a globally competitive remuneration framework. While the grant of rights subject to relative TSR and ROIC reflects Australian competitive market practice, the grant of options subject to vesting over a 1-3 year period reflects competitive USA market practice. If options were not included as part of the LTI plan, there is a risk that the Company would not be able to attract quality talent in the USA, its largest operating jurisdiction.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |            |             |                    |                                                                                                                                                                                                                                                |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                 |                                                                                                                                                                                                                                                                                                                                                                                                  |

| <p>What is the target and maximum LTI opportunity?</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 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style="list-style-type: none"> <li>- The target LTI opportunity is 275% of fixed remuneration for the Group CEO and ranges between 100% and 150% of fixed remuneration for Executives.</li> <li>- The maximum LTI opportunity is dependent on the number of rights that vest, the number of options that are exercised, and the Company's share price at the vesting/exercise date.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           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| <p>How are the number of LTI awards determined?</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <ul style="list-style-type: none"> <li>- The number of rights and options granted is determined based on the fair value of the rights and options on the date of approval by the Committee. The fair value of rights is calculated by Mercer for the Committee using a Black-Scholes, Binomial or Monte Carlo simulation option pricing model as appropriate.</li> <li>- The Company uses a discounted fair value approach in determining the size of LTI grants to be consistent with the grant date fair value used for expensing and to reflect the degree of difficulty in goal achievement. This method also considers the approach used by Mercer in obtaining competitive data from the Company's Australian remuneration peer group companies, where Mercer applied discounts to peer company target LTI values to reflect the risk of forfeiture from performing below levels required to receive full target payouts.</li> <li>- As a result of the discounts, market LTIs for the Australian peer companies that are reviewed by the Committee are reported at much lower than target levels. The comparable adjustment for the Company is determined at grant using the fair value approach to determining the number of target shares based on the target dollar value.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   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| <p>What are the performance measures and why were they chosen?</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <table border="1" data-bbox="375 810 1408 1963"> <thead> <tr> <th data-bbox="375 810 1122 888">Performance measure</th> <th data-bbox="1122 810 1408 888">Rationale and comments</th> </tr> </thead> <tbody> <tr> <td data-bbox="375 888 1122 1963"> <p><i>Relative TSR (50% of performance rights based on value)</i></p> <ul style="list-style-type: none"> <li>- TSR performance is measured over a three-year period. 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| 50 <sup>th</sup> percentile to 75 <sup>th</sup> percentile                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             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| 75 <sup>th</sup> percentile or higher                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  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                                                                                                                         |

*ROIC (50% of performance rights based on value)*

- ROIC performance is measured in the final year of the three-year period. For grants made in FY16 this is the year from 1 July 2015 through to 30 June 2018.
- ROIC of the Company for FY18 will be determined by taking the Profit of the Company for FY18 and dividing it by the Invested Capital.

The vesting schedule is:

| ROIC of the Company for FY18 | Proportion of ROIC grant vesting            |
|------------------------------|---------------------------------------------|
| Less than 8.0%               | 0%                                          |
| 8.0% (Threshold)             | 50%                                         |
| Between 8.0% and 10%         | Straight-line vesting between 50% and 100%  |
| 10.0% (Target)               | 100%                                        |
| Between 10% and 12.0%        | Straight-line vesting between 100% and 200% |
| 12.0% (Maximum)              | 200%                                        |

*EPS (50% of performance rights based on value)*

- EPS performance is measured over a three-year period based on statutory EPS. No grants made in FY16 were measured on EPS.
- FY14 and FY15 performance rights grants both utilized an earnings per share component. FY16 performance rights incorporated a ROIC performance hurdle, which replaced the EPS performance hurdle.
- The vesting schedule for the FY15 EPS performance rights is:

| Cumulative EPS growth | Proportion of EPS grant vesting |
|-----------------------|---------------------------------|
| Less than \$1.70      | 0%                              |
| \$1.70                | 50%                             |
| \$1.70 to \$2.00      | Pro-rata straight line          |
| \$2.00 or higher      | 100%                            |

- The ROIC performance hurdle was introduced into the LTI plan with the FY16 grant.
- The ROIC performance hurdle was chosen by the Board as it assesses the success of the business in generating an ROIC consistent with the Company's five-year strategic plan and significantly ahead of the Company's performance in the four financial years prior to its introduction.

- EPS was chosen as a performance hurdle for FY14 and FY15 grants because it is consistent with the Committee's goal of aligning management incentives with a reasonable level of net income for shareholders.
- The EPS performance hurdle rates were determined by the Committee to represent earnings over a 3 year vesting schedule that would be rigorous in prevailing economic conditions.

|                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                         | <p><i>Absolute share price growth (100% of options)</i></p> <ul style="list-style-type: none"> <li>- Options have an inherent absolute share price growth hurdle, being the exercise price. This is because the Company’s share price must increase and exceed the exercise price at the end of the vesting period for the options to deliver value to participants.</li> <li>- The exercise price of options is set at grant, and is equal to the average closing share price for the five days preceding the grant date<sup>1</sup>.</li> <li>- The options vest in three equal instalments over a three-year period. Specifically, for grants made in FY16, each instalment vests on the last business day of August, as follows: <ul style="list-style-type: none"> <li>o One-third in 2016,</li> <li>o One-third in 2017, and</li> <li>o One-third in 2018.</li> </ul> </li> <li>- Options expire seven years after the date of grant.</li> </ul> | <ul style="list-style-type: none"> <li>- Options reward absolute growth in shareholder wealth.</li> <li>- The use of options is common market practice in the USA, where the Company competes for much of its talent and business.</li> <li>- The tiered vesting schedule over 1-3 years reflects common market practice in the USA.</li> </ul> |
| <p>Do participants receive dividends?</p>               | <ul style="list-style-type: none"> <li>- 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).</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                 |
| <p>Treatment of awards on termination of employment</p> | <ul style="list-style-type: none"> <li>- As all instruments are subject to a continuous service provision, where a participant resigns, or is terminated for cause, his or her awards are forfeited.</li> <li>- 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.</li> <li>- Any unvested rights held by an eligible terminated participant will be tested at the end of the relevant performance period. Any unvested awards will lapse at the end of the relevant performance period. In respect of the Group CEO’s entitlement to any continual vesting under the LTI plan on termination, see further Section 5.</li> </ul>                       |                                                                                                                                                                                                                                                                                                                                                 |
| <p>How are awards treated on a change of control</p>    | <ul style="list-style-type: none"> <li>- 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.</li> <li>- 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.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                 |

<sup>1</sup> For USA based Executives, option awards are not Incentive Stock Options for the purpose of Section 422 of the United States Internal Revenue Code.

### 3.4.3 Link between ‘at-risk’ remuneration and Company performance

Outlined below is the Company’s performance against key metrics over the past five financial years. The amounts below include both continuing and discontinued operations.

|                                              | Financial Year    |       |                   |                   |                   |
|----------------------------------------------|-------------------|-------|-------------------|-------------------|-------------------|
|                                              | 2016 <sup>1</sup> | 2015  | 2014 <sup>1</sup> | 2013 <sup>1</sup> | 2012 <sup>1</sup> |
| (Loss)/Profit Before Interest and Tax (A\$m) | (215.5)           | 145.5 | (27.6)            | (470.4)           | (624.0)           |
| Diluted (loss)/earnings per share (cents)    | (106.8)           | 53.3  | (43.5)            | (228.6)           | (302.7)           |
| Return on Shareholders’ Equity               | (11.8%)           | 5.2%  | (4.9%)            | (24.2%)           | (27.3%)           |
| Total dividends per share (cents)            | 22.0              | 29.0  | 10.0              | 0.0               | 20.0              |
| Share price at 30 June A\$                   | 7.82              | 10.42 | 9.68              | 8.26              | 9.61              |

<sup>1</sup> FY16, FY14, FY13 and FY12 reflect goodwill and other intangible impairment charges of A\$53.0 million, A\$28.5 million, A\$304.4 million and A\$675.6 million respectively. There were no intangible impairment charges in FY15.

#### Linkage of STI outcomes to Company performance

The Group CEO and Group Executives have 80% of their total STI target based on Group ROCCE, being Profit Before Interest and Tax (PBIT) divided by Average Controlled Capital Employed. The Regional Executives have 75% of the financial portion of their STI (60% of their total STI target) based on business unit ROCCE; the remaining 25% of the financial portion of their STI (20% of their total STI target) was based on Group ROCCE. The remaining percentage of the STI for the Group CEO and Executives is based on individual performance goals (with a Target ROCCE required to be achieved before any payments are made).

The table below outlines FY16 Group and business unit performance against the STI ROCCE targets. Below threshold performance as indicated resulted in no payout for the Executives.

| Group / business unit        | G Claro | F Knechtel | W Schmiedel | A Field | S Skurnac | Financial performance |
|------------------------------|---------|------------|-------------|---------|-----------|-----------------------|
| Group                        | ✓       | ✓          | ✓           | ✓       | ✓         | Below threshold       |
| Global SRS                   |         |            |             |         | ✓         | Below threshold       |
| Australia/New Zealand Metals |         |            |             | ✓       |           | Below threshold       |

The table below outlines the proportion of the target STI that was earned and forfeited. No portion of target STI was earned by the Executives for FY16.

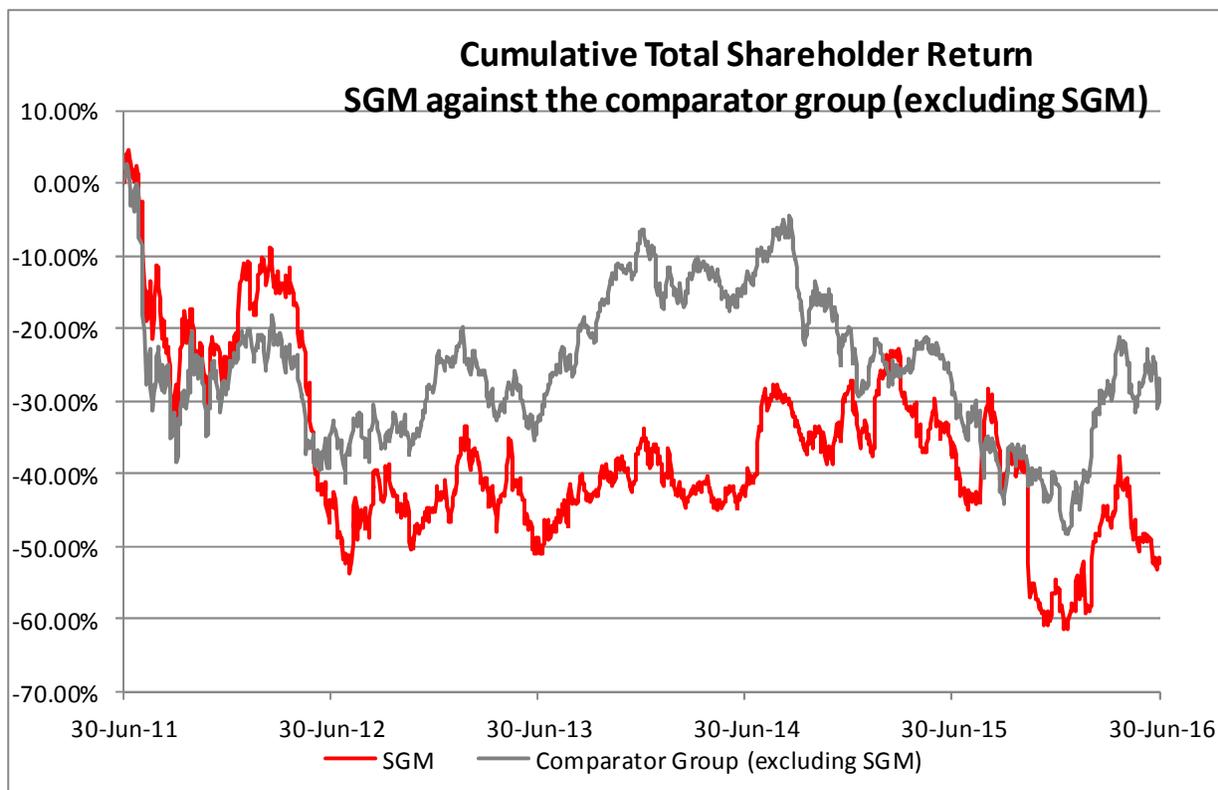
| Name        | Target STI opportunity (% fixed remuneration) | Proportion of target STI earned during FY16 | Proportion of target STI forfeited during FY16 |
|-------------|-----------------------------------------------|---------------------------------------------|------------------------------------------------|
| G Claro     | 115%                                          | 0%                                          | 100%                                           |
| F Knechtel  | 100%                                          | 0%                                          | 100%                                           |
| W Schmiedel | 100%                                          | 0%                                          | 100%                                           |
| A Field     | 75%                                           | 0%                                          | 100%                                           |
| S Skurnac   | 75%                                           | 0%                                          | 100%                                           |

### Linkage of LTI outcomes to Company performance

The value of the annual awards granted to Executives under the LTI plan for FY16 is based on, in respect of performance rights, relative TSR or ROIC and, in respect of options, absolute share price growth.

#### *Relative TSR (performance hurdle for 50% of the rights based on value)*

The TSR graph below compares the Company's (ASX: SGM) TSR against the peer group (as referenced above) for the five-year period ending 30 June 2016. TSR is the return to shareholders provided by share price appreciation plus dividends (which are assumed to be reinvested in the Company's shares), expressed as a percentage of the share price at the beginning of the measurement period adjusted, where appropriate, for bonus issues, capital consolidation or equivalents.



The table below outlines the status of the LTI grants that were outstanding as of 30 June 2016:

| TSR Grant     |                                                                                                                                                                      | Status |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| FY12          | 68.75% of the total grant vested on 21 August 2015; 17.12% additional shares will vest on 25 August 2016 and unvested performance rights remaining will be forfeited |        |
| FY13          | 54.79% of the total grant will vest on 31 August 2016                                                                                                                |        |
| FY14          | 100% of the total grant will be forfeited on 31 August 2016                                                                                                          |        |
| FY15 and FY16 | Not yet eligible for testing                                                                                                                                         |        |
| EPS Grant     |                                                                                                                                                                      | Status |
| FY14          | 100% of the total grant will be forfeited on 31 August 2016                                                                                                          |        |
| FY15          | Not yet eligible for testing                                                                                                                                         |        |
| ROIC Grant    |                                                                                                                                                                      | Status |
| FY16          | Not yet eligible for testing                                                                                                                                         |        |

***Absolute share price growth (performance hurdle for 100% of the options and phantom options)***

Using options as a small part of the LTI grant is aligned to Company performance as it focuses Executives on absolute share price growth. This is because Executives only receive rewards from the options if the Company's share price increases above the option exercise price. Options create the strongest alignment to the shareholder experience because Executives only receive rewards if shareholders have similarly benefited.

#### 4 EXECUTIVE STATUTORY REMUNERATION DISCLOSURES

##### 4.1 Executive remuneration disclosures

Certain Executives (as disclosed below) are not residents of Australia. Their respective remuneration paid in foreign currency has been converted to Australian dollars at an average exchange rate over the year.

| (A\$)                                                              | Location  | Financial Year | Short-term benefits      |                         | Post-employment benefits    |                            | Other long-term benefits <sup>4</sup> | Termination Benefits | Share-based payments <sup>5</sup> | Total      |
|--------------------------------------------------------------------|-----------|----------------|--------------------------|-------------------------|-----------------------------|----------------------------|---------------------------------------|----------------------|-----------------------------------|------------|
|                                                                    |           |                | Cash salary <sup>1</sup> | Cash bonus <sup>2</sup> | Other benefits <sup>3</sup> | Pension and superannuation |                                       |                      |                                   |            |
| <b>Executives (including the Executive Director and Group CEO)</b> |           |                |                          |                         |                             |                            |                                       |                      |                                   |            |
| G Claro <sup>6</sup>                                               | USA       | 2016           | 1,687,729                | -                       | 20,229                      | 57,338                     | 6,865                                 | -                    | 1,131,924                         | 2,904,085  |
|                                                                    |           | 2015           | 1,193,040                | 1,108,895               | 240,383                     | 67,836                     | 5,965                                 | -                    | 1,516,153                         | 4,132,272  |
| F Knechtel <sup>6,7</sup>                                          | USA       | 2016           | 1,075,575                | -                       | 499                         | 47,126                     | 6,865                                 | -                    | 763,873                           | 1,893,938  |
|                                                                    |           | 2015           | 569,672                  | 693,524                 | 41,997                      | 49,962                     | -                                     | -                    | 757,289                           | 2,112,444  |
| W Schmiedel <sup>6</sup>                                           | USA       | 2016           | 1,159,561                | -                       | -4,707                      | 54,982                     | 6,865                                 | -                    | 911,188                           | 2,127,889  |
|                                                                    |           | 2015           | 944,894                  | 794,573                 | 21,946                      | 45,775                     | 5,965                                 | -                    | 523,563                           | 2,336,716  |
| A Field <sup>7</sup>                                               | Australia | 2016           | 573,750                  | 250,000                 | 43,893                      | 26,250                     | 9,532                                 | -                    | 316,143                           | 1,219,568  |
| S Skurnac <sup>6</sup>                                             | USA       | 2016           | 775,093                  | -                       | 289,708                     | 44,359                     | 6,865                                 | -                    | 308,672                           | 1,424,697  |
|                                                                    |           | 2015           | 610,833                  | 825,379                 | 305,505                     | 48,297                     | 5,965                                 | -                    | 344,676                           | 2,140,655  |
| <b>Former Executives</b>                                           |           |                |                          |                         |                             |                            |                                       |                      |                                   |            |
| D McGree                                                           | Australia | 2015           | 753,568                  | 94,711                  | 3,295                       | 25,000                     | 410,333                               | 778,568              | 1,139,617                         | 3,205,092  |
| <b>Total</b>                                                       |           | 2016           | 5,271,708                | 250,000                 | 349,622                     | 230,055                    | 36,992                                | -                    | 3,431,800                         | 9,570,177  |
|                                                                    |           | 2015           | 4,072,007                | 3,517,082               | 613,126                     | 236,870                    | 428,228                               | 778,568              | 4,281,298                         | 13,927,179 |

<sup>1</sup> Cash salary includes amounts sacrificed in lieu of other benefits at the discretion of the individual.

<sup>2</sup> Cash bonus amounts for FY16 and FY15 reflect the amounts accrued for all Executives under the FY16 and FY15 STI plans respectively. In accordance with Mr Knechtel's offer of employment, he received an US\$200,000 signing bonus in FY15. In accordance with Mr Field's offer of employment, he received an AUD\$250,000 signing bonus in FY16.

<sup>3</sup> Other short-term benefits include auto allowances, health and life insurance benefits, amounts accrued for annual leave during the period and personal security payments. For USA employees, it also includes a Paid Time Off policy which includes a carry-over feature of up to twice the annual entitlement.

<sup>4</sup> Other long-term benefits include amounts accrued for cash-based long-term incentive plans, long-service leave accrued (for Messrs McGree and Field) and deferred compensation plans (for Messrs Claro, Knechtel, Schmiedel and Skurnac)

<sup>5</sup> Share-based payments represent the accounting expense (as computed pursuant to AASB 2, 'Share-based Payments') recognised by the Company for share-based awards.

<sup>6</sup> Messrs Claro, Knechtel, Schmiedel and Skurnac received their cash payments in United States dollars; in addition, Mr Skurnac received his UK secondment payments in British pounds.

<sup>7</sup> Mr Field commenced employment 1 October 2015 and reflects remuneration for the period 1 October 2015 to 30 June 2016. Mr Knechtel commenced employment 28 October 2014 and his 2015 remuneration reflects remuneration for the period 28 October 2014 to 30 June 2015.

### ***Fixed and actual ‘at-risk’ remuneration for FY16***

Outlined below is the percentage of the Executives’ (including the Executive Director and Group CEO) FY16 remuneration that was fixed and ‘at-risk’ based upon the statutory remuneration table. The percentage of their remuneration that consisted of rights/RSUs and options is also disclosed.

|                   | <b>Fixed<br/>Remuneration<br/>%</b> | <b>‘At-Risk’<br/>Remuneration<br/>%</b> | <b>Remuneration<br/>consisting of<br/>rights/RSUs %</b> | <b>Remuneration<br/>consisting of<br/>options %</b> |
|-------------------|-------------------------------------|-----------------------------------------|---------------------------------------------------------|-----------------------------------------------------|
| <b>Executives</b> |                                     |                                         |                                                         |                                                     |
| G Claro           | 61%                                 | 39%                                     | 25%                                                     | 14%                                                 |
| F Knechtel        | 59%                                 | 41%                                     | 28%                                                     | 12%                                                 |
| W Schmiedel       | 57%                                 | 43%                                     | 31%                                                     | 11%                                                 |
| A Field           | 54%                                 | 46%                                     | 21%                                                     | 4%                                                  |
| S Skurnac         | 78%                                 | 22%                                     | 12%                                                     | 10%                                                 |

### **Guidelines for approval of Discretionary Awards**

The guidelines for approval authority limits for individual discretionary cash awards and aggregate discretionary cash and / or equity awards are:

- **Individual awards:** Any individual discretionary cash and / or equity award in excess of US\$250,000 must be presented to the Committee for approval.
- **Aggregate awards:** If the aggregate sum of the cash and / or equity award per occurrence is in excess of the Group CEO Discretionary Capital Expenditure authority (currently US\$1,000,000), then it must be presented to the Committee for approval.

All discretionary awards that are approved by the Group CEO are subsequently presented to the Committee for ratification.

### **Securities Trading Policy**

The trading of securities issued to participants pursuant to the LTI plan is subject to, and conditional upon, compliance with the terms of the Company’s policy titled *Dealings in Sims Metal Management Limited Securities* (a copy of which is available on the Company’s website at [www.simsmm.com](http://www.simsmm.com)).

Executives are prohibited from entering into any hedging arrangements over unvested awards under the LTI plan. The Company would consider a breach of the Securities Trading Policy as serious misconduct, which may lead to disciplinary action up to and including dismissal.

## 5 EXECUTIVE CONTRACTS

### 5.1 Executive Director and Group CEO

The key terms of Mr Claro's employment contract are:

| Commencement date | Contract duration                                                 | Notice period from the Company   | Notice period from the Executive | Termination provisions                                                                                                                                                                  |
|-------------------|-------------------------------------------------------------------|----------------------------------|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4 November 2013   | The executive signed an ongoing contract effective 22 August 2014 | 3 months prior notice in writing | 3 months prior notice in writing | Mr Claro's employment may be terminated immediately by the Company for cause, or by either party for convenience, or by Mr Claro for good reason, each term as defined in the contract. |

**Termination of employment:** If Mr Claro's employment is terminated by the Company for convenience on 3 months' written notice, then Mr Claro will be entitled to:

- (a) a Severance Payment (see below);
- (b) a pro-rata STI in respect of the performance year in which the termination occurs and based on the actual performance results of the Group for that year (Pro-Rata Bonus), unless the Board determines otherwise acting reasonably having regard to the performance of Mr Claro over the preceding years;
- (c) continued vesting of any equity awards under the LTI plan (subject to any performance hurdles) granted to him before termination (Continued Equity Award Vesting), unless the Board determines otherwise as above;
- (d) any accrued but unpaid remuneration, accrued but untaken holiday leave (subject to Company policy) and reimbursement for incurred expenses (Accrued Benefits); and
- (e) up to 12 months of Company paid health insurance premiums (Insurance).

If Mr Claro terminates his employment for good reason, then he will be entitled to the Severance Payment, Pro-Rata Bonus, Continued Equity Award Vesting, Accrued Benefits, and the Insurance.

If his employment is terminated on the death or permanent disablement of Mr Claro, or in other circumstances determined at the discretion of the Board, then Mr Claro (or his beneficiary or legal representative) will be entitled to the Pro-Rata Bonus, Continued Equity Award Vesting and, other than on death, the Insurance.

If his employment is terminated by the Company for Cause, or if Mr Claro terminates for convenience on 3 months' written notice, then Mr Claro is only entitled to the Accrued Benefits.

Generally, as approved by shareholders on 14 November 2013, a Severance Payment is equal to Mr Claro's final year's total fixed remuneration.

**Change of control:** A change of control, as defined in the contract, of the Company, may allow Mr Claro to terminate his employment for good reason.

## 5.2 Executives

The key terms of the Executives' employment contracts are:

| Name        | Contract duration                                                   | Notice period from the Company   | Notice period from the Executive | Termination provisions (other than for cause) and change of control provisions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-------------|---------------------------------------------------------------------|----------------------------------|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| F Knechtel  | - The executive signed an ongoing contract effective 22 August 2014 | 3 months prior notice in writing | 3 months prior notice in writing | <p><b>Termination:</b> The termination provisions contain similar benefits as illustrated above under the Group CEO's contract, including:</p> <ul style="list-style-type: none"> <li>- 12 months base salary</li> <li>- Pro-rata STI bonus payment based on terms of the STI Plan</li> <li>- LTI awards continue to vest (subject to any performance conditions) in accordance with their original vesting schedule</li> <li>- Up to 12 months of Company paid health insurance premiums</li> </ul> <p><b>Change of control:</b> The executive may be allowed to terminate his employment for good reason</p> |
| W Schmiedel | - The executive signed an ongoing contract effective 1 July 2014    | 3 months prior notice in writing | 3 months prior notice in writing | <p><b>Termination:</b> The termination provisions are the same as in Mr Knechtel's contract described above</p> <p><b>Change of control:</b> The executive may be allowed to terminate his employment for good reason</p>                                                                                                                                                                                                                                                                                                                                                                                      |
| A Field     | - The executive signed an ongoing contract effective 1 October 2015 | 3 months prior notice in writing | 3 months prior notice in writing | <p><b>Termination:</b> The termination provisions are the same as in Mr Knechtel's contract described above but do not include up to 12 months of Company paid health insurance premiums</p> <p><b>Change in control:</b> The executive may be allowed to terminate his employment for good reason</p>                                                                                                                                                                                                                                                                                                         |
| S Skurnac   | - The executive signed an ongoing contract effective 1 July 2014    | 3 months prior notice in writing | 3 months prior notice in writing | <p><b>Termination:</b> The termination provisions are the same as in Mr Knechtel's contract described above</p> <p><b>Change of control:</b> The executive may be allowed to terminate his employment for good reason</p>                                                                                                                                                                                                                                                                                                                                                                                      |

## 6 NON-EXECUTIVE DIRECTORS' FEES

### **Key development:**

Shareholder approval was given in FY16 to change the currency in which the maximum aggregate amount available for NEDs' Remuneration is denominated in any financial year from A\$3 million to the greater of A\$3 million and US\$3 million per annum.

#### 6.1 Approach to determining the fees of NEDs

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.

#### 6.2 NEDs' fees

At the Company's 2015 AGM, shareholders approved a change in the currency in which the maximum aggregate amount available for NED remuneration (including superannuation) is denominated in any financial year from A\$3 million to the greater of A\$3 million and US\$3 million per annum.

The Company will maintain its current policy of only paying NEDs who are US residents in US\$. With approximately 58% of the Company's revenue derived from operations in the US it is essential that the Company is able to attract and retain competent and experienced US based directors.

The NED fee pool was set at A\$3 million in November 2009. Since that time, the US\$:A\$ exchange rate has traded close to parity and often the A\$ has traded at a premium to the US\$. Thus, on a same currency basis, there has been little difference between the remuneration of each of the NEDs. However, the recent weakness of the A\$ against the US\$ throughout FY16 has resulted in an increase in the A\$ equivalent of the fees paid to the US based NEDs, even though there has been no change in the fees paid to them in their home currency of US\$.

The table below outlines NED fees for FY16 and FY15:

| <b>NED FEES (A\$)/(US\$)</b>                                                  | <b>2016</b> | <b>2015</b> |
|-------------------------------------------------------------------------------|-------------|-------------|
| Base fee (Chairperson)                                                        | 450,528     | 450,528     |
| Base fee (NED)                                                                | 203,424     | 203,424     |
| Chairperson Risk, Audit & Compliance Committee                                | 25,000      | 25,000      |
| Chairperson Safety, Health, Environment, Community & Sustainability Committee | 25,000      | 25,000      |
| Chairperson Remuneration Committee                                            | 25,000      | 25,000      |
| Chairperson Finance & Investment Committee                                    | 25,000      | 25,000      |
| Chairperson Nomination/Governance Committee                                   | 25,000      | 25,000      |
| Committee Membership                                                          | 8,000       | 8,000       |

NEDs also receive reimbursement for reasonable 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.

### 6.3 Superannuation; no retirement benefits

For Australian resident NEDs, superannuation is paid in addition to the above fees. The Company pays superannuation at 9.50% for each Australian resident NED. Superannuation is not paid in respect of overseas NEDs. NEDs do not receive any retirement benefits.

#### *Statutory NED remuneration disclosures*

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 average exchange rate for the financial year. Accordingly, exchange rate movements have influenced the disclosed fee level.

| Name                    | Location  | Financial Year | Short-term benefits | Post-employment benefits         | Total A\$ | Total US\$ |
|-------------------------|-----------|----------------|---------------------|----------------------------------|-----------|------------|
|                         |           |                | Cash Fees A\$       | Super-annuation <sup>1</sup> A\$ |           |            |
| R Bass <sup>2</sup>     | USA       | 2016           | 322,925             | -                                | 322,925   | 244,424    |
|                         |           | 2015           | 247,700             | -                                | 247,700   | 229,391    |
| N Bobins <sup>2,3</sup> | USA       | 2016           | -                   | -                                | -         | -          |
|                         |           | 2015           | 93,439              | -                                | 93,439    | 87,772     |
| G Brunson               | Australia | 2016           | 466,528             | 44,320                           | 510,848   | 372,040    |
|                         |           | 2015           | 460,661             | 43,763                           | 504,424   | 422,808    |
| J DiLacqua <sup>2</sup> | USA       | 2016           | 322,925             | -                                | 322,925   | 244,424    |
|                         |           | 2015           | 261,361             | -                                | 261,361   | 242,224    |
| G Morris <sup>2,3</sup> | USA       | 2016           | -                   | -                                | -         | -          |
|                         |           | 2015           | 105,196             | -                                | 105,196   | 98,816     |
| G Nelson <sup>2,4</sup> | USA       | 2016           | 289,759             | -                                | 289,759   | 219,424    |
|                         |           | 2015           | 153,368             | -                                | 153,368   | 138,522    |
| D O'Toole <sup>4</sup>  | Australia | 2016           | 221,091             | 21,004                           | 242,095   | 176,312    |
|                         |           | 2015           | 145,750             | 13,846                           | 159,596   | 133,773    |
| C Renwick               | Australia | 2016           | 244,424             | 23,220                           | 267,644   | 194,920    |
|                         |           | 2015           | 242,224             | 23,011                           | 265,235   | 222,320    |
| H Ridout                | Australia | 2016           | 235,424             | 22,365                           | 257,789   | 187,743    |
|                         |           | 2015           | 223,691             | 21,250                           | 244,941   | 205,310    |
| T Sato <sup>5</sup>     | Japan     | 2016           | 219,424             | -                                | 219,424   | 159,802    |
|                         |           | 2015           | 213,424             | -                                | 213,424   | 178,892    |
| J Thompson <sup>2</sup> | USA       | 2016           | 322,925             | -                                | 322,925   | 244,424    |
|                         |           | 2015           | 261,361             | -                                | 261,361   | 242,224    |
| Total                   |           | 2016           | 2,645,425           | 110,909                          | 2,756,334 | 2,043,513  |
|                         |           | 2015           | 2,408,175           | 101,870                          | 2,510,045 | 2,202,052  |

<sup>1</sup> Superannuation contributions are made on behalf of Australian resident NEDs to satisfy the Company's obligations under Australian Superannuation Guarantee legislation.

<sup>2</sup> Messrs Bass, Bobins, DiLacqua, Morris and Thompson and Ms Nelson are residents of the USA and receive their payments in US dollars.

<sup>3</sup> Messrs Bobins and Morris retired from the Board on 13 November 2014.

<sup>4</sup> Ms Nelson and Ms O'Toole were appointed to the Board on 1 November 2014 and elected to the Board at the 2014 AGM on 13 November 2014.

<sup>5</sup> Mr Sato is Mitsui's representative director. His NED fees are paid to a Mitsui affiliate in Australia.

## 7 SHARE-BASED PAYMENT DISCLOSURES AND EQUITY HOLDINGS

### 7.1 Options provided as Remuneration

The following table summarises the terms of outstanding option grants for the 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 <sup>1</sup> |
|------------------------------|------------|----------------|----------------|--------------------------|------------------------------------|-------------|-------------------------------|----------------------------------------------------|
| <b>Ordinary Shares (A\$)</b> |            |                |                |                          |                                    |             |                               |                                                    |
| G Claro                      | 15 Nov 13  | 138,714        | \$ 9.98        | \$ 2.77                  | 31 Aug 16                          | 15 Nov 20   | 66.7%                         | \$ 8,311                                           |
|                              | 14 Nov 14  | 172,866        | \$ 10.85       | \$ 2.61                  | 31 Aug 16                          | 14 Nov 21   | 33.3%                         | \$ 80,989                                          |
|                              | 13 Nov 15  | 343,650        | \$ 9.38        | \$ 1.14                  | 31 Aug 16                          | 13 Nov 22   | 0%                            | \$ 219,033                                         |
| F Knechtel                   | 14 Nov 14  | 131,528        | \$ 10.85       | \$ 2.61                  | 31 Aug 16                          | 14 Nov 21   | 33.3%                         | \$ 61,620                                          |
|                              | 13 Nov 15  | 196,022        | \$ 9.38        | \$ 1.14                  | 31 Aug 16                          | 13 Nov 22   | 0%                            | \$ 124,938                                         |
| W Schmiedel                  | 15 Nov 13  | 75,032         | \$ 9.98        | \$ 2.77                  | 31 Aug 16                          | 15 Nov 20   | 66.7%                         | \$ 4,496                                           |
|                              | 14 Nov 14  | 99,210         | \$ 10.85       | \$ 2.61                  | 31 Aug 16                          | 14 Nov 21   | 33.3%                         | \$ 46,480                                          |
|                              | 13 Nov 15  | 208,273        | \$ 9.38        | \$ 1.14                  | 31 Aug 16                          | 13 Nov 22   | 0%                            | \$ 132,747                                         |
| A Field                      | 13 Nov 15  | 109,537        | \$ 9.38        | \$ 1.14                  | 31 Aug 16                          | 13 Nov 22   | 0%                            | \$ 69,816                                          |
| S Skurnac                    | 15 Nov 13  | 54,768         | \$ 9.98        | \$ 2.77                  | 31 Aug 16                          | 15 Nov 20   | 66.7%                         | \$ 3,281                                           |
|                              | 14 Nov 14  | 64,136         | \$ 10.85       | \$ 2.61                  | 31 Aug 16                          | 14 Nov 21   | 33.3%                         | \$ 30,047                                          |
|                              | 13 Nov 15  | 93,927         | \$ 9.38        | \$ 1.14                  | 31 Aug 16                          | 13 Nov 22   | 0%                            | \$ 59,866                                          |

<sup>1</sup> 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.

The number of options over ordinary shares or 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        | Instrument that options are over | Balance at 1 July 2015 | Number Granted | Number Forfeited/Expired | Balance at 30 June 2016 | Vested  | Unvested | Number of options that vested during FY16 | Value of options granted during FY16 |
|-------------|----------------------------------|------------------------|----------------|--------------------------|-------------------------|---------|----------|-------------------------------------------|--------------------------------------|
| G Claro     | Ordinary shares                  | 311,580                | 343,650        | -                        | 655,230                 | 150,098 | 505,132  | 103,860                                   | \$ 390,616                           |
| F Knechtel  | Ordinary shares                  | 131,528                | 196,022        | -                        | 327,550                 | 43,843  | 283,707  | 43,843                                    | \$ 222,812                           |
| W Schmiedel | ADSs                             | 251,687                | -              | (41,113)                 | 210,574                 | 210,574 | -        | 29,835                                    | \$ -                                 |
|             | Ordinary shares                  | 174,242                | 208,273        | -                        | 382,515                 | 83,091  | 299,424  | 58,080                                    | \$ 236,737                           |
| A Field     | Ordinary shares                  | -                      | 109,537        | -                        | 109,537                 | -       | 109,537  | -                                         | \$ 124,507                           |
| S Skurnac   | ADSs                             | 58,623                 | -              | (12,399)                 | 46,224                  | 46,224  | -        | 7,014                                     | \$ -                                 |
|             | Ordinary shares                  | 118,904                | 93,927         | -                        | 212,831                 | 57,891  | 154,940  | 39,635                                    | \$ 106,764                           |

## 7.2 Performance Rights and Restricted Stock Units (RSUs) provided as Remuneration

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

| Name                         | Grant date            | Number granted | Fair value at grant date | Date next tranche vests | Expiry Date | Maximum total value of unvested grant <sup>1</sup> |
|------------------------------|-----------------------|----------------|--------------------------|-------------------------|-------------|----------------------------------------------------|
| <b>Ordinary Shares (A\$)</b> |                       |                |                          |                         |             |                                                    |
| G Claro                      | 15 Nov 13             | 123,436        | \$ 5.38                  | 31 Aug 16               | 31 Aug 16   | \$ 35,556                                          |
|                              | 15 Nov 13             | 78,153         | \$ 9.61                  | 31 Aug 16               | 31 Aug 16   | \$ 751,050 <sup>2</sup>                            |
|                              | 14 Nov 14             | 127,467        | \$ 7.45                  | 31 Aug 17               | 31 Aug 17   | \$ 350,166                                         |
|                              | 14 Nov 14             | 91,781         | \$ 10.10                 | 31 Aug 17               | 31 Aug 17   | \$ 926,988 <sup>3</sup>                            |
|                              | 13 Nov 15             | 167,826        | \$ 6.44                  | 31 Aug 18               | 31 Aug 18   | \$ 1,080,799 <sup>4</sup>                          |
|                              | 13 Nov 15             | 218,437        | \$ 3.56                  | 31 Aug 18               | 31 Aug 18   | \$ 531,854                                         |
| F Knechtel                   | 28 Oct 14             | 34,955         | \$ 10.02                 | 28 Oct 16               | 28 Oct 16   | \$ 57,418                                          |
|                              | 28 Oct 14             | 34,955         | \$ 9.72                  | 28 Oct 17               | 28 Oct 17   | \$ 150,214                                         |
|                              | 14 Nov 14             | 48,493         | \$ 7.45                  | 31 Aug 17               | 31 Aug 17   | \$ 133,215                                         |
|                              | 14 Nov 14             | 34,917         | \$ 10.10                 | 31 Aug 17               | 31 Aug 17   | \$ 352,662 <sup>3</sup>                            |
|                              | 13 Nov 15             | 47,865         | \$ 6.44                  | 31 Aug 18               | 31 Aug 18   | \$ 308,251 <sup>4</sup>                            |
|                              | 13 Nov 15             | 62,299         | \$ 3.56                  | 31 Aug 18               | 31 Aug 18   | \$ 151,687                                         |
| A Field                      | 1 Oct 15 <sup>5</sup> | 17,236         | \$ 9.59                  | 1 Oct 16                | 1 Oct 16    | \$ 41,886                                          |
|                              | 1 Oct 15 <sup>5</sup> | 17,236         | \$ 9.30                  | 1 Oct 17                | 1 Oct 17    | \$ 100,294                                         |
|                              | 1 Oct 15 <sup>5</sup> | 17,236         | \$ 9.03                  | 1 Oct 18                | 1 Oct 18    | \$ 116,759                                         |
|                              | 13 Nov 15             | 26,747         | \$ 6.44                  | 31 Aug 18               | 31 Aug 18   | \$ 172,251 <sup>4</sup>                            |
|                              | 13 Nov 15             | 34,813         | \$ 3.56                  | 31 Aug 18               | 31 Aug 18   | \$ 84,763                                          |
| W Schmiedel                  | 15 Nov 13             | 43,354         | \$ 5.38                  | 31 Aug 16               | 31 Aug 16   | \$ 12,488                                          |
|                              | 15 Nov 13             | 21,983         | \$ 9.61                  | 31 Aug 16               | 31 Aug 16   | \$ 211,257 <sup>2</sup>                            |
|                              | 14 Nov 14             | 36,577         | \$ 7.45                  | 31 Aug 17               | 31 Aug 17   | \$ 100,481                                         |
|                              | 14 Nov 14             | 26,337         | \$ 10.10                 | 31 Aug 17               | 31 Aug 17   | \$ 266,004 <sup>3</sup>                            |
|                              | 13 Nov 15             | 50,856         | \$ 6.44                  | 31 Aug 18               | 31 Aug 18   | \$ 327,513 <sup>4</sup>                            |
|                              | 13 Nov 15             | 66,193         | \$ 3.56                  | 31 Aug 18               | 31 Aug 18   | \$ 161,168                                         |
|                              | 1 Mar 16 <sup>6</sup> | 34,367         | \$ 6.73                  | 1 Sep 16                | 1 Sep 16    | \$ 78,764                                          |
|                              | 1 Mar 16 <sup>6</sup> | 34,367         | \$ 6.63                  | 1 Mar 17                | 1 Mar 17    | \$ 151,902                                         |
| S Skurnac                    | 15 Nov 13             | 31,646         | \$ 5.38                  | 31 Aug 16               | 31 Aug 16   | \$ 9,116                                           |
|                              | 15 Nov 13             | 16,046         | \$ 9.61                  | 31 Aug 16               | 31 Aug 16   | \$ 154,202 <sup>2</sup>                            |
|                              | 14 Nov 14             | 23,646         | \$ 7.45                  | 31 Aug 17               | 31 Aug 17   | \$ 64,958                                          |
|                              | 14 Nov 14             | 17,026         | \$ 10.10                 | 31 Aug 17               | 31 Aug 17   | \$ 171,963 <sup>3</sup>                            |
|                              | 13 Nov 15             | 22,935         | \$ 6.44                  | 31 Aug 18               | 31 Aug 18   | \$ 147,701 <sup>4</sup>                            |
|                              | 13 Nov 15             | 29,852         | \$ 3.56                  | 31 Aug 18               | 31 Aug 18   | \$ 72,684                                          |
| <b>ADSs (US\$)</b>           |                       |                |                          |                         |             |                                                    |
| W Schmiedel                  | 11 Nov 11             | 9,753          | \$ 8.24                  | 25 Aug 16               | 25 Aug 16   | \$ -                                               |
|                              | 16 Nov 12             | 46,961         | \$ 4.12                  | 31 Aug 16               | 31 Aug 17   | \$ -                                               |
| S Skurnac                    | 11 Nov 11             | 2,293          | \$ 8.24                  | 25 Aug 16               | 25 Aug 16   | \$ -                                               |
|                              | 16 Nov 12             | 11,040         | \$ 4.12                  | 31 Aug 16               | 31 Aug 17   | \$ -                                               |

<sup>1</sup> 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.

<sup>2</sup> These grants relate to performance rights issued in FY14 subject to an EPS performance hurdle. Based on the Company's assessment at 30 June 2016, these performance rights will not vest. No amount has been expensed relating to these performance rights.

<sup>3</sup> These grants relate to performance rights issued in FY15 subject to an EPS performance hurdle. Based on the Company's assessment at 30 June 2016, these performance rights will not vest. Previously recognised expense was reversed in FY16 for these awards.

<sup>4</sup> These grants relate to performance rights issued in FY16 subject to a ROIC performance hurdle achievement in FY18. Since the measurement of this award will be based on FY18 financial information, no amount has been expensed relating to these performance rights in FY16.

<sup>5</sup> Represents a sign-on RSU award provided to Mr Field on his commencement date of 1 October 2015.

<sup>6</sup> Mr Schmiedel received a special one-off RSU award of 103,100 shares on 1 March 2016, of which 34,367 shares vested immediately.

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 2015 | Number Granted | Number Vested | Number Forfeited | Balance at 30 June 2016 |
|-------------|------------------------------------------------------|------------------------|----------------|---------------|------------------|-------------------------|
| G Claro     | Ordinary shares                                      | 479,089                | 386,263        | (58,252)      | -                | 807,100                 |
| F Knechtel  | Ordinary shares                                      | 188,275                | 110,164        | (34,955)      | -                | 263,484                 |
| W Schmiedel | ADSs                                                 | 103,659                | -              | (21,458)      | (25,487)         | 56,714                  |
|             | Ordinary shares                                      | 128,251                | 220,150        | (34,367)      | -                | 314,034                 |
| A Field     | Ordinary shares                                      | -                      | 113,268        | -             | -                | 113,267                 |
| S Skurnac   | ADSs                                                 | 38,922                 | -              | (21,112)      | (4,477)          | 13,333                  |
|             | Ordinary shares                                      | 88,364                 | 52,787         | -             | -                | 141,151                 |

### 7.3 Share Holdings

The number of shares in the Company held during the financial year by each NED and Executive, including their personally related parties, is set out below:

| Name              | Balance at<br>1 July 2015 | Received on<br>exercise of options,<br>performance<br>rights and RSUs | Purchases /<br>(sales) | Other changes<br>during the<br>year | Balance at<br>30 June 2016 |
|-------------------|---------------------------|-----------------------------------------------------------------------|------------------------|-------------------------------------|----------------------------|
| <b>NEDs</b>       |                           |                                                                       |                        |                                     |                            |
| R Bass            | 15,000                    | -                                                                     | 3,000                  | -                                   | 18,000                     |
| G Brunson         | 22,057                    | -                                                                     | -                      | -                                   | 22,057                     |
| J DiLacqua        | 2,500                     | -                                                                     | -                      | -                                   | 2,500                      |
| G Nelson          | 6,700                     | -                                                                     | -                      | -                                   | 6,700                      |
| D O'Toole         | 3,000                     | -                                                                     | 5,000                  | -                                   | 8,000                      |
| C Renwick         | 13,144                    | -                                                                     | -                      | -                                   | 13,144                     |
| H Ridout          | 5,000                     | -                                                                     | -                      | -                                   | 5,000                      |
| T Sato            | -                         | -                                                                     | -                      | -                                   | -                          |
| J Thompson        | 12,000                    | -                                                                     | 10,000                 | -                                   | 22,000                     |
| <b>Executives</b> |                           |                                                                       |                        |                                     |                            |
| G Claro           | 38,253                    | 58,252                                                                | -                      | -                                   | 96,505                     |
| F Knechtel        | -                         | 34,955                                                                | -                      | -                                   | 34,955                     |
| W Schmiedel       | 4,526                     | 55,825                                                                | (34,367)               | -                                   | 25,984                     |
| A Field           | -                         | -                                                                     | -                      | -                                   | -                          |
| S. Skurnac        | 2,556                     | 21,112                                                                | -                      | -                                   | 23,668                     |

## **8 OTHER TRANSACTIONS WITH KMP**

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

Mr Sato serves as the representative director for Mitsui & Co. His director remuneration is paid directly to Mitsui & Co. In FY16, the Group paid A\$219,424 to Mitsui & Co. for director remuneration (2015: A\$213,424).

## **9 SHAREHOLDER OUTREACH**

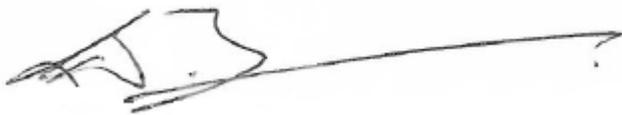
Our Board of Directors believe accountability to our shareholders is a mark of good governance practice and critical to our Company's continue future success. As a result, the Company has an active shareholder outreach process and routinely interacts with its shareholders to better understand their views on the Company's executive remuneration programs. Although the last publicly disclosed advisory vote on the Company's remuneration report received majority support, the Committee and senior management believe it is critical to continue to engage with shareholders on remuneration and governance matters.

The Committee considers all feedback from the Company's shareholders and stakeholders, as well as additional information from its independent compensation consultant and other advisors, to highlight possible changes to the Company's executive remuneration programs.

The Company, as well as members of the Committee, believe that it is critical to continue to seek shareholder input on the Company's programs, to ensure best-in-class remuneration plan design, in order to provide the appropriate rewards to the Company's senior leaders and executive teams to drive sustainable financial growth and shareholder value.

At the 2015 AGM, the Company's shareholders approved the resolution to adopt the FY15 Remuneration Report with 91% of votes having been cast in favour by way of a poll.

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  
25 August 2016



G Claro  
Managing Director and Group CEO  
Sydney  
25 August 2016

The Board of Directors  
Sims Metal Management Limited  
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25 August 2016

Dear Board Members

## **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 statements of Sims Metal Management Limited for the financial year ended 30 June 2016, 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 sincerely



DELOITTE TOUCHE TOHMATSU



Don Pasquariello  
Partner  
Chartered Accountants

**Sims Metal Management Limited**  
**Consolidated Income Statements**  
**For the year ended 30 June 2016**

|                                                   | <u>Note</u> | <u>2016</u><br><u>A\$m</u> | <u>2015</u><br><u>A\$m</u> |
|---------------------------------------------------|-------------|----------------------------|----------------------------|
| <b>Continuing operations</b>                      |             |                            |                            |
| <b>Revenue</b>                                    | 3           | <b>4,663.9</b>             | 6,328.1                    |
| Other income                                      | 3           | <b>19.4</b>                | 48.8                       |
| Raw materials used and changes in inventories     |             | <b>(3,014.3)</b>           | (4,477.1)                  |
| Freight expense                                   |             | <b>(379.3)</b>             | (491.5)                    |
| Employee benefits expense                         |             | <b>(566.8)</b>             | (581.4)                    |
| Depreciation and amortisation expense             | 5           | <b>(126.4)</b>             | (120.8)                    |
| Repairs and maintenance expense                   |             | <b>(86.1)</b>              | (95.7)                     |
| Other expenses                                    |             | <b>(557.3)</b>             | (468.3)                    |
| Impairment of goodwill and other intangibles      | 4           | <b>(53.0)</b>              | -                          |
| Impairment of investment in joint venture         | 4           | <b>(119.1)</b>             | -                          |
| Finance costs                                     |             | <b>(13.0)</b>              | (17.3)                     |
| Share of results of associates and joint ventures | 24          | <b>6.8</b>                 | 12.2                       |
| <b>(Loss)/profit before income tax</b>            |             | <b>(225.2)</b>             | 137.0                      |
| Income tax benefit/(expense)                      | 12          | <b>8.7</b>                 | (27.2)                     |
| <b>(Loss)/profit from continuing operations</b>   |             | <b>(216.5)</b>             | 109.8                      |
| <b>Discontinued operations</b>                    |             |                            |                            |
| Profit from discontinued operations               |             | <b>-</b>                   | 0.1                        |
| <b>(Loss)/profit for the year</b>                 |             | <b>(216.5)</b>             | 109.9                      |
|                                                   |             | <u>A¢</u>                  | <u>A¢</u>                  |
| <b>(Loss)/earnings per share</b>                  |             |                            |                            |
| From continuing and discontinued operations       |             |                            |                            |
| Basic                                             | 7           | <b>(106.8)</b>             | 53.7                       |
| Diluted                                           | 7           | <b>(106.8)</b>             | 53.3                       |
| From continuing operations                        |             |                            |                            |
| Basic                                             | 7           | <b>(106.8)</b>             | 53.6                       |
| Diluted                                           | 7           | <b>(106.8)</b>             | 53.2                       |

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

**Sims Metal Management Limited**  
**Consolidated Statements of Comprehensive Income**  
**For the year ended 30 June 2016**

|                                                                                                    | <u>Note</u> | <u>2016</u><br>A\$m   | <u>2015</u><br>A\$m |
|----------------------------------------------------------------------------------------------------|-------------|-----------------------|---------------------|
| <b>(Loss)/profit for the year</b>                                                                  |             | <b>(216.5)</b>        | 109.9               |
| <b>Other comprehensive income:</b>                                                                 |             |                       |                     |
| <i>Items that may be reclassified to the income statement, net of tax</i>                          |             |                       |                     |
| Movement in cash flow hedging reserve                                                              | 20          | <b>0.7</b>            | (2.2)               |
| Foreign exchange translation differences arising during the period                                 | 20          | <b>36.3</b>           | 216.6               |
| Recycling of foreign currency translation reserve on disposal of foreign operations and associates | 20          | -                     | (1.0)               |
| Share of other comprehensive income of associates                                                  | 24          | -                     | 0.4                 |
| <i>Items that will not be reclassified to the income statement, net of tax</i>                     |             |                       |                     |
| Re-measurements of defined benefit plans                                                           |             | <u><b>(3.2)</b></u>   | <u>(3.1)</u>        |
| <b>Other comprehensive income for the year, net of tax</b>                                         |             | <u><b>33.8</b></u>    | <u>210.7</u>        |
| <b>Total comprehensive (loss)/income for the year</b>                                              |             | <u><b>(182.7)</b></u> | <u>320.6</u>        |

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

**Sims Metal Management Limited**  
**Consolidated Statements of Financial Position**  
**As at 30 June 2016**

|                                              | <u>Note</u> | <u>2016</u><br>A\$m | <u>2015</u><br>A\$m |
|----------------------------------------------|-------------|---------------------|---------------------|
| <b>Current assets</b>                        |             |                     |                     |
| Cash and cash equivalents                    | 17          | 248.3               | 316.0               |
| Trade and other receivables                  | 8           | 397.9               | 396.6               |
| Inventory                                    | 9           | 398.3               | 476.4               |
| Other financial assets                       | 16          | 11.6                | 15.4                |
| Assets classified as held for sale           | 31          | 24.6                | 1.8                 |
| <b>Total current assets</b>                  |             | <u>1,080.7</u>      | <u>1,206.2</u>      |
| <b>Non-current assets</b>                    |             |                     |                     |
| Investments in associates and joint ventures | 24          | 190.2               | 299.4               |
| Other financial assets                       | 16          | 16.1                | 12.4                |
| Property, plant and equipment                | 10          | 985.1               | 1,031.8             |
| Retirement benefit assets                    | 15          | 4.5                 | 2.9                 |
| Deferred tax assets                          | 12          | 124.5               | 99.9                |
| Intangible assets                            | 11          | 169.8               | 229.2               |
| <b>Total non-current assets</b>              |             | <u>1,490.2</u>      | <u>1,675.6</u>      |
| <b>Total assets</b>                          |             | <u>2,570.9</u>      | <u>2,881.8</u>      |
| <b>Current liabilities</b>                   |             |                     |                     |
| Trade and other payables                     | 13          | 432.9               | 527.7               |
| Borrowings                                   | 18          | 2.1                 | 0.5                 |
| Other financial liabilities                  | 16          | 12.8                | 1.6                 |
| Current tax liabilities                      |             | 11.3                | 12.2                |
| Provisions                                   | 14          | 69.2                | 64.0                |
| <b>Total current liabilities</b>             |             | <u>528.3</u>        | <u>606.0</u>        |
| <b>Non-current liabilities</b>               |             |                     |                     |
| Payables                                     | 13          | 8.8                 | 6.8                 |
| Borrowings                                   | 18          | 4.1                 | 1.6                 |
| Deferred tax liabilities                     | 12          | 103.2               | 96.4                |
| Provisions                                   | 14          | 85.7                | 51.8                |
| Retirement benefit obligations               | 15          | 8.3                 | 6.4                 |
| <b>Total non-current liabilities</b>         |             | <u>210.1</u>        | <u>163.0</u>        |
| <b>Total liabilities</b>                     |             | <u>738.4</u>        | <u>769.0</u>        |
| <b>Net assets</b>                            |             | <u>1,832.5</u>      | <u>2,112.8</u>      |
| <b>Equity</b>                                |             |                     |                     |
| Contributed equity                           | 19          | 2,737.3             | 2,797.4             |
| Reserves                                     | 20          | 68.3                | 22.0                |
| Accumulated deficit                          | 20          | (973.1)             | (706.6)             |
| <b>Total equity</b>                          |             | <u>1,832.5</u>      | <u>2,112.8</u>      |

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

**Sims Metal Management Limited**  
**Consolidated Statements of Changes in Equity**  
**For the year ended 30 June 2016**

|                                                              | Note | Contributed<br>equity<br>A\$m | Reserves<br>A\$m | Accumul-<br>ated<br>deficit<br>A\$m | Total<br>equity<br>A\$m |
|--------------------------------------------------------------|------|-------------------------------|------------------|-------------------------------------|-------------------------|
| <b>Balance at 1 July 2014</b>                                |      | 2,796.4                       | (202.3)          | (760.2)                             | 1,833.9                 |
| Profit for the year                                          |      | -                             | -                | 109.9                               | 109.9                   |
| Other comprehensive income/(loss)                            |      | -                             | 213.8            | (3.1)                               | 210.7                   |
| <b>Total comprehensive income for the year</b>               |      | -                             | 213.8            | 106.8                               | 320.6                   |
| <b>Transactions with owners in their capacity as owners:</b> |      |                               |                  |                                     |                         |
| Dividends paid                                               | 6    | -                             | -                | (53.2)                              | (53.2)                  |
| Share options exercised                                      |      | 1.0                           | -                | -                                   | 1.0                     |
| Share-based payments expense, net of tax                     |      | -                             | 10.5             | -                                   | 10.5                    |
|                                                              |      | 1.0                           | 10.5             | (53.2)                              | (41.7)                  |
| <b>Balance at 30 June 2015</b>                               |      | 2,797.4                       | 22.0             | (706.6)                             | 2,112.8                 |
| Loss for the year                                            |      | -                             | -                | (216.5)                             | (216.5)                 |
| Other comprehensive income/(loss)                            |      | -                             | 37.0             | (3.2)                               | 33.8                    |
| <b>Total comprehensive income/(loss) for the year</b>        |      | -                             | 37.0             | (219.7)                             | (182.7)                 |
| <b>Transactions with owners in their capacity as owners:</b> |      |                               |                  |                                     |                         |
| Dividends paid                                               | 6    | -                             | -                | (46.8)                              | (46.8)                  |
| Share buyback                                                | 19   | (60.3)                        | -                | -                                   | (60.3)                  |
| Share options exercised                                      | 19   | 0.2                           | -                | -                                   | 0.2                     |
| Share-based payments expense, net of tax                     |      | -                             | 9.3              | -                                   | 9.3                     |
|                                                              |      | (60.1)                        | 9.3              | (46.8)                              | (97.6)                  |
| <b>Balance at 30 June 2016</b>                               |      | 2,737.3                       | 68.3             | (973.1)                             | 1,832.5                 |

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

**Sims Metal Management Limited**  
**Consolidated Statements of Cash Flows**  
**For the year ended 30 June 2016**

|                                                                           | <u>Note</u> | <u>2016</u><br>A\$m | <u>2015</u><br>A\$m |
|---------------------------------------------------------------------------|-------------|---------------------|---------------------|
| <b>Cash flows from operating activities</b>                               |             |                     |                     |
| Receipts from customers (inclusive of goods and services tax)             |             | 4,818.3             | 6,526.3             |
| Payments to suppliers and employees (inclusive of goods and services tax) |             | (4,666.5)           | (6,197.8)           |
| Interest received                                                         |             | 3.3                 | 7.7                 |
| Interest paid                                                             |             | (11.3)              | (15.8)              |
| Insurance recoveries                                                      |             | 0.1                 | 5.1                 |
| Dividends received from associates and joint ventures                     | 24          | 7.0                 | 13.1                |
| Income taxes paid                                                         |             | (19.6)              | (40.5)              |
| <b>Net cash inflows from operating activities</b>                         | 17          | <u>131.3</u>        | <u>298.1</u>        |
| <b>Cash flows from investing activities</b>                               |             |                     |                     |
| Payments for property, plant and equipment                                |             | (108.9)             | (95.3)              |
| Proceeds from sale of property, plant and equipment                       |             | 6.2                 | 11.8                |
| Proceeds from sale of assets held for sale                                |             | 6.3                 | 4.2                 |
| Payments for acquisition of subsidiaries, net of cash acquired            | 22          | -                   | (5.7)               |
| Proceeds from sale of interest in associate                               |             | 0.1                 | 74.5                |
| Proceeds from sale of a loan                                              |             | -                   | 52.2                |
| Payments for other financial assets                                       |             | (1.7)               | (1.0)               |
| Proceeds from sale of other financial assets                              |             | 2.1                 | 1.5                 |
| Loans to third parties                                                    |             | (0.6)               | (0.8)               |
| Proceeds from repayment on third party loans                              |             | 0.7                 | 0.3                 |
| <b>Net cash (outflows)/inflows from investing activities</b>              |             | <u>(95.8)</u>       | <u>41.7</u>         |
| <b>Cash flows from financing activities</b>                               |             |                     |                     |
| Proceeds from borrowings                                                  |             | 586.2               | 2,001.7             |
| Repayment of borrowings                                                   |             | (585.0)             | (2,049.4)           |
| Fees paid for loan facilities                                             |             | (4.1)               | -                   |
| Repayment of finance leases                                               |             | (1.7)               | (0.5)               |
| Share buy-back                                                            | 19          | (60.3)              | -                   |
| Proceeds from issue of shares                                             | 19          | 0.2                 | 1.0                 |
| Dividends paid                                                            | 6           | (46.8)              | (53.2)              |
| <b>Net cash outflows from financing activities</b>                        |             | <u>(111.5)</u>      | <u>(100.4)</u>      |
| <b>Net (decrease)/increase in cash and cash equivalents</b>               |             | <b>(76.0)</b>       | 239.4               |
| Cash and cash equivalents at the beginning of the financial year          |             | 316.0               | 57.2                |
| Effects of exchange rate changes on cash and cash equivalents             |             | 8.3                 | 19.4                |
| <b>Cash and cash equivalents at the end of the financial year</b>         | 17          | <u>248.3</u>        | <u>316.0</u>        |

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

**Sims Metal Management Limited**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

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# Notes to the Consolidated Financial Statements

## For the year ended 30 June 2016

### 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 2016 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and joint ventures and joint operations.

#### 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;
- 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 2015, 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)
- Impairments (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.

## Notes to the Consolidated Financial Statements For the year ended 30 June 2016

### 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 four principal operating segments: North America Metals, Australia/New Zealand Metals, Europe Metals and Global 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” operating segment. Details of the segments are as follows:

- **North America Metals (“NAM”)** – comprising subsidiaries and joint ventures in the United States of America and Canada which perform ferrous and non-ferrous secondary recycling functions.
- **ANZ Metals (“ANZ”)** – comprising subsidiaries and joint arrangements in Australia, New Zealand and Papua New Guinea which perform ferrous and non-ferrous secondary recycling functions.
- **Europe Metals (“Europe”)** – comprising subsidiaries in the United Kingdom which perform ferrous and non-ferrous secondary recycling functions.
- **Global E-Recycling (“SRS”)** – comprising subsidiaries which provide electronic recycling solutions in the following countries: Australia, Austria, Belgium, Canada, 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 an associate and joint venture in Hong Kong and Australia, and the Group’s non-ferrous central marketing entity.

The Group also reports revenues by the following product groups:

- **Ferrous secondary recycling** – comprising the collection, processing and trading of iron and steel secondary raw material.
- **Non-ferrous secondary recycling** – comprising the collection, processing and trading of other

metal alloys and residues, principally aluminum, lead, copper, zinc and nickel bearing materials.

- **Recycling solutions** – comprising 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.
- **Secondary processing and other services** - comprising value-added processes involving the melting, refining and ingoting of certain non-ferrous metals and other sources of service based revenue.

##### 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<sup>1</sup>

|                            | 2016           | 2015           |
|----------------------------|----------------|----------------|
|                            | A\$m           | A\$m           |
| Australia                  | 285.7          | 365.1          |
| China                      | 560.5          | 833.9          |
| Turkey                     | 679.9          | 769.8          |
| Germany                    | 233.9          | 220.8          |
| United States              | 1,049.8        | 1,450.6        |
| Other                      | 1,841.9        | 2,670.7        |
| <b>Total sales revenue</b> | <b>4,651.7</b> | <b>6,310.9</b> |

<sup>1</sup> Reflects the customer geographic location

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

##### Revenue by product

|                                         | 2016           | 2015           |
|-----------------------------------------|----------------|----------------|
|                                         | A\$m           | A\$m           |
| Ferrous secondary recycling             | 2,703.0        | 4,067.7        |
| Non-ferrous secondary recycling         | 1,055.3        | 1,341.7        |
| Recycling solutions                     | 792.7          | 795.0          |
| Secondary processing and other services | 100.7          | 106.5          |
| <b>Total sales revenue</b>              | <b>4,651.7</b> | <b>6,310.9</b> |

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**2 – Segment information (continued)**

**Information about reportable segments**

|                                                     | NAM<br>A\$m           | ANZ<br>A\$m           | Europe<br>A\$m        | SRS<br>A\$m          | Unalloc-<br>ated<br>A\$m | Total<br>A\$m         |
|-----------------------------------------------------|-----------------------|-----------------------|-----------------------|----------------------|--------------------------|-----------------------|
| <b>2016</b>                                         |                       |                       |                       |                      |                          |                       |
| Total sales revenue                                 | 2,352.6               | 743.6                 | 759.1                 | 792.7                | 3.7                      | 4,651.7               |
| Other revenue                                       | <u>5.3</u>            | <u>3.3</u>            | <u>0.1</u>            | <u>0.2</u>           | <u>3.3</u>               | <u>12.2</u>           |
| <b>Total segment revenue</b>                        | <b><u>2,357.9</u></b> | <b><u>746.9</u></b>   | <b><u>759.2</u></b>   | <b><u>792.9</u></b>  | <b><u>7.0</u></b>        | <b><u>4,663.9</u></b> |
| <b>Segment EBIT</b>                                 | <b><u>(145.8)</u></b> | <b><u>31.1</u></b>    | <b><u>(29.7)</u></b>  | <b><u>(60.2)</u></b> | <b><u>(10.9)</u></b>     | <b>(215.5)</b>        |
| Interest income                                     |                       |                       |                       |                      |                          | 3.3                   |
| Finance costs                                       |                       |                       |                       |                      |                          | <u>(13.0)</u>         |
| <b>Loss before tax from continuing operations</b>   |                       |                       |                       |                      |                          | <b><u>(225.2)</u></b> |
| Assets                                              | 1,145.0               | 481.7                 | 245.2                 | 447.9                | 251.1                    | 2,570.9               |
| Liabilities                                         | <u>221.6</u>          | <u>112.7</u>          | <u>123.8</u>          | <u>149.1</u>         | <u>131.2</u>             | <u>738.4</u>          |
| <b>Net assets</b>                                   | <b><u>923.4</u></b>   | <b><u>369.0</u></b>   | <b><u>121.4</u></b>   | <b><u>298.8</u></b>  | <b><u>119.9</u></b>      | <b><u>1,832.5</u></b> |
| <b>Other items:</b>                                 |                       |                       |                       |                      |                          |                       |
| Depreciation and amortisation                       | (73.4)                | (26.9)                | (13.8)                | (11.6)               | (0.7)                    | (126.4)               |
| Impairment of interest in joint venture             | (119.1)               | -                     | -                     | -                    | -                        | (119.1)               |
| Intangible asset impairment                         | (6.8)                 | -                     | (0.2)                 | (46.0)               | -                        | (53.0)                |
| Share of results of associates and joint ventures   | 0.4                   | -                     | -                     | -                    | 6.4                      | 6.8                   |
| Investments in associates and joint ventures        | 150.0                 | 0.1                   | -                     | -                    | 40.1                     | 190.2                 |
| Capital expenditures                                | 36.6                  | 53.6                  | 18.8                  | 5.7                  | 0.5                      | 115.2                 |
| <b>2015</b>                                         |                       |                       |                       |                      |                          |                       |
| Total sales revenue                                 | 3,416.5               | 1,053.3               | 1,036.6               | 795.0                | 9.5                      | 6,310.9               |
| Other revenue                                       | <u>4.5</u>            | <u>5.0</u>            | <u>0.4</u>            | <u>0.1</u>           | <u>7.2</u>               | <u>17.2</u>           |
| <b>Total segment revenue</b>                        | <b><u>3,421.0</u></b> | <b><u>1,058.3</u></b> | <b><u>1,037.0</u></b> | <b><u>795.1</u></b>  | <b><u>16.7</u></b>       | <b><u>6,328.1</u></b> |
| <b>Segment EBIT</b>                                 | <b><u>17.8</u></b>    | <b><u>57.3</u></b>    | <b><u>25.5</u></b>    | <b><u>41.8</u></b>   | <b><u>2.4</u></b>        | 144.8                 |
| Interest income                                     |                       |                       |                       |                      |                          | 9.5                   |
| Finance costs                                       |                       |                       |                       |                      |                          | <u>(17.3)</u>         |
| <b>Profit before tax from continuing operations</b> |                       |                       |                       |                      |                          | <b><u>137.0</u></b>   |
| Assets                                              | 1,335.0               | 463.3                 | 258.3                 | 473.3                | 351.9                    | 2,881.8               |
| Liabilities                                         | <u>264.5</u>          | <u>126.8</u>          | <u>89.7</u>           | <u>160.4</u>         | <u>127.6</u>             | <u>769.0</u>          |
| <b>Net assets</b>                                   | <b><u>1,070.5</u></b> | <b><u>336.5</u></b>   | <b><u>168.6</u></b>   | <b><u>312.9</u></b>  | <b><u>224.3</u></b>      | <b><u>2,112.8</u></b> |
| <b>Other items:</b>                                 |                       |                       |                       |                      |                          |                       |
| Depreciation and amortisation                       | (68.9)                | (27.7)                | (12.5)                | (11.2)               | (0.5)                    | (120.8)               |
| Share of results of associates and joint ventures   | 2.0                   | -                     | -                     | -                    | 10.2                     | 12.2                  |
| Investments in associates and joint ventures        | 264.6                 | 0.1                   | -                     | -                    | 34.7                     | 299.4                 |
| Capital expenditures                                | 38.4                  | 44.7                  | 5.2                   | 5.5                  | 1.5                      | 95.3                  |

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**3 – Revenue and other income**

|                                                       | <b>2016</b>           | 2015           |
|-------------------------------------------------------|-----------------------|----------------|
|                                                       | <b>A\$m</b>           | A\$m           |
| <i>Sales revenue</i>                                  |                       |                |
| Sale of goods                                         | <b>4,542.0</b>        | 6,215.2        |
| Service revenue                                       | <b>109.7</b>          | 95.7           |
|                                                       | <b><u>4,651.7</u></b> | <u>6,310.9</u> |
| <i>Other revenue</i>                                  |                       |                |
| Interest income                                       | <b>3.3</b>            | 9.5            |
| Rental and dividend income                            | <b>8.9</b>            | 7.7            |
|                                                       | <b><u>12.2</u></b>    | <u>17.2</u>    |
| <b>Total revenue</b>                                  | <b><u>4,663.9</u></b> | <u>6,328.1</u> |
|                                                       | <b>2016</b>           | 2015           |
|                                                       | <b>A\$m</b>           | A\$m           |
| Net gain on commodity derivatives                     | <b>5.9</b>            | 30.3           |
| Net gain on currency derivatives                      | -                     | 2.1            |
| Net foreign exchange gain                             | <b>0.5</b>            | 1.0            |
| Net gain on disposal of property, plant and equipment | <b>3.6</b>            | 2.8            |
| Gain on sale of other financial assets                | <b>0.2</b>            | 0.9            |
| Insurance recoveries                                  | <b>0.1</b>            | 5.1            |
| Government grants                                     | <b>1.3</b>            | 0.3            |
| Third party commissions                               | <b>0.7</b>            | 1.0            |
| Gain on sale of associates                            | -                     | 1.0            |
| Other                                                 | <b>7.1</b>            | 4.3            |
| <b>Total other income</b>                             | <b><u>19.4</u></b>    | <u>48.8</u>    |

***Recognition and measurement***

*Sale of goods*

Revenue from the sale of goods is recognised when there is persuasive evidence of an arrangement, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required by the Group, the quantity and quality of the goods have been determined with reasonable accuracy, the price is fixed or determinable and collectability is reasonably assured.

*Service revenue*

Service revenue is recognised when the services have been provided. Service revenue received in advance of the service being rendered is deferred.

*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 generally recognised when title passes. Title for both our ferrous and non-ferrous secondary recycling products and recycling solutions products are based on contract terms which vary across businesses. The majority of the Group's ferrous bulk cargo sales arrangements specify that title passes once all material has been loaded onto a vessel (i.e. passed the ship's rail).

Judgement is required to determine when risks and rewards have transferred under certain contractual arrangements and as a result the period in which revenue should be recognised.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**4 – Significant items**

|                                                                          | <b>2016</b>  | 2015  |
|--------------------------------------------------------------------------|--------------|-------|
|                                                                          | <b>A\$m</b>  | A\$m  |
| Impairments:                                                             |              |       |
| Impairment of goodwill (note 11)                                         | <b>43.3</b>  | -     |
| Impairment of other intangible assets (note 11)                          | <b>9.7</b>   | -     |
| Impairment of investment in joint venture (note 24)                      | <b>119.1</b> | -     |
| Reversal of impairment of investment in an associate <sup>1</sup>        | -            | (6.3) |
| Impairment of property, plant and equipment (note 10) <sup>2</sup>       | <b>31.8</b>  | 0.5   |
| Redundancies <sup>3</sup>                                                | <b>9.8</b>   | 7.8   |
| Lease settlements and onerous lease provisions <sup>4</sup>              | <b>44.5</b>  | -     |
| Yard closure costs and dilapidation provisions/(reversals) <sup>4</sup>  | <b>13.9</b>  | (1.6) |
| Income related to withdrawal liability from multi-employer pension plans | -            | (5.9) |

<sup>1</sup> Represents the partial reversal of a previously recorded impairment of the Group's former investment in Chiho-Tiande Group Limited.

<sup>2</sup> Impairments primarily related to the Group's resetting plans that were announced in November 2015.

<sup>3</sup> 2015 amount also includes acceleration of share-based compensation related to redundancies.

<sup>4</sup> Provisions relate to the Group's resetting plans that were announced in November 2015 and primarily relate to facilities in the Europe and SRS segments.

**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**

|                                                                                  | <b>2016</b>  | 2015  |
|----------------------------------------------------------------------------------|--------------|-------|
|                                                                                  | <b>A\$m</b>  | A\$m  |
| <i>Depreciation and amortisation:</i>                                            |              |       |
| Depreciation expense                                                             | <b>113.4</b> | 106.1 |
| Amortisation expense                                                             | <b>13.0</b>  | 14.7  |
|                                                                                  | <b>126.4</b> | 120.8 |
| Finance costs                                                                    | <b>13.0</b>  | 17.3  |
| Net loss on currency derivatives                                                 | <b>8.1</b>   | -     |
| Net loss on revaluation of financial assets at fair value through profit or loss | <b>0.5</b>   | 0.9   |
| Rental expenses relating to operating leases                                     | <b>100.7</b> | 99.5  |

**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\$7.9 million (2015: A\$8.3 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 the income statement on a straight-line basis over the period of the lease.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**6 – Dividends**

|                             | <u>Cents per share</u> | <u>Amount A\$m</u> |
|-----------------------------|------------------------|--------------------|
| <b>2016:</b>                |                        |                    |
| Interim 2016 (0% franked)   | <b>10.0</b>            | <b>20.1</b>        |
| Final 2015 (100% franked)   | <b>13.0</b>            | <b>26.7</b>        |
|                             |                        | <u><b>46.8</b></u> |
| <b>2015:</b>                |                        |                    |
| Interim 2015 (100% franked) | 16.0                   | 32.7               |
| Final 2014 (100% franked)   | 10.0                   | 20.5               |
|                             |                        | <u>53.2</u>        |

Since the end of the financial year, the directors have determined to pay a final dividend of 12 cents per share 100% franked. The aggregate amount of the proposed dividend expected to be paid on 21 October 2016, but not recognised as a liability at the end of the reporting period, is A\$23.7 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 2016, there are A\$39.5 million (2015: A\$39.0 million) estimated franking credits available to shareholders for subsequent financial years.

**7 – (Loss)/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.

|                                                                         | <u>2016</u>           | <u>2015</u>    |
|-------------------------------------------------------------------------|-----------------------|----------------|
| <b>Basic (loss)/earnings per share (in A¢)</b>                          |                       |                |
| From continuing operations                                              | <b>(106.8)</b>        | 53.6           |
| From discontinued operations                                            | <u>-</u>              | <u>0.1</u>     |
| <b>Total basic (loss)/earnings per share</b>                            | <u><b>(106.8)</b></u> | <u>53.7</u>    |
| <b>Diluted (loss)/earnings per share (in A¢)</b>                        |                       |                |
| From continuing operations                                              | <b>(106.8)</b>        | 53.2           |
| From discontinued operations                                            | <u>-</u>              | <u>0.1</u>     |
| <b>Total diluted (loss)/earnings per share</b>                          | <u><b>(106.8)</b></u> | <u>53.3</u>    |
| <b>Weighted average number of shares used in the denominator ('000)</b> |                       |                |
| <b>Basic shares</b>                                                     | <b>202,737</b>        | 204,701        |
| Dilutive effect of share-based awards                                   | <u>-</u>              | <u>1,653</u>   |
| <b>Diluted shares</b>                                                   | <u><b>202,737</b></u> | <u>206,354</u> |

Due to the loss after tax in the year ended 30 June 2016, the dilutive effect of share-based awards, which was approximately 1.45 million, was not included as the result would have been anti-dilutive.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**ASSETS AND LIABILITIES**

**8 – Trade and other receivables**

|                                         | <b>2016</b>         | 2015         |
|-----------------------------------------|---------------------|--------------|
|                                         | <b>A\$m</b>         | A\$m         |
| Trade receivables                       | <b>332.6</b>        | 317.8        |
| Provision for impairment of receivables | <b>(3.1)</b>        | (4.4)        |
| <b>Net trade receivables</b>            | <b><u>329.5</u></b> | <u>313.4</u> |
| Other receivables                       | <b>37.1</b>         | 55.7         |
| Tax receivable                          | <b>6.7</b>          | 2.6          |
| Prepayments                             | <b>24.6</b>         | 24.9         |
| <b>Total current receivables</b>        | <b><u>397.9</u></b> | <u>396.6</u> |

**Movement in provision for impairment of receivables**

|                                      |                   |            |
|--------------------------------------|-------------------|------------|
| Balance at 1 July                    | <b>4.4</b>        | 10.8       |
| Provision recognised during the year | <b>0.4</b>        | 0.3        |
| Write-offs                           | <b>(1.7)</b>      | (8.2)      |
| Foreign exchange differences         | <b>-</b>          | 1.5        |
| Balance at 30 June                   | <b><u>3.1</u></b> | <u>4.4</u> |

**Past due but not impaired**

| <i>Days overdue</i> |                    |             |
|---------------------|--------------------|-------------|
| 1 – 30 days         | <b>27.5</b>        | 22.2        |
| 31 – 60 days        | <b>4.9</b>         | 6.0         |
| Over 60 days        | <b>4.3</b>         | 5.3         |
|                     | <b><u>36.7</u></b> | <u>33.5</u> |

**Recognition and measurement**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. 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 when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

When a trade receivable for which an impairment 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 the income statement.

**9 – Inventories**

|                        | <b>2016</b>         | 2015         |
|------------------------|---------------------|--------------|
|                        | <b>A\$m</b>         | A\$m         |
| Raw materials          | <b>78.3</b>         | 99.5         |
| Finished goods         | <b>300.6</b>        | 357.9        |
| Stores and spare parts | <b>19.4</b>         | 19.0         |
|                        | <b><u>398.3</u></b> | <u>476.4</u> |

The cost of inventories recognised as expense during the year ended 30 June 2016 amounted to A\$3,123.2 million (2015: A\$4,606.6 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 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 current assessments of future demand and market conditions. Impairment losses may be recognised on inventory if management needs to revise its estimates of net realisable value in response to changing market conditions.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**10 – Property, plant and equipment**

|                                           | <u>Land</u><br>A\$m | <u>Buildings</u><br>A\$m | <u>Leasehold<br/>improve-<br/>ments</u><br>A\$m | <u>Plant &amp;<br/>equip-<br/>ment<sup>1</sup></u><br>A\$m | <u>Capital<br/>work in<br/>progress</u><br>A\$m | <u>Total</u><br>A\$m |
|-------------------------------------------|---------------------|--------------------------|-------------------------------------------------|------------------------------------------------------------|-------------------------------------------------|----------------------|
| <b>At 30 June 2016</b>                    |                     |                          |                                                 |                                                            |                                                 |                      |
| Cost                                      | 320.2               | 358.5                    | 86.0                                            | 1,141.2                                                    | 61.5                                            | 1,967.4              |
| Accumulated depreciation                  | -                   | (137.2)                  | (61.2)                                          | (783.9)                                                    | -                                               | (982.3)              |
| Net book amount                           | <u>320.2</u>        | <u>221.3</u>             | <u>24.8</u>                                     | <u>357.3</u>                                               | <u>61.5</u>                                     | <u>985.1</u>         |
| <b>Movement</b>                           |                     |                          |                                                 |                                                            |                                                 |                      |
| Balance at 1 July                         | 319.7               | 207.3                    | 28.9                                            | 405.9                                                      | 70.0                                            | 1,031.8              |
| Additions                                 | -                   | 1.0                      | 2.8                                             | 18.4                                                       | 93.0                                            | 115.2                |
| Disposals                                 | (2.4)               | (3.0)                    | (0.4)                                           | (3.0)                                                      | (0.3)                                           | (9.1)                |
| Transfers                                 | 8.0                 | 37.1                     | 1.6                                             | 53.4                                                       | (100.1)                                         | -                    |
| Reclassified to assets held<br>for sale   | (4.8)               | (7.0)                    | -                                               | (10.5)                                                     | -                                               | (22.3)               |
| Impairments <sup>2</sup>                  | (6.8)               | (0.2)                    | (2.4)                                           | (22.3)                                                     | (0.1)                                           | (31.8)               |
| Depreciation expense                      | -                   | (18.7)                   | (5.2)                                           | (89.5)                                                     | -                                               | (113.4)              |
| Foreign exchange<br>differences           | 6.5                 | 4.8                      | (0.5)                                           | 4.9                                                        | (1.0)                                           | 14.7                 |
| Balance at 30 June                        | <u>320.2</u>        | <u>221.3</u>             | <u>24.8</u>                                     | <u>357.3</u>                                               | <u>61.5</u>                                     | <u>985.1</u>         |
| <b>At 30 June 2015</b>                    |                     |                          |                                                 |                                                            |                                                 |                      |
| Cost                                      | 319.7               | 332.1                    | 86.6                                            | 1,188.4                                                    | 70.0                                            | 1,996.8              |
| Accumulated depreciation                  | -                   | (124.8)                  | (57.7)                                          | (782.5)                                                    | -                                               | (965.0)              |
| Net book amount                           | <u>319.7</u>        | <u>207.3</u>             | <u>28.9</u>                                     | <u>405.9</u>                                               | <u>70.0</u>                                     | <u>1,031.8</u>       |
| <b>Movement</b>                           |                     |                          |                                                 |                                                            |                                                 |                      |
| Balance at 1 July                         | 270.5               | 174.3                    | 30.4                                            | 387.5                                                      | 40.3                                            | 903.0                |
| Additions                                 | -                   | 1.0                      | 0.8                                             | 8.2                                                        | 85.3                                            | 95.3                 |
| Disposals                                 | -                   | -                        | -                                               | (3.7)                                                      | (0.1)                                           | (3.8)                |
| Acquisitions (note 22)                    | -                   | -                        | -                                               | 3.1                                                        | -                                               | 3.1                  |
| Transfers                                 | (0.8)               | 18.1                     | 1.7                                             | 39.8                                                       | (59.6)                                          | (0.8)                |
| Reclassified from assets<br>held for sale | 0.6                 | 0.2                      | -                                               | 3.3                                                        | -                                               | 4.1                  |
| Impairments <sup>2</sup>                  | -                   | -                        | (0.1)                                           | (0.4)                                                      | 0.2                                             | (0.3)                |
| Depreciation expense <sup>3</sup>         | -                   | (15.9)                   | (7.2)                                           | (83.3)                                                     | -                                               | (106.4)              |
| Foreign exchange<br>differences           | 49.4                | 29.6                     | 3.3                                             | 51.4                                                       | 3.9                                             | 137.6                |
| Balance at 30 June                        | <u>319.7</u>        | <u>207.3</u>             | <u>28.9</u>                                     | <u>405.9</u>                                               | <u>70.0</u>                                     | <u>1,031.8</u>       |

<sup>1</sup>The net book value of assets acquired through finance leases was A\$6.1 million as at 30 June 2016 (2015: A\$2.1 million).

<sup>2</sup>2016 impairments relate to the Group's resetting plans. 2015 impairments include reversals of A\$0.2 million relating to discontinued operations.

<sup>3</sup>Includes depreciation expense for discontinued operations of A\$0.3 million.

**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.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**10 – Property, plant and equipment (continued)**

**Recognition and measurement (continued)**

*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 – 1 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. Gains and losses on disposals are determined by comparing proceeds with carrying amounts and recognised in the income statement.

*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**

|                              | <b>Goodwill</b> | <b>Supplier<br/>relation-<br/>ships</b> | <b>Permits</b> | <b>Licenses/<br/>Contracts</b> | <b>Trade-<br/>names</b> | <b>Total</b> |
|------------------------------|-----------------|-----------------------------------------|----------------|--------------------------------|-------------------------|--------------|
|                              | <b>A\$m</b>     | <b>A\$m</b>                             | <b>A\$m</b>    | <b>A\$m</b>                    | <b>A\$m</b>             | <b>A\$m</b>  |
| <b>At 30 June 2016</b>       |                 |                                         |                |                                |                         |              |
| Cost                         | 1,576.4         | 274.6                                   | 11.5           | 47.0                           | 40.9                    | 1,950.4      |
| Accumulated impairment       | (1,466.1)       | (13.7)                                  | (9.3)          | (0.4)                          | (0.6)                   | (1,490.1)    |
| Accumulated amortisation     | -               | (228.5)                                 | -              | (45.1)                         | (16.9)                  | (290.5)      |
| Net book amount              | <u>110.3</u>    | <u>32.4</u>                             | <u>2.2</u>     | <u>1.5</u>                     | <u>23.4</u>             | <u>169.8</u> |
| <b>Movement</b>              |                 |                                         |                |                                |                         |              |
| Balance at 1 July            | 150.0           | 49.0                                    | 2.2            | 2.9                            | 25.1                    | 229.2        |
| Amortisation expense         | -               | (9.8)                                   | -              | (1.2)                          | (2.0)                   | (13.0)       |
| Impairment charge            | (43.3)          | (8.7)                                   | -              | (0.3)                          | (0.7)                   | (53.0)       |
| Foreign exchange differences | 3.6             | 1.9                                     | -              | 0.1                            | 1.0                     | 6.6          |
| Balance at 30 June           | <u>110.3</u>    | <u>32.4</u>                             | <u>2.2</u>     | <u>1.5</u>                     | <u>23.4</u>             | <u>169.8</u> |
| <b>At 30 June 2015</b>       |                 |                                         |                |                                |                         |              |
| Cost                         | 1,547.8         | 267.2                                   | 11.1           | 45.7                           | 39.7                    | 1,911.5      |
| Accumulated impairment       | (1,397.8)       | (5.6)                                   | (8.9)          | (0.1)                          | (0.1)                   | (1,412.5)    |
| Accumulated amortisation     | -               | (212.6)                                 | -              | (42.7)                         | (14.5)                  | (269.8)      |
| Net book amount              | <u>150.0</u>    | <u>49.0</u>                             | <u>2.2</u>     | <u>2.9</u>                     | <u>25.1</u>             | <u>229.2</u> |
| <b>Movement</b>              |                 |                                         |                |                                |                         |              |
| Balance at 1 July            | 139.3           | 49.3                                    | 1.8            | 3.2                            | 22.2                    | 215.8        |
| Amortisation expense         | -               | (10.8)                                  | -              | (2.0)                          | (1.9)                   | (14.7)       |
| Acquisitions                 | 2.6             | 0.4                                     | -              | 1.4                            | -                       | 4.4          |
| Foreign exchange differences | 8.1             | 10.1                                    | 0.4            | 0.3                            | 4.8                     | 23.7         |
| Balance at 30 June           | <u>150.0</u>    | <u>49.0</u>                             | <u>2.2</u>     | <u>2.9</u>                     | <u>25.1</u>             | <u>229.2</u> |

## Notes to the Consolidated Financial Statements For the year ended 30 June 2016

### 11 – Intangible assets (continued)

#### *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 customer 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 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 ("CGUs"). 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:

| <b>CGU</b>                             | <b>Segment</b>       | <b>2016<br/>A\$m</b> | <b>2015<br/>A\$m</b> |
|----------------------------------------|----------------------|----------------------|----------------------|
| US Recycling Solutions                 | Global E-Recycling   | -                    | 39.6                 |
| Continental Europe Recycling Solutions | Global E-Recycling   | <b>64.3</b>          | 62.8                 |
| Australia Metals                       | ANZ Metals           | <b>42.0</b>          | 42.1                 |
| North America Metals                   | North America Metals | <b>1.5</b>           | 1.5                  |
| India Recycling Solutions              | Global E-Recycling   | -                    | 1.5                  |
| United Kingdom Metals                  | Europe Metals        | -                    | 0.2                  |
| All other CGUs                         |                      | <b>2.5</b>           | <b>2.3</b>           |
| <b>Total</b>                           |                      | <b><u>110.3</u></b>  | <b><u>150.0</u></b>  |

##### *Impairment charge*

In the year ended 30 June 2016, the following impairment charges were recognised:

| <b>CGU</b>                | <b>Goodwill<br/>A\$m</b> | <b>Other<br/>intangibles<br/>A\$m</b> |
|---------------------------|--------------------------|---------------------------------------|
| US Recycling Solutions    | <b>41.6</b>              | <b>2.9</b>                            |
| North America Metals      | -                        | <b>6.8</b>                            |
| India Recycling Solutions | <b>1.5</b>               | -                                     |
| United Kingdom Metals     | <b>0.2</b>               | -                                     |
| <b>Total</b>              | <b><u>43.3</u></b>       | <b><u>9.7</u></b>                     |

## **Notes to the Consolidated Financial Statements For the year ended 30 June 2016**

### **11 – Intangible assets (continued)**

#### *Impairment charge (continued)*

The impairment charge for US Recycling Solutions was a result of the assessment of future cash flows. This CGU was impacted by margin pressure resulting from a competitive market landscape and volatility in underlying commodity pricing. As a result, the future cash flows for US Recycling Solutions were reassessed which indicated the carrying value of goodwill was not fully recoverable.

#### *Sensitivities*

Other than as disclosed below, the Group believes that for all other CGUs, any reasonably possible change in the key assumptions would not cause the carrying value of the CGUs to exceed their recoverable amount.

The North America Metals CGU has A\$1.5 million of goodwill and A\$58.4 million of other intangibles at 30 June 2016. The impairment testing for this CGU at 30 June 2016 reflected excess headroom of A\$104.1 million. An assessment of the impact of possible changes in key assumptions was performed to assess the recoverability of other long-lived assets for this CGU at 30 June 2016. If the discount rate was 1% higher, with all other assumptions being the same, an impairment charge of A\$12.5 million would have been recorded.

#### *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, exchange rates, growth rates and other assumptions.

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

The value in use calculations use a five year cash flow projection, which is based initially on the budget for the 2017 financial year (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 2017 financial year. 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**  
**For the year ended 30 June 2016**

**11 – Intangible assets (continued)**

*Critical accounting estimate and judgement (continued)*

The key assumptions used for the value in use calculations were as follows:

|                                        | Discount rate (pre-tax) |           | Growth rate |         |
|----------------------------------------|-------------------------|-----------|-------------|---------|
|                                        | 2016                    | 2015      | 2016        | 2015    |
| CGU                                    | %                       | %         | %           | %       |
| US Recycling Solutions                 | 13.4                    | 14.7      | 2.0         | 2.3     |
| North America Metals                   | 12.3                    | 13.5      | 2.0         | 2.3     |
| Continental Europe Recycling Solutions | 11.6                    | 12.3      | 1.5–2.2     | 1.6-1.9 |
| Australia Metals                       | 13.9                    | 14.7      | 2.6         | 2.8     |
| India Recycling Solutions              | 14.9                    | 13.1      | 8.5         | 8.3     |
| United Kingdom Metals                  | 10.1                    | 10.8      | 2.5         | 1.9     |
| All other CGUs                         | 9.1-20.1                | 10.1-15.6 | 1.1-5.8     | 1.2-5.6 |

**12 – Income taxes**

|                                               | 2016         | 2015        |
|-----------------------------------------------|--------------|-------------|
|                                               | A\$m         | A\$m        |
| <b>Income tax expense</b>                     |              |             |
| Current income tax charge                     | 14.3         | 30.7        |
| Adjustments for prior years                   | (2.8)        | (1.9)       |
| Deferred income tax                           | (20.2)       | (1.6)       |
| Tax (benefit)/expense – continuing operations | (8.7)        | 27.2        |
| Tax expense – discontinued operations         | -            | -           |
| <b>Income tax (benefit)/expense</b>           | <b>(8.7)</b> | <b>27.2</b> |

**Reconciliation of income tax expense to prima facie income tax expense**

|                                                                         |                |              |
|-------------------------------------------------------------------------|----------------|--------------|
| <b>(Loss)/profit before income tax from continuing operations</b>       | <b>(225.2)</b> | <b>137.0</b> |
| Tax at the standard Australian rate of 30%                              | (67.5)         | 41.1         |
| Effect of tax rates in other jurisdictions                              | (2.4)          | (0.7)        |
| Deferred tax assets not recognised                                      | 17.2           | 2.7          |
| Recognition of tax effect of previously unrecognised tax losses         | (1.1)          | (8.0)        |
| Non-deductible expenses                                                 | 3.7            | 4.5          |
| Non-deductible/(assessable) impairment of associates and joint ventures | 41.5           | (1.2)        |
| Share of net results of associates and joint ventures                   | (2.6)          | (1.6)        |
| Non-assessable income                                                   | (3.1)          | (6.8)        |
| Share-based payments                                                    | 3.2            | 1.8          |
| Adjustments for prior years                                             | (0.1)          | (2.8)        |
| Other                                                                   | 2.5            | (1.8)        |
| Tax (benefit)/expense – continuing operations                           | (8.7)          | 27.2         |
| Tax expense – discontinued operations                                   | -              | -            |
| <b>Income tax (benefit)/expense</b>                                     | <b>(8.7)</b>   | <b>27.2</b>  |

**Income tax charged directly to equity**

|                                                         |            |             |
|---------------------------------------------------------|------------|-------------|
| Share-based payments                                    | -          | 2.9         |
| Exchange gain on foreign denominated intercompany loans | 6.1        | 29.4        |
|                                                         | <b>6.1</b> | <b>32.3</b> |

**Tax expense/(benefit) relating to items of other comprehensive income**

|                       |            |            |
|-----------------------|------------|------------|
| Cash flow hedges      | 0.3        | (0.4)      |
| Defined benefit plans | 0.3        | 1.7        |
|                       | <b>0.6</b> | <b>1.3</b> |

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**12 – Income taxes (continued)**

|                                                                                                              | <b>2016</b>  | <b>2015</b> |
|--------------------------------------------------------------------------------------------------------------|--------------|-------------|
|                                                                                                              | <u>A\$m</u>  | <u>A\$m</u> |
| <b>Deferred tax assets and liabilities</b>                                                                   |              |             |
| <i>Deferred tax assets</i>                                                                                   |              |             |
| The balance comprises temporary difference attributable to:<br>(amounts recognised in the income statement)  |              |             |
| Provisions and other accruals                                                                                | 30.7         | 16.1        |
| Employee benefits                                                                                            | 18.7         | 33.0        |
| Inventory and consumables                                                                                    | 2.6          | 2.4         |
| Property, plant and equipment                                                                                | 10.7         | 4.3         |
| Intangibles                                                                                                  | 37.3         | 27.0        |
| Joint ventures and associates                                                                                | 3.5          | 2.4         |
| Tax loss carryforwards and tax credits                                                                       | 12.9         | 13.0        |
| Share-based payments                                                                                         | 5.8          | 0.5         |
| Other                                                                                                        | 1.9          | 0.3         |
|                                                                                                              | <u>124.1</u> | <u>99.0</u> |
| (amounts recognised directly in equity)                                                                      |              |             |
| Defined benefit plans                                                                                        | 0.4          | 0.7         |
| Cash flow hedges                                                                                             | -            | 0.2         |
|                                                                                                              | <u>0.4</u>   | <u>0.9</u>  |
| <b>Movements</b>                                                                                             |              |             |
| Balance at 1 July                                                                                            | 99.9         | 99.4        |
| Charged to income statement                                                                                  | 24.1         | 3.4         |
| Adjustments for prior years                                                                                  | (1.0)        | 5.3         |
| Transfers                                                                                                    | -            | 4.5         |
| Charged directly to equity and other comprehensive income                                                    | (0.6)        | (26.4)      |
| Foreign exchange differences                                                                                 | 2.1          | 13.7        |
| Balance at 30 June                                                                                           | <u>124.5</u> | <u>99.9</u> |
| <b>Deferred tax liabilities</b>                                                                              |              |             |
| The balance comprises temporary differences attributable to:<br>(amounts recognised in the income statement) |              |             |
| Intangible assets                                                                                            | 1.8          | 1.8         |
| Property, plant and equipment                                                                                | 80.5         | 78.4        |
| Inventory and consumables                                                                                    | 2.1          | 2.3         |
| Joint ventures and associates                                                                                | 2.7          | 4.2         |
| Employee benefits                                                                                            | -            | 2.1         |
| Other                                                                                                        | 2.5          | 0.2         |
|                                                                                                              | <u>89.6</u>  | <u>89.0</u> |
| (amounts recognised directly in equity)                                                                      |              |             |
| Cash flow hedges                                                                                             | 0.1          | -           |
| Exchange gain on foreign denominated intercompany loans                                                      | 13.5         | 7.4         |
|                                                                                                              | <u>13.6</u>  | <u>7.4</u>  |
| <b>Movements</b>                                                                                             |              |             |
| Balance at 1 July                                                                                            | 96.4         | 66.0        |
| Charged to income statement                                                                                  | 3.9          | 1.8         |
| Charged directly to equity and other comprehensive income                                                    | 6.1          | 7.2         |
| Adjustments for prior years                                                                                  | (3.8)        | 3.4         |
| Transfers                                                                                                    | -            | 4.5         |
| Acquisitions                                                                                                 | -            | 0.4         |
| Foreign exchange differences                                                                                 | 0.6          | 13.1        |
| Balance at 30 June                                                                                           | <u>103.2</u> | <u>96.4</u> |

## Notes to the Consolidated Financial Statements For the year ended 30 June 2016

### 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 the income statement, 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.

The Group has recognised a deferred tax asset of A\$23.6 million for the US Recycling Solutions CGU, of which A\$2.0 million relates to unused tax losses. The US Recycling Solutions CGU recognised a taxable loss in FY16 primarily as a result of impairment and restructuring charges. It is expected that these temporary differences and losses will be utilised as this CGU makes taxable profits in future periods following the completion of the resetting plan.

The Group has not recognised deferred tax assets totaling A\$99.5 million (2015: A\$98.0 million) as it is not probable that they will be realised. The majority of the unrecognised deferred tax asset relates to unused tax losses of A\$79.7 million (2015: A\$67.0 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\$39.5 million (2015: A\$22.6 million) of tax losses that will expire in 5 to 20 years. Other unused tax losses may be carried forward indefinitely.

##### *Tax consolidation legislation*

Sims Metal Management Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 31 October 2005. Sims Metal Management Limited 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.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**13 – Trade and other payables**

|                     | 2016<br>A\$m | 2015<br>A\$m |
|---------------------|--------------|--------------|
| <b>Current:</b>     |              |              |
| Trade payables      | 259.5        | 318.8        |
| Other payables      | 137.4        | 168.4        |
| Deferred income     | 36.0         | 40.5         |
|                     | 432.9        | 527.7        |
| <b>Non-current:</b> |              |              |
| Other payables      | 8.8          | 6.8          |

***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.

**14 – Provisions**

|                          | 2016<br>A\$m | 2015<br>A\$m |
|--------------------------|--------------|--------------|
| Employee benefits        | 41.9         | 45.5         |
| Self-insured risks       | 22.6         | 21.9         |
| Onerous lease provisions | 47.2         | 16.0         |
| Legal provisions         | 18.2         | 18.3         |
| Property “make-good”     | 23.4         | 12.9         |
| Other                    | 1.6          | 1.2          |
|                          | 154.9        | 115.8        |
| Current                  | 69.2         | 64.0         |
| Non-current              | 85.7         | 51.8         |
|                          | 154.9        | 115.8        |

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

|                                  | Self-<br>insurance<br>risks<br>A\$m | Onerous<br>Leases<br>A\$m | Legal<br>A\$m | Property<br>“make-<br>good”<br>A\$m | Other<br>A\$m |
|----------------------------------|-------------------------------------|---------------------------|---------------|-------------------------------------|---------------|
| Balance at 1 July                | 21.9                                | 16.0                      | 18.3          | 12.9                                | 1.2           |
| Provisions recognised/(reversed) | (0.1)                               | 42.3                      | 1.2           | 12.6                                | 0.4           |
| Payments                         | -                                   | (6.6)                     | (1.9)         | (1.5)                               | -             |
| Foreign exchange differences     | 0.8                                 | (4.5)                     | 0.6           | (0.6)                               | -             |
| Balance at 30 June               | 22.6                                | 47.2                      | 18.2          | 23.4                                | 1.6           |

***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. 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.

## **Notes to the Consolidated Financial Statements For the year ended 30 June 2016**

### **14 – Provisions (continued)**

#### ***Recognition and measurement (continued)***

##### *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 obligations exceed the economic benefits expected to be received under the lease.

##### *Property "make-good"*

Provisions are recorded for estimated "make-good" expenses for the Group's leased properties and environmental rehabilitation costs for the Group's owned properties. 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 and 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\$9.7 million in the year ended 30 June 2016 (2015: A\$9.6 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.

In April 2016, the Group closed its UK defined benefit plan with respect to future accruals of benefits. A curtailment gain of A\$1.2 million was recognised during the financial year.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**15 – Retirement benefit obligations (continued)**

**Defined benefit plans (continued)**

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

|                                                          | <b>2016</b>       | 2015       |
|----------------------------------------------------------|-------------------|------------|
|                                                          | <b>A\$m</b>       | A\$m       |
| Present value of accumulated defined benefit obligations | <u>92.4</u>       | 100.1      |
| Fair value of defined benefit plan assets                | <u>(88.6)</u>     | (96.6)     |
| Net amount                                               | <u><b>3.8</b></u> | <u>3.5</u> |
| Net amount comprised of:                                 |                   |            |
| Retirement benefit assets                                | (4.5)             | (2.9)      |
| Retirement benefit obligations                           | <u>8.3</u>        | <u>6.4</u> |
| <b>Net defined benefit liability</b>                     | <u><b>3.8</b></u> | <u>3.5</u> |

The movements in the net defined benefit liability during the year are outlined below:

|                                                   | <b>2016</b>       | 2015       |
|---------------------------------------------------|-------------------|------------|
|                                                   | <b>A\$m</b>       | A\$m       |
| Balance at the beginning of the financial year    | <u>3.5</u>        | 2.5        |
| Actuarial losses recorded in comprehensive income | 2.9               | 1.4        |
| Current service cost                              | 1.1               | 1.2        |
| Past service cost including gain on curtailment   | (1.2)             | -          |
| Net interest cost                                 | 0.2               | 0.2        |
| Employer contributions                            | (2.9)             | (2.6)      |
| Foreign exchange differences                      | <u>0.2</u>        | <u>0.8</u> |
| <b>Balance at the end of the financial year</b>   | <u><b>3.8</b></u> | <u>3.5</u> |

The principal actuarial assumptions used (as expressed as a weighted average) to calculate the net defined benefit liability were as follows:

|                                                                       | <b>2016</b> | 2015 |
|-----------------------------------------------------------------------|-------------|------|
| Discount rate                                                         | <u>3.5%</u> | 3.8% |
| Rate of increase in salaries                                          | 3.2%        | 3.5% |
| Rate of increase in Retail Price Index (UK defined benefit plan only) | 3.0%        | 3.3% |

The Group expects to make contributions of A\$3.0 million to the defined benefit plans during the next financial year.

The major categories of plan assets are as follows:

|                          | <b>2016</b>        | 2015        |
|--------------------------|--------------------|-------------|
|                          | <b>A\$m</b>        | A\$m        |
| Cash                     | <u>3.4</u>         | 5.3         |
| Equity investments       | 58.8               | 56.3        |
| Debt instruments         | 25.0               | 26.8        |
| Property                 | <u>1.4</u>         | <u>8.2</u>  |
| <b>Total plan assets</b> | <u><b>88.6</b></u> | <u>96.6</u> |

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**15 – Retirement benefit obligations (continued)**

**Defined benefit plans (continued)**

***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 liability (excluding interest) are recognised immediately in other comprehensive income.

The Group determined the net interest expense (income) on the net defined benefit liability (asset) 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 liability (asset), adjusted for any changes in the net defined benefit liability (asset) during the period resulting from contributions and benefit payments. Net interest expense related to the defined benefit plans is recognised in the income statement.

**16 – Other financial assets and liabilities**

|                                                  | <b>2016</b> | 2015 |
|--------------------------------------------------|-------------|------|
|                                                  | <b>A\$m</b> | A\$m |
| <b>Other financial assets – Current:</b>         |             |      |
| Investments in marketable securities             | <b>8.9</b>  | 9.0  |
| Loans to third parties carried at amortised cost | <b>0.8</b>  | 0.9  |
| Derivative financial instruments:                |             |      |
| Forward foreign exchange contracts               | <b>1.7</b>  | 2.8  |
| Forward commodity contracts                      | <b>0.2</b>  | 2.7  |
|                                                  | <b>11.6</b> | 15.4 |
| <b>Other financial assets – Non-current:</b>     |             |      |
| Loans to third parties carried at amortised cost | -           | 0.1  |
| Other receivables                                | <b>16.1</b> | 12.3 |
|                                                  | <b>16.1</b> | 12.4 |
| <b>Other financial liabilities – Current:</b>    |             |      |
| Derivative financial instruments:                |             |      |
| Forward foreign exchange contracts               | <b>7.1</b>  | 1.5  |
| Forward commodity contracts                      | <b>5.7</b>  | 0.1  |
|                                                  | <b>12.8</b> | 1.6  |

***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 the income statement.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**CAPITAL STRUCTURE AND RISK MANAGEMENT**

**17 – Cash and cash equivalents**

|                                  | <b>2016</b>         | 2015                |
|----------------------------------|---------------------|---------------------|
|                                  | <b>A\$m</b>         | A\$m                |
| Cash at bank and on hand         | <u>248.3</u>        | <u>316.0</u>        |
| <b>Cash and cash equivalents</b> | <b><u>248.3</u></b> | <b><u>316.0</u></b> |

**Reconciliation of (loss)/profit for the year to net cash inflows from operating activities**

|                                                                                                                     | <b>2016</b>           | 2015                |
|---------------------------------------------------------------------------------------------------------------------|-----------------------|---------------------|
|                                                                                                                     | <b>A\$m</b>           | A\$m                |
| <b>(Loss)/profit for the year</b>                                                                                   | <b><u>(216.5)</u></b> | <b><u>109.9</u></b> |
| <b>Adjustments for non-cash items:<sup>1</sup></b>                                                                  |                       |                     |
| Depreciation and amortisation                                                                                       | 126.4                 | 121.1               |
| Non-cash interest expense                                                                                           | 2.9                   | 1.7                 |
| Unrealised loss/(gain) on held for trading derivatives                                                              | 16.7                  | (7.8)               |
| Impairment of goodwill and other intangibles                                                                        | 53.0                  | -                   |
| Impairment of property, plant and equipment                                                                         | 31.8                  | 0.3                 |
| Impairment/(reversal) of investments in associates and joint ventures                                               | 119.1                 | (6.3)               |
| Net gain on disposal of property, plant and equipment                                                               | (3.6)                 | (3.0)               |
| Gain on sale of associate                                                                                           | -                     | (1.0)               |
| Non-cash share-based payments expense                                                                               | 9.2                   | 13.4                |
| Non-cash retirement benefit expense                                                                                 | 0.1                   | 1.2                 |
| Imputed portion of interest income on convertible loan                                                              | -                     | (1.8)               |
| Equity accounted results net of dividends received                                                                  | 0.2                   | 7.2                 |
| <b>Change in operating assets and liabilities, excluding the effects of acquisitions and disposals of entities:</b> |                       |                     |
| Decrease in trade and other receivables                                                                             | 0.8                   | 92.4                |
| Decrease in inventories                                                                                             | 78.8                  | 126.6               |
| (Increase)/decrease in prepayments                                                                                  | (12.8)                | 2.2                 |
| Increase/(decrease) in provisions                                                                                   | 42.4                  | (8.9)               |
| Decrease in income taxes                                                                                            | (1.1)                 | (13.0)              |
| Decrease in deferred taxes                                                                                          | (24.9)                | (3.1)               |
| Decrease in trade and other payables                                                                                | (91.2)                | (133.0)             |
| <b>Net cash inflows from operating activities</b>                                                                   | <b><u>131.3</u></b>   | <b><u>298.1</u></b> |

<sup>1</sup>Includes both continuing and discontinued operations

**Non-cash investing and financing activities**

Equipment totaling A\$6.3 million was acquired through finance leases in the year ended 30 June 2016 (2015: nil).

***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**  
**For the year ended 30 June 2016**

**18 - Borrowings**

All borrowings outstanding at the balance date represent finance leases.

The Group has access to unsecured global multi-currency/multi-option loan facilities, all of which are subject to common terms. In December 2015, the Group renewed its loan facilities, which among other things, extended the maturity date through 31 October 2019 and amended certain loan covenants. 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.

|                                                              | <b>2016</b>    | 2015    |
|--------------------------------------------------------------|----------------|---------|
|                                                              | <b>A\$m</b>    | A\$m    |
| Unsecured global multi-currency/multi-option loan facilities | <b>1,281.2</b> | 1,574.1 |
| Amount of credit unused                                      | <b>1,251.8</b> | 1,529.9 |

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 the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as prepayments and amortised to finance costs on a straight-line basis over the term of the loan facility.

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 the income statement 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**

|                                                             | <b>2016</b>                 |                       | 2015                      |                       |
|-------------------------------------------------------------|-----------------------------|-----------------------|---------------------------|-----------------------|
|                                                             | <b>Number<br/>of shares</b> | <b>A\$m</b>           | Number<br>of shares       | A\$m                  |
| On issue per share register at the beginning of the period  | <b>204,864,886</b>          | <b>2,797.4</b>        | 204,601,321               | 2,796.4               |
| Share buy-back                                              | <b>(7,945,261)</b>          | <b>(60.3)</b>         | -                         | -                     |
| Issued under long-term incentive plans                      | <b>765,538</b>              | <b>0.2</b>            | 263,565                   | 1.0                   |
| <b>On issue per share register at the end of the period</b> | <b><u>197,685,163</u></b>   | <b><u>2,737.3</u></b> | <b><u>204,864,886</u></b> | <b><u>2,797.4</u></b> |

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

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**19 – Contributed equity (continued)**

**Share buy-back**

On 18 November 2015, the Company announced an on-market share buy-back program which will allow the buy-back of a maximum of 10% of issued capital, approximately 20.5 million ordinary shares, over a 12-month period. The buy-back commenced on 7 December 2015 and the reacquired shares have been cancelled. Details regarding the shares purchased during the year ended 30 June 2016 are as follows:

|                           |                  |
|---------------------------|------------------|
| Ordinary shares purchased | <b>7,945,261</b> |
| High Price                | <b>A\$10.03</b>  |
| Low Price                 | <b>A\$5.97</b>   |
| Average Price             | <b>A\$7.59</b>   |

**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<br>payments<br>A\$m | Available<br>-for-sale<br>invest-<br>ments<br>A\$m | Cash<br>flow<br>hedging<br>A\$m | Foreign<br>currency<br>translation<br>A\$m | Total<br>A\$m |
|--------------------------------------------|---------------------------------|----------------------------------------------------|---------------------------------|--------------------------------------------|---------------|
| <b>Balance at 1 July 2014</b>              | 126.2                           | 0.1                                                | 1.3                             | (329.9)                                    | (202.3)       |
| Equity-settled share-based payment expense | 13.4                            | -                                                  | -                               | -                                          | 13.4          |
| Revaluation – gross                        | -                               | -                                                  | (1.2)                           | -                                          | (1.2)         |
| Transfer to the income statement – gross   | -                               | -                                                  | (1.4)                           | -                                          | (1.4)         |
| Foreign currency translation differences   | -                               | -                                                  | -                               | 246.0                                      | 246.0         |
| Associates <sup>1</sup>                    | -                               | (0.1)                                              | 0.3                             | (0.8)                                      | (0.6)         |
| Deferred tax                               | (2.9)                           | -                                                  | 0.4                             | (29.4)                                     | (31.9)        |
| <b>Balance at 30 June 2015</b>             | 136.7                           | -                                                  | (0.6)                           | (114.1)                                    | 22.0          |
| Equity-settled share-based payment expense | <b>9.3</b>                      | -                                                  | -                               | -                                          | <b>9.3</b>    |
| Revaluation – gross                        | -                               | -                                                  | <b>0.1</b>                      | -                                          | <b>0.1</b>    |
| Transfer to the income statement – gross   | -                               | -                                                  | <b>0.9</b>                      | -                                          | <b>0.9</b>    |
| Foreign currency translation differences   | -                               | -                                                  | -                               | <b>42.5</b>                                | <b>42.5</b>   |
| Deferred tax                               | -                               | -                                                  | <b>(0.3)</b>                    | <b>(6.2)</b>                               | <b>(6.5)</b>  |
| <b>Balance at 30 June 2016</b>             | <b>146.0</b>                    | <b>-</b>                                           | <b>0.1</b>                      | <b>(77.8)</b>                              | <b>68.3</b>   |

<sup>1</sup> Includes A\$1.0 million gain on recycling of reserves on disposal of an associate.

## Notes to the Consolidated Financial Statements For the year ended 30 June 2016

### 20 – Reserves and accumulated deficit (continued)

#### *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.

##### *Available-for-sale investments reserve*

Changes in the fair value and exchange differences arising on translation of investments, such as equities classified as available-for-sale investments, are recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts are reclassified to the income statement when the associated assets are sold or impaired.

##### *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 the income statement when the associated hedged transaction impacts the income statement.

##### *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 the income statement when the Group disposes of the foreign operation.

#### **Accumulated deficit**

|                                                     | <b>2016</b>           | 2015           |
|-----------------------------------------------------|-----------------------|----------------|
|                                                     | <b>A\$m</b>           | A\$m           |
| Balance at 1 July                                   | <b>(706.6)</b>        | (760.2)        |
| (Loss)/profit after tax                             | <b>(216.5)</b>        | 109.9          |
| Dividends paid                                      | <b>(46.8)</b>         | (53.2)         |
| Actuarial loss on defined benefit plans, net of tax | <b>(3.2)</b>          | (3.1)          |
| Balance at 30 June                                  | <b><u>(973.1)</u></b> | <u>(706.6)</u> |

### 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, Audit & Compliance Committee ("RAC") of the Board oversees, on a quarterly basis, the monitoring of compliance by management with the Group's risk management framework. The RAC 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.

#### **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 2016, the Group had a net cash position of A\$242.1 million (2015: A\$313.9 million).

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**21 – Financial risk management (continued)**

**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 transactions denominated in currencies that are not the functional currency of the relevant entity.

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

|                         | <b>Net financial assets/(liabilities)</b> |      |
|-------------------------|-------------------------------------------|------|
|                         | <b>2016</b>                               | 2015 |
| <b>Currency:</b>        | <b>A\$m</b>                               | A\$m |
| US dollar               | <b>27.8</b>                               | 9.0  |
| Euro                    | <b>5.5</b>                                | 27.6 |
| British pounds sterling | <b>0.7</b>                                | 0.7  |

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.

|                         | <b>Impact on post-tax profit – (lower)/higher</b> |       |
|-------------------------|---------------------------------------------------|-------|
|                         | <b>2016</b>                                       | 2015  |
|                         | <b>A\$m</b>                                       | A\$m  |
| US dollar               | <b>(8.8)</b>                                      | (5.5) |
| Euro                    | <b>(0.9)</b>                                      | (0.3) |
| British pounds sterling | -                                                 | 0.1   |

**Impact on equity – higher**

|           | <b>2016</b> | 2015 |
|-----------|-------------|------|
|           | <b>A\$m</b> | A\$m |
| US dollar | <b>34.6</b> | 33.9 |

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 aluminum) and certain precious metals (primarily gold, silver and palladium) where viable forward commodity contracts are available to minimise price risk exposure.

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 the income statement. 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\$11.0 million (2015: A\$8.9 million). A 10% depreciation of the stated commodity prices would have an equal and opposite effect.

## Notes to the Consolidated Financial Statements For the year ended 30 June 2016

### 21 – Financial risk management (continued)

#### Market risk (continued)

##### *(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 the income statement.

#### 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, an impairment provision 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.

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.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**21 – Financial risk management (continued)**

**Liquidity risk (continued)**

|                                                     | Less than<br>1 year<br>A\$m | Between<br>1 and 2<br>years<br>A\$m | Between<br>2 and 5<br>years<br>A\$m | Over 5<br>years<br>A\$m | Total<br>A\$m |
|-----------------------------------------------------|-----------------------------|-------------------------------------|-------------------------------------|-------------------------|---------------|
| <b>2016</b>                                         |                             |                                     |                                     |                         |               |
| <b>Non-derivatives:</b>                             |                             |                                     |                                     |                         |               |
| Trade and other payables                            | 432.9                       | 1.8                                 | 2.4                                 | 4.6                     | 441.7         |
| Finance lease liabilities                           | 2.1                         | 2.2                                 | 1.9                                 | -                       | 6.2           |
| <b>Derivatives:</b>                                 |                             |                                     |                                     |                         |               |
| Net settled (forward commodity contracts)           | 5.7                         | -                                   | -                                   | -                       | 5.7           |
| Gross settled (forward foreign exchange contracts): |                             |                                     |                                     |                         |               |
| - (inflows)                                         | (179.0)                     | -                                   | -                                   | -                       | (179.0)       |
| - outflows                                          | 186.1                       | -                                   | -                                   | -                       | 186.1         |
|                                                     | <u>447.8</u>                | <u>4.0</u>                          | <u>4.3</u>                          | <u>4.6</u>              | <u>460.7</u>  |
| Interest on financial commitments                   | 8.8                         | 8.8                                 | 10.9                                | -                       | 28.5          |
| Financial guarantees <sup>1</sup>                   | 42.2                        | -                                   | -                                   | -                       | 42.2          |
|                                                     | <u>498.8</u>                | <u>12.8</u>                         | <u>15.2</u>                         | <u>4.6</u>              | <u>531.4</u>  |
| <b>2015</b>                                         |                             |                                     |                                     |                         |               |
| <b>Non-derivatives:</b>                             |                             |                                     |                                     |                         |               |
| Trade and other payables                            | 527.7                       | 1.8                                 | 0.8                                 | 4.2                     | 534.5         |
| Finance lease liabilities                           | 0.6                         | 0.6                                 | 1.1                                 | 0.1                     | 2.4           |
| <b>Derivatives:</b>                                 |                             |                                     |                                     |                         |               |
| Net settled (forward commodity contracts)           | 0.1                         | -                                   | -                                   | -                       | 0.1           |
| Gross settled (forward foreign exchange contracts): |                             |                                     |                                     |                         |               |
| - (inflows)                                         | (76.2)                      | -                                   | -                                   | -                       | (76.2)        |
| - outflows                                          | 77.7                        | -                                   | -                                   | -                       | 77.7          |
|                                                     | <u>529.9</u>                | <u>2.4</u>                          | <u>1.9</u>                          | <u>4.3</u>              | <u>538.5</u>  |
| Interest on financial commitments                   | 10.6                        | 3.6                                 | -                                   | -                       | 14.2          |
| Financial guarantees <sup>1</sup>                   | 61.4                        | -                                   | -                                   | -                       | 61.4          |
|                                                     | <u>601.9</u>                | <u>6.0</u>                          | <u>1.9</u>                          | <u>4.3</u>              | <u>614.1</u>  |

<sup>1</sup> 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.

## Notes to the Consolidated Financial Statements For the year ended 30 June 2016

### 21 – Financial risk management (continued)

#### Fair value (continued)

##### *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 the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement 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 the income statement 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 the income statement, 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 the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item impacts the income statement (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 the income statement 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 the income statement. When a forecast transaction is no longer expected to occur, the cumulative gains or losses that were deferred in equity are immediately transferred to the income statement.

## Notes to the Consolidated Financial Statements For the year ended 30 June 2016

### GROUP STRUCTURE

#### 22 – Business acquisitions

There were no acquisitions made during the year ended 30 June 2016. During the year ended 30 June 2015, the Group acquired three businesses. On a combined basis, had the acquisitions all occurred on 1 July 2014, there would not have been a significant change to the Group's revenue and net profit nor was the contribution by the businesses acquired to the Group post-acquisition significant.

Details of the aggregate purchase consideration and cash outflow, assets and liabilities arising from the acquisitions and goodwill recognised from the acquisitions completed during the year ended 30 June 2015 are as follows:

|                                         | <b>A\$m</b> |
|-----------------------------------------|-------------|
| Property, plant and equipment (Note 10) | 3.1         |
| Identified intangible assets (Note 11)  | 1.8         |
| Accounts payable                        | (1.0)       |
| Deferred tax liability                  | (0.4)       |
| Net identifiable assets acquired        | 3.5         |
| Goodwill on acquisition (Note 11)       | 2.6         |
| Total consideration                     | 6.1         |
| Deferred consideration                  | (0.4)       |
| <b>Net cash outflow</b>                 | <b>5.7</b>  |

The goodwill is attributable to several factors including site locations, synergies existing in the operations acquired and the assembled workforce, which together contribute to the profitability of the acquired businesses. Some of the goodwill recognised is expected to be deductible for income tax purposes.

#### *Recognition and measurement*

The Group accounts for business combinations using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at fair value. Any excess of the cost of acquisition over the fair values of the net identifiable assets acquired is recognised as goodwill. Transaction costs are expensed as incurred.

#### 23 – Subsidiaries

| <b>Name of entity</b>                                        | <b>Country of<br/>Incorporation</b> | <b>Equity holding %</b> |             |
|--------------------------------------------------------------|-------------------------------------|-------------------------|-------------|
|                                                              |                                     | <b>2016</b>             | <b>2015</b> |
| <b>Sims Metal Management Limited</b>                         | Australia                           |                         |             |
| Sims Group Australia Holdings Limited (i)                    | Australia                           | <b>100%</b>             | 100%        |
| Sims Aluminium Pty Limited (i)                               | Australia                           | <b>100%</b>             | 100%        |
| Sims E-Recycling Pty Limited                                 | Australia                           | <b>90%</b>              | 90%         |
| Simsmetal Holdings Pty Limited                               | Australia                           | <b>100%</b>             | 100%        |
| Simsmetal Properties Qld Pty Limited                         | Australia                           | <b>100%</b>             | 100%        |
| Sims Industrial Pty Limited                                  | Australia                           | <b>100%</b>             | 100%        |
| Simsmetal Services Pty Limited (i)                           | Australia                           | <b>100%</b>             | 100%        |
| Simsmetal Properties NSW Pty Limited                         | Australia                           | <b>100%</b>             | 100%        |
| Sims Group Holdings 3 Pty Limited                            | Australia                           | <b>100%</b>             | 100%        |
| Universal Inspection and Testing Company Pty Limited         | Australia                           | <b>100%</b>             | 100%        |
| Sims Group Holdings 1 Pty Ltd                                | Australia                           | <b>100%</b>             | 100%        |
| Sims Group Holdings 2 Pty Ltd                                | Australia                           | <b>100%</b>             | 100%        |
| Electronic Product Stewardship Australasia Pty Limited       | Australia                           | <b>90%</b>              | 90%         |
| Sims Recycling Solutions Austrian Holding GmbH               | Austria                             | <b>100%</b>             | 100%        |
| Sims Recycling Solutions Austrian Intermediate Holdings GmbH | Austria                             | <b>100%</b>             | 100%        |
| Sims metrade GmbH                                            | Austria                             | <b>100%</b>             | 100%        |

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**23 – Subsidiaries (continued)**

| <u>Name of entity</u>                                              | <u>Country of Incorporation</u> | <u>Equity holding %</u> |             |
|--------------------------------------------------------------------|---------------------------------|-------------------------|-------------|
|                                                                    |                                 | <u>2016</u>             | <u>2015</u> |
| Sims Recycling Solutions NV                                        | Belgium                         | 100%                    | 100%        |
| Sims Group Recycling Solutions Canada Ltd                          | Canada                          | 100%                    | 100%        |
| Sims Group Canada Holdings Limited                                 | Canada                          | 100%                    | 100%        |
| Sims Lifecycle Services s.r.o.                                     | Czech Republic                  | 100%                    | 100%        |
| Sims Recycling Solutions FZE                                       | Dubai                           | 100%                    | 100%        |
| Sims Group German Holdings GmbH                                    | Germany                         | 100%                    | 100%        |
| Sims M+R GmbH                                                      | Germany                         | 100%                    | 100%        |
| Sims Lifecycle Services GmbH                                       | Germany                         | 100%                    | 100%        |
| Sims Metal Management Asia Limited                                 | Hong Kong                       | 100%                    | 100%        |
| Sims Metal Management China Holdings Limited                       | Hong Kong                       | 100%                    | 100%        |
| Sims Metal Management Dragon Holdings Limited                      | Hong Kong                       | 100%                    | 100%        |
| Sims Lifecycle Services Kft. (ii)                                  | Hungary                         | 0%                      | 100%        |
| Trishyiraya Recycling India Private Limited                        | India                           | 100%                    | 100%        |
| Sims Recycling Solutions India Private Limited                     | India                           | 100%                    | 100%        |
| Sims Recycling Solutions Ireland Limited                           | Ireland                         | 100%                    | 100%        |
| Mirec BV                                                           | Netherlands                     | 100%                    | 100%        |
| Sims Recycling Solutions Coöperatief B.A.                          | Netherlands                     | 100%                    | 100%        |
| Sims Lifecycle Services BV                                         | Netherlands                     | 100%                    | 100%        |
| Sims E - Recycling (NZ) Limited                                    | New Zealand                     | 90%                     | 90%         |
| Simsmetal Industries Limited                                       | New Zealand                     | 100%                    | 100%        |
| Sims Recycling Solutions AS                                        | Norway                          | 100%                    | 100%        |
| PNG Recycling Limited                                              | Papua New Guinea                | 100%                    | 100%        |
| Gaukara Company No. 2 Limited                                      | Papua New Guinea                | 100%                    | 100%        |
| Sims Lifecycle Service Sp z.o.o.                                   | Poland                          | 100%                    | 100%        |
| Sims Recycling Solutions Africa Pty Ltd                            | Republic of South Africa        | 100%                    | 100%        |
| Sims Recycling Solutions Pte. Ltd.                                 | Singapore                       | 100%                    | 100%        |
| Sims Recycling Solutions AB                                        | Sweden                          | 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%        |
| C Herring & Son Limited                                            | UK                              | 100%                    | 100%        |
| All Metal Recovery Limited                                         | UK                              | 100%                    | 100%        |
| All Metal Recovery Cradley Heath Limited                           | UK                              | 100%                    | 100%        |
| Sims Recycling Solutions UK Holdings Limited (ii)                  | UK                              | 0%                      | 100%        |
| Sims Recycling Solutions UK Group Limited (ii)                     | UK                              | 0%                      | 100%        |
| Sims Recycling Solutions UK Limited (ii)                           | UK                              | 0%                      | 100%        |
| United Castings Limited                                            | UK                              | 100%                    | 100%        |
| Sims Group UK Pension Trustees Limited                             | UK                              | 100%                    | 100%        |
| Cooper Metal Recycling Ltd                                         | UK                              | 100%                    | 100%        |
| Dunn Brothers (1995) Limited                                       | UK                              | 100%                    | 100%        |
| Sims Metal Management U.K. Limited (formerly Cheque Swap Limited)  | UK                              | 100%                    | 100%        |
| Deane Wood Export Limited                                          | UK                              | 100%                    | 100%        |
| Sims Recycling Solutions Limited (formerly S3 Interactive Limited) | UK                              | 100%                    | 100%        |
| Sims FE Mottram Limited                                            | UK                              | 100%                    | 100%        |
| Sims Recycling Solutions Inc.                                      | US                              | 100%                    | 100%        |
| Sims Recycling Solutions Holdings Inc.                             | US                              | 100%                    | 100%        |
| Sims Metal Management USA GP                                       | US                              | 100%                    | 100%        |

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**23 – Subsidiaries (continued)**

| <u>Name of entity</u>                         | <u>Country of Incorporation</u> | <u>Equity holding %</u> |             |
|-----------------------------------------------|---------------------------------|-------------------------|-------------|
|                                               |                                 | <u>2016</u>             | <u>2015</u> |
| Sims Group USA Holdings Corporation           | US                              | 100%                    | 100%        |
| Dover Barge Company                           | US                              | 100%                    | 100%        |
| Simsmetal East LLC                            | US                              | 100%                    | 100%        |
| Sims Municipal Recycling of New York LLC      | US                              | 100%                    | 100%        |
| Schiabo Larovo Corporation                    | US                              | 100%                    | 100%        |
| Simsmetal West LLC                            | US                              | 100%                    | 100%        |
| Sims Group Global Trade Corporation           | US                              | 100%                    | 100%        |
| Sims Group USA Corporation                    | US                              | 100%                    | 100%        |
| Metal Management, Inc.                        | US                              | 100%                    | 100%        |
| Metal Dynamics Detroit LLC                    | US                              | 100%                    | 100%        |
| SMM Gulf Coast LLC                            | US                              | 100%                    | 100%        |
| Metal Management Midwest, Inc.                | US                              | 100%                    | 100%        |
| CIM Trucking, Inc.                            | US                              | 100%                    | 100%        |
| Metal Management Indiana, Inc.                | US                              | 100%                    | 100%        |
| Metal Management Memphis, L.L.C.              | US                              | 100%                    | 100%        |
| Metal Management Ohio, Inc.                   | US                              | 100%                    | 100%        |
| SMM – North America Trade Corporation         | US                              | 100%                    | 100%        |
| Metal Management Pittsburgh, Inc.             | US                              | 100%                    | 100%        |
| Proler Southwest Corporation                  | US                              | 100%                    | 100%        |
| SMM South Corporation                         | US                              | 100%                    | 100%        |
| Naporano Iron & Metal, Inc.                   | US                              | 100%                    | 100%        |
| Metal Management Northeast, Inc.              | US                              | 100%                    | 100%        |
| SMM New England Corporation                   | US                              | 100%                    | 100%        |
| New York Recycling Ventures, Inc.             | US                              | 100%                    | 100%        |
| Reserve Iron & Metal Limited Partnership (ii) | US                              | 0%                      | 100%        |
| Port Albany Ventures, LLC                     | US                              | 100%                    | 100%        |
| SMM Southeast LLC                             | US                              | 100%                    | 100%        |

(i) These subsidiaries and the Company are parties to a 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.

(ii) These subsidiaries were disposed of or deregistered during the year.

*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 Class Order 98/1418 (as amended) issued by ASIC.

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.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**23 – Subsidiaries (continued)**

*Deed of Cross Guarantee (continued)*

*(i) Condensed consolidated income statement*

|                                                    | <b>2016</b>           | 2015               |
|----------------------------------------------------|-----------------------|--------------------|
|                                                    | <b>A\$m</b>           | A\$m               |
| <b>(Loss)/profit before income tax<sup>1</sup></b> | <b>(115.0)</b>        | 102.6              |
| Income tax expense                                 | <u>(12.4)</u>         | <u>(44.2)</u>      |
| <b>(Loss)/profit after tax</b>                     | <b><u>(127.4)</u></b> | <b><u>58.4</u></b> |

<sup>1</sup>2016 amount includes an after tax non-cash impairment charge of A\$225.6 million (2015: nil) against the parent entity's investment in subsidiaries which are not part of the Closed Group.

*(ii) Consolidated statement of comprehensive income*

|                                                                               |                       |                    |
|-------------------------------------------------------------------------------|-----------------------|--------------------|
| <b>(Loss)/profit after tax</b>                                                | <b>(127.4)</b>        | 58.4               |
| <b>Other comprehensive income:</b>                                            |                       |                    |
| <i>Items that may be reclassified to the income statement</i>                 |                       |                    |
| Changes in the fair value of derivatives held as cash flow hedges, net of tax | <b>0.7</b>            | (1.0)              |
| Share of other comprehensive income from associates                           | -                     | 0.3                |
| <i>Items that will not be reclassified to the income statement</i>            |                       |                    |
| Actuarial gain on defined benefit plans, net of tax                           | <u><b>0.8</b></u>     | <u>0.9</u>         |
| <b>Other comprehensive income for the year, net of tax</b>                    | <b><u>1.5</u></b>     | <b><u>0.2</u></b>  |
| <b>Total comprehensive (loss)/income for the year</b>                         | <b><u>(125.9)</u></b> | <b><u>58.6</u></b> |

*(iii) Summary of movements in consolidated accumulated deficit*

|                                                     |                       |                       |
|-----------------------------------------------------|-----------------------|-----------------------|
| Balance at 1 July                                   | <b>(825.3)</b>        | (831.4)               |
| (Loss)/profit for the year                          | <b>(127.4)</b>        | 58.4                  |
| Actuarial gain on defined benefit plans, net of tax | <b>0.8</b>            | 0.9                   |
| Dividends provided for or paid                      | <u><b>(46.8)</b></u>  | <u>(53.2)</u>         |
| Balance at 30 June                                  | <b><u>(998.7)</u></b> | <b><u>(825.3)</u></b> |

*(iv) Consolidated statement of financial position*

|                                              |                       |                       |
|----------------------------------------------|-----------------------|-----------------------|
| <b>Current assets</b>                        |                       |                       |
| Cash and cash equivalents                    | <b>39.7</b>           | 34.1                  |
| Trade and other receivables                  | <b>124.5</b>          | 144.7                 |
| Inventory                                    | <b>75.6</b>           | 82.7                  |
| Other financial assets                       | <b>0.7</b>            | 0.4                   |
| Assets held for sale                         | <u><b>3.4</b></u>     | <u>1.8</u>            |
| <b>Total current assets</b>                  | <b><u>243.9</u></b>   | <b><u>263.7</u></b>   |
| <b>Non-current assets</b>                    |                       |                       |
| Investments in associates and joint ventures | <b>40.1</b>           | 34.6                  |
| Other financial assets                       | <b>1,582.7</b>        | 1,652.3               |
| Property, plant and equipment                | <b>234.5</b>          | 211.4                 |
| Retirement benefit assets                    | <b>3.6</b>            | 2.9                   |
| Deferred tax assets                          | <b>22.9</b>           | 21.0                  |
| Intangible assets                            | <u><b>42.6</b></u>    | <u>43.5</u>           |
| <b>Total non-current assets</b>              | <b><u>1,926.4</u></b> | <b><u>1,965.7</u></b> |
| <b>Total assets</b>                          | <b><u>2,170.3</u></b> | <b><u>2,229.4</u></b> |

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**23 – Subsidiaries (continued)**

|                                                                      | <b>2016</b>           | <b>2015</b>           |
|----------------------------------------------------------------------|-----------------------|-----------------------|
|                                                                      | <u><b>A\$m</b></u>    | <u><b>A\$m</b></u>    |
| <i>Deed of Cross Guarantee (continued)</i>                           |                       |                       |
| <i>(iv) Consolidated statement of financial position (continued)</i> |                       |                       |
| <b>Current liabilities</b>                                           |                       |                       |
| Trade and other payables                                             | 230.9                 | 72.5                  |
| Borrowings                                                           | 0.5                   | 0.5                   |
| Other financial liabilities                                          | 0.8                   | 1.5                   |
| Current tax liabilities                                              | 1.5                   | 2.9                   |
| Provisions                                                           | 16.6                  | 15.7                  |
| <b>Total current liabilities</b>                                     | <u><b>250.3</b></u>   | <u><b>93.1</b></u>    |
| <b>Non-current liabilities</b>                                       |                       |                       |
| Payables                                                             | 3.3                   | 3.0                   |
| Borrowings                                                           | 1.1                   | 1.6                   |
| Deferred tax liabilities                                             | 27.4                  | 21.5                  |
| Provisions                                                           | 5.0                   | 3.4                   |
| <b>Total non-current liabilities</b>                                 | <u><b>36.8</b></u>    | <u><b>29.5</b></u>    |
| <b>Total liabilities</b>                                             | <u><b>287.1</b></u>   | <u><b>122.6</b></u>   |
| <b>Net assets</b>                                                    | <u><b>1,883.2</b></u> | <u><b>2,106.8</b></u> |
| <b>Equity</b>                                                        |                       |                       |
| Contributed equity                                                   | 2,737.3               | 2,797.4               |
| Reserves                                                             | 144.6                 | 134.7                 |
| Accumulated deficit                                                  | (998.7)               | (825.3)               |
| <b>Total equity</b>                                                  | <u><b>1,883.2</b></u> | <u><b>2,106.8</b></u> |

**24 – Interests in other entities**

*Joint operations*

The Group has a 50% interest in a joint operation called Sims Pacific Metals (“SPM”) which is engaged in metal recycling in New Zealand. The Group’s interest in SPM is included in the statement of financial position under the classifications shown below:

|                          | <b>2016</b>        | <b>2015</b>        |
|--------------------------|--------------------|--------------------|
|                          | <u><b>A\$m</b></u> | <u><b>A\$m</b></u> |
| Current assets           | 18.5               | 20.1               |
| Non-current assets       | 8.6                | 7.5                |
| <b>Total assets</b>      | <u><b>27.1</b></u> | <u><b>27.6</b></u> |
| Current liabilities      | 24.9               | 23.3               |
| Non-current liabilities  | 0.1                | 0.1                |
| <b>Total liabilities</b> | <u><b>25.0</b></u> | <u><b>23.4</b></u> |
| <b>Net assets</b>        | <u><b>2.1</b></u>  | <u><b>4.2</b></u>  |

**Recognition and measurement**

The partners in the joint operation own the assets as tenants in common and are jointly and severally liable for the liabilities incurred by the joint operation. SPM is therefore classified as a joint operation and the Group recognises its direct right to the jointly held assets, liabilities, revenues and expenses.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**24 – Interests in other entities (continued)**

*Associates and joint ventures*

| <u>Name</u>                      | <u>Principal Activity</u> | <u>Country of incorporation</u> | <u>Ownership interest %</u> |             |
|----------------------------------|---------------------------|---------------------------------|-----------------------------|-------------|
|                                  |                           |                                 | <u>2016</u>                 | <u>2015</u> |
| SA Recycling LLC                 | Recycling                 | US                              | 50                          | 50          |
| LMS Energy Pty Ltd (“LMS”)       | Renewable energy          | Australia                       | 50                          | 50          |
| Sims Pacific Metals Limited      | Recycling                 | New Zealand                     | 50                          | 50          |
| 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          |
| ITL Logistics GmbH               | Recycling                 | Germany                         | -                           | 34          |

*Movements in carrying amounts of associates and joint ventures*

|                                                                      | <u>2016</u>  | <u>2015</u>  |
|----------------------------------------------------------------------|--------------|--------------|
|                                                                      | <u>A\$m</u>  | <u>A\$m</u>  |
| Balance at 1 July                                                    | 299.4        | 314.9        |
| Share of results                                                     | 5.5          | 3.1          |
| Accretion of deferred gain to equity accounted profit                | 1.3          | 2.8          |
| (Impairment)/reversal of investment in associates and joint ventures | (119.1)      | 6.3          |
| Disposal of an associate                                             | (0.1)        | (74.5)       |
| Share of other comprehensive income of associates                    | -            | 0.4          |
| Dividends received                                                   | (7.0)        | (13.1)       |
| Foreign exchange differences                                         | 10.2         | 59.5         |
| Balance at 30 June                                                   | <u>190.2</u> | <u>299.4</u> |

*Summarised financial information of associates and joint ventures*

|                                        | <u>2016</u> | <u>2015</u> |
|----------------------------------------|-------------|-------------|
|                                        | <u>A\$m</u> | <u>A\$m</u> |
| <b>Statement of financial position</b> |             |             |
| Current assets                         | 103.1       | 79.5        |
| Non-current assets                     | 227.6       | 306.9       |
| Current liabilities                    | 42.1        | 32.1        |
| Non-current liabilities                | 99.4        | 62.5        |
| <b>Income statement</b>                |             |             |
| Revenue                                | 523.2       | 644.6       |
| Share of net profit for the year       | 5.5         | 3.1         |

*Balances and transactions with associates and joint ventures*

|                                           | <u>2016</u> | <u>2015</u> |
|-------------------------------------------|-------------|-------------|
|                                           | <u>A\$m</u> | <u>A\$m</u> |
| Sales of goods and services               | 0.0         | 39.7        |
| Purchases of goods and services           | 309.6       | 401.0       |
| Management and other fees and commissions | 1.6         | 1.9         |
| Interest income                           | -           | 4.1         |
| Current receivables                       | 2.6         | 1.6         |
| Current payables                          | 6.8         | 8.4         |

## Notes to the Consolidated Financial Statements For the year ended 30 June 2016

### 24 – Interests in other entities (continued)

#### *Impairments*

In the half year ended 31 December 2015, SA Recycling's operating results were significantly impacted by economic conditions. As a result, the Group assessed the recoverable amount of its investment in SA Recycling and recognised an impairment on its investment of A\$119.1 million in December 2015. The recoverable amount was based on a value-in-use calculation that was independently performed by a valuation firm. The impairment charge is reflected in the Group's North America Metals segment.

In June 2016, the Group reassessed the recoverable amount of its investment in SA Recycling. Based on the improvement in SA Recycling's operating results, no further impairment was identified. The significant assumptions used was a pre-tax discount rate of 12.7% and a growth rate of 2.0%. An assessment of the impact of possible changes in key assumptions was also performed. If the discount rate was 1% higher, with all other assumptions being the same, an impairment charge of A\$4.9 million would have been recognised.

The Group's assessment of the recoverable amount of SA Recycling also took into account that SA Recycling's credit agreement expires in November 2016. Management of SA Recycling are currently in negotiations with their bank group to extend the credit agreement which they expect to have completed prior to November 2016.

#### *Recognition and measurement*

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

Investments in associates and 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.

### 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*

|                                         | <b>2016</b>      | 2015      |
|-----------------------------------------|------------------|-----------|
|                                         | <b>A\$m</b>      | A\$m      |
| <i>Statement of financial position:</i> |                  |           |
| Current assets                          | <b>24.7</b>      | 94.0      |
| Total assets                            | <b>2,223.8</b>   | 2,518.0   |
| Current liabilities                     | <b>5.2</b>       | 68.4      |
| Total liabilities                       | <b>8.0</b>       | 70.9      |
| <i>Shareholders' equity:</i>            |                  |           |
| Contributed equity                      | <b>4,057.9</b>   | 4,118.0   |
| Reserves                                | <b>146.0</b>     | 136.7     |
| Profits reserve                         | <b>73.1</b>      | 5.6       |
| Accumulated deficit                     | <b>(2,061.2)</b> | (1,813.2) |
| Total equity                            | <b>2,215.8</b>   | 2,447.1   |

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**25 – Parent entity information (continued)**

|                                               | 2016<br>A\$m   | 2015<br>A\$m |
|-----------------------------------------------|----------------|--------------|
| <i>Statement of comprehensive income:</i>     |                |              |
| <b>(Loss)/profit for the year<sup>1</sup></b> | <b>(133.6)</b> | 58.8         |
| <b>Total comprehensive loss</b>               | <b>(133.6)</b> | 58.8         |

<sup>1</sup>The parent entity's loss for 2016 included an after-tax non-cash impairment charge of A\$225.6 million (2015: nil) against the parent entity's investment in subsidiaries. In accordance with AASB 136, the parent entity's investment in subsidiary balance was compared to the higher of its value in use or fair market value less costs to sell, and the comparison identified an impairment in the carrying value of the parent entity's investment in subsidiaries. This non-cash charge is reversed on consolidation and does not impact the consolidated financial statements of the Group.

*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 2016 was A\$38.4 million (2015: A\$57.1 million).

On 31 March 2011, the Company 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 2016 was A\$9.3 million (2015: A\$11.7 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*

|                                                              | 2016<br>A\$m | 2015<br>A\$m |
|--------------------------------------------------------------|--------------|--------------|
| Not later than one year                                      | 2.7          | 2.6          |
| Later than one year, but not later than five years           | 11.0         | 10.5         |
| Later than five years                                        | 42.4         | 43.8         |
| <b>Total lease commitments not recognised as liabilities</b> | <b>56.1</b>  | 56.9         |

**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*

|                                                    | 2016<br>A\$m | 2015<br>A\$m |
|----------------------------------------------------|--------------|--------------|
| Equity-settled share-based payments expense        | 9.3          | 13.4         |
| Cash-settled share-based payments (income)/expense | (0.4)        | 1.2          |
|                                                    | <b>8.9</b>   | 14.6         |

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**26 – Share-based payments (continued)**

*Equity-settled options*

| Equity-settled options outstanding | Number of<br>options<br>2016 | Weighted<br>average<br>exercise price<br>2016 | Number of<br>options<br>2015 | Weighted<br>average<br>exercise price<br>2015 |
|------------------------------------|------------------------------|-----------------------------------------------|------------------------------|-----------------------------------------------|
| <b>Ordinary shares:</b>            |                              |                                               |                              |                                               |
| Balance at 1 July                  | 3,562,923                    | A\$12.45                                      | 2,364,735                    | A\$13.25                                      |
| Granted                            | 2,349,633                    | A\$9.38                                       | 1,358,069                    | A\$10.85                                      |
| Forfeited/expired                  | (438,521)                    | A\$19.55                                      | (67,078)                     | A\$12.09                                      |
| Exercised                          | (20,036)                     | A\$9.60                                       | (92,803)                     | A\$9.75                                       |
| Balance at 30 June                 | <u>5,453,999</u>             | A\$10.57                                      | <u>3,562,923</u>             | A\$12.45                                      |
| Exercisable at 30 June             | <u>1,884,736</u>             | A\$12.01                                      | <u>1,235,100</u>             | A\$16.19                                      |
| <b>ADSs:</b>                       |                              |                                               |                              |                                               |
| Balance at 1 July                  | 5,473,384                    | US\$14.18                                     | 5,494,327                    | US\$14.17                                     |
| Forfeited/expired                  | (830,837)                    | US\$18.34                                     | (13,225)                     | US\$9.49                                      |
| Exercised                          | -                            | -                                             | (7,718)                      | US\$9.49                                      |
| Balance at 30 June                 | <u>4,642,547</u>             | US\$13.44                                     | <u>5,473,384</u>             | US\$14.18                                     |
| Exercisable at 30 June             | <u>4,642,547</u>             | US\$13.44                                     | <u>4,831,703</u>             | US\$14.81                                     |

For equity-settled options exercised during the year ended 30 June 2016, the weighted average share price at the date of exercise was A\$10.03 for ordinary shares and nil for ADSs (2015: A\$12.39 for ordinary shares and US\$10.96 for ADSs).

Information about outstanding and exercisable equity-settled options as at 30 June 2016 is as follows:

| Exercise price<br>range | Outstanding          |                                          |                                                                 | Exercisable          |                                          |                                                                 |
|-------------------------|----------------------|------------------------------------------|-----------------------------------------------------------------|----------------------|------------------------------------------|-----------------------------------------------------------------|
|                         | Number<br>of options | Weighted<br>average<br>exercise<br>price | Weighted<br>average<br>remaining<br>contractual<br>life (years) | Number<br>of options | Weighted<br>average<br>exercise<br>price | Weighted<br>average<br>remaining<br>contractual<br>life (years) |
| <b>Ordinary shares:</b> |                      |                                          |                                                                 |                      |                                          |                                                                 |
| A\$9.00–A\$9.38         | 2,447,604            | A\$9.38                                  | 6.17                                                            | 167,900              | A\$9.29                                  | 3.38                                                            |
| A\$9.39–A\$9.99         | 1,264,211            | A\$9.98                                  | 4.38                                                            | 835,463              | A\$9.98                                  | 4.38                                                            |
| A\$10.00–A\$21.95       | <u>1,742,184</u>     | A\$12.67                                 | 4.36                                                            | <u>881,373</u>       | A\$14.45                                 | 3.37                                                            |
|                         | <u>5,453,999</u>     | A\$10.57                                 | 5.18                                                            | <u>1,884,736</u>     | A\$12.01                                 | 3.82                                                            |
| <b>ADSs:</b>            |                      |                                          |                                                                 |                      |                                          |                                                                 |
| US\$9.00–US\$10.99      | 1,955,328            | US\$9.49                                 | 3.38                                                            | 1,955,328            | US\$9.49                                 | 3.38                                                            |
| US\$11.00–US\$16.99     | 1,998,632            | US\$14.85                                | 1.97                                                            | 1,998,632            | US\$14.85                                | 2.75                                                            |
| US\$17.00–US\$22.22     | <u>688,587</u>       | US\$20.58                                | 0.46                                                            | <u>688,587</u>       | US\$20.57                                | 0.46                                                            |
|                         | <u>4,642,547</u>     | US\$13.44                                | 2.34                                                            | <u>4,642,547</u>     | US\$13.44                                | 2.34                                                            |

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**26 – Share-based payments (continued)**

*Cash-settled options*

| <b>Cash-settled options outstanding</b> | <b>Number of<br/>options<br/>2016</b> | <b>Weighted<br/>average<br/>exercise price<br/>2016</b> | <b>Number of<br/>options<br/>2015</b> | <b>Weighted<br/>average<br/>exercise price<br/>2015</b> |
|-----------------------------------------|---------------------------------------|---------------------------------------------------------|---------------------------------------|---------------------------------------------------------|
| Balance at 1 July                       | 1,321,718                             | A\$11.95                                                | 1,378,043                             | A\$11.52                                                |
| Granted                                 | -                                     | -                                                       | 323,697                               | A\$10.85                                                |
| Exercised                               | -                                     | -                                                       | (380,022)                             | A\$10.85                                                |
| Balance at 30 June                      | <u>1,321,718</u>                      | A\$11.95                                                | <u>1,321,718</u>                      | A\$11.95                                                |
| Exercisable at 30 June                  | <u>984,408</u>                        | A\$12.43                                                | <u>585,599</u>                        | A\$14.14                                                |

For cash-settled options exercised during the year ended 30 June 2015, the weighted average share price at the date of exercise was A\$12.44.

*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”), Earnings per Share (“EPS”) or Return on Invested Capital (“ROIC”) criteria. Details of the performance and service conditions are provided in the Remuneration Report.

| <b>Performance rights outstanding</b> | <b>Number of<br/>shares<br/>2016</b> | <b>Weighted<br/>average fair<br/>value at<br/>grant date<br/>2016</b> | <b>Number of<br/>shares<br/>2015</b> | <b>Weighted<br/>average fair<br/>value at<br/>grant date<br/>2015</b> |
|---------------------------------------|--------------------------------------|-----------------------------------------------------------------------|--------------------------------------|-----------------------------------------------------------------------|
| <b>Ordinary shares:</b>               |                                      |                                                                       |                                      |                                                                       |
| Non-vested balance at 1 July          | 2,698,180                            | A\$7.32                                                               | 1,855,634                            | A\$7.21                                                               |
| Granted                               | 1,270,849                            | A\$4.50                                                               | 1,006,570                            | A\$8.30                                                               |
| Forfeited/cancelled                   | (179,348)                            | A\$9.03                                                               | (164,024)                            | A\$13.37                                                              |
| Vested                                | <u>(74,601)</u>                      | A\$10.42                                                              | -                                    | -                                                                     |
| Non-vested balance at 30 June         | <u>3,715,080</u>                     | A\$6.19                                                               | <u>2,698,180</u>                     | A\$7.32                                                               |
| <b>ADSs:</b>                          |                                      |                                                                       |                                      |                                                                       |
| Balance at 1 July                     | 2,403,760                            | US\$6.25                                                              | 2,903,065                            | US\$6.85                                                              |
| Forfeited/cancelled                   | (1,149,874)                          | US\$6.68                                                              | (499,305)                            | US\$10.90                                                             |
| Vested                                | <u>(448,563)</u>                     | US\$8.24                                                              | -                                    | -                                                                     |
| Non-vested balance at 30 June         | <u>805,323</u>                       | US\$4.74                                                              | <u>2,403,760</u>                     | US\$6.25                                                              |

In the year ended 30 June 2016, 546,422 share rights (2015: 300,807) were forfeited as the performance conditions were not satisfied.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**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<br>shares<br>2016 | Weighted<br>average fair<br>value at<br>grant date<br>2016 | Number of<br>shares<br>2015 | Weighted<br>average fair<br>value at<br>grant date<br>2015 |
|------------------------------------|-----------------------------|------------------------------------------------------------|-----------------------------|------------------------------------------------------------|
| <b>Ordinary shares:</b>            |                             |                                                            |                             |                                                            |
| Non-vested balance at 1 July       | 589,649                     | A\$9.87                                                    | 371,175                     | A\$9.72                                                    |
| Granted                            | 411,677                     | A\$6.95                                                    | 290,641                     | A\$10.10                                                   |
| Forfeited/cancelled                | (51,841)                    | A\$8.73                                                    | (8,222)                     | A\$9.61                                                    |
| Vested                             | (130,152)                   | A\$9.62                                                    | (63,945)                    | A\$10.07                                                   |
| Non-vested balance at 30 June      | <u>819,333</u>              | A\$8.59                                                    | <u>589,649</u>              | A\$9.87                                                    |
| <b>ADs:</b>                        |                             |                                                            |                             |                                                            |
| Balance at 1 July                  | 92,186                      | US\$8.34                                                   | 195,352                     | US\$8.87                                                   |
| Forfeited/cancelled                | -                           | -                                                          | (4,067)                     | US\$8.59                                                   |
| Vested                             | (92,186)                    | US\$8.34                                                   | (99,099)                    | US\$9.38                                                   |
| Non-vested balance at 30 June      | <u>-</u>                    | -                                                          | <u>92,186</u>               | US\$8.34                                                   |

**Fair value**

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

|                           | Options |          | Performance rights |          |
|---------------------------|---------|----------|--------------------|----------|
|                           | 2016    | 2015     | 2016               | 2015     |
| Risk-free interest rate   | 2.6%    | 3.0%     | 2.1%               | 2.6%     |
| Dividend yield            | 3.0%    | 3.0%     | 3.0%               | 3.0%     |
| Volatility                | 33.0%   | 31.0%    | 33.0%              | 31.0%    |
| Expected life (years)     | 5.2     | 4.5      | n/a                | n/a      |
| Share price at grant date | A\$7.00 | A\$10.98 | A\$7.00            | A\$10.98 |

**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 the income statement 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 the income statement.

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.

**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2016**

**27 – Key management personnel**

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

|                          | 2016                     | 2015              |
|--------------------------|--------------------------|-------------------|
|                          | A\$                      | A\$               |
| Short-term benefits      | <u>8,516,755</u>         | 10,610,390        |
| Long-term benefits       | 36,992                   | 428,228           |
| Post-employment benefits | 340,964                  | 338,740           |
| Termination benefits     | -                        | 778,568           |
| Share-based payments     | <u>3,431,800</u>         | 4,281,298         |
|                          | <u><b>12,326,511</b></u> | <u>16,437,224</u> |

Transactions entered into with any directors or other key management personnel of the Group, including their personally related parties, are at normal commercial terms. Mr Sato serves as the representative director for Mitsui & Co. As a result, his respective director remuneration is paid directly to Mitsui & Co. During the year ended 30 June 2016, the Group paid A\$219,424 to Mitsui & Co. for director remuneration (2015: A\$213,424).

**28 – Commitments and contingencies**

*Commitments*

|                                                    | 2016                | 2015         |
|----------------------------------------------------|---------------------|--------------|
|                                                    | A\$m                | A\$m         |
| <b>Operating leases</b>                            |                     |              |
| Not later than one year                            | 80.8                | 88.6         |
| Later than one year, but not later than five years | 177.5               | 181.8        |
| Later than five years                              | <u>128.1</u>        | <u>143.4</u> |
| <b>Total</b>                                       | <u><b>386.4</b></u> | <u>413.8</u> |
| <b>Capital expenditures</b>                        |                     |              |
| Payable within one year                            | <u>41.8</u>         | <u>16.0</u>  |

The commitments included above also include the Group's share relating to associates and 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 2016 was A\$42.2 million (2015: A\$61.4 million).

**29 – Remuneration of auditors**

|                                                             | 2016                | 2015         |
|-------------------------------------------------------------|---------------------|--------------|
|                                                             | A\$'000             | A\$'000      |
| <b>Deloitte Touche Tohmatsu Australia:</b>                  |                     |              |
| Audit and review of financial statements                    | 1,583               | 1,580        |
| Taxation services                                           | 48                  | -            |
| Other                                                       | <u>104</u>          | <u>-</u>     |
|                                                             | <u><b>1,735</b></u> | <u>1,580</u> |
| <b>Network firms of Deloitte Touche Tohmatsu Australia:</b> |                     |              |
| Audit and review of financial statements                    | 1,988               | 1,821        |
| Taxation services                                           | 451                 | 444          |
| Other                                                       | <u>200</u>          | <u>90</u>    |
|                                                             | <u><b>2,639</b></u> | <u>2,355</u> |
| <b>Total remuneration for Deloitte Touche Tohmatsu</b>      | <u><b>4,374</b></u> | <u>3,935</u> |

## **Notes to the Consolidated Financial Statements For the year ended 30 June 2016**

### **30 – New accounting standards not yet applicable**

#### *AASB 9 Financial Instruments*

AASB 9 introduces new requirements for the classification, measurement and derecognition of financial assets and financial liabilities and sets out new hedge accounting requirements. The Group has not yet assessed the impact of AASB 9. AASB 9 is effective for the Group on 1 July 2018.

#### *AASB 15 Revenue from Contracts with Customers*

AASB 15 establishes a new, single revenue accounting model which replaces existing revenue recognition guidance. The concept of transfer of risks and rewards is replaced with the notion that revenue is recognised when a customer obtains control of a good or service, that is, when the customer has the ability to direct the use of and obtain the benefits from the good or service. Additionally, the standard introduces requirements regarding variable consideration, allocation of transaction price based on relative standalone selling price and the time value of money with respect to longer-term contracts. The Group has not yet assessed how its revenue recognition policy will be impacted by the new rules. AASB 15 is effective for the Group on 1 July 2018.

#### *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 and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. The Group has not yet performed a detailed assessment of this standard. However, this standard is expected to be material to the Group. Until the Group undertakes a detailed review, it is not practicable to provide a reasonable estimate of the effect of this standard. AASB 16 is effective for the Group on 1 July 2019.

### **31 – Assets held for sale & subsequent events**

Assets held for sale at 30 June 2016 include businesses and excess property which the Group expects to sell within the next financial year. As of the date of this report, the Group has sold assets with a net book value of approximately A\$13 million for proceeds of approximately A\$38 million. The Group will recognise a gain on sale of approximately A\$25 million from the sale of these assets.

## Sims Metal Management Limited Directors' Declaration

In the directors' opinion:

- a) The financial statements and notes set out on pages 53 to 97 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 2016 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.

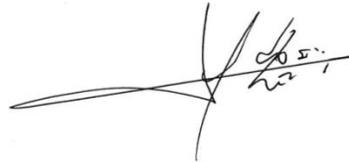
The directors have been given the declarations by the Group Chief Executive Officer and the Group Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



G N Brunsdon  
Chairperson

Sydney  
25 August 2016



G Claro  
Managing Director and Group CEO

Sydney  
25 August 2016

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

### **Report on the Financial Report**

We have audited the accompanying financial report of Sims Metal Management Limited, which comprises the consolidated statement of financial position as at 30 June 2016, 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 ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 53 to 98.

#### *Directors' Responsibility 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

#### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Sims Metal Management Limited would be in the same terms if given to the directors as at the time of this auditor's report.

#### *Opinion*

In our opinion:

- (a) the financial report of Sims Metal Management Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

#### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 14 to 51 of the directors' report for the year ended 30 June 2016. 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.

#### *Opinion*

In our opinion the Remuneration Report of Sims Metal Management Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

  
DELOITTE TOUCHE TOHMATSU

  
Don Pasquariello  
Partner  
Chartered Accountants  
Sydney, 25 August 2016