CHECK AGAINST DELIVERY

BlueScope Steel Annual General Meeting
12 November 2009

<u>Paul, O'Malley - Managing Director & CEO Speech</u>

Thank you, Graham.

2009 was a difficult year – one that required swift and deliberate action to adjust production to balance demand and inventory.

It was a year of clear focus on reducing costs, managing our balance sheet, completing the No 5 Blast Furnace reline project, and managing our production and inventory positions to match demand.

Before we get into the performance details for the year, the outlook for the industry and outlook for BlueScope Steel for 2010, I'd like to talk about our Safety performance and the Environment.

<u>Safety</u>

In a year of multiple and significant challenges, our safety performance was very good.

In a year in which we undertook one of the Company's most critical and essential projects, the reline of the No.5 Blast Furnace, our Lost Time Injury Frequency Rate remained below 1 for the fifth consecutive year.

This result is world best practice in the global steel industry.

We also achieved a record low level Medically Treated Injury Frequency Rate.
And for the first time ever, our Indonesian business experienced no Lost Time or Medically Treated Injuries for the year.

Our New Zealand Steel operation was LTI free as well.

They join the honour roll of other BlueScope businesses that have retained their LTI free record. The orange bars on these graphs reflect our acquisitions in 2007/08.

When we acquire a business, we record its safety performance separately for one year so we can monitor its improvement as it becomes part of BlueScope Steel's safety culture.

We can clearly see the improvement.

To demonstrate this further, you can see here how BlueScope Distribution's safety performance has improved since BlueScope acquired these businesses.
By 2009, these acquisitions have been consolidated into the BlueScope safety results.

Congratulations to all employees across the Company for achieving world best practice in safety. Well done!

Community & the Environment

At BlueScope Steel, our communities are our homes.

All of us at the Company embrace this responsibility.

Nowhere was this more recognised than through the support of our people in the Bush Fire Relief Program, established following the tragic bushfires in Victoria.
A number of our Victorian based employees are volunteers with the Country Fire Authority (CFA) and the State Emergency Service.

You can see three of them here on the slide – Tony Brown on the left, Michael Carr in the middle, and Paul de Bruyn on the right – who are all with our Western Port operation and helped fight the fires.

BlueScope Steel employees pledged more than $140,000 to the Red Cross Bushfire Appeal.

Your Company also pledged $1 million in steel building products to help rebuild communities destroyed by the bushfires.

In addition to financial donations, many BlueScope employees personally donated food, clothing and their time to help the relief effort.

In our communities around the world, BlueScope Steel also supports a variety of humanitarian and local community programs.

So despite the most difficult trading conditions, BlueScope employees continued to live up to *Our Bond* in our communities. In addition to safety and education, environmental issues such as greenhouse gas emissions and water scarcity are matters of concern to BlueScope Steel and to our communities.
Steel plays a significant role in today's society.

It is the most recycled material in the world and enables faster construction times.
It is a long-lasting, versatile and attractive building material.

BlueScope Steel is fully conscious of the need to reduce the effect of our environmental footprint and works continuously to do so.

BlueScope has invested close to $500 million over the past 15 years – and nearly half of that in the last seven years – towards environmental projects to improve air quality, energy efficiency and waste management and to reduce water consumption.

In a country where water is a precious resource, BlueScope Steel is a leader in water conservation.

More than 14 billion litres of recycled water has been used in Port Kembla's steel-making operations since the project went live in October 2006.

A water recycling project is also underway at our Western Port operation which, when completed, will cut fresh water use by 65 per cent and reduce waste water discharge by 75 per cent.

CPRS

Many of you may have heard or read public comments by the company about the Federal Government's Carbon Pollution Reduction Scheme.

Perhaps you are wondering what motivated those comments.

BlueScope is committed to reducing its CO2 emissions.

And we are participating in research – both in Australia and overseas – to find new, lower carbon steelmaking technologies.

Our argument is not about whether to cut emissions, but about how.
A virtuous circle is at the core of steelmaking operations. We can only generate the capital to reinvest in our operations if these operations remain internationally competitive. Our operations will only remain internationally competitive if we continue to reinvest.

At BlueScope Steel, we have a relentless focus on containing costs and maintaining our international competitiveness.

Our main concern with the CPRS in its current form is that it will impose significant costs on our Australian businesses – costs our major international competitors will not face.

Our competitors are mills in Asia, and many of them are in countries that are unlikely to impose comparable carbon costs on their steel industries in the foreseeable future.

Imposing such costs in Australia, ahead of major competitors will affect the international competitiveness of our Australian operations, making investment in these assets more and more difficult over time – and making it very difficult to invest in environmental abatement projects.

No-one at BlueScope wants to see world-class assets like Port Kembla or Western Port lose their low cost position which is core to their existence. We have been working with the Government on this critical issue and some progress has been made.

The recent decision by the Government to allocate permits to our Hot Rolling operations at Port Kembla and Western Port is a positive one.

But more amendments to the CPRS are required:

- Firstly, we must be certain that permit allocation will continue at a level that does not impair our competitiveness and until major international competitors face comparable carbon costs; and

- Secondly, we need reassurance that the cost of emission permits associated with the mining of the coal we consume will not be passed on to the Company.

At Port Kembla, the Company has been considering investing in a Steelworks Co-generation Plant which would take steelmaking gases that we currently flare and instead use them to generate electricity, replacing electricity produced by coal.

It would make the Steelworks self sufficient in electricity and could even feed power back into the grid.

It is one of Australia’s largest greenhouse gas abatement projects, with the potential to offset about 1 million tonnes of greenhouse gas emissions per year – equivalent to taking more than 200,000 cars off the road.

The co-generation plant uses proven technology that works, but is on hold due to the weaker trading environment and uncertainty about the impact of the CPRS on our competitiveness.

And the Government needs to provide incentives to encourage business to invest in large-scale abatement projects such as this.

As it stands today, the CPRS will not provide an incentive for the upfront capital investment required for the co-generation plant.

If Australia is to take a leadership position on climate change policy in order to encourage other countries to act, the CPRS must be amended so that it does not impair the international competitiveness of the Australian iron and steel industry and deliver a worse environmental outcome.

We look forward to a positive outcome in this regard from the current negotiations between the Government and Opposition.

<u>Performance Highlights & Cost Reductions</u>

The Chairman has commented on the FY2009 performance. Let me add some further detail.

To respond to the global financial crisis, tough decisions were taken across the Company in every part of our business.

By 30 June 2009, we delivered total cost savings of $295 million in a nine month period – well above our target of $100 million – permanently removing $132 million from our cost base.

In pursuing our cost reduction goal, a range of innovative actions were taken. The co-operation and initiative of employees and the introduction of further flexible work practices helped save jobs at BlueScope Steel.

It will be important that we maintain this flexibility into the future to ensure our continued position as a low cost producer. Operationally, we reduced or deferred our spending on repairs and maintenance, and on travel and administration.

We lowered our production volume related costs across a number of plants:

- at our China and Vietnam coated facilities by approximately 40 per cent

- and in the United States, at our pre-engineered building operations – Butler reduced by 18 per cent and Varco Pruden by 35 per cent. In addition to this, we reduced the value of inventory on hand from $2.8 billion as at the end of December to $1.7 billion at the end of June.

Capital expenditure was significantly curtailed apart from the No 5 Blast Furnace reline and the Sinter plant upgrade both at Port Kembla Steelworks.

I note that these two projects combined represented a $500 million reinvestment in the Illawarra, in manufacturing in Australia and in the future of BlueScope Steel. In addition to the global cost reduction program, we restructured our debt facilities and obtained additional equity funding.

To echo the Chairman's comment, we have no material refinancing obligation until the middle of 2011, gearing was reduced to just under 12 per cent as at 30 June 2009 and liquidity has improved materially.

Outlook for the Global Steel Industry

Worldwide, the effect of the global financial crisis has taken its toll on all in the industry. Steel companies around the world focused on reducing production and improving operating efficiencies. This has helped develop a stronger and more sustainable steel industry.

One of the most interesting issues following the crisis is the differing dynamics between the developed and developing economies.

While the developed world is still getting back on its feet very slowly and off a very low base, the developing world, in particular China, India and the Middle East, is recovering far faster.

China is a leader in the world's developing economies whose growth is an important driver of demand and prosperity in Australia.

China's GDP rebounded from a low of 6.1 percent in the first quarter of 2009 to 8 per cent by the 2 quarter, mainly due to its Government's economic stimulus package.

China's stimulus package is concentrated on infrastructure improvements to maintain employment and further advance its industrialisation.

These infrastructure investments include significant investment in railroad and road transportation.

At the recent World Steel Association Annual conference, senior members of the China Iron and Steel Association highlighted outcomes from this investment.

- From 2009/2010 – 20,000 kilometres of new railroad projects will commence. By 2013, the national railroads in operation will total 110,000 kilometres. This expansion target will be achieved seven years earlier than originally expected.

- Similarly, the length of Chinese expressways at the end of 2008 was around 60,000 kilometres. By 2010, it will be 81,000 kilometres – a target originally set for 2020.

Strong growth in China and the developing world will lead to higher demand for Australian goods and grow the Australian economy.

A strong Australian economy typically leads to increased consumer demand for steel in building materials, automotive and agricultural products, mining and manufacturing applications and household appliances or white goods.

In the long term, this is beneficial to BlueScope as Australia remains our most important market.

It will also be positive for our operations in China where we provide high quality finished steel products and building expertise.

Our BlueScope Lysaght China operation, for example, has provided steel building solutions for roofing, walling, structural purlins and decking systems in nearly 2,000 construction projects.

Our Butler China operation is a leading manufacturer of pre-engineered buildings used in industrial and commercial applications.

India

Growth in developing countries like India over the coming years will also be significant.

India's growth has continued unabated and it will increasingly become an important market for Australia.

Our joint venture in India with Tata is well positioned to benefit from India's growth in the years to come.

Trading Conditions and Outlook

Turning now to trading conditions, at our Port Kembla operations, the No 6 Blast Furnace has been operating at full capacity.

The No 5 Blast Furnace, which was reignited on the 19 of August, has now been ramped up to 100 per cent following the successful completion of the reline.

The average combined capacity utilisation for FY2010 quarter one was 70 per cent.

Domestic markets have been recovering over recent months.

Residential construction sales are expected to continue to achieve moderate growth across the year, while non-residential construction sales have remained depressed and are anticipated to decline marginally due to the lagging recovery in commercial investment.

Export demand, particularly from external customers in Asia, and from the Company's offshore affiliates in Asia and North America is improving.

December half export sales are in line with our expectations, and enquiries for the March quarter remain strong.

Subject to this demand continuing beyond the normal Australian January holiday season, we intend to maintain operation of both Port Kembla blast furnaces at 100 per cent into the third quarter.

International prices improved through the first quarter and into the early part of the second quarter, but have recently moderated.

However, domestic prices will likely reduce in the third quarter in response to the potential for increased import competition due to the strengthening Australian dollar.

In New Zealand, domestic despatches have not yet recovered to levels of the previous year, but export despatches have partly offset lower domestic volumes. The US economy continues to be very soft with unemployment now over 10 per cent.

In particular, the non-residential construction segment of the US market remains weak.

Also in the US, our North Star BlueScope JV experienced very challenging margins during the September quarter.

On a positive note, it continues to operate at a higher than national average utilisation rate, and margins are starting to improve, off a low base, with the stocks of high priced pig iron now exhausted.

In Asia, pleasingly, the results of each of our Asian country operations have been positive in the first quarter of FY2010.

In South East Asia, Indonesian residential steel demand remains strong and we are looking closely at finishing the second coating and painting line development.

Thailand's agricultural and residential segments are strengthening and we have decided to resume production on our second metallic coating line in Thailand.

Our Chinese coating business continues to improve and our Buildings and Lysaght businesses have good order books.

Outlook

As to the outlook for the first half of this financial year, worldwide, market conditions are improving and steel demand is rising, albeit slowly and off a very low base.

These are some positive developments, but we do remain cautious.
Since July, the Australian dollar has appreciated significantly against the US dollar from around 81 cents to over 90 cents today.

We estimate that in current financial year, a one-cent appreciation of the Australian dollar against the US dollar translates into an A$8 million EBIT reduction for BlueScope.

As I have mentioned a number of times, our goal is to remain a globally competitive steel producer. So, our cost reduction program continues to be a key focus and we are making good progress in FY2010 to deliver further material cost reductions.

As the Chairman has already said, our outlook for the first half remains unchanged. Our improved sales volumes and production have been offset by a higher exchange rate and prices that are now falling.

We will provide a further update at our FY2010 first half results in February 2010.

Summary

As a company, we intend to take a very conservative view of the near term and maintain our strong balance sheet position until we see evidence of a sustained improvement in global economic conditions.

Capital spending will continue to be mainly focused on stay in business activities.

We do believe that our current operations provide significant earnings upside.
Our main focus, in the short term, will continue to be on reducing costs and increasing our sales.

BlueScope is well placed for the recovery and this is a result of the interventions taken early and swiftly.

It is also due to the support from customers, employees and management. It is also very much due to the support received from you, our shareholders during this very difficult year. Thank you.