

Chairman's Key Address

Introduction

This past year was a difficult business environment for steel makers globally.

Through the GFC, we saw a considerable downturn in major economies.

Industry in every country was affected, but the steel industry was one of the hardest hit.

Why?

Because of the imbalance between global steel-making capacity and demand, leading to lower steel prices - while growth in Chinese steel production has led to coal and iron ore input pricing being at record levels and, for Australian companies, this has been exacerbated by the progressive strengthening of the Australian dollar.

Direct Intervention

Over the past two years, we focused on the fundamentals, conserved cash and ensured our balance sheet was in order.

A number of tough decisions were taken. We cut costs and reduced production. Salary increases and Directors' fees were frozen and FY09 bonuses were scrapped.

We had a major drive to take out half a billion dollars in costs, and this was successfully achieved before the end of FY10.

These actions contributed to a marked improvement in the second half of the year with BlueScope reporting a full year profit for 2010 of \$126 million, after a loss in the December half.

Most pleasingly, we had excellent performance from our Asian businesses which posted a record \$116 million EBIT for the year.

Strategy

A key element of our strategy has been to grow our downstream presence and during the year, we have accelerated this process with the recent establishment of a global pre-engineered building business.

BlueScope Steel currently has PEB businesses in North America and China where we are market leaders, and some capability in Thailand, Vietnam, Indonesia, Malaysia and Singapore, and in joint ventures in Saudi Arabia and India.

We are now establishing a PEB capability in Australia.

The goal of this global business is to leverage our expertise, including our value added products and solutions, into high growth markets.

The building and construction sector accounts for more than 70 per cent of our total steel sales and is set to grow significantly as urbanisation and industrialisation continue in high-growth emerging economies.

BlueScope has the best Asian footprint for mid and downstream products of any steel company and our strategy aims to grow our business and improve returns by:

- * differentiating our product offering,
- * improving our channels to market,
- * extending our PEB capability and adding to our geographic footprint.

This process will be supported by a common engineering system and access to BlueScope's extensive range of steel components from the U.S., China and Australia.

The Board recently met in China where we reviewed our operations in Tianjin, Suzhou and Guangzhou. We also visited a number of customers and inspected the new Nike Distribution Centre near Shanghai. This centre, built by Butler China, is Nike's second largest in the world. However, the majority of our customers are now Chinese companies.

CHINA

One of the contributors to the success of the Asian businesses during the year has been the localisation of the management teams. We have reduced the number of ex-pats so that over 85% of the members of the management teams in Asia are now local employees.

Our China management team is impressive. The Board reviewed with them the business performance and growth opportunities including western China. We believe we will see continued growth in the China business consistent with growth in the Chinese economy.

We also had an opportunity to meet with the staff and children of the Xingren school which was destroyed in the Sichuan earthquake and rebuilt by BlueScope China, supported by voluntary contributions from our Chinese staff.

The children and their new school were in the community video shown just before this meeting commenced and will be shown again on the monitors outside after the meeting and is typical of similar emergency relief contributions the Company has made including in Marysville after the Victorian bushfires and in Haiti after its earthquake.

People

I'd like to touch on two key people issues for BlueScope – diversity and leadership.

BlueScope is committed to building a diverse workforce and has been progressing a number of initiatives under the guidance of the Remuneration and Organisation Committee and, more recently, the full Board.

We will be in a position to report in line with the Corporate Governance Council guidelines.

We see diversity, including gender diversity, as a key business issue. Our progress in encouraging gender diversity has resulted in more than 20% of recent executive appointments being female.

Another major area of focus is the development of leaders at all levels in the organisation. BlueScope has a suite of leadership programs covering each stage of an employees' career – ranging from “Essentials for New Professionals” targeting cadets and new graduates; “Front Line leaders” and “Managers”, to high potential “Emerging Leaders” and Executives. Around 700 employees have participated in the programs since they were launched in 2007.

Let me now turn to current trading conditions.

Trading Conditions

For FY11, we anticipate another record year for our China business which will benefit from the strong economic growth and our downstream strength.

More broadly, in the Asian region we're on track to deliver another solid performance.

The Indonesian business is performing well, and we're on track to open the second metal coating line in the second quarter of the calendar year 2011.

However, growth in the US market remains weak but we are leveraged to benefit from economic recovery there.

Closer to home, our New Zealand business is tracking well but our Australian steel-making operation continues to see compressed margins.

In summary, the first half of FY11 will be challenging.

Export hot rolled coil prices have remained flat while raw material costs have increased to very high levels and we have a stronger A\$.

The cumulative negative effect of these factors extends across our export revenue, Australian commodity product sales and the translation of overseas earnings back into the A\$.

This has been exacerbated by softer demand in our Australian markets, particularly the industrial segment.

In contrast, our China and ASEAN operations contributed record profits in 2010.

We will continue to expand in these fast growth economies, where we already have an enviable footprint, and expect to see another solid performance from this region in FY2011.

Government engagement

On a broader front, there are a number of issues where we are engaging closely with Federal and State Governments.

The most important is the carbon tax debate. Our main concern is that Energy Intensive Trade Exposed (EITE) businesses like BlueScope can maintain their international cost competitiveness.

I am pleased to report that CEO Paul O'Malley has been appointed to the Federal Government's advisory group – the Business Roundtable on Climate Change.

In the meantime, we continue to drive environmental improvements through our water and energy efficiency programs. More details are available in the CSE report on the company's website.

Other matters, where we need positive government policies supporting steel and other sectors which are impacted by Australia's two speed economy and the strength of the Australian dollar.

These include ...

- Research & Development
- Workplace flexibility
- Anti-dumping.

In all of these areas, current policy or proposals are not helpful.

Conclusion

Over the last two years, we've strengthened the balance sheet and improved the effectiveness of the global BlueScope operations by reducing our cost base and improving productivity.

Your Directors are well aware that the BlueScope share price, like that of most global steel companies, has at this stage in the resources cycle, been negatively affected by the GFC, excess capacity, high raw material costs and the strength of the \$A.

A key differentiator between BlueScope and other steel companies is the value and potential of our downstream markets, PEB business and our Asian footprint which are second to none.

Our current focus is to maintain competitiveness while increasing market penetration in our operating footprint by capitalising on improving market conditions and growing our presence in the global building and construction markets.

I thank my fellow Directors, and you, our shareholders, for your support, and Paul O'Malley, his management team and the employees of BlueScope Steel for your hard work and dedication over this past year.