GRAHAM KRAEHE 2011 AGM PRESENTATION

CHAIRMAN'S ADDRESS

Ladies and Gentlemen,

The 2011 financial result and the resulting share price fall are clearly unacceptable to you, the shareholders, and to the Board.

Your Board and senior management have taken a number of steps to cut loss making operations and accelerate our growth strategies so that we can return to profitability and resume paying dividends.

We will cover these items in some detail later in the meeting.

Let me begin by explaining the primary reasons for underperformance and then tell you what the Board and management are doing about it.

In financial year 2011, we continued to see massive and rapid structural change impacting the global steel industry.

These factors affected our Australian business in particular, and led to an underlying Net Loss After Tax of $118 million and a reported Net Loss After Tax of slightly over $1 billion.

The reported figure included a one-off impairment cost of $922 million, mainly relating to non cash write-downs of the asset carrying value of Australian businesses, Coated and Industrial Products segment and BlueScope Distribution.

The Coated and Industrial Products business at Port Kembla and Western Port has borne the brunt of global economic factors and volatility while BlueScope Distribution has suffered from weak demand in Australia, particularly in the building and construction sector.

To give you a bit more context around these major changes, I'd like to take you through a few key charts.

This first chart looks at the prices for our key raw material inputs – iron ore and coking coal – over a long period of time.

You can see that for the period up until around 2004, the prices were relatively flat.

To service the full Port Kembla steel production of 5.2 million tonnes per annum, the iron ore and coking coal costs varied between $600 to $800 million per annum. (True for the 10 years prior to 1995.)

In 2005/06, the same amount of iron ore and coking coal increased to a cost of about $1.1 billion per annum (nearly double), and then surged (4 to 5 times) to $2.9 billion per annum just before the Global Financial Crisis.

It is important to note that there was a period post-GFC in FY10 where prices returned to something like the pre-GFC period of about $1.5 billion per annum, as you can see on the chart.

But after a brief return to normal, they surged again to figures reaching $2.7 billion per annum. The current level is slightly below this.

These major price increases have led to the raw material cost per tonne of steel increasing from approximately 30% of cost to 70% of total cost.

Chart two shows the RBA index of commodity prices, and you can see again a significant surge in 2005/2006 and again in 2010 and 2011, with the primary factor being the prices of iron ore and coking coal.

Chart 3 shows the Australian dollar to the US dollar exchange rate over the past 20 years and shows the Australian dollar at its highest level since its float in the mid 80's.

The huge price increases and price volatility of iron ore and coking coal have negatively impacted steelmakers globally but, as an Australian steelmaker, BlueScope has also had 2 other major issues to deal with:

1. The potential for a carbon tax on the Australian Steel Industry which our competitors don’t yet face. I’ll come back to carbon tax later.

2. The compounding effect of a relatively small Australian market which can’t support an economic, world-scale steel manufacturing industry without a substantial reliance on exports which are more subject to currency movements.

The unprecedented combination of rapid changes in raw material costs, the high value of the Australian dollar and weak domestic demand led to our Australian Steel export business, (which represented approximately 50% of our Australian steel production), suffering a loss of $487 million in FY11.

This was clearly unsustainable.

By contrast, many parts of our business, specifically those in Asia, North Star BlueScope Steel in the United States, and New Zealand Steel, had solid results and supported the long term investment and expansion strategy which we have been pursuing.

But this was not enough to offset the Australian export losses.

<u>Share Price Performance</u>

Of course, all of this has had a direct impact on our share price...a share price that is clearly unacceptable to us all.

This time last year the share price was $1.96 and today it's 71-cents, largely because of factors mentioned earlier.

I want to assure shareholders that the Board and Directors share your concern at seeing the price of shares decline to these low levels.

It's a BlueScope policy for each Director to acquire over time, a shareholding equal to their annual Director's fees.

So all Directors, other than the most recent additions to the Board, have significant shareholdings in our Company and therefore, shared the pain of all shareholders.

I'd like to stress to you that Directors have continued to show their ongoing commitment to the Company, with four directors (including me) acquiring more BlueScope shares over the past few months.

Your Board and management are working very hard to improve the Company's financial performance and the share price performance.

We see the closure of the export steelmaking facility at Port Kembla Steelworks and Hot Strip Mill at Western Port, which have been completed broadly in line with the August announcement, as essential to significantly reduce the losses in the steel export business and lay the foundation for future earnings growth.

The closures were a very complex process which required substantial Board and management time to fully evaluate all the options, assess the risks, particularly safety and equipment risks, and very importantly, the implications for our employees.

Your Board visited Port Kembla and met with many employees.

We are very proud that they managed the complex closure of a blast furnace and coke ovens without losing our zero harm safety focus.

CEO Paul O'Malley will provide more details shortly.

Carbon tax

Another major issue for the Board and management during the year was carbon tax.

The Federal Government's carbon tax, which was passed by the Senate on 9 November, presented a significant risk to the Company with a gross carbon tax cumulative cost of $450 million to BlueScope from FY2013 to 2020.

BlueScope is not opposed to a price on CO-2 provided there is a level playing field with our international competitors facing a similar cost – a so called sectoral approach.

We worked very hard to convince the government that we should link any Australian scheme to action in the rest of the world.

In July, BlueScope concluded its carbon tax negotiations with the Government agreeing to a sectoral deal for steel, the Steel Transformation Plan, which provides a pragmatic solution to the complex problem and minimises the direct cost to BlueScope for the first four years of the tax.

The Government specifically acknowledged the challenges facing the steel industry in agreeing to this Plan.

Following this, there will be an independent review of arrangements for industries including steel, and this review will take into account the carbon tax position of our international competitors.

The carbon tax negotiations took a huge amount of Board and management's time, but this was crucial to achieving a neutral outcome on the issue.

The CEO, Paul O'Malley, did an outstanding job leading the steel industry delegation and spending a considerable amount of time negotiating with the Government to achieve an outcome which has removed a potential, significant cost for BlueScope over the next four years.

Strategy & Outlook

Now turning to strategy and the outlook...

The restructure of the Australian business and exiting the export market is almost complete.

With that restructure concluded BlueScope will have stopped the major financial losses and created a foundation for future growth.

While finalising the steel export closure program, we have also been working on accelerating our future growth strategies.

The key components will be:

1. Maximising our competitiveness and optimising service to the key Australian market from a one blast furnace operation;

2. Building on our outstanding presence in downstream Asian markets where we have operations in 7 countries, nearly 5,000 employees, $1.5 billion in revenue and an underlying EBIT in 2011 of over $100 million.

Our objective is to accelerate the recent solid profit performance in that business;

3. Globalising the PEB business, which, until now, has been focused largely on the US and China. This will provide significant growth opportunities which Paul O'Malley will elaborate on shortly.

Outlook

Turning now to the Outlook for the first half of FY12, we can confirm the guidance, which we gave in August, that we expect a significant reported Net Loss After Tax including restructuring costs, and a small underlying Net Loss After Tax.

Board renewal

Our Board members bring a great wealth and breadth of experience to the Company.

However, regeneration of the Board is a necessary and ongoing process.

This year, in March, we were very pleased to announce the appointment of Penny Bingham-Hall as a non-executive Director.

She has extensive experience in the building and construction industries in Australia and Asia.

With the addition of Penny, the number of Directors on the Board has risen. We are seeking a temporary increase to allow for a smooth transition as we allow for new appointees and retirements

Conclusion

The Board knows that the Company's financial performance and share price is unacceptable.

I want to reconfirm to you that the Board and management is absolutely focused on improving this performance and has taken a number of tough decisions to do so.

I'd like to thank the Board for their support, and Paul O'Malley, his senior management team and all of the employees at BlueScope Steel for their hard work and dedication during the unprecedented tough trading environment of 2011.