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THE GLOBAL STEEL INDUSTRY: INNOVATION; RESTRUCTURING; FREE TRADE

Financial performance

I'd like to begin by quickly recapping on BHP Steel's financial performance. As most of you would be aware, we reported our inaugural full year financial results on 28 August.

We achieved record sales revenue of $5.3 billion and a group net profit after tax (NPAT) of A$452 million.

Earnings before interest and tax (EBIT) for the twelve months ended 30 June 2003 was $611 million – a 282 per cent increase on the pro-forma EBIT for the twelve months ended 30 June 2002 of $160 million.

This performance reflects both strong markets and improved steel prices, but probably the most pleasing aspect is that our strong operational performance really allowed us to capitalise on the opportunity.

As a result of the Company's good performance, we were able to pay dividends for the year totalling 29 cents fully franked, including a special dividend of 7 cents per share. As well as that, our strong cashflow allowed us to announce and commence a share buyback, and repay $540 million of debt, leaving us with gearing of 2.4 per cent and one of the strongest Balance Sheets in the global steel industry.

Having just returned from an extensive investor roadshow, I can tell you that the Company's focus on shareholder return is being very well received by the investment community.

This next slide shows the EBIT performance from each of our reporting segments. All four segments improved their EBIT performance compared to the previous year. Hot Rolled Products – the segment that includes our United States manufacturing operations – achieved a 386 per cent increase in earnings before interest and tax over the previous year to $471 million.

That was a strong financial result, and it was underpinned by improved international and domestic prices for our products, record production and despatch levels from both Port Kembla Steelworks and North Star BHP Steel, and a range of cost and process improvements.

Our successful year was also underpinned by sales of our steel products both to, and within, the United States.

2. BHP Steel and the USA

Our principal manufacturing plant in the US is North Star BHP Steel, our 50/50 joint venture mini-mill in Ohio.

I had the opportunity to work in this business between 1994 and 1998, during the period of its construction and initial operation.

This is a great business and recently, for the second year running, it was voted by its US customers as the number one flat rolled steel supplier in the United States – Number one in overall customer satisfaction, quality and delivery.

The ranking was established in the prestigious annual Jacobsen survey, which ranks 29 US steel producers on the basis of data gathered from thousands of customers. The fact that the survey ranked us above companies such as Dofasco and Nucor is something of which we, and in particular, the 330 employees at North Star BHP Steel, are particularly proud.

This next slide highlights the geographic diversity of BHP Steel's markets and the importance of the US market to BHP Steel.

About 13 per cent of BHP Steel's sales by tonnage in FY 2003 were from North Star BHP Steel into US domestic markets.

And when you add to that our exports to the Americas from Australia and New Zealand, about 26 per cent of BSL's total sales were generated in North American markets, principally the United States.

Our exports are concentrated on a number of long-established customers who have their operations 'tuned' to take our steel products as their feedstock.

These are mainly steel re-rollers on the West Coast who don't have their own primary steelmaking capability.

Many of you would know that the strong financial performance that we have seen in the Australian steel industry in recent times compares very favourably with that of our US counterparts.

The US steel industry suffers from some inherent structural weaknesses – particularly amongst the old integrated steel producers. These weaknesses include large trailing pension fund liabilities, environmental liabilities, high cost structures, outdated technology, and plants that are located too far from their markets or on inefficient inland river systems.

With the recent consolidation we have seen in the US industry some of these problems are in the process of being addressed, but there is still a long way to go.

3. Growth initiatives

One of the benefits of our strong balance sheet is that it has allowed us to not only return funds to shareholders, but to undertake a number of initiatives to grow our markets and increase our production capacity.

In May, we launched a new range of COLORBOND® steel colours, ensuring this brand remains at the forefront in the building and construction industry. We introduced six new colours, and for the first time all of the colours have been trademarked, protecting our customers and our investment by ensuring they cannot be legally copied or substituted.

We are undertaking capacity upgrades, at minimal capital cost, to our metal coating and painting facilities at Port Kembla in New South Wales, at Western Port here in Victoria, at New Zealand Steel and in Indonesia and Thailand.

You may be aware that we have announced a plan to establish a major new metal coating and painting operation in Vietnam at a cost of $160 million, and also a new COLORBOND® steel centre in Western Sydney, Australia's largest housing growth corridor.

Our Lysaght business opened two major roll-forming plants in Australia, including one at Lyndhurst here in Victoria, and two further roll-forming plants in China to service that country's growing building and construction market.

So you can see that the Company is very focused on growing our presence in our existing marketing footprint in Australasia and Asia.

4. Safety performance

With all that we've had going on since our public listing, the result we are proudest of is the continued improvement in our safety performance.

We have continued to work hard towards our goal of Zero Harm.

Our employees and contractors achieved a company wide Lost Time Injury Frequency Rate of 1.8 for the twelve months to June 2003. This means that for every million hours worked, there were 1.8 injuries that resulted in our employees or contractors having to take time off work.

While any injury in the workplace is unacceptable, this is nevertheless a 36 per cent improvement on the previous year and places us amongst the best performers in the global steel industry. To give you an indication of that performance, the dotted line represents the average performance for manufacturing in New South Wales.

So we have had a strong first year, with a very pleasing financial and safety performance – thanks in large part to the great efforts of our employees – and a range of new product initiatives and production capacity upgrades across our business.

5. Performance of the Australian steel industry

Looking at the Australian steel industry as a whole, Australia has a vibrant and highly competitive steel industry. It is an industry that has done an enormous amount of work to get its house in order, and is now seeing the benefit of that hard work.

The creation of Smorgon Steel via an IPO in February 1999, then OneSteel via a spin out in October 2000, and finally BHP Steel Limited via a demerger in July 2002 – has created a genuine steel investment sector in Australia.

Most importantly, through attention to costs, consolidation, and by greater attention to customers and growing markets, Australia’s three listed steel companies have performed. Accordingly, analysts and investors are more interested in the sector than ever before.

As a nation, Australia now has one of the best performing steel industries, with a combined market capitalisation of over $6 billion and profits this year exceeded $600 million.

6. The Global Steel Industry – The Current State of Play

Turning now to the wider picture, there is no doubt that the global steel market has improved substantially over the last twelve to eighteen months, and that has helped BHP Steel's performance.

In 2001, we saw the lowest steel prices for twenty years. In 2002/03, we saw a sharp recovery in prices, driven by strong demand from China, increased production discipline in many parts of the global steel industry and, somewhat ironically, the effects of trade sanctions, such as the s.201 tariffs and quotas in the United States.

BHP Steel enjoyed the benefits of higher steel prices across our product range, with the average realised export price of our hot rolled coil improving by over US$80 per tonne.

Looking forward, there are a number of scenarios for the future of the world's steel industry. One that we like is that the global steel industry of the first 15 years of the 21st century (and particularly 2005 – 2015) is quite fundamentally different from the last decade of the 20th century.

It is possible to project a world in which:

- World steel consumption continues to grow, driven by the strength of demand in China;
- Russia is recovering, rather than being on its knees as it was from about 1990 to 1999;

- hard decisions have been made regarding the restructuring of the steel industries in Japan and the USA;

- global industry consolidation accelerates;

- environmental pressures continue to escalate, bringing hard times for those without demonstrable, strong environmental credentials; and

- the difficulty of sourcing capital drives hard decisions on blast furnace re-lines resulting in reduced capacity.

By contrast, the last decade of the 20^{th} century was characterised by:

- A lack of discipline on the supply side globally;

- a fragmented and undisciplined US industry; and

- low growth in steel demand due to pedestrian economic growth rates in many Western economies.

If this scenario proves to be the case, then at the moment we are really in a transitional period sandwiched between two quite fundamentally different decades.

Of course, it is possible that things continue as before. But from BHP Steel's perspective, and from Kirby's perspective as Chairman of the International Iron & Steel Institute, we think that is unlikely.

You will see one of the keys to the scenario I have painted is China. It is possible that demand in China will weaken substantially, but on balance, I think unlikely. The sheer scale of the infrastructure development that is taking place in China should see demand for steel products remain strong at least until the Beijing Olympic Games in 2008 and the Shanghai Expo in 2010.

7. The strength of demand in China

China is now the world's largest producer and consumer of steel. Chinese steel demand is more than twenty times Australia's production, and despite some recent comments by analysts about excess inventory, China is still the engine of growth for steel in the world. We are confident this will continue.

The International Iron & Steel Institute predicts that apparent consumption of finished steel products worldwide will increase by a total of more than 80 million metric tonnes in 2003 and 2004. China's consumption alone will account for over half that increase.

Construction and renovation are key drivers of this growth in China, with construction activity up 24 per cent in 2002 and renovation up 6 per cent.

Two big events will add to this construction boom – the 2008 Beijing Olympic Games and the 2010 Shanghai Expo.

BHP Steel's niche in China is in value-added metallic coated and painted steel products for the building and construction industry. We supply Clean COLORBOND® steel and other branded products for use in high profile, landmark buildings where quality, long life and performance are critical.

Our customers in China include project owners in manufacturing and warehousing, exhibition halls, airports, sports stadiums, residential development and high-rise buildings.

This slide shows a great example of how our product is being used in China. We like to say that the first thing you see in China is made in Australia!

A further point to consider when looking at future demand for steel in China is historically there is a close relationship between gross domestic product per capita and steel consumption.

In China, steel consumption is at a very modest level of about 100 kilograms per head. By contrast, steel consumption in Japan is about 600 kilograms per head, in Korea about 800 kilograms per head, and in Taiwan about 1,000 kilograms per head.

If the experience of other industrialised countries in Asia is any indication, China still has considerable room for growth in steel consumption.

(David Goodwin):

8. New Company name

Before I talk about other matters, I'd first like to make sure this audience is up to date on the proposal to change our Company name to BlueScope Steel.

I must confess that at the moment I am shamelessly taking every opportunity to promote this name.

If our shareholders approve this name at our Annual General Meeting on 12 November, we will commence trading as BlueScope Steel Limited from Monday, 17 November 2003.

This will be a major, symbolic event in the history of our Company – BHP Steel has been an iconic name in Australian industrial history, with a lifespan of 89 years.

When we demerged, BHP Billiton stipulated that our right to use the name BHP Steel would be limited to a period of up to two years.

Our challenge was to come up with a new name that is meaningful to our customers, shareholders, employees and communities in the more than 50 countries in which we make or sell our steel products.

The choice of BlueScope Steel has been very positively received. The rationale for the choice is quite straightforward.

The colour blue is part of our heritage. It has been our corporate colour for many years and is the colour of our logo that we will retain. We believe it is also a colour that has positive connotations of clear skies and wide horizons.

We think the word `Scope' suggests opportunity, action and the ability to grow and develop in new directions.

It is very pleasing that the reception for the name has been so positive amongst our employees, who are going through the process of adjusting their thinking to no longer regard themselves as 'BHP' people.

They see BlueScope Steel as strongly evoking the sort of innovative company we are becoming.

With the sort of balance sheet Brian described earlier, it is clear that our Company has very significant opportunities in front of it – a large number of employees have said to me how pleased they are that we have chosen a name that looks to our future, and not to our past.

We are looking forward to building BlueScope Steel to be one of the leading brands on the Australian corporate landscape.

9. Addressing global steel industry overcapacity

I would like to bring this audience up to date on an important initiative being proposed through the OECD – the negotiation of a new Steel Subsidies Agreement amongst the major steel producing countries.

This initiative has been underway for about 3 years, and is making significant progress.

The notion of developing a Subsidies Agreement was a direct response to the very significant overcapacity in the world steel industry that was so visible a couple of years ago at the bottom of the steel cycle - that is, before China's spectacular growth in consumption really cut in.

It also recognises that Government subsidies for new steel capacity have seriously distorted global steel markets.

The OECD initiative has the potential to lead to an agreement which bans any subsidies to the steel industry, either for the creation of new capacity or for the maintenance of existing steel operations.

It is envisaged that only subsidies for the social and environmental problems of permanent plant closures should be allowed.

Last week in Chicago, the Board of the International Iron & Steel Institute emphasised its support to governments seeking to conclude a strong and enforceable agreement to prevent future market distorting subsidies for the steel industry.

A timetable has been established for developing a full negotiating text by the end of February 2004, and solid progress on the text was made at a meeting of the OECD Steel Committee in Paris last week.

The Australian Federal Government has been very engaged throughout the OECD process, and has played a most constructive role in advancing negotiations.

It is very important that Australia play its part in <u>not</u> proliferating the use of subsidies to promote new steel production.

In this decade, about 7 or 8 new steel production projects have been advocated in Australia. Of course, the first port of call for promoters of these new projects is typically the State Government of the State in which their facility is proposed to be located.

In line with the spirit of the proposed Steel Subsidies Agreement, it is important that Australian Governments play a disciplined role in not extending subsidies which lead to unnecessary additional steel capacity.

10. Australia – US Free Trade Agreement

Since this lunch is being hosted by the American Chamber of Commerce in Australia, it would be remiss of us not to talk briefly about our enthusiastic support for the proposed Free Trade Agreement between Australia and the United States.

As we meet today, the FTA negotiations are approaching a key point.

Brian mentioned earlier the extent of our activities in the USA and the fact that about 26% of our Company's global sales by volume are into the US market – a combination of our slab and hot rolled coil exports from Australia, and sales from our North Star BHP Steel joint venture.

It's not surprising, therefore, that we sense real opportunity from an FTA, both for ourselves directly and for our Australian manufacturing customers.

Our dream, if you like, is that the penetration of products made from Australian steel into US end-markets will significantly increase in the decades ahead.

To be specific, we see clear opportunities from an FTA in areas such as the following:

- Improved trade dispute resolution mechanisms; and

- Investment facilitation.

To demonstrate how FTA outcomes might benefit a Company like ours in a practical way, I would like to briefly recap on the adventure of BHP Steel's s.201 experience a couple of years ago.

The s.201 “safeguard” action was implemented by President Bush in response to the chronic financial problems of the US steel industry at that time. Due to uneconomic cost structures and overcapacity, about 30 US steel companies, mainly in electorally sensitive locations, were in Chapter 11 bankruptcy.

The eventual outcome of the Presidential action, finally announced in March 2002, was the introduction of punitive 30% tariffs on the majority of steel imported to the US. Following a very active lobbying effort in Washington led by our Company, in partnership with our US customers and with great assistance from the Australian Government, we ultimately were exempted from the tariffs in respect of the majority of our exports from Australia.

At risk, though, were the more than 350,000 tonnes of steel slab and 250,000 tonnes of hot rolled coil we sell each year to our long standing West Coast customers, California Steel and Steelscape.

We had to fight very hard to achieve the exemptions we did – persuading the US Administration about the extent of the reliance of our US customers on feedstock from BHP Steel as the basis for their competitiveness.

Our point is that our Company does not want to have to repeat the fraught experience of 2001/02 every time the US takes action to protect its steel industry in the future.

By contrast to our experience, Canadian and Mexican steel companies were not automatically subjected to the 30% tariffs, because they were treated under NAFTA as special cases.

Although our total exports to the US are less than 1% of the US market, Australia was initially found to have contributed to “injury” to the US market because our exports were aggregated with those of about 13 other countries in the injury determination phase. Canada and Mexico were not – they were considered in their own right.

Thus, one of BHP Steel's requests to the Australian Government has been that an FTA should agree to trade dispute resolution measures and provisions regarding anti-dumping which at least match those available to Canada and Mexico under NAFTA.

The Investment Chapter of the proposed FTA will be particularly important in promoting increased flows of investment between Australia and the US, and should be of great assistance to all Australian companies with long term aspirations to expand investment in the US.

There is scope to agree arrangements which guarantee that Australian investors in the US receive "national treatment" in the US, and vice versa. This would be a significant shoring up of the protections available to investors – for example, providing protection from the appropriation or rationalisation of property, and from subsidies or other incentives being provided to local companies that were not available to foreign investors.

So, one of our messages today is that the benefits to this country from an FTA do not hinge solely on increasing market access for agricultural products like beef, dairy and sugar.

Bilateral trade between the two economies today reflects a broad, diverse relationship, including significant Australian exports of manufactures such as chemicals, steel, office and telecommunications equipment, and motor vehicles and parts.

If we regard wine as a manufactured product, half of our exports to the US are now manufactures. Indeed, the US has recently become Australia's largest market for elaborately transformed manufactures.

Australian manufacturing has benefited from over a decade of sustained reform and in many sectors is as good as any in the world. A well-negotiated FTA between Australia and the United States will provide a further boost to manufacturing, by providing access to a market of over 200 million people and by fostering innovation and best practice.

The economic arguments for a US FTA are compelling - the Centre for International Economics in Canberra has estimated that the Australian economy could expand by as much as $4 billion. The size of the prize for Australian manufacturing - in terms of access to markets and the sharing of technology and expertise - is simply too great to ignore.

(Brian Kruger):

11. CREATING VALUE IN A MATURE INDUSTRY

Observations on company transformation in a (perceived) mature industry

I mentioned earlier that there has been a transformation in perceptions of the Australian steel industry amongst investors and other stakeholders over the past several years.

Those of us who have worked in the industry for many years can well recall the days when steel was regarded as a very poor destination for investment capital. Indeed, from my travels around the world meeting with investors that perception remains with respect to many segments of our industry globally.

So what is it about the Australian industry that has changed? How are we now different?

The first observation I would like to make is that perceptions of the steel industry as fundamentally a mature industry are ill founded.

It is possible to make that observation if one lives in Europe, the USA or Australia, where manufacturing industry growth rates are relatively flat.

But in the wider world of steel, there are truly spectacular opportunities – witness the growth in China, and also the strong growth in the use of steel in construction in South East Asia, let alone India, which is another looming dynamo for steel consumption.

A second observation is that the opportunities from success in inter-material competition are exciting. We believe that steel's share of the overall building and construction 'pie' is nowhere near its potential.

Finally, we cannot overstate the transforming impact that our spin-out and public listing has had on the psyche and performance of people in our business.

As a business group of BHP Billiton, for many years our business had functioned purely as a 'cash cow', returning its cash flows and profits to the resource company's Treasury to be invested not in the steel business, but in mine expansions and petroleum exploration.

Our new status as an independent company has unleashed a real 'can do' attitude amongst our people. It has enabled us to respond more quickly and creatively to the needs of our customers, to reinvest in our business, and to start implementing our plans for profitable growth.

This new 'can do' attitude will be an essential feature of the new BlueScope Steel going forward.

12. Conclusion

In conclusion, Australia's steel industry is highly competitive and performing strongly.

We have an industry that has had to stand on its own feet, without government subsidies and with negligible levels of protection.

As a result, the Australian steel industry has had to pay close attention to costs, to the demands of its customers, and to growing real and viable markets for its steel products.

Global demand for steel products and steel prices are likely to remain relatively firm, at least for the foreseeable future, driven largely by the strength of demand in China.

In the global steel industry there is undoubtedly still much work to be done to reign in overproduction, to consolidate steel producers, and to put investment decision making on a more rational footing.

Free trade agreements have the potential to act as important catalysts for these very necessary changes.

There is no doubt the level of change won't be comfortable for everyone in the steel industry. There will be winners and losers in the world steel industry and some steel companies will undoubtedly suffer.

However, we believe the strong competitive position of the Australian steel industry will allow it to be one of the winners.

Thank you for taking the time to let us speak to you today. David and I would be happy to take any questions.

Thank you.

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