

**American Chamber Of Commerce Speech
by Kirby Adams, Managing Director and CEO, BlueScope Steel**

Tuesday, 8 June, 2004 Sydney

Title: A Blue Chip with New Scope

Introduction

(slide 1)

Ladies and gentleman,

Thank you for joining us.

Today I'd like to talk to you about our company, BlueScope Steel.

About how we are evolving into a steel solutions business.

And where we are going in Asia, in North America, in New Zealand, and here in Australia.

But before I get into our story, I would like to provide you with some background, to help place our company's progress in context.

This past weekend's events have led me to reflect on leadership, as we heard of the passing of Ronald Reagan and remembered the heroes and leaders of World War 2 and of D-Day.

It struck me that one of history's lessons is that successful leaders and great outcomes come from conviction of purpose and strong beliefs.

One of the first things we did at the then BHP Steel three years ago, following BHP Billiton's decision to 'cast us adrift' was to lead our organisation to develop a new values document, or Charter – which we have called 'Our Bond'.

(slide 2)

This culminated in the words you can now see on the screen.

At the time, for our organisation, these words were new, they were profound statements of what we believed in as an organisation, and they were aspirational. They are now an established part of the fabric of our business and the way we behave.

I would like to think that amongst the reasons our 16,000 employees come to work with energy in their step are that they feel a purpose in their job, they know they are creating

products which benefit their communities, and we allow ourselves to have some fun (but safely, of course)!

(slide 3)

Around the world, the entire steel industry is undergoing huge change.

There is an expression that is commonly attributed to the Chinese – ‘May you live in interesting times.’

Well, it is a very interesting time to be involved in the steel industry.

We are operating in a global environment that is incredibly dynamic, and this has a whole range of implications for our business, BlueScope Steel, and for the global steel industry.

Three weeks ago, in a speech to the Australian Steel Institute, I looked at some of the factors which are affecting the steel industry at a global level.

So for those of you who don’t follow our industry closely, let me give you a very brief perspective on what is going on.

(slide 4)

This slide shows how steel prices have changed over the last seven years. As you can see, we’ve had a fairly wild ride.

During this period we have had three Australian steel companies listed on the ASX – maybe the people who initially owned, but sold, shares in these companies now wish they had not given up so early.

Understandably, current pricing has led many of us in the steel business to ask where our industry will go from here.

In my opinion, the current situation will persist for some time.

Why do I hold this opinion?

Because there are six factors behind the transformation of our industry, and when considered together, it is reasonable to conclude that the recent price effect will not be short lived.

This slide is a summary of those factors.

(slide 5)

I think the steel industry is being transformed by

1. the fact that economic growth is currently synchronised across much of the world.
2. strong worldwide demand for steel.
3. the influence of China on demand, supply and growth.
4. steel industry structural change - the consolidations, alliances and privatisations that are making the global steel industry far more rational, informed and disciplined.
5. input cost inflation – an explosion in the price of iron ore, coking coals, and big cost increases in other raw materials, scrap, and shipping – costs which, regrettably, the steel industry must pass on.

And finally,

6. changes in steelmaking capacity – overall capacity has been reduced, and it is less likely that major integrated facilities will be built in western nations.

So, because of these factors, there is a fair chance that we are in a different, more sustainable industry structure for steel, and this gives us cause for optimism.

The factor I would like to elaborate on is China.

(slide 6)

This slide shows the International Iron and Steel Institute's forecast for global steel demand to 2010.

Our institute is forecasting world demand for steel to exceed one billion tonnes by 2010.

To give this figure some context: there are around 12 million registered motor vehicles in Australia. If we say that each vehicle represents one tonne of steel, that's 12 million tonnes.

So, all the steel in all the motor vehicles in Australia equals about 1.2 per cent of world steel demand by 2010.

And 35 per cent of this demand will come from China.

Last year, steel demand from China was 27 per cent. In 1995 it was 13 per cent.

These numbers should give you a sense of China's huge, and growing, appetite for steel.

Indeed, demand for scrap steel is so high that, according to recent media reports, the theft of manhole covers in China has become a serious problem.

So, for the good citizens of Shanghai it is not so much the soaring price of steel, but the corresponding drop, that is a concern.

Now when you have a situation like this, where one country is making such a major impact, the effect on the global industry is significant.

I think it is fair to say that over the next decade, very few will be immune from the China effect.

And I expect that we will see the trends that are affecting the steel industry repeated in many other industries.

So, it is in the context of a dynamic global steel economy that I speak to you today about our company, BlueScope Steel.

Firstly, I'm very pleased to say that the 2003 and 2004 financial years have been outstanding for BlueScope Steel.

(Slide 7)

This slide shows a few of the results from BlueScope Steel's first year, since our public listing only 24 months ago in July 2002.

We've achieved very good financial performance. But importantly, we have operated safely, rewarded the faith of our shareholders', and looked after the well being of our employees and communities.

Our expectations for the 2004 financial year are also positive.

(Slide 8)

We announced in May that we are expecting NPAT of approximately A\$550 million, for this financial year. This is \$100 million up on last year's NPAT, and actual results will be announced on August 19th.

Since listing, our share price has more than doubled and our total shareholder return is among the best on the Australian Stock Exchange.

As you can see, we are in a strong growth phase, with A\$1 billion of capital expenditure either approved by our Board or in advanced stages of study. And importantly, we are doing this while we are looking after our shareholders.

But the indicator we are most proud of is our safety performance.

(slide 9)

It is world class, and getting better. Since public listing, we've had a 45 per cent improvement in our lost time injury frequency rate, and we will not rest until we have achieved and maintained our goal of Zero Harm.

Our aim is for the steel industry to be one of the safest places to work in Australia.

(Slide 10)

So, all in all, we're proud and delighted with our progress so far.

This success is being greatly helped by the strength of global steel demand, due to economic (GDP) growth, but also due to growing recognition that steel is a fashionable and highly recyclable material that contributes to a better way of life.

So for the next twenty-five minutes, I'd like to talk to you about where our company is going, taking account of some of the powerful forces at play.

And specifically, what we are doing to re-invent BlueScope Steel as a steel solutions company and a company Australians can be proud to call one of their own.

One that is growing in innovation, in capability, and in geographical presence.

We've said since listing that we are a different kind of steel company and I believe we are establishing a track record that shows this is the case.

We are a company that is very committed to Total Shareholder Return. Our shareholders have priority, and our challenge is to simultaneously take care of them, and pursue value-creating growth.

The de-merger has given us a sense of liberation. There is a can-do spirit in BlueScope Steel. People feel unleashed and energised, and this is creating speed and agility.

The strategies we are pursuing genuinely differentiate us from other steel companies, and are strategies you might associate more closely with a company in the building materials sector.

(Slide 11)

So today, I'd like to examine three areas I feel demonstrate the ways in which BlueScope Steel is changing. The three areas are:

1. BlueScope Steel's downstream value added strategy

2. Innovations in downstream value added businesses in Australian and Asia
3. Our acquisition of the US-based Butler manufacturing company – the number one Pre-Engineered Buildings company in the USA and China.

(i) Strategy

First, let's take a look at our strategy.

If you think of the images normally associated with a steel company, they are likely to include brooding industrial landscapes, smoke stacks - the traditional imagery of heavy manufacturing,

(slide 12)

'Dark satanic mills,' as the poet Blake put it:

Associated with those images was the equally gloomy investment sector view of the steel industry as

- volatile
- poor in terms of shareholder returns
- and inhibited by over-capacity

These and other factors had confined steel to the dim recesses of the investment sector.

Well, in my four years as CEO of BlueScope Steel I've seen our defining images become more like this.

(slide 13)

Images of the inspired use of steel in architecture. Images that speak of innovative solutions, of meeting customers' needs. Images of fashion and colours and technology at work.

We are even featured in the TV series 'The Block.'

These defining images – of innovation, opportunity, and colour, were important considerations in choosing our new company name.

And I'm pleased to say that the growth in our share price indicates a far brighter perception from the investment community.

Our Company, BlueScope Steel, is becoming recognised as solutions-oriented.

We are focussing on developing downstream capability, especially in construction and building applications. And we anticipate a very bright future for steel in housing and building.

In explaining our strategy, which is well under way, this diagram has been helpful.

It will be familiar to some of you.

(slide 14)

The triangle on the left reflects the historical product pyramid for our business. At the bottom is steel slab, which is our company's first saleable steel product.

At every subsequent stage of production, a proportion of product volume is sold to third parties. The apex of the triangle represents advanced steel solutions we provide to customers - for example, pre-engineered metal buildings.

Our objective is to transform this situation to more closely resemble the trapezoid on the right, by growing the proportion of higher value added product we sell.

So why are we pursuing this strategy?

Well, as we move up the pyramid, there is typically more value added, which means higher cumulative margins, and importantly, less volatile selling prices, than products at the base of the triangle.

Of course, our iron and steel making activities remain crucial.

In fact we never lose sight of one fundamental reason for our success – low cost, high quality steel making, which keeps all our products very competitive.

(slide 15)

Some of you may not realise that our Port Kembla steelworks is among the lowest-cost steel producing facilities in the world, as this slide shows.

In this plant, we continue to work as a team for lower costs, better productivity, and higher quality. Because in the steel industry, if you stand still, you get run over.

We will be challenged by developing countries bringing new capacity on-line from a low cost position.

Specifically, these challenges will come from Brazil, India, Ukraine, Russia and of course, China.

But at present, based on an extremely solid steelmaking foundation, we are deriving nearly two thirds of our revenue from products downstream from hot rolled coil.

(slide 16)

By which I mean revenue generated by roll-formed components, painted coil, metallic coated coil, and pre-engineered buildings.

Hot rolled coil is one of our base products, and a benchmark product in the international steel industry.

Historically, through our painting, coating, galvanising and roll-forming processes, we have added significant value to 42 per cent of the steel coil we produce.

As this chart shows, that figure will increase to 54% after our current projects including the acquisition of the Butler Manufacturing Company, are fully implemented.

This makes BlueScope Steel the global leader in adding value to the hot rolled coil it produces.

A high proportion of the steel that we coat with zinc and aluminium is then painted by us, and a high proportion of this steel is then roll-formed.

With our expansion into Pre Engineered Buildings, the chain of value adding has becomes even longer, such that we now sell a completed building.

Our strategic driver is that, by gaining a higher proportion of our revenue from value added products, we become less susceptible to the traditional ebb and flow of the global steel market.

At the moment, the strength of global slab and hot rolled coil pricing is creating profits which are enabling us to accelerate our downstream growth strategy.

This next slide shows our geographic footprint.

(slide 17)

Our capital expenditure is heavily focussed on downstream facilities on three continents.

Here's a quick summation:

In addition to the acquisition of Butler Manufacturing on April 27 at a cost of around A\$332 million, we are building a new metallic coating and paint line facility in China for A\$280 million, and another in Vietnam for A\$160 million.

We're also investing A\$80 million on a second metallic coating line at our plant in Thailand.

And we're planning a major new COLORBOND® steel centre in western Sydney, at cost of more than A\$150 million.

We are expanding and modernising nearly all our plants and service centres and strengthening our channels of distribution and introducing new product offers.

(slide 18)

So, while it might seem unusual for a steel company employee to talk about brands, fashion colours, and customer-driven solutions, our new strategy dictates that these factors are now critical to our success.

Which is why I'd like to talk in more detail about some vital aspects of our customer interface.

(ii) Innovation

How is our strategy being played out in our Australian and Asian operations?

What innovations are taking place?

At the customer interface, we are heavily focussed on brand building and innovation, enhancing the reputation that our products hold as building materials among Australians.

As a former American, it is interesting to reflect on Australians' strong cultural attachment to steel as a building material.

(Slide 19)

The sound of rain on a steel roof is a highly evocative sound for many Australians, and in some instances, necessary for a good night's sleep.

The material that is colloquially known as 'corrugated iron' has featured in Australian buildings for around a hundred and fifty years.

Our marketing communication talks to this cultural attachment, while altering some of the perceptions that modern urban Australians have about steel.

A good example is the brand building within our COLORBOND® steel range.

Let's take a look at our current TV advertising campaign for COLORBOND® steel for roofing.

(Audio visual – COLORBOND® roofing advertisement)

(slide 20)

This ad is about someone we all know.

It speaks to the Australian consumer in a distinctly Aussie manner about COLORBOND® steel roofing as the right choice.

As you can imagine, this has had tremendous cut-through over the last two years, and has worked extremely well for us.

The campaign has further strengthened and added personality to the COLORBOND® steel roofing brand, and of course, reinforced the overall COLORBOND® steel brand.

(slide 21)

We have also been involved in brand extension activity, such as our recent moves to increase our share of the fencing market with COLORBOND® steel fencing. We have identified this market, which is currently dominated by timber, as a major growth opportunity.

Here, we set out to increase customer awareness of the physical and aesthetic advantages of COLORBOND® steel fencing, and to normalise the idea of residential steel fencing.

We've emphasised style and strength in national consumer and trade advertising, positioning the product as a lifestyle choice – good looking, private, safe for children, long lasting, and 100 per cent recyclable.

Another BlueScope Steel Brand we continue to drive is ZINCALUME® steel, our highly corrosion resistant product.

(slide 22)

Our advertising positions ZINCALUME® steel as a contributor to the roofing contractors' professional reputation – a premise that has worked very well for the brand.

As well as brand building, we're also putting a lot of energy into market development. Creating new end uses for steel, and supplying those needs with strong BlueScope brands.

(slide 23)

Another example is our timely push into rainwater harvesting, with the Waterpoint™ range of tanks, as shown on this slide.

I've just installed one of these.

This Waterpoint™ range was developed in response to water restrictions, increased use, and the mandating of rainwater harvesting at state and local government levels. This is a very important project for us.

(slide 24)

Another good example of innovation is the Sureline® power pole.

We developed this product after identifying a market opportunity - the forthcoming need to replace many existing timber power poles.

Further research uncovered major advantages in replacing old timber poles with steel ones.

And many of the wind towers now producing green energy around Australia are made from BlueScope steel.

In our Asian operations, we are also innovating.

(slide 25)

This slide shows an example of a Lysaght pre-engineered building in Thailand, which is one of over 1,200 chicken sheds being delivered in that country.

And we are currently developing a number of new brands in Vietnam, tailored to local conditions.

(slide 26)

This continues to build on the approach we have taken across South East Asia, and which we featured in this very successful piece of advertising communication.

So, in Australia and Asia, BlueScope Steel is increasingly defined by product innovation, new end-use product creation and brand building. On a foundation of low cost, high quality steelmaking.

While we pursue this strategy in Australia and Asia, it is interesting to note that there has been a corresponding shift in global steel thinking.

(Slide 27)

For instance, a IISI project group has developed a proposal to grow the world market for steel, with a focus on residential construction.

This is a worldwide project, in response to a projected world population increase of 33%, to around 8.1 billion people by 2030.

Obviously, this represents a huge demand for new housing, and meeting this construction challenge will demand innovation.

Steel, being a sustainable construction material, (by which I mean it is made of abundant resources, recycled, and highly engineered), is the best solution.

This slide shows some of the ideas coming out of the project known as Steel Solutions and Sustainable Urban Development.

So we see BlueScope Steel's strategy of innovation and creation of new steel applications being paralleled at an international level by the global steel community.

(Slide 28)

As I mentioned, steel has a long history as a building material in this country.

By the 1850s, much of the corrugated iron that was imported to Australia from England was in the form of pre-fabricated buildings.

I think this adds a certain resonance to the next subject I would like to cover – our recent acquisition of the Butler Manufacturing Company – a world leader in the field of pre engineered buildings.

(iii) Pre-engineered buildings and acquisition of Butler Manufacturing

On April the 27th, BlueScope Steel completed the acquisition of the Butler Manufacturing Company.

(slide 29)

Butler is the number one global designer and supplier of Pre-Engineered Buildings (PEBs)

Put simply, Butler manufactures and sell entire buildings, while BlueScope Lysaght sell the roll formed components that go into the buildings.

As this slide says, the opportunity was attractive, and the time was right.

The Butler brand is number one in PEBs in North America and China, and has terrific brand recognition worldwide.

So what impact will this acquisition have on BlueScope Steel?

(slide 30)

Here's an overview.

Revenue will increase by about 20% on a full year basis.

The proportion of revenue generated downstream of hot rolled coil will increase by 7%.

Our employee numbers have increased by nearly 40%, and we have acquired a talented group of people with leading edge skills.

And whilst our gearing increased by about 8% when we completed the deal, we have maintained an investment-grade balance sheet.

Now, when you buy a big business like Butler, you obviously need to put a lot of energy into making that merger work. We have put a great deal of effort into achieving seamless merger integration.

Our success will be measured in no small part by how smoothly we welcome our 4000 new employees, as well as merge the Butler and BlueScope Steel business systems.

Our focus is to ensure that the people and customers of the Butler Buildings and Vistawall businesses truly feel part of BlueScope Steel.

Following completion of the merger, my executive management team and I spent a week travelling to all Butler Buildings and Vistawall operating sites in North America. We visited 17 sites in six days.

The early signs are encouraging– the merger feels right. I think we have made a positive start in bringing the businesses together, and establishing a sharper focus.

We are working to a very comprehensive and focussed plan for the first 100 days following the merger.

I'd like to consider for a moment the change in employee profile that has resulted from this acquisition.

(slide 31)

As you can see from this pie chart, our profile is now 60% in Australia and NZ, 20% in North America and 20% in Asia.

And we expect significant growth in the number of people working in our Asian operations, where we now have nearly 3000 employees.

BlueScope Steel has become a truly multinational and multicultural company, with offices in 22 countries.

Let's take a closer look at pre-engineered buildings.

(slide 32)

A PEB is a complete building solution, fully designed and engineered, delivered on-site with all pieces cut and numbered.

It comprises steel structural frame and roofing systems, and typically has steel walling.

The advantages of PEBs are that they are a fast, cost effective, building solution with broad applications.

(slide 33)

This slide shows an 110,000 square meter facility that was erected in 28 working days.

As I said, Butler North America is the leading designer, manufacturer and marketer of pre-engineered buildings and component systems, with the number one market share in North America and China.

Here are some examples of the work of the Butler Buildings business

(slide 34)

The focus of the business in the US is non-residential. They specialise in industrial, commercial, and retail segments, supplying manufacturing, distribution, warehouse and showroom facilities.

Butler has a solid engineering and design capability, with strong brand values.

The also have a leading builder network – 1100 Butler Builders – and these are a key competitive advantage.

Another great brand to come under the BlueScope banner as part of this acquisition. is the Vistawall business.

(slide 35)

The core Vistawall business is the design, manufacture and marketing of extruded aluminium and glass roof, wall, door and window systems for non-residential buildings.

These products can turn a warehouse into an automotive showroom.

Their product range includes storefront framing systems, entrance doors, curtain walls, skylights and translucent roof and wall systems, and they have a stable of strong, recognised brands, such as Vistawall, Naturalite, Moduline and Skywall.

The operation has two manufacturing facilities, four distribution centres, and 16 service centres, which serve 2,000 independent distributors and installers.

So, you can see why we feel that the Butler acquisition is a great strategic move into the US marketplace for BlueScope Steel.

However, the Butler acquisition also lifts our capability to capitalise on the tremendous opportunities in China.

I mentioned that the BlueScope Butler China business is number one in PEBs in China.

Our company's China customer base includes major multinationals as well as leading Chinese firms.

(slide 36)

You can see some of BlueScope Butler's China buildings here.

So what is the result of this acquisition, in combination with our current China operations?

Put simply, we believe that BlueScope Steel now has the strongest nationwide building solutions network in China.

This slide shows the extent of that network.

(slide 37)

To place this footprint in perspective, I'd like to make a few comments about China.

China now accounts for massive proportions of global steel consumption and production, with steel demand outstripping Japan, Korea, and the USA combined. You can see why it is being called the factory of the world.

And despite the recent growth, there appears to be plenty of 'headroom.'

In fact, China may only be reaching the 'take-off point' in steel consumption.

For example, between 200 and 300 million people in China will need new housing over the next generation.

The IISI predicts that China will make 267 million tonnes of steel by 2006. More than 50 Port Kembla Steelworks.

So, although China presently accounts for less than 5% of our overall sales, we, as an organisation, are confident of China's outlook.

As for exports from China, my prediction is that they will be finished manufactured goods, rather than raw steel.

And I might add that we would like many of them to be produced inside BlueScope Butler buildings.

(Slide 38)

One last comment. BlueScope Steel is evolving into a company that operates in a large number of countries, and this is highlighted by the Butler acquisition.

As an international company, all of our businesses must earn their right to capital by demonstrating strong returns on investment.

After all, that is exactly what we must do on behalf of our shareholders. We must invest their funds for maximum benefit or give them back in a tax effective way.

Conclusion

So, to conclude, since leaving BHP behind, we are witnessing a sense of liberation in BlueScope Steel.

Our down stream, value added strategy is being driven by a can-do spirit, by strong self-belief and by 'Our Bond'.

So to close.

For the steel industry, times are interesting indeed, and I feel privileged to be involved locally and internationally during such a dynamic phase.

'Our Bond' acknowledges the four pillars of our business as our shareholders, our employees, our customers, and the communities in which we operate.

And they, of course, are the reason for our journey.

(Final title slide)

I thank you all for coming here today, and for listening to the BlueScope Steel story.

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