BLUESCOPE STEEL

18th May 2004

Global Steel Industry Trends: Is the perception the reality?

Investors have perceived the steel industry negatively

"Poor returns over the long term,

high volatility,

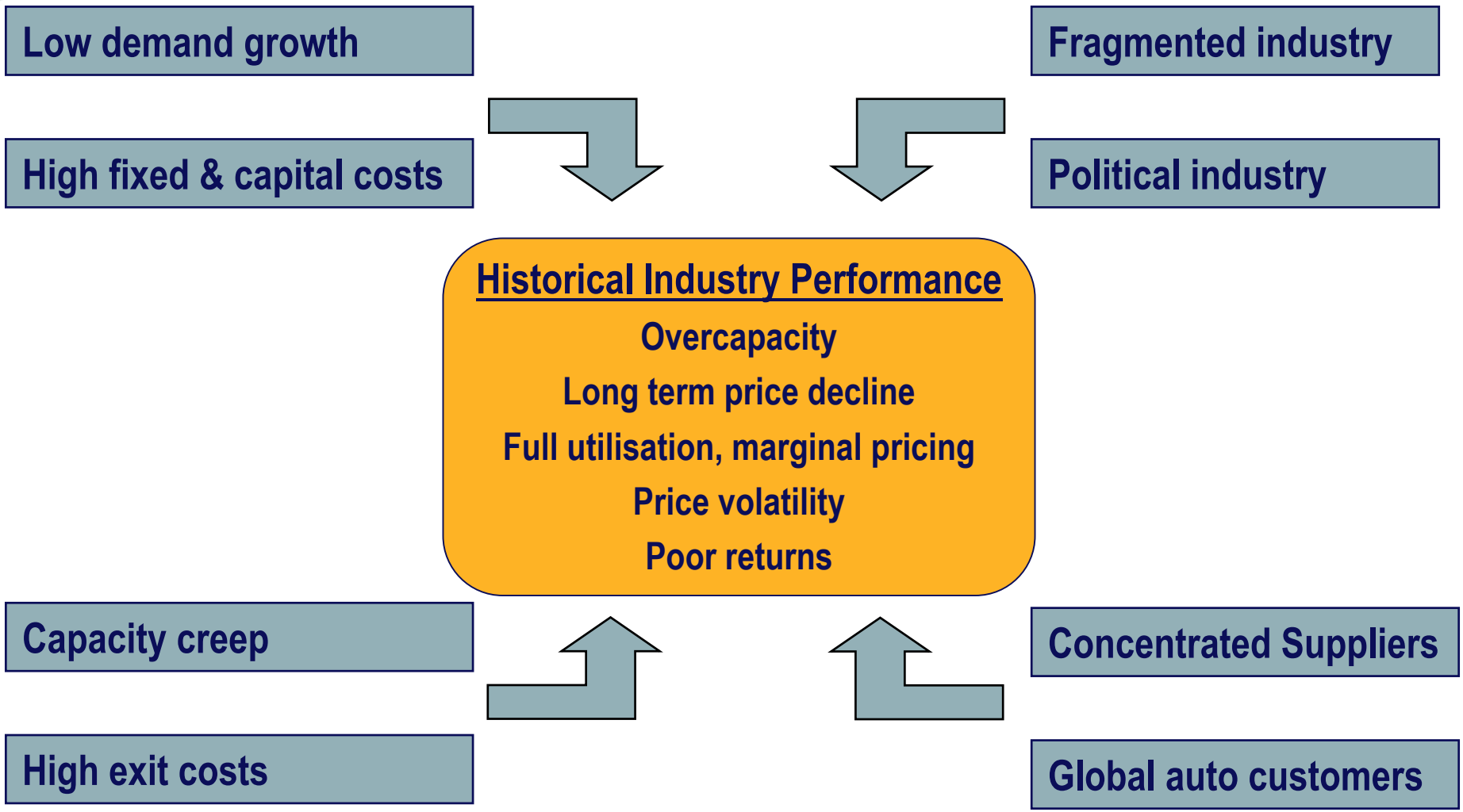
relatively small size and constrained liquidity

has moved the steel sector

to the fringe of the equity investment universe"

ABN Amro (early this decade)

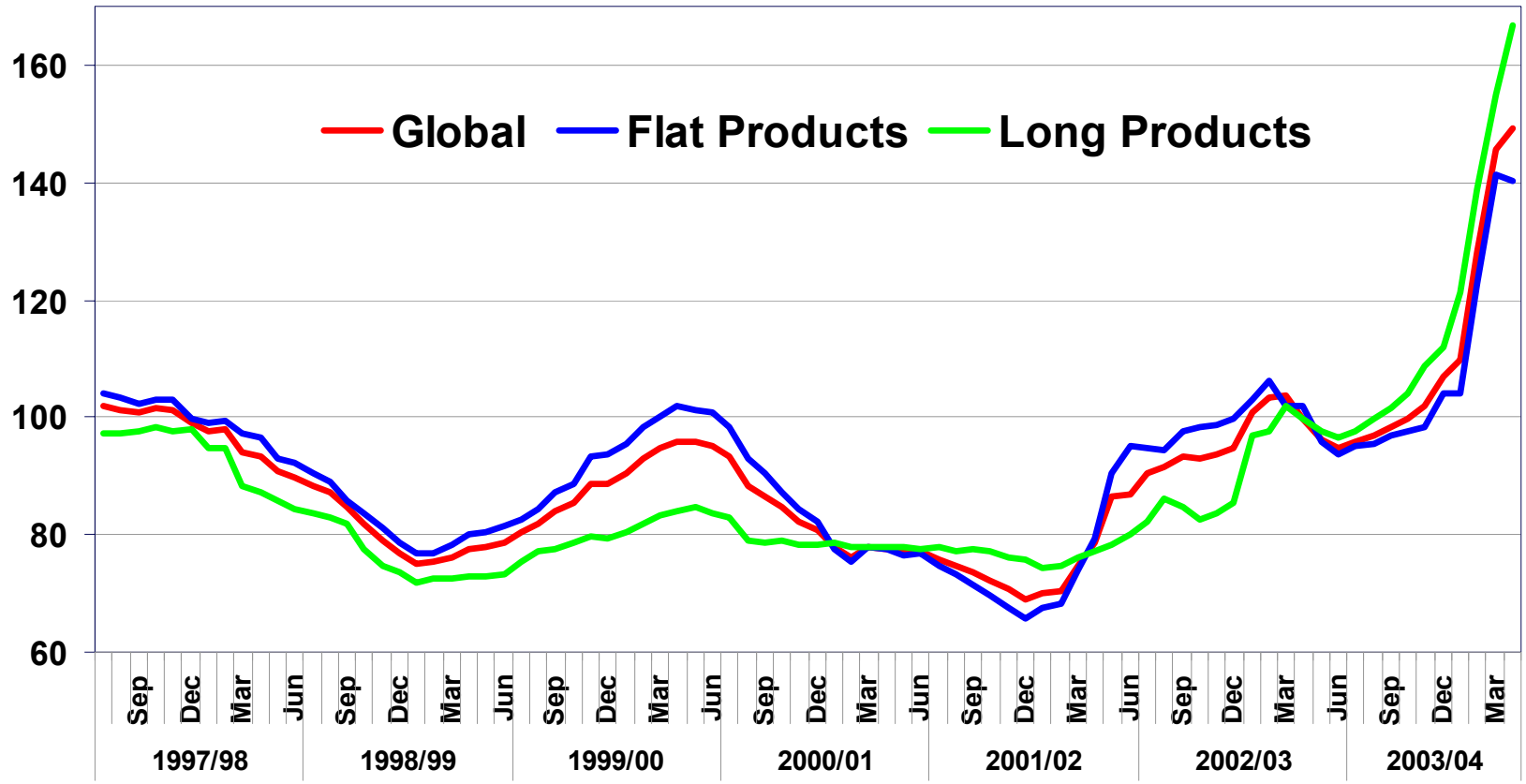
Structural issues have caused poor steel industry returns



However, recent dramatic rises in global steel prices may suggest structural improvement

CRU Global Steel Price Index

(Index April 1994 = 100)



Source: CRU International

What is changing?

Global economic growth – synchronised

Global steel demand, especially China

Supply/demand gap in China

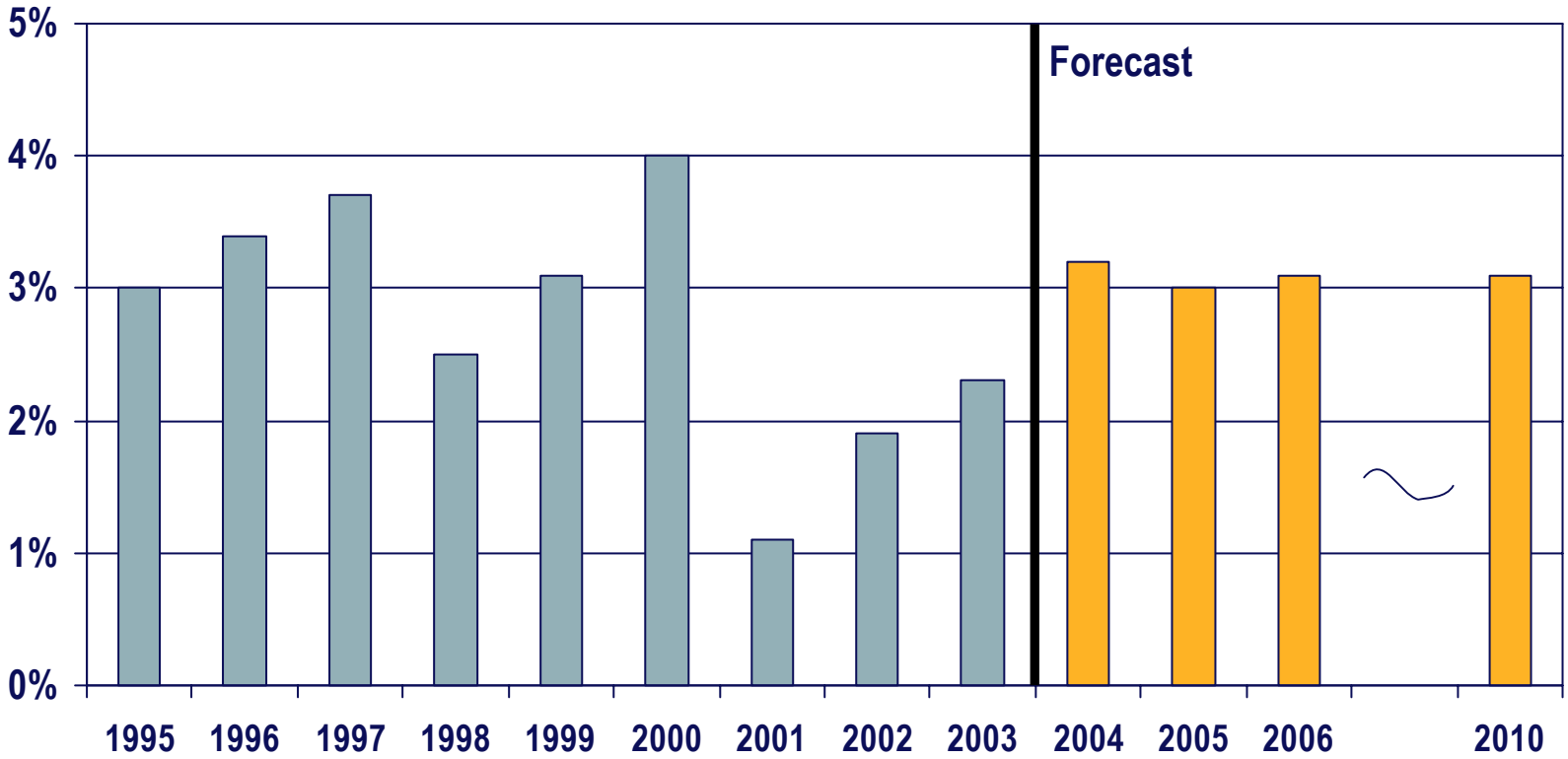
Industry behaviour in OECD/privatisations

Input costs

Different pattern for capacity additions

Strong global economic growth outlook

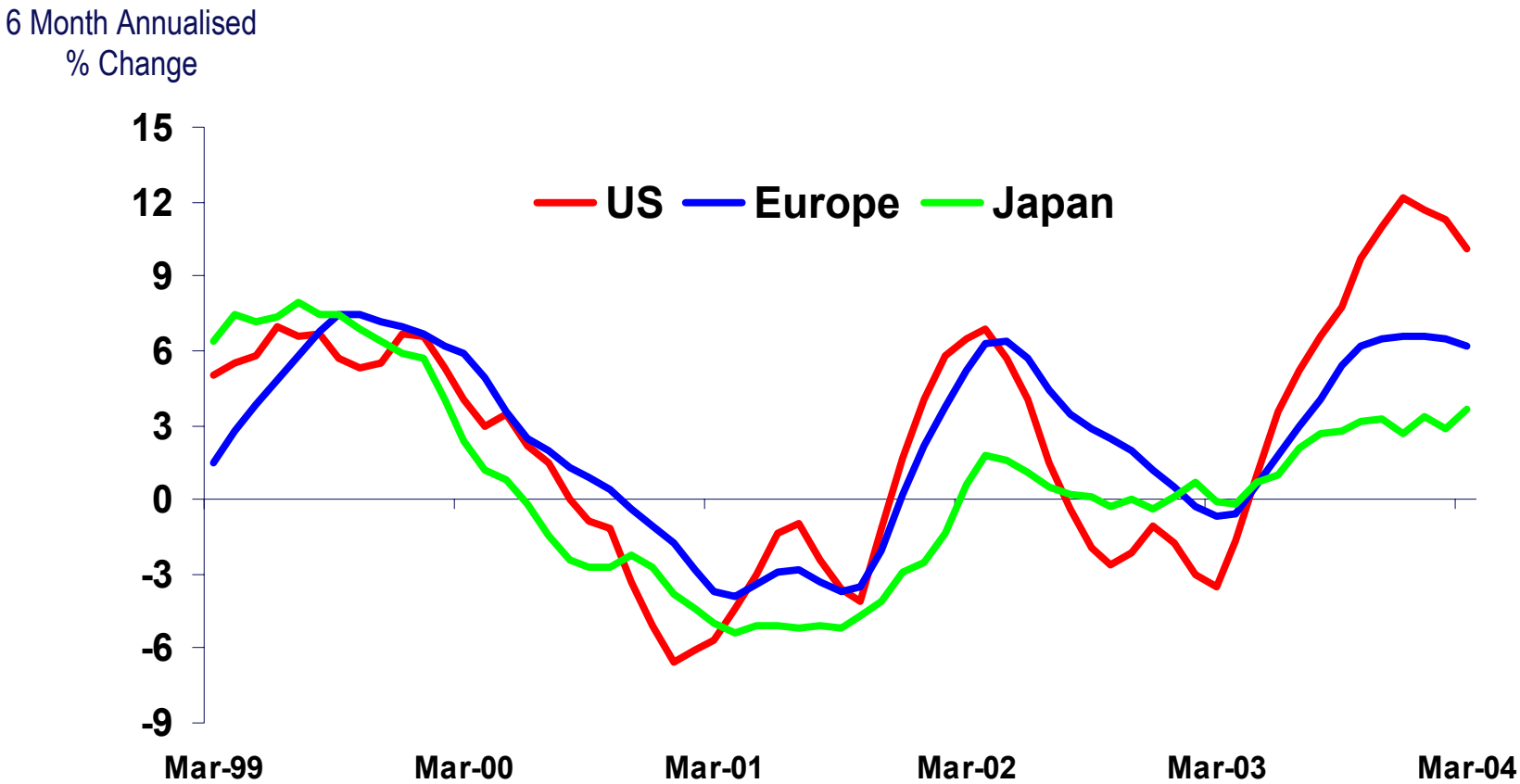
Real Global GDP % Growth



Source: Consensus Economics, IISI

Likely to be synchronised growth in OECD

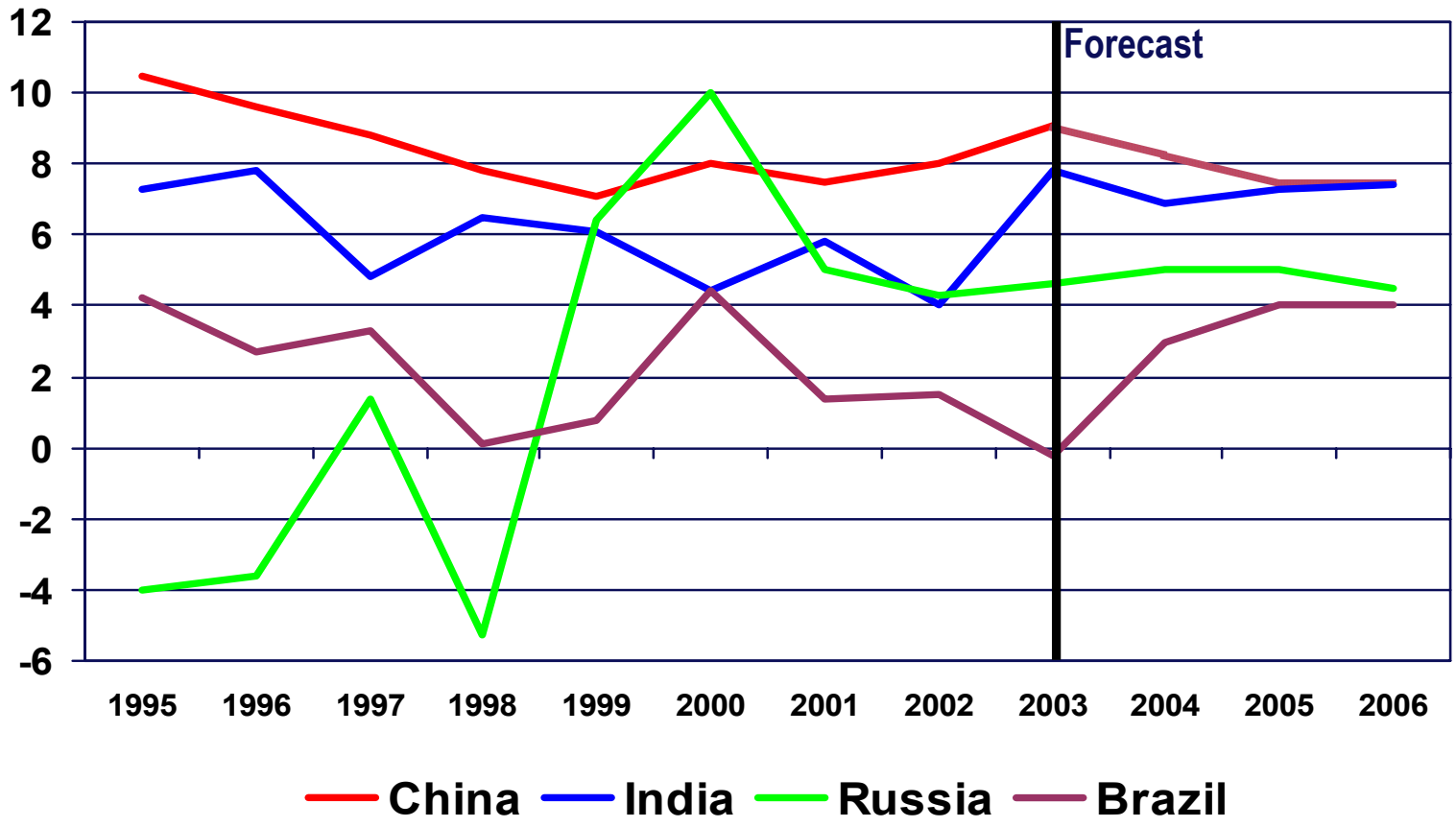
OECD Leading Indicators



Source: OECD

Also, strong growth in large emerging economies

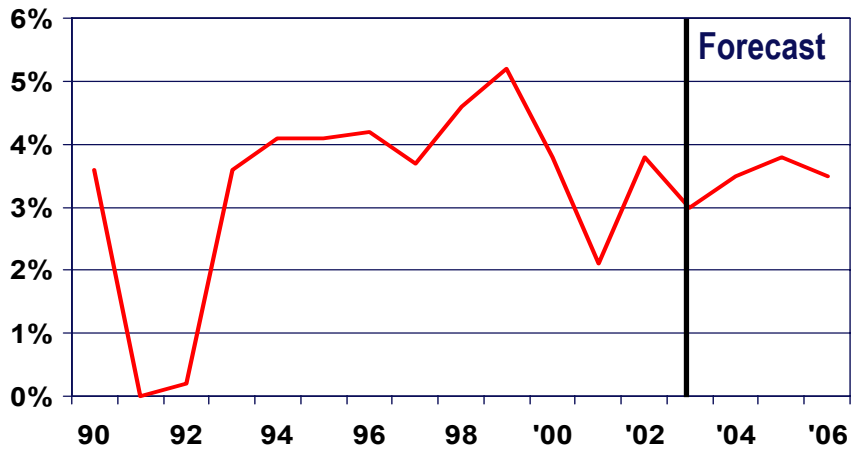
GDP % Growth - Emerging Economies



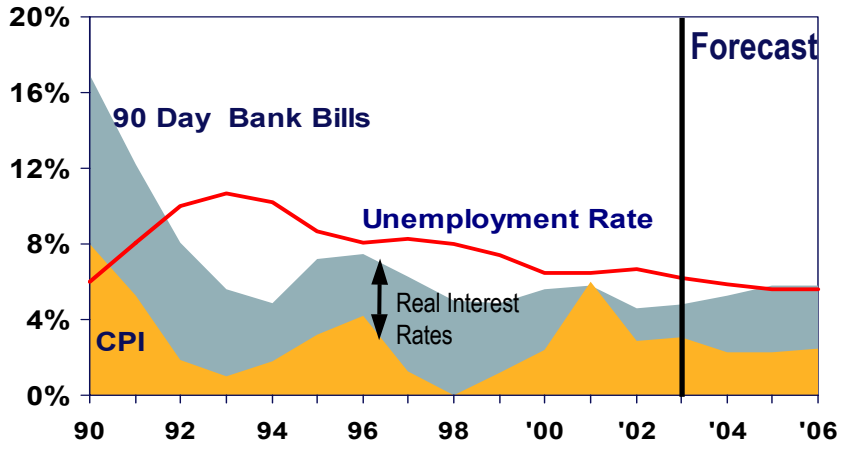
Source: Consensus Economics, IISI

Australia performing strongly – including steel using sectors

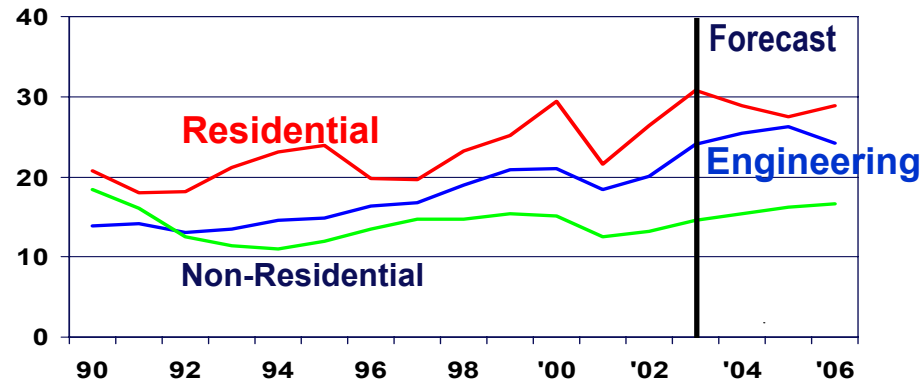
Australian GDP Growth (%, pa)



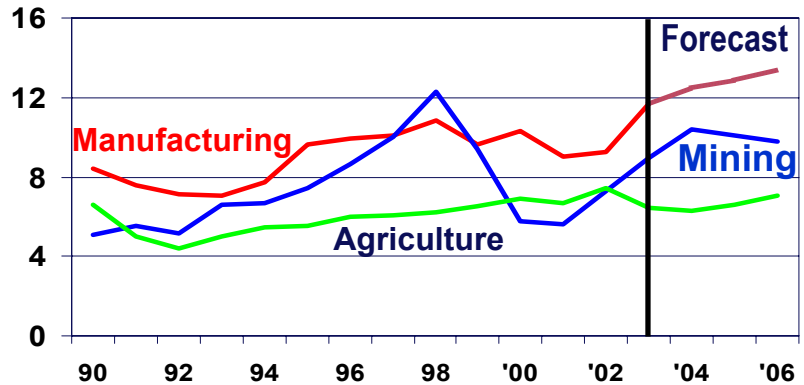
Inflation, Interest Rates & Unemployment (%, pa)



Construction Value (Constant A$bn)



Sectoral Investment (Constant A$bn)

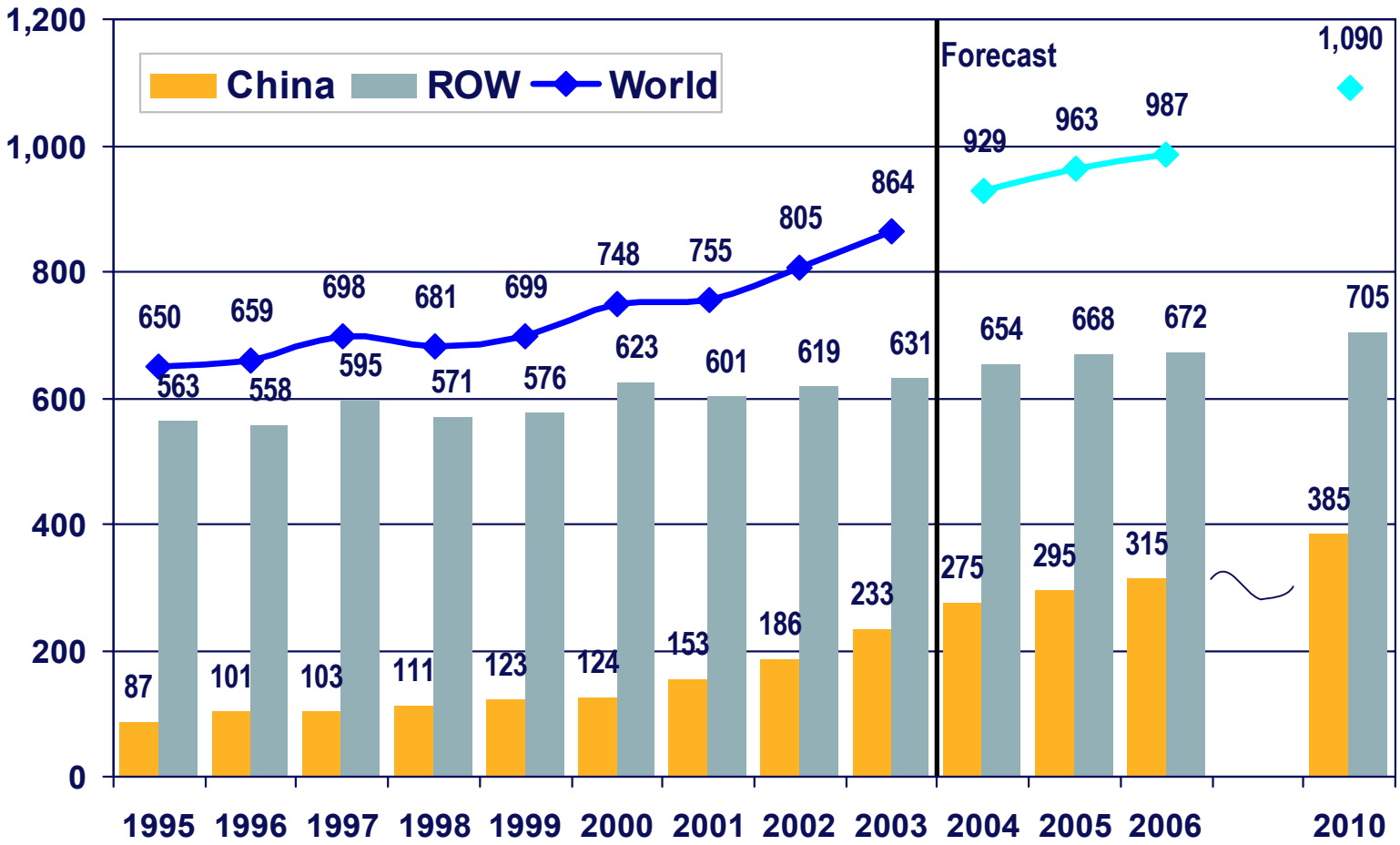


Source: BIS Shrapnel, Access Economics

Global steel demand growing strongly – largely driven by China

Global Steel Demand – IISI Base Case

(million tonnes)



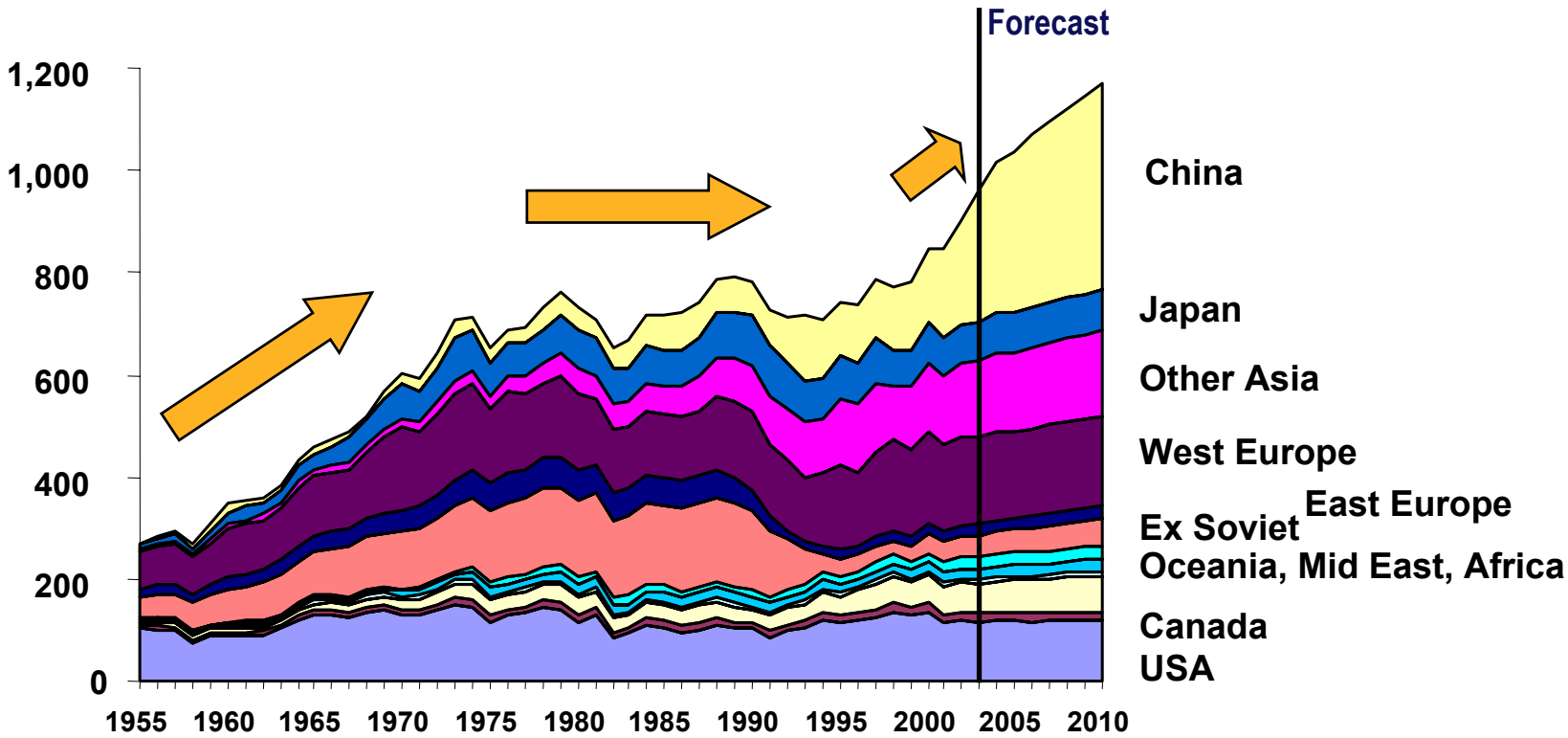
By 2010, China may be 35% of global demand, vs 27% in 2003

Source: IISI

Has the steel industry returned to the demand growth seen before the 1973 oil crash?

World Steel Consumption by Region

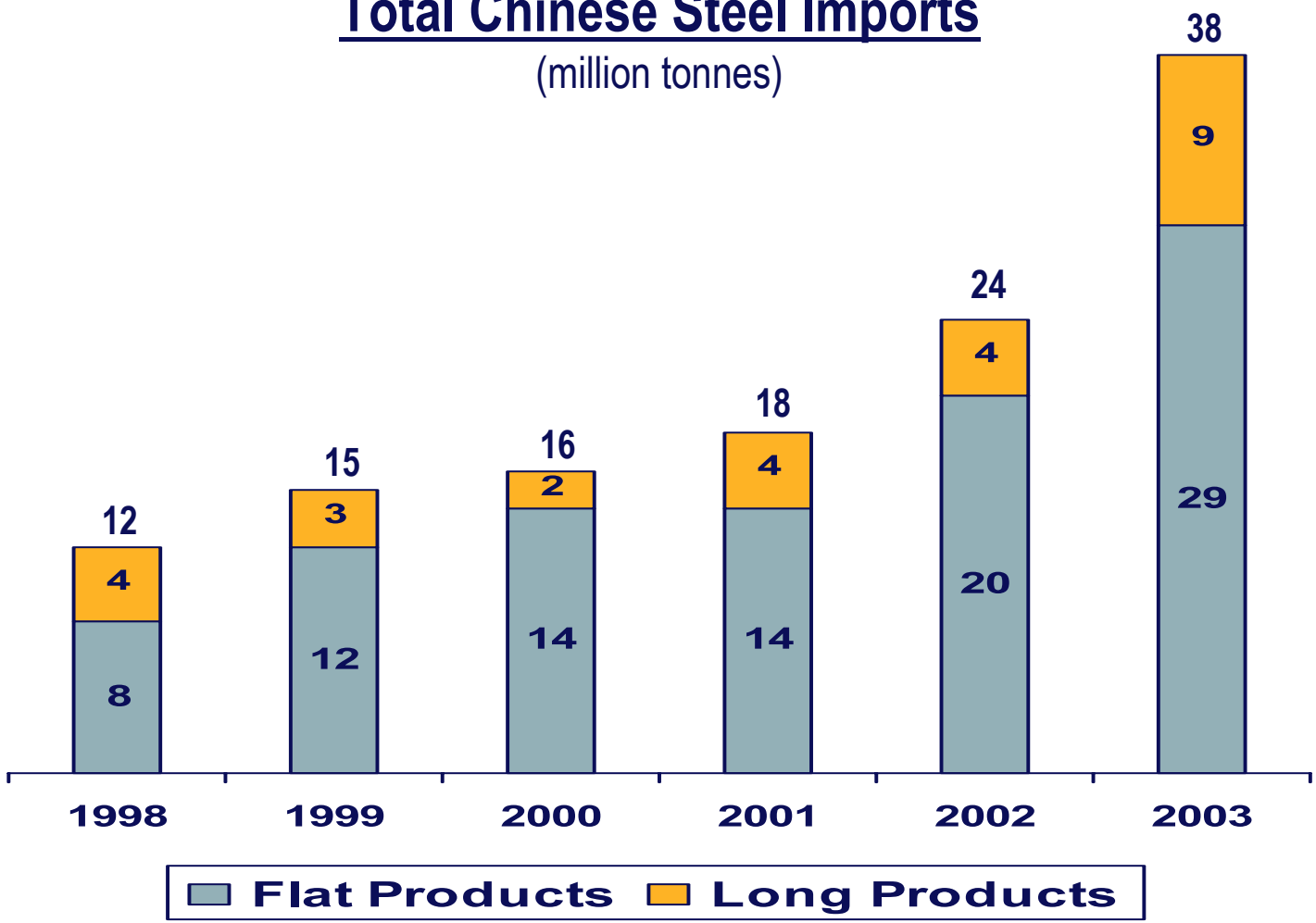
(million tonnes crude steel)



Source : Macquarie Bank, 'The Steel, Iron Ore & Coal Outlook', Jan 04

There is currently a large Supply / Demand gap in China

"Let China sleep, for when she wakes she will shake the world" - Napoleon

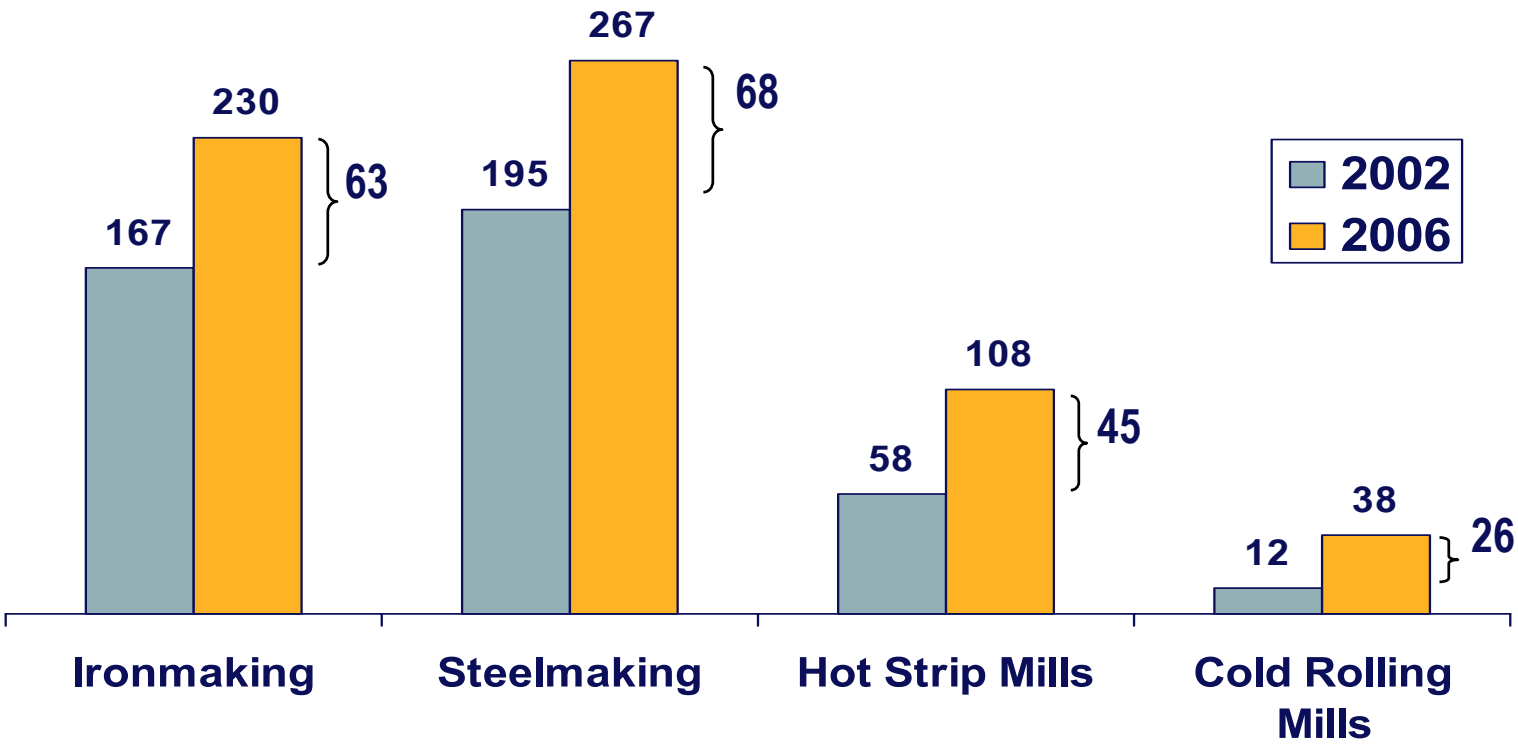


Source : Macquarie Bank, 'The Steel, Iron Ore & Coal Outlook', Jan 04

China is experiencing massive capacity growth

Estimated Chinese Industry Capacity Expansion from 2002 vs 2006

(million tonnes)

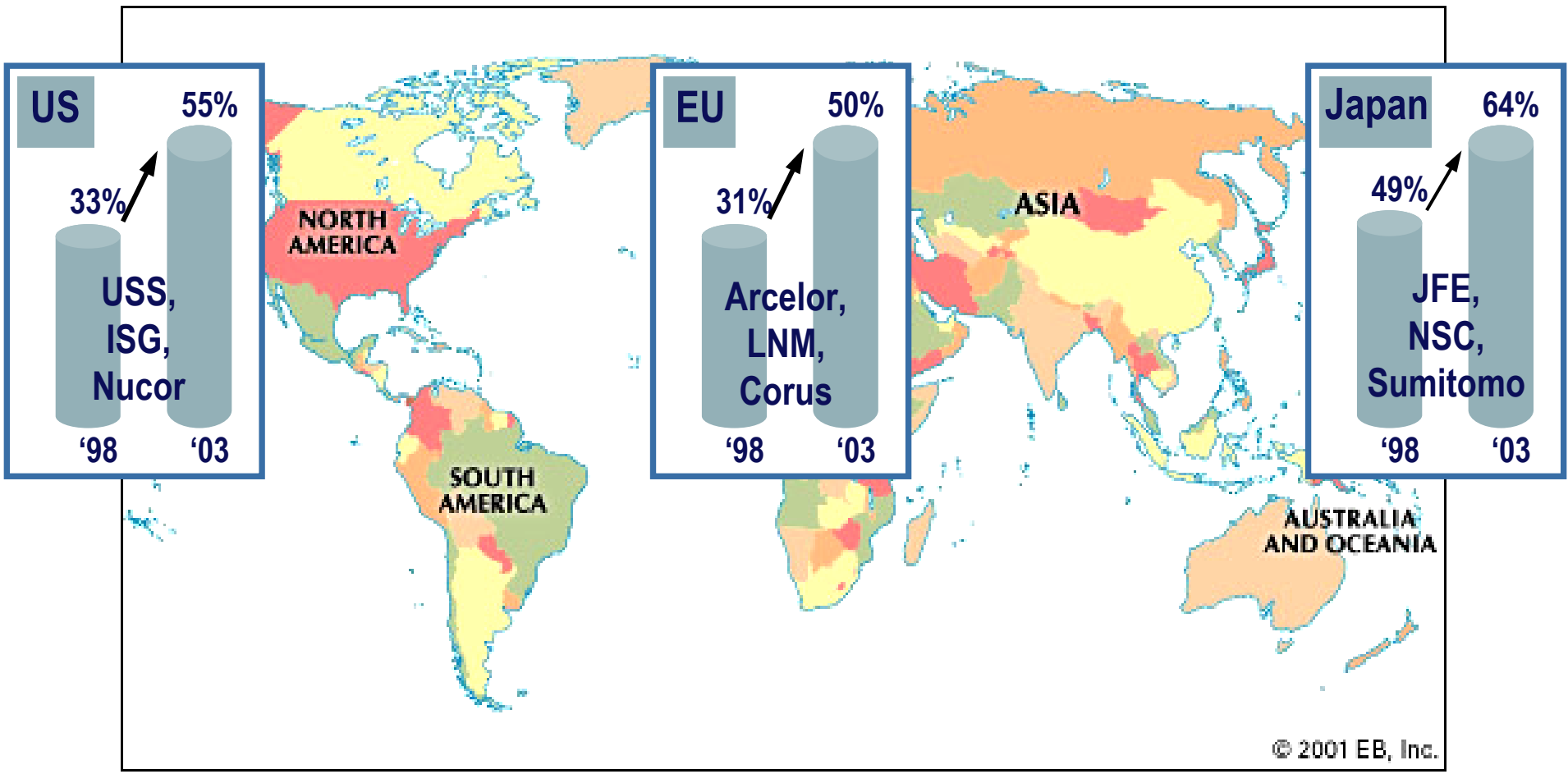


Source: HB Advisors/Rothschild, 'China – Should We Be Scared?', Feb 04, World Steel Dynamics

Consolidation in OECD

Production Share of Top 3 Steelmakers in Each Region

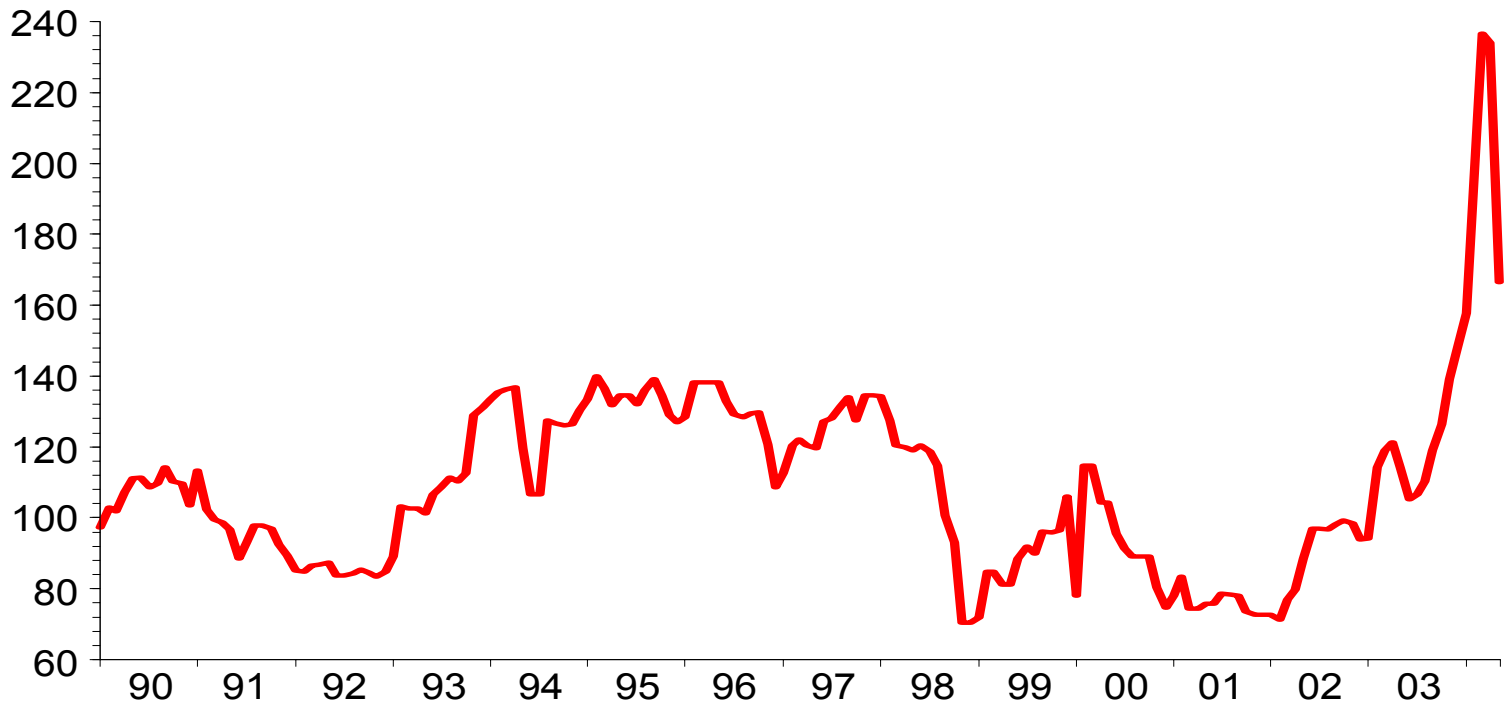
(%, 1998 vs 2003)



Source : POSCO, 'POSCO Growth & Innovation, Jan 04

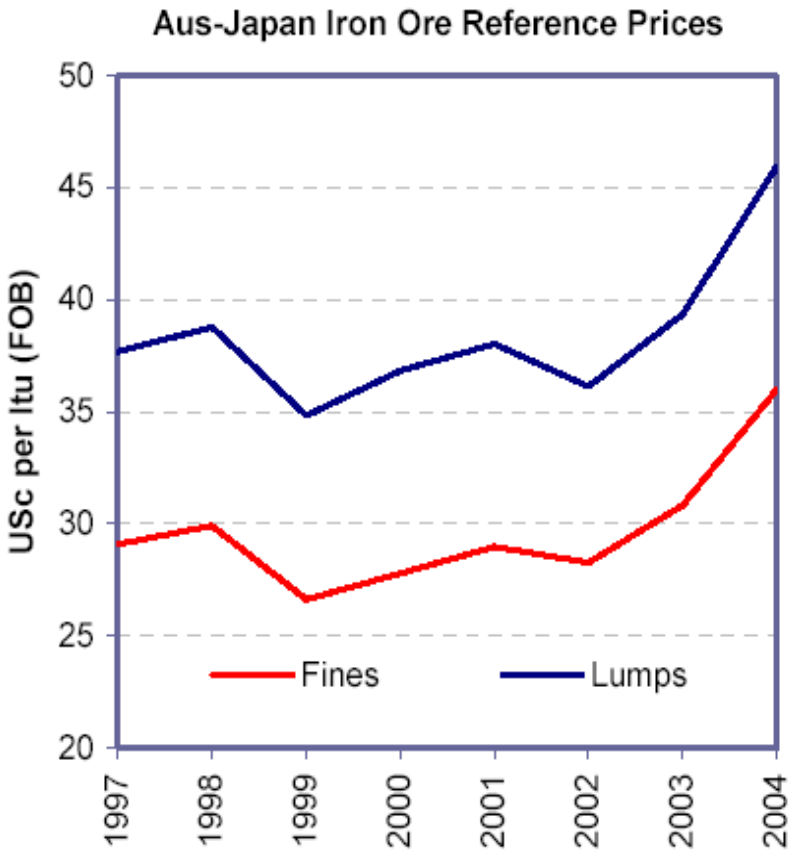
Input costs are rising - Scrap

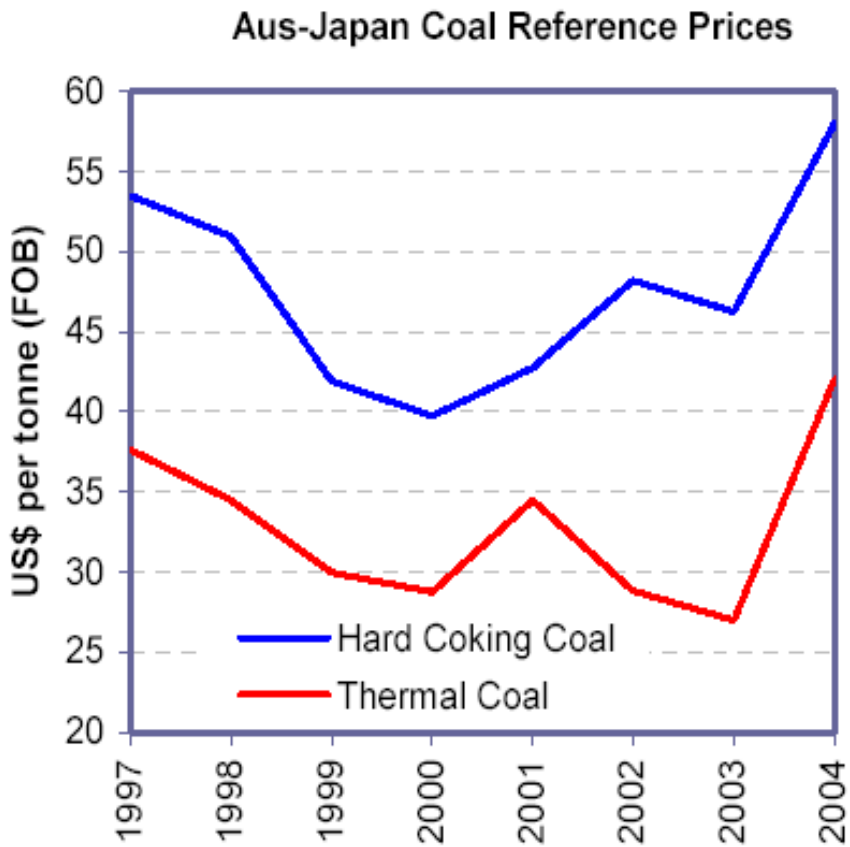
US #1 Heavy Melting Scrap (US$/ mt)



Source: Datastream

Input costs are rising – Steelmaking raw materials



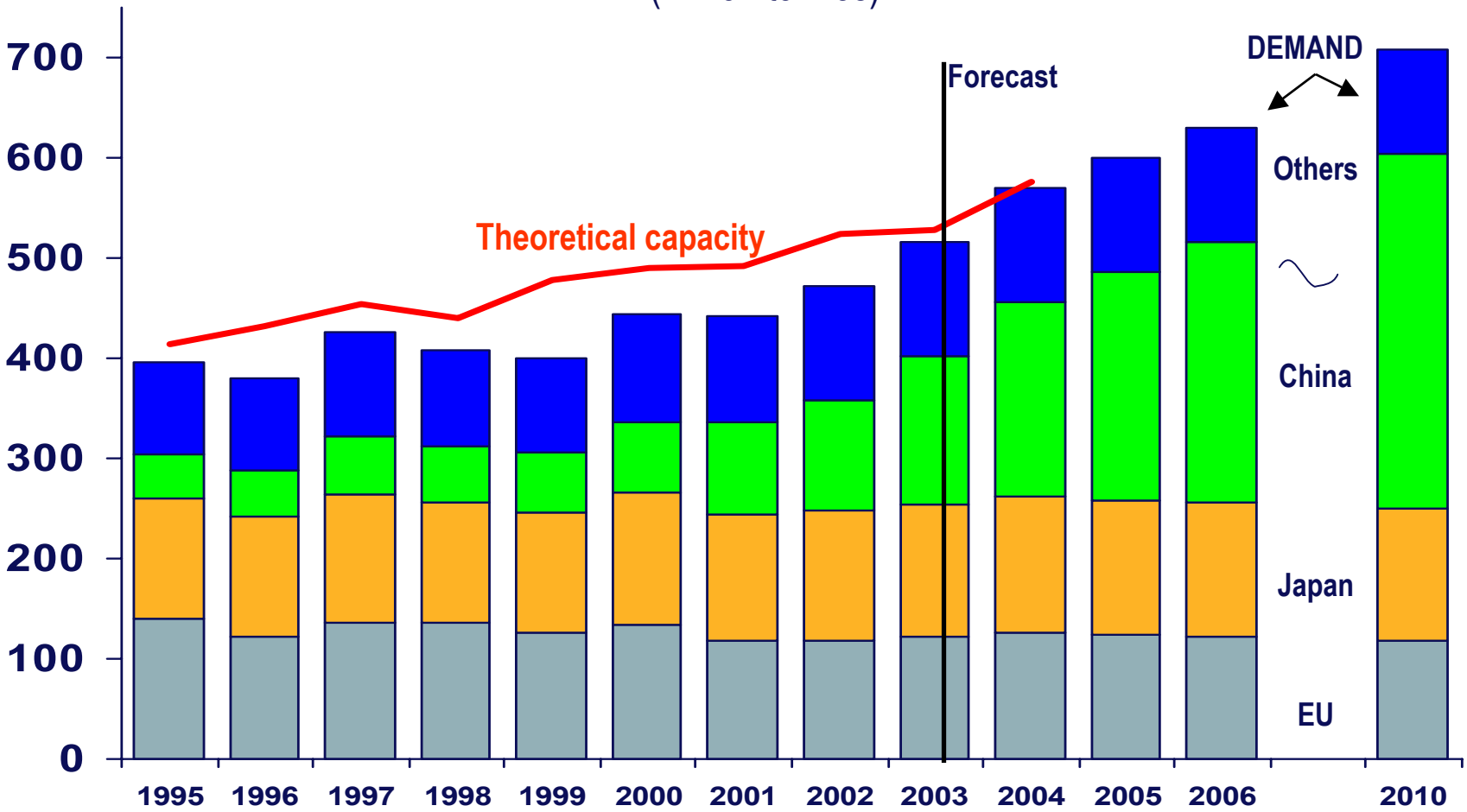


Source : ANZ Bank 'Resources Market Outlook', Mar 04, Tex Report

Increased Chinese demand is causing rise in input costs. Currently no excess seaborne iron ore capacity

Seaborne Iron Ore Demand Vs Theoretical Capacity

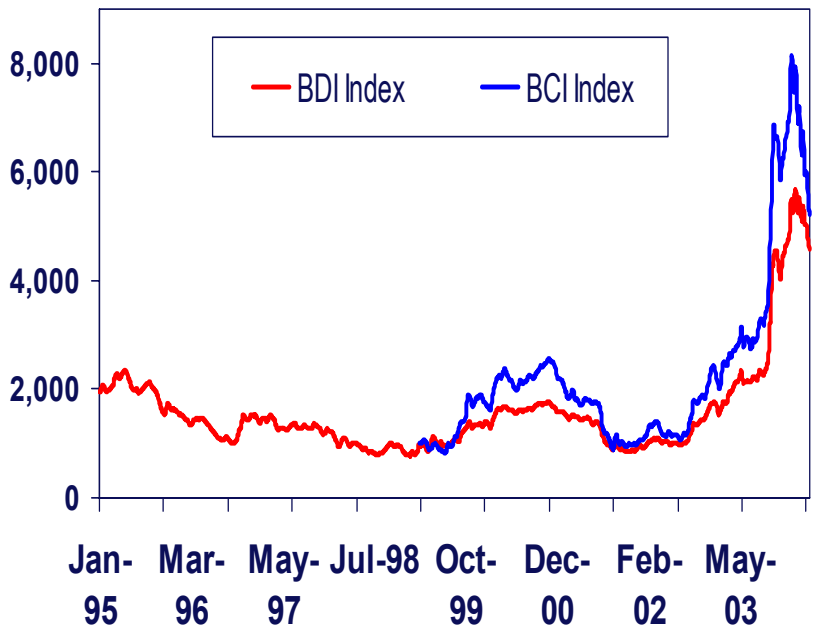
(million tonnes)



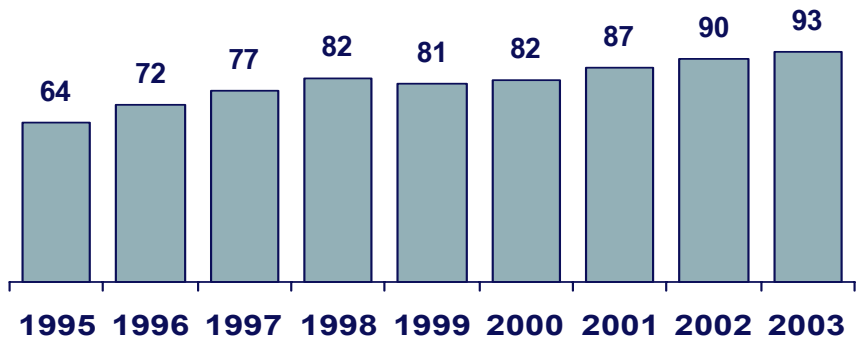
Source: IISI

Shipping costs have risen dramatically: Global fleet cannot meet demand – exacerbated by port congestion

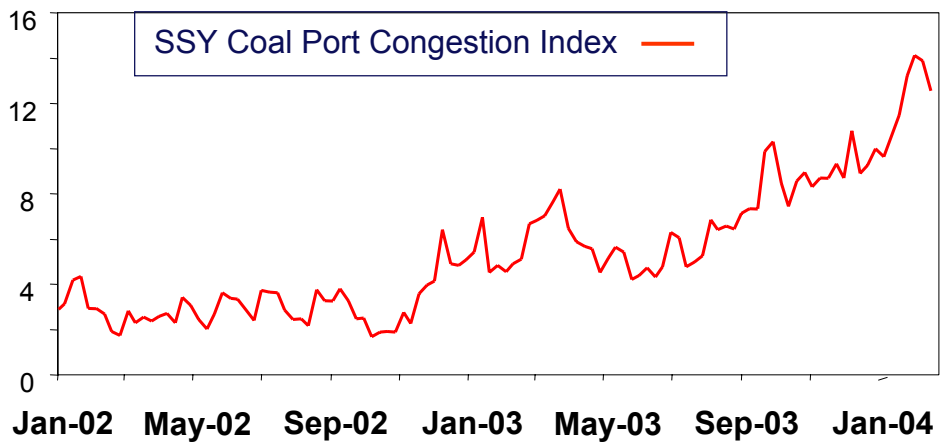
Shipping rates (Index)



Capesize Fleet Capacity (Million DWT)



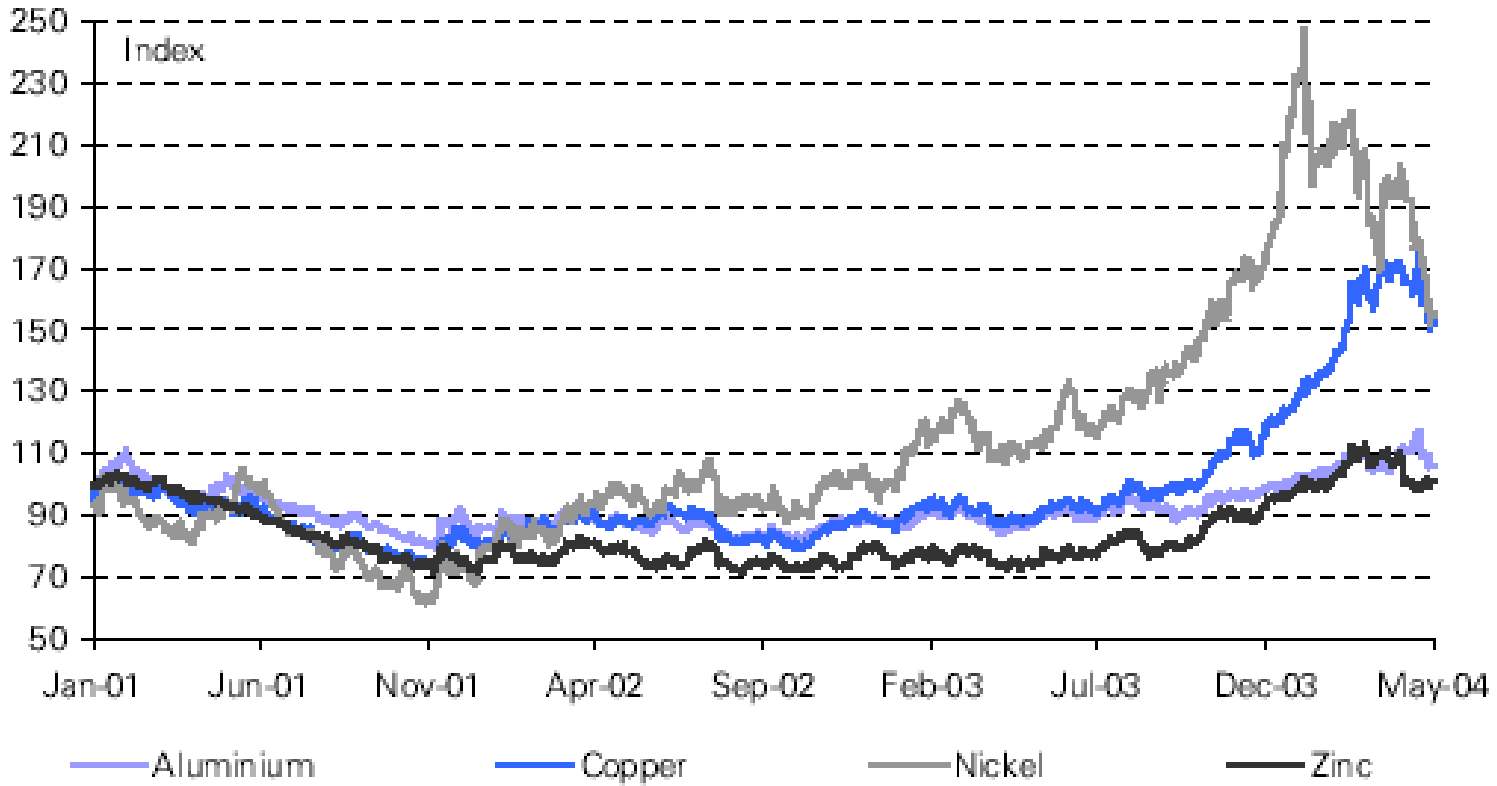
Port Congestion Index – Aust Coal Ports



BDI – Baltic Dry Index, BCI – Baltic Cape Index
Source: IISI, Baltic Dry Index, SSY

Other raw material costs also increasing

Figure 30: Base metal prices (rebased January 2001), 2001-2004



Source: Datastream

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Different pattern for capacity additions

Implications

Don’t expect a weak Chinese economy any time soon

Steel prices are likely to remain high for some time

Pressure for structural change in finished products pricing

An inflationary phase?