



**BlueScope Annual General Meeting 2015**  
**19 November 2015, Sydney**  
**Address by Graham Kraehe, AO Chairman**

## **CHECK AGAINST DELIVERY**

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The 2015 financial year saw BlueScope's best profit performance since the impact of the global financial crisis on the steel sector in 2009.

The Company's return to dividends and earnings growth is pleasing. While there is still a lot of work to do to achieve acceptable return on invested capital, I commend BlueScope management and employees around the world for this year's result.

## **UNDERLYING PERFORMANCE**

It has been a year of solid progress. Underlying earnings grew across the Company in four of our five operating segments.

BlueScope's net profit after tax (NPAT) of \$136.3 million was \$218.7 million higher than FY2014, while underlying NPAT was \$134.1 million, an increase of nine per cent over FY2014.

Full year underlying EBIT was \$301.8 million, 14 per cent higher than FY2014.

At 30 June the balance sheet was conservative, with net debt of \$275.2 million and gearing at 5.5 per cent. The Company achieved strong cash flow in the second half, driven by higher cash earnings and timing of working capital.

Despite the tough global industry conditions, continued progress allowed the Company to pay a fully franked full year dividend of three cents per share, bringing the total ordinary dividend for the year to six cents per share. We said throughout the downturn that we wanted to return to consistent dividend payments and FY2015 has laid a sound foundation to achieve this goal.

## **OUTLOOK**

Looking briefly at the outlook, I can confirm the half year guidance, which we updated on 26 October. We expect 1H FY2016 underlying EBIT to be approximately 40 per cent higher than 2H FY2015, subject to spread, FX and market conditions.

Managing Director & CEO Paul O'Malley will speak more about trading performance since year end.

## **SAFETY**

An unremitting focus on Zero Harm remains the number one priority for BlueScope. In the 2015 financial year the Lost Time Injury Frequency Rate was 0.6 per million hours worked, compared to 0.9 in FY2014, and the Medically Treated Injury Frequency Rate was 4.6 per million hours worked, compared to 5.3 in FY2014.



BlueScope employees have maintained an LTIFR performance of below 1.0 for longer than 10 years, and the MTIFR has been below 7.0 since 2009.

Our Company is world-class in this most important area of operations – but our focus continues to be on the goal of zero harm.

## STRATEGY

BlueScope has built a strong foundation for growth over the coming years, with a diverse portfolio of businesses with competitive advantages in some of the fastest growing economies of the world, and a balance sheet which enables strategic flexibility.

The global steel industry has seen extensive changes in recent times. For example, China's finished steel exports have doubled to over 100 million tonnes per annum, such that it is now exporting equivalent to 45 times the annual output of Port Kembla Steelworks.

In view of this unprecedented change, CEO Paul O'Malley and his management team in 2014 commenced a review of BlueScope's strategy to ensure we get the best from our quality assets, and your Board of Directors has endorsed the new strategic focus. In conducting this review, management identified where the greatest value for BlueScope is created, where the greatest opportunities lie, and what BlueScope needs to continue to do to successfully deliver value to shareholders.

In summary, that strategic focus is to:

- a) focus on the growth of our portfolio of high quality premium branded businesses where we have a leading position in nine countries beyond Australia;
- b) deliver competitive commodity steel supply in our local markets, provided we can be cash flow positive at the bottom of the cycle;
- c) maximise value from our 100 per cent ownership of North Star BlueScope Steel; and
- d) ensure ongoing financial strength.

### **Grow premium branded steel businesses with strong channels to market**

BlueScope is a global leader in premium branded coated and painted steel products - the third largest manufacturer of painted and coated steel products globally; we have great strengths in engineered steel buildings in key markets, and are number one in building and construction markets.

The strategic theme for the coating and painting business is to drive growth in premium branded coated and painted steel markets in Asia Pacific. Our brand portfolio is second to none – and includes; COLORBOND® steel, COLORSTEEL®, BlueScope Zacs, ZINCALUME® steel and SuperDyma®. We will build on the strong value proposition we offer customers across the Pacific Rim from Asia, Australia, New Zealand and to the west coast of North America.

In our engineered buildings business we will drive BlueScope Buildings growth in North America, and turn around the business in China. We have a distinctive capability in engineered buildings and with our branded builder networks Butler Manufacturing and Varco Pruden, we are the leader in the two largest markets, North America and China.

We believe that a multi-regional business model will deliver success for this business. Therefore the core elements of the near term strategy are to pursue plans for strong growth in North America; progress a rapid turnaround in China, and position ASEAN for future growth.



## **Maximise the value from 100 per cent ownership of North Star**

We will maximise the value in North Star BlueScope Steel, which is the best performing steel plant in the US and one of the best in the world. North Star has delivered consistent financial performance, and strong returns on invested capital to BlueScope.

Last month BlueScope moved to full ownership of this important asset, exercising our last right of refusal under the North Star shareholders' agreement by matching an offer received by Cargill from a third party. The acquisition price was US\$720 million, and the Board is committed to reducing debt following the acquisition.

Paul O'Malley will speak more about this transaction.

## **Deliver competitive commodity steel supply in our local markets**

The Company is committed to deliver value from steelmaking in Australia and New Zealand by game-changing cost reductions.

Last month, your Board of Directors decided to continue steelmaking at Port Kembla. We are confident that the commitments made to eliminate costs will deliver more than \$200 million in operational savings in Australia by FY2017.

This week saw employees at the Port Kembla Steelworks vote in favour of new Enterprise Agreements which will help deliver the game-changing cost outs. The Agreements have been registered by the Fair Work Commission.

Further, good progress towards the \$50 million cost-out target has been made at New Zealand Steel and the Board has decided that steelmaking at Glenbrook should continue.

For the Australian and New Zealand steelmaking operations to be sustainable, we must remain cost competitive and continue to deliver value through the cycle.

We also thank the NSW Government for deferring \$60 million of payroll tax payments over the next three years, as well as reductions in other charges. The arrangement we have struck demonstrates the Government's clear support for our employees, our business and the Illawarra and it has been a key component in the Board's decision to keep the Steelworks open.

In New Zealand, good progress is being made on the delivery of the targeted NZ\$50 million savings, but there is more work to do.

However, we all have the continued challenge: to continue to make steel in Port Kembla, and also at Glenbrook in New Zealand, we must remain cost competitive and continue to deliver value.

## **Ensure ongoing financial strength**

Financial strength is a core pillar of our strategy, and supports value creation for investors.

BlueScope's framework for value creation is based on quality of earnings, returns on invested capital, credible growth plans and the strength of the balance sheet.



## INNOVATION

Innovation is one of the core competencies in delivering on BlueScope's corporate strategy.

BlueScope has a long history of taking an innovative approach to meeting customer needs that has allowed us to prosper in widely different markets with a diverse range of customers and stakeholders. Our strong competitive advantage in coated and painted steel and engineered buildings is highlighted by our outstanding brands, technology, channels to market, manufacturing footprint and strong strategic partnerships.

From the earliest development of Butler's MR-24® roofing system more than 45 years ago to doing business in new places and new markets, and finding creative ways to save costs; from the next generation coating technology for ZINCALUME® and COLORBOND® steels to the truss purlin in BlueScope Buildings, innovation has been at the centre of everything we do.

The Company's research and development laboratory at Port Kembla employs 70 people, including 30 PhD qualified scientists. In the last five years, BlueScope has applied for 67 patents covering a diverse range of steel products, manufacturing processes and building applications such as high strength steel plate, the next generation coating technology, roofing and walling profiles and efficient steel roof construction.

The importance of innovation cannot be overstated. As market conditions change and competition catches up, we must find ways to continuously improve our business, develop better products, and optimize our processes. So we will continue to invest in innovation across all business segments.

## BOARD RENEWAL

Since its listing 13 years ago BlueScope has kept an experienced Board of Directors from diverse backgrounds and with a range of skills.

In April, Ron McNeilly retired after 13 years of service. I thank him for his leadership and support in his role as Deputy Chair. His knowledge of the steel industry and markets was greatly valued.

In August I announced my intention to retire at the end of today's meeting.

It has been a great privilege to work with the BlueScope team as the Company's inaugural Chairman – I remember well 15 July 2002 when I stood on the floor of the stock exchange to ring the bell to mark the Company's listing on the ASX.

The first 13 years of BlueScope's corporate life have been characterised by some real highlights as the Company expanded and grew, reaping the benefits of the upside of the steel industry cycle, as well as some very challenging times as we worked through a most turbulent economic time due to the effects of the global financial crisis and its aftermath. In addition, the rise of the Chinese steel industry has fundamentally altered the nature of the global steel industry, such that all steel manufacturers have had to adapt to a new paradigm.

Your Board and the management team have had to make some difficult decisions to safeguard shareholders' best interests and bring the Company through the tough times to where it is today, with a portfolio of high quality assets, a strong balance sheet, and well positioned to capture market growth.



I have been proud to be a part of the BlueScope journey, including the journey towards Zero Harm. It is very pleasing to see this effort reflected in FY2015 safety performance, our best year on record. I am confident that all BlueScope employees will maintain the world class standards they have set.

I have great admiration for the dedication to safety, quality and to the Company that all BlueScope people share.

Your new Chairman, John Bevan, brings to the Board extensive experience in international business and heavy industrial operations. John was CEO of Alumina Limited from 2008 to 2014, and before that he spent 29 years in a variety of senior management roles with BOC Group, including as a director on The BOC Group plc Board, Chief Executive Process Gas Solutions, Chief Executive Asia and country lead roles in the United Kingdom, Thailand and Korea. Mr Bevan is also a non-executive director of Ansell Limited and of Nuplex Industries Limited.

BlueScope is now back in good shape. The Company has a very capable management team led by Managing Director & CEO, Paul O'Malley. I will leave the Company confident that it is in excellent hands to meet the challenges ahead, and to capitalise on the benefits of BlueScope's world-class platform of assets with leading edge technology and brands.

## **CONCLUSION**

I know that your new Chairman, John Bevan, will do an excellent job. He will be working with an outstanding Board and management team.

Shareholders can feel confident that BlueScope is very well led.

Thank you to my fellow Directors, to Managing Director and CEO Paul O'Malley and his management team, to all BlueScope employees and to you, fellow shareholders, for your contribution and continued support of the Company.

I shall continue to maintain a keen interest in the Company's fortunes.

## **THANK YOU**