



**BlueScope Annual General Meeting 2015
19 November 2015, Sydney
Address by Paul O'Malley, Managing Director & CEO**

CHECK AGAINST DELIVERY

Before I speak in more detail about the commercial aspects of our business, let me speak about our overriding priority – safety performance.

SAFETY

In FY2015, BlueScope recorded its best safety performance ever. Our entire team continued to work on the initiatives and improvements identified through 'Switch on Safety,' a major employee engagement program aimed at refocusing on safety efforts. A number of BlueScope businesses were recognised for their safety performance by external workplace safety authorities.

I congratulate everyone at BlueScope for your contribution and dedication to our safety journey. However, BlueScope people are still being injured, and all areas of the Company continue to focus on switching on to safety, and choosing the right behaviours in the workplace.

Safety, and our goal of Zero Harm, remain our number one priority.

TRADING AND BUSINESS UPDATE

In FY2015 the Company saw underlying earnings growth across its portfolio, with all but one of our five operating segments delivering an increase.

I will now provide a brief update on how each of our segments is travelling in the current half of FY2016.

In **Australian Steel Products**, the Australian results are benefitting from the businesses' earlier delivery of cost reductions, growth in domestic demand, including from residential construction and the lower A\$:US\$. These benefits are expected to more than offset weaker steel spreads and give rise to a significant improvement in segment underlying earnings for the half.

The focus on continuous improvement and cost reductions in Australia has been outstanding and is delivering real value for shareholders.

In **New Zealand**, progress made in cost reductions in both our flat product steel business and the iron sands export business, is largely offsetting the impact of weaker steel and iron ore prices. It is a tough economic environment for the New Zealand business with low steel prices and iron prices bringing significant headwinds.

We are very pleased with the progress made in commissioning the Glenbrook billet caster. Our Pacific Steel long products mills in Auckland are now being supplied with billet from Glenbrook and the full earnings potential of the Pacific Steel acquisition is expected in 2H FY2016 onwards.

In our **Coated Products joint venture**, we expect a stronger performance this half, over the June 2015 half, driven primarily by general market growth across the segment, improved margins in the North America building products business and translation benefits of the lower A\$:US\$. We continue to be well positioned to capture growth in Asian countries.

For **BlueScope Buildings** (formerly Global Building Solutions) in the current half, the North American buildings business is performing strongly in the peak summer building season. We are particularly pleased with sales growth from innovative new products we have launched into the market in the past 18 months.



Our Asian building operations are seeing improved performance following cost reductions and productivity improvements in the China Buildings business. We still see soft demand in China but our business performance is improving.

Our China coated products business, combining coating, painting and roll forming operations is performing well and in line with our expectations.

North Star BlueScope Steel will make a strong contribution again this half. Steel spread has softened since last half. While scrap is down, steel prices are also down, but we are seeing the translation benefit of the lower A\$:US\$. It is very pleasing that we now have full ownership of the most outstanding steel production asset in the United States.

STRATEGIC INITIATIVES

Last month, on 26 October, BlueScope made three important announcements:

1. to continue to make steel at Port Kembla following game-changing cost-out commitments by employees, unions and the NSW Government;
2. a commitment to acquire Cargill Incorporated's 50 per cent share of North Star BlueScope Steel Limited for US\$720 million, taking our ownership to 100 per cent.
3. an upgrade to the outlook for underlying EBIT in 1H FY2016;

1) Steelmaking in Australia & New Zealand

The Chairman has spoken about the decision to continue steelmaking at Port Kembla Steelworks.

The Port Kembla management teams have developed and implemented a 'game-changing' approach to reducing more than \$200 million in costs leading into FY2017. We have made progress more quickly than expected on the cost reductions within our control and may in fact outperform in this area – a necessary requirement given steel prices continue to fall.

I acknowledge the Port Kembla management teams and every single worker in the Illawarra - they should all be extremely proud of their combined effort.

We have also had excellent engagement and support from the unions and the NSW Government, both making significant contributions and commitments to our cost reduction plan.

New Zealand Steel has made progress on delivering \$50 million savings by FY2017, including through a new agreement between employees and unions, and new competitively priced long term coal supply contracts. With steel prices continuing to fall, additional cost reduction opportunities are being targeted. The New Zealand team is making good progress, and they are also to be commended on their achievements, which have enabled the Board to make the decision to keep producing steel in New Zealand.

With Hot Rolled Coil prices now at their lowest levels since 2003, lower even than during the global financial crisis and China exporting the equivalent of 45 Port Kembla Steelworks worth of production, the ongoing lesson is that 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. To be truly sustainable, the cost-out benefits must be delivered and permanent.

The commitments made to permanently reduce costs mean the Company is now leveraged to the upside of a future return to improved steel market spreads. Steelmaking is a cyclical business and at some point we expect the cycle to turn back in our favour.



2) Move to full ownership of North Star BlueScope Steel

At the end of October, BlueScope formally completed the acquisition to assume full ownership of North Star BlueScope Steel from Cargill, Inc.

This is a unique investment opportunity. North Star is highly regarded within the US steel sector; and full ownership improves our portfolio value and business flexibility.

It is a high quality operation, centrally located within a large scrap pool, its primary source of raw materials; it operates close to its core customers, has low conversion costs and benefits from a highly motivated and capable work force. With 380 employees, North Star produces 2.0 million tonnes per annum of hot rolled coil at the mini-mill located in Delta, Ohio.

The business is recognised by customers in the independent Jacobson survey as the leading mini-mill in the US based on quality, service and on-time delivery, and it has consistently operated at full capacity with the highest EBITDA margins of any steel producing plant in the United States.

With assistance from a motivated workforce, North Star has increased output from 1.5 mtpa in FY2001 to 2.0 mtpa in FY2015 with minimal capital investment. The team is working on further opportunities to boost output at low capital cost – targeting an increase in production capacity of 90,000 tonnes per annum over the next two years by increasing casting width and speed.

3) Outlook

The Chairman has earlier confirmed our guidance, which was updated on 26 October. The outlook upgrade is due to earlier than planned delivery of company-initiated cost reductions in the Australian Steel Products segment, strength in Australian domestic demand, and benefits from the weaker A\$:US\$. Looking further forward however, 2H FY2016 will see margin pressure given spot spreads are lower than lagged spreads.

RETIREMENT OF GRAHAM KRAEHE, AO, CHAIRMAN

On behalf of BlueScope management and employees, I would like to acknowledge the contribution our Chairman, Graham Kraeche, AO, has made to BlueScope since the Company was listed on the ASX in July 2002. Graham steered the Board and management through the most significant changes the world steel industry has ever seen, and provided early insight and drive in the Company's growth into Asia. And everyone would have to agree that BlueScope's performance in Asia is a standout amongst Australian companies.

On a personal note, I would like to thank Graham for his wise counsel to me over the past eight years. It has been a privilege and honour to have worked with Graham and benefit from the knowledge and experience he has gained through his contribution to Australia's manufacturing industry and to operating in Asia over many decades.

I would particularly like to thank Graham for his outstanding leadership through the challenges we experienced as the global steel industry almost fell apart post the global financial crisis. Many of you would know it was a very difficult time for BlueScope. Graham was the anchor upon which the Board and management team were able to develop and implement the plan to rebuild the Company.

Thank you Graham, and I wish you and Jo the very best for a quieter life ahead, although I'm sure it won't be a full retirement.

THANK YOU.