



BlueScope Annual General Meeting 2018
23 November 2018, Sydney
Address by Mark Vassella, Managing Director & CEO

CHECK AGAINST DELIVERY

It is an honour and a pleasure to address you all here today, for the first time as Managing Director & CEO of your company.

It has indeed been a very good year for BlueScope.

The Company's 14,000 employees delivered an outstanding performance in FY2018 – clear demonstration, as the Chairman has noted, that our strategy is working and we are delivering on our goals.

Firstly to safety - our number one priority - and our continuing journey towards Zero Harm. The safety and health of all our people is central to the way we work.

Regrettably, last week, a contractor was fatally injured in Thailand. He was working on an independently managed construction site for a contracting company engaged by BlueScope Lysaght Thailand for the installation of roofing material, when it appears he suffered a fatal injury after falling from height.

Charlie Elias, Chief Executive NS BlueScope, has visited the site and is working closely with the construction company to offer all the necessary support to the contractor's family, and to conduct an investigation to understand exactly what happened.

We will use the lessons learnt from this tragic incident to make sure we do all we can to prevent this happening again.

In 2018, our injury frequency rates remained at industry-leading low levels, with a Lost Time Injury Frequency Rate of 0.62, and a Medically Treated Injury Frequency Rate of 5.4.

While this is a world class and enviable safety record, we are still hurting too many people, and it becomes harder to make continuous improvements. To break through this plateau, several trials are underway that we hope will support a new approach toward Zero Harm. These include building leadership awareness of safety risks, and a focus on increasing employee engagement in safety improvement projects.

FINANCIAL PERFORMANCE

This morning we confirmed the Outlook for the first half, with the expectation that 1H 2019 underlying earnings before interest and tax, will be around 10 per cent higher than 2H 2018 (which was \$745.0 million).

From a corporate consolidated perspective the Company's balance sheet is in good shape, reaching a \$63.6 million net cash position at 30 June 2018, and progressing towards our target of \$200 million to \$400 million of net cash. Across all our operations we continue to maintain a focus on controllable costs.

I'll now give a trading update from across our portfolio of businesses.

Australian Steel Products:

- Domestic sales volumes remain robust driven by continuing strength in both residential and non-residential construction activity. ASP's sales to residential construction applications are mainly into the alterations and additions, and new detached residences markets.
- Realised spreads have been marginally weaker due to higher coal and iron ore prices, while export coke margins are performing better than expectations. We have also seen some higher costs, largely driven by specific raw materials mix relative to benchmarks, and depreciation following the asset write-up, as foreshadowed in August. Short term operational instability of the blast furnace, that has since been resolved, has also had an impact.

North Star:

- The business continues to perform well and has been operating at full capacity.
- While spot spreads have moderated since August, average spreads realised by North Star are tracking in line with expectations.
- The comprehensive study to examine adding 600,000 to 900,000 tonnes per annum of steelmaking capacity is progressing.

Building Products Asia and North America:

- Our North America, India, China and Vietnam businesses continue to perform well with robust demand and margins.
- We are seeing tightening of margins and softness in the projects segment in ASEAN, particularly in Thailand, Indonesia and to a lesser extent Malaysia. We expect each of these businesses to deliver lower results this half compared to last half.
- We need to 'get fit' by better aligning the cost base to the current environment. To that end, we are initiating a cost reduction program to structurally improve our cost position in these regions. We will also focus on improving manufacturing performance in select areas such as home appliance steels and in Indonesia.
- We remain convinced of the compelling medium to long term opportunity in ASEAN for BlueScope. Given this, we continue to invest in channel development, and product and service innovation and differentiation.
- The recently announced agreement for NS BlueScope Malaysia to acquire YKGI Holdings' Klang manufacturing facility provides a cost-effective source of cold rolled feed supply and offers future growth potential via additional coating and painting capacity.

Buildings North America:

- The business continues to see strong demand conditions and order intake, albeit customer lead times have increased due to the high activity levels and some weather-related delays. The warehousing, logistics and data centre end-use segments continue to be strong.

New Zealand and Pacific Steel:

- Demand continues to be robust, particularly in residential construction and infrastructure.
- Steel prices have generally been stronger than last half, however this benefit has been in part offset by higher raw material costs – particularly coal.
- Performance has been affected by higher energy costs driven by broader New Zealand gas and electricity supply issues. However, revenue from sales of vanadium slag have been favourable on higher pricing.

SUSTAINABILITY

In the last year or so, we have further embedded sustainability into every aspect of our operations. We believe the long-term growth of our business is underscored by the sustainability of steel and the critical role it will play in the future.

As the Chairman mentioned, we published our 2018 Sustainability Report last month. The Report outlines our progress on five priority areas that stakeholders have identified as being most material to our business:

1. Safety, health and wellness

Across the business, health and safety teams continue to seek out opportunities to ensure we have effective safety risk controls, to engage all BlueScope people in the lessons learnt and value gained from safety audits, and to better understand and manage health and wellness in the workplace.

2. Climate change and energy

BlueScope acknowledges the risks and opportunities that are presented through action on climate change:

- We support Australia's 2030 emissions target under the 2015 Paris agreement, as well as the country level commitments made for all the countries where we operate. In 2018 the average carbon emissions intensity of our three steelmaking facilities fell by an additional 1.2 per cent, which means BlueScope's aggregated emissions per tonne of steel produced have decreased by 25 per cent since 2005. We have used this performance to develop targets to reduce emission intensity by 33 per cent by 2030. To achieve these targets we continue to identify and implement energy efficiency and emissions reduction projects at a number of sites.
- We acknowledge steelmaking produces greenhouse gas emissions, and are working hard to reduce the impact.
- In the past year we achieved significant energy reductions at our Port Kembla Steelworks. The new 22 Turbo Alternator - built using redundant equipment, has increased onsite electricity generation using excess by-product fuels, resulting in a 7.4 per cent reduction in purchased electricity from the grid, equivalent to 46,000 tonnes of CO₂ per annum.

- In July we backed the construction of one of the largest solar farms in Australia – a 500,000 solar panel facility to be built at Finley, in western New South Wales. Not only will this solar farm generate around 88 megawatts of clean electricity – equivalent to taking 90,000 cars off the road - it will also help cut our electricity bills. And we continue to supply a range of steel products for the construction of wind farms, solar farms, and other energy infrastructure.
- As the Chairman has noted, we are aligning climate change reporting with the global Task Force on Climate-related Financial Disclosure, or TCFD recommendations. Our 2018 Sustainability Report details our analysis of how three different climate change scenarios may affect our business. This work has reinforced our belief in BlueScope's resilience and confirmed the essential role steel must play in a low carbon economy.

3. Supply chain sustainability

During the year I was proud to launch BlueScope's first Statement on Human Rights, and we also published a Responsible Sourcing Standard, to create long term environmental, social and economic value for everyone involved in bringing BlueScope's products and services to market. Our supply chain sustainability project continues to engage with our suppliers and determine relevant industry certification programs across our supplier base.

BlueScope is also a founding member of ResponsibleSteel, an international organisation established to improve transparency and sustainability standards in steel product supply chains.

4. Governance and Business Conduct

The BlueScope Board, management, employees, contractors and agents are all expected to behave in line with Our Bond and all policies and standards. Systems are in place to report and investigate any cases of misconduct. This includes an externally-managed business conduct hotline available to anonymously report issues. In 2018, 12 reports of alleged misconduct were reported and investigated, which so far has resulted in disciplinary action being taken against two employees.

5. Diversity and inclusion

BlueScope's diversity and inclusion goal is that our workplaces reflect the communities where we operate. In the last two years we have focussed on attracting women to operator and trade roles by exploring new avenues and approaches to recruitment. We can confidently say this ensures everyone in our communities has an equal opportunity to be recruited and succeed in a BlueScope operator or trade role. The increase in the number of female recruits has had a positive effect on broader workplace culture and employee engagement.

Women now make up one in three new recruits to operating roles, and we have doubled the rate of hiring women to all roles across the Company.

EXTERNAL FACTORS AFFECTING BUSINESS

And now let me speak briefly about some external factors that affect our global business.

During the year, we continued our engagement with policymakers to ensure that public policy supports, or at least does not damage, the competitiveness of the steel industry.

On the international trade policy front, two very important matters were resolved in BlueScope's favour.

After representations by the Company and negotiations with Australian and US governments, in late April, an indefinite tariff exemption was granted for Australian steel exports to the US.

In August this year, the Australian Government announced the successful conclusion of negotiations with Indonesia for a free trade agreement (Indonesia – Australia Comprehensive Economic Partnership Agreement). When it is signed and comes into effect, BlueScope will be able to export up to 250,000 tonnes per year of coated and painted steel products tariff-free, allowing our Indonesia business to obtain the high-quality, competitively priced feedstock it needs. This deal is a win – win. Not only will it potentially boost exports from Port Kembla Steelworks, it will also help make our Indonesia business – which employs over 500 Indonesians - more competitive.

In relation to energy and climate change policy, progress has been more patchy.

We have been very concerned about the impact of skyrocketing gas and electricity prices, and declining reliability of supply, on the competitiveness of our Australian manufacturing operations, and those of our customers.

We understand this is a complex, and political issue. We have sought to ensure that climate change policy is effective in cutting global greenhouse gas emissions, in line with the Paris agreement and Australia's 2030 target. But also that such policies do not lead to unnecessary closures of domestic manufacturing operations.

Accordingly, BlueScope has been prominent in debates about energy and climate change policy, particularly in Australia and New Zealand.

The company's objective is to seek policy that ensures energy supplies are reliable, affordable and contribute to meeting Australia's Paris commitments. We also seek policy that encourages global reductions in emissions from the steel industry, and does not contribute to carbon leakage, in which steel production shifts to other jurisdictions with no environmental benefit.

We were disappointed that the Australian Federal Government chose not to proceed with the planned National Energy Guarantee, or NEG. We thought this policy had real potential to deliver less volatile electricity prices and greater reliability of supply, while also cutting emissions.

We are heartened though, that the government is seeking to build on some of the very good work done to develop the NEG – which had support from a wide group of stakeholders – particularly in relation to reliability.

CONCLUSION

The Chairman has already outlined our optimism and plans for new sustainable growth initiatives. And I can assure you, the entire team at BlueScope is hard at work on these.

BlueScope employees are a talented and dedicated team, who work safely to execute the strategy and continue delivering results. I thank and congratulate all employees for their outstanding performance in 2018.

I hope you join me and all BlueScope employees, in our optimism and excitement about the opportunities that lie ahead for our Company.

While there will always be challenges to remain internationally competitive and keep pace with innovation - our strong and stable financial position allows us to look forward and invest for the future.

Thank you.