



BlueScope Annual General Meeting 2017

11 October 2017, Melbourne

Address by Paul O'Malley, Managing Director & CEO

CHECK AGAINST DELIVERY

INTRODUCTION

Thank you John.

Though this is my last time to address you all as CEO, I intend to be brief in my remarks.

So, before I say farewell, I will summarise: BlueScope's performance in FY2017 clearly demonstrates the success of the range of strategic initiatives we have undertaken to transform BlueScope, and position it for the next phase of growth.

SAFETY

At BlueScope, safety remains our number one priority.

As John has already noted, our safety performance has deteriorated, as measured by Lost Time Injury and Medically Treated Injury lag indicators. The Lost Time Injury Frequency Rate was 0.8, compared to 0.6 in FY2016, and the Medically Treated Injury Frequency Rate was 5.6, up from 5.1. While it is disappointing to see this fall in performance, we have met our goal to maintain a Lost Time Injury Frequency Rate of below one, and BlueScope's performance is better than the World Steel Association average LTIFR of 1.0.

Manual handling issues accounted for more than half of all the lost time and medically treated injuries, and in the current financial year a number of initiatives will be implemented to address these issues.

Our people have an important role in ensuring the safety of everyone at BlueScope. We are seeking their input on how to solve problems and improve the safety of their work environment, and we continue to develop the capability of our leaders, which is essential to improving our safety performance.

We also have a renewed focus on risk management, in particular managing those risks which have the potential to lead to a fatality. This involves working to prevent unsafe behaviour and conditions at all times. We are also ensuring our safety governance continues to be appropriate.

We believe that, together, these measures will help keep our people safe.

FY2017 FINANCIAL HIGHLIGHTS

BlueScope delivered a \$715.9 million reported net profit after tax (NPAT) for FY2017 – a 102 per cent increase on FY2016. Underlying NPAT of \$650.8 million was 112 per cent higher than FY2016.

The Company lifted underlying earnings before interest and tax (EBIT) by 89 per cent to \$1,105 million. This was generated through delivery of productivity and cost improvements, sales growth, improved steel spreads and the full year benefit of the North Star acquisition.

A big achievement is that net debt at 30 June 2017 was \$232.2 million, a reduction of 70 per cent from 30 June 2016.



Our strategic initiatives of the past two years are delivering strong cash flow – free cash flow was \$749.3 million for the year, up 17 per cent. This allowed us to increase returns to shareholders during 2H FY2017 through the combination of dividends and a \$150 million share buy-back.

Each business segment delivered materially stronger underlying earnings results.

In Australian Steel Products, underlying EBIT rose 27 per cent, following delivery of \$300 million of cost reductions. Earnings from Building Products ASEAN, North America and India rose 35 per cent to \$201.7 million as businesses in India and Vietnam performed strongly. A \$100 million turnaround in New Zealand & Pacific Steel saw earnings increase to \$61.1 million. Productivity improvements in North America and a fourth quarter breakeven result in China Buildings contributed to a 30 per cent increase in BlueScope Buildings earnings to \$64.0 million, and with the benefit of a full year of 100 per cent ownership of North Star BlueScope Steel earnings were 178 per cent higher at \$406.6 million.

BLUESCOPE TRANSFORMATION

Our successful transformation has rebased earnings to a higher level, lowered volatility, improved our earnings mix and positioned the Company well to fund growth, reduce debt, and for capital management.

OUTLOOK

We confirm the first half guidance provided to the market on 21 August is on track. While there has been some movement in the macroeconomic indicators since then, this is not expected to have a material impact on financial performance in 1H FY2018.

ENERGY

Turning briefly to major public policy issues that affect our business. When we announced our half-year results in February this year, I warned of an imminent energy supply catastrophe. At the full year results I said the catastrophe was now happening.

More specifically however, you as shareholders should be aware that BlueScope's Australian electricity costs are forecast to increase 93% between FY2016 and FY2018, with gas costs increasing 33% over the same period. And these sorts of increases are being faced by manufacturers, businesses and households across the country – dampening investment and employment, and squeezing household budgets.

The increase in domestic gas prices since 2015 has cost Australian gas users approximately \$3.5 billion per annum. For electricity, the cost to users of rising electricity prices is over \$3.7 billion per annum.

And so, in the first significant breakthrough in this national crisis, the Company welcomed the recent announcement by the Federal Government that it had secured a guarantee on gas supply from the major gas companies.

The Prime Minister announced on Wednesday 27 September that domestic gas supply will meet the expected shortfall over the next two years. This is good news, as it means the start of a properly functioning gas market – one where prices can be expected to moderate as more sellers meet customers' demand and commercial offerings reflect global markets. In due course this should be of benefit to BlueScope – and all Australian energy consumers.

Your Company and its peers in Manufacturing Australia have lobbied long and hard for this sort of initiative and we applaud the Federal Government for achieving this outcome.

While political debate continues, there remains one constant truth in all this – Australia must have baseload power for Australia's everyday life and its economy to run in an orderly manner.



Debating future coal or gas, hydro, nuclear or renewable energy supply, is fine – so long as there is a sensible transition over the next 10 years that secures our everyday life and living.

Without an adequate 10 year transition plan that addresses electricity affordability and reliability – we are condemned to even higher prices and more reliability issues.

Australia can't afford to focus only on future initiatives and possibilities, – the Finkel recommendations, renewables-only, the future smart technologies - because they aren't here yet.

If Australia is to retain its economic competitiveness, it also must focus on the basic stuff – that is, fundamental baseload energy that powers our homes, factories, schools and hospitals.

TRADE

One other key public policy matter that has engaged BlueScope fully over the past year has been anti-dumping and trade relations.

We have ongoing and productive discussions with the Australian Government, led by Assistant Minister Craig Laundy, to ensure Australia's anti-dumping system is as effective as possible, in line with Australia's WTO obligations and the practices of its major trading partners.

Fortunately this is an area where there is bi-partisan support at the Federal level. We have seen some good progress in developing legislation to address shortfalls in the anti-dumping regime. Noting we are still seeing dumped product entering Australia.

The Company will provide a further update in February on progress in relation to anti-dumping.

The Company also recognises the valuable efforts of senior government Ministers and Australian diplomats to represent Australia's best economic interests in international trade agreements, whether it be in the United States on trade barrier issues or in ASEAN where new Free Trade Agreements are being negotiated.

CONCLUSION

And so, finally, today I address BlueScope shareholders for the last time before I retire from the Company at the end of the year.

I've enjoyed 12 very tough but inspiring years at BlueScope – ten as its CEO.

It has been quite a journey through unprecedented economic conditions brought on by the effects of the global financial crisis and its aftermath, and the rise of the Chinese steel industry which has fundamentally altered the nature of the global steel industry.

A lasting impression will be the dedication of BlueScope people to working safely and to looking after each other, to getting the job done, sometimes in the most difficult of circumstances, to being innovative in finding new ways of working, and to supporting BlueScope through thick and thin.

Working with the entire BlueScope team, and being so well supported throughout my time here by such a strong Board, has been the greatest honour of my professional career.

I'm obviously sad to be leaving this superb team. But equally, I'm very pleased that Mark has been appointed to lead the team in the next phase of BlueScope's journey.

The Company has a clear strategy for growth. This means BlueScope's world-leading brands, products and manufacturing plants, its great customer base and its very good balance sheet, underpin the future potential growth for BlueScope.



I believe our customers, employees, the communities in which we operate and you, our shareholders, can feel confident about the future.

Thank you.