

# CHAIRMAN'S MESSAGE

## CHALLENGE AND REWARDS

OVER THE LAST FOUR YEARS, WE HAVE MADE MAJOR PROGRESS IN OUR LONG-TERM INVESTMENT STRATEGY, A STRATEGY THAT DIFFERENTIATES US AND WILL TRANSFORM BLUESCOPE STEEL AS AUSTRALIA'S GLOBAL STEEL COMPANY INTO A WORLD LEADER IN STEEL SOLUTIONS.

This year has been one of the most volatile and challenging years in the steel industry. In an environment of spiralling raw material and other input costs and lower steel prices, BlueScope Steel continues to focus on improving efficiency in its core operations while implementing its downstream investment strategy.

The Board is confident that this strategy is on track and will deliver long-term value for our shareholders.

### PERFORMANCE

Severe pressure on margins saw net profit after tax decrease 66 per cent to \$338 million. This result is a reflection of higher raw material costs, particularly for iron ore, and lower pricing for slab, hot rolled coil and coated products in international markets. This, combined with start up costs for new projects in Asia and one-off restructure costs to exit loss-making businesses, placed pressure on margins.

In advance of the latest increase in raw material prices, BlueScope Steel took swift and decisive action to further reduce costs. In June, the Company announced that loss-making operations, such as the tin mill at Port Kembla and the operation in Taiwan, would be closed.

Further efficiencies were announced through the reduction of 250 staff and management positions. BlueScope Steel will continue to seek opportunities to improve efficiencies throughout the coming year.

The Company achieved 67 cents underlying earnings per share which was within the guidance provided to the market in February. After one-time restructuring charges, the earnings per share for the year was 48 cents.

### SHAREHOLDERS

Since public listing in 2002, we have been very focused on rewarding our shareholders as we grow. This commitment continues.

This year, we increased the dividend payment by 5 per cent, resulting in a total ordinary dividend of 44 cents per share fully franked, compared with 42 cents per share for ordinary dividends last year.

Since listing, BlueScope Steel has returned close to \$2 billion to shareholders through share buybacks and ordinary and special dividends.

A Dividend Reinvestment Plan (DRP) has been introduced for shareholders in Australia and New Zealand.



CHALLICUM HILLS, VIC., AUSTRALIA  
Wind towers of XLERPLATE® steel  
power Challicum Hills Wind Farm.



WE HAVE INVESTED SIGNIFICANTLY IN OUR DOWNSTREAM BUSINESSES, MOVING FURTHER INTO HIGH VALUE-ADDED, BRANDED STEEL PRODUCTS, WHICH WILL GENERATE HIGHER REVENUE AND EARNINGS AND REDUCE CYCLICALITY.

This plan offers an efficient and cost-effective way to increase your investment in your Company. Shares received under a DRP rank equally with existing fully paid ordinary shares.

#### LONG-TERM INVESTMENT STRATEGY

Over the last four years, we have made major progress in our long-term investment strategy, a strategy that differentiates us and will transform BlueScope Steel as Australia's global steel company into a world leader in steel solutions.

We have invested significantly in our downstream businesses, moving further into high value-added, branded steel products, which will generate higher revenue and earnings and reduce cyclicality. This investment strategy will enable us to capture profit margins that accumulate as we add greater value to our steel, and as we expand our global portfolio.

During 2005/06, seven major investment projects were completed and commissioned. These included the second metallic coating line in Thailand; the new coating and painting facility in Vietnam; in Tennessee, USA, the new Butler specialty product plant at Jackson and the expansion of the Vistawall Greenville plant; the Lysaght plant and Butler pre-engineered building (PEB) manufacturing facility and Design Centre in India; the PEB and Lysaght facilities in Guangzhou, China; and the hot strip mill expansion in Port Kembla.

Other major investments will come on stream this coming year. In 2005/06, the capital investment program reached \$816 million, representing approximately 40 per cent of the total \$2 billion growth program.

In May, your Board, together with the Board of Tata Steel, the leading steel company in India,

approved a 50/50 joint venture arrangement to develop a steel coating and building solutions business across India and South Asia.

India has one of world's fastest growing economies with the second largest population after China.

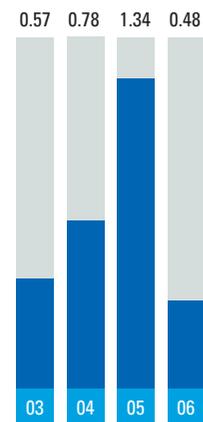
Your Directors are confident BlueScope Steel is developing an outstanding footprint and business in the Asia region. We are very excited by the growth prospects this region offers. BlueScope Steel is the leading Australian manufacturing investor in each Asian country in which we operate, and is ideally positioned to capitalise on opportunities within this dynamic region.

#### CORPORATE GOVERNANCE

BlueScope Steel complies with the ASX principles of Good Corporate Governance and Best Practice Recommendations. I believe the Board of Directors continues to provide leadership and strategic direction of a high quality. The complementary skills and experience of our members is the key to its strength.

We will continue to be guided by *Our Bond*, BlueScope Steel's values statement, which commits to rewarding shareholders, caring for our employees, valuing our relationships with our customers and respecting the communities in which we do business. We can only grow and prosper if we stay true to these principles.

Shareholders would be aware that Managing Director and CEO Kirby Adams has announced his intention to retire in October 2007, by which time he will have been CEO for more than seven years, including five years as Managing Director and CEO of BlueScope Steel as a publicly registered Company.



EARNINGS PER SHARE (\$)

Over the next 12 months, he will have largely achieved the key strategic goals agreed with the Board since his appointment.

BlueScope Steel has a detailed succession planning process which is reviewed regularly by the Board. The 14 months notice provided by Mr Adams will enable a smooth succession process.

On behalf of the Board of Directors, I would like to thank Managing Director and CEO Kirby Adams, his management team and our 18,000 employees for their commitment, focus and initiative during a challenging year.

GRAHAM KRAEHE AO, CHAIRMAN

# MANAGING DIRECTOR AND CEO'S REPORT CREATING OUR FUTURE

IN RESPONSE TO THE CHALLENGING ENVIRONMENT AND VOLATILE MARKET CONDITIONS, WE HAVE TAKEN FURTHER STEPS ACROSS THE COMPANY TO REDUCE COSTS, IMPROVE EFFICIENCIES, AND INCREASE PERFORMANCE LEVELS.

YOUR COMPANY IS UNIQUELY POSITIONED ACROSS THE FASTEST GROWING ECONOMIES OF THE WORLD, AND WELL ESTABLISHED IN THE WORLD'S MOST POPULOUS COUNTRIES OF CHINA, INDIA, INDONESIA AND THE UNITED STATES.



## CHALLENGE AND OPPORTUNITY

The 2005/06 financial year should be seen as a turning point for BlueScope Steel as a large part of activity and spending shifts from construction to production. Your Company is evolving and reshaping as we dramatically expand our midstream and downstream value added businesses.

Since the establishment of BlueScope Steel four years ago, we have repositioned the Company from being primarily an Australian steel maker and metal coater, to a leading global provider of steel building products and steel solutions.

After this period of aggressive expansion, we now operate 91 manufacturing plants in 17 countries. We have more than 18,000 employees, with over half of that number working outside Australia.

## SAFETY FIRST

Every one of our employees, contractors and their families deserves our fullest commitment and vigilance in providing safe and healthy workplaces. Safety is our number one priority at BlueScope Steel and nothing less than Zero Harm is acceptable.

In the past year, our BlueScope Steel Asia facilities have continued to set new safety benchmarks. In North America, the Butler Buildings and Vistawall businesses, acquired in 2004, surpassed all previous injury free records. New Zealand Steel set a new lost time injury (LTI) free record and Port Kembla slabmaking achieved three million hours LTI free.

Regrettably, and despite this progress, there were two fatalities during the year – one in our New Zealand operation, and the second at our Suzhou construction site in China. These were tragic for us and we all continue working towards our goal of Zero Harm.

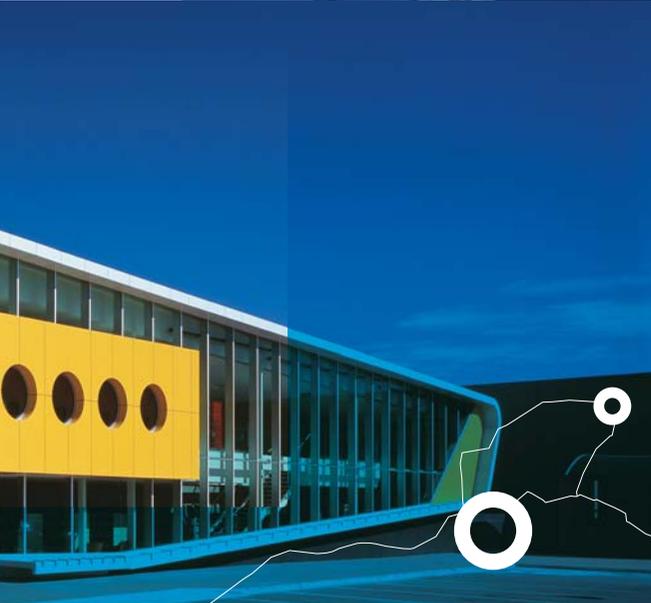
## A VOLATILE YEAR

This past financial year was one of extreme volatility for BlueScope Steel and the global steel industry. Significantly higher iron ore and coal feed costs, soaring zinc and aluminium prices, lower steel prices and a strong Australian dollar all made business very tough for us, particularly in the second half.

From September 2005, a major fire closed Western Port's hot strip mill for 12 weeks, causing logistical and supply issues across our business. The impressive recovery effort to restore the mill (managed by our own Western Port employees) finished on budget and on schedule and was a credit to the entire BlueScope Steel team.



IMPORTANTLY, OUR BUSINESS STRATEGY IS ON TRACK AND HAS NOT CHANGED. IF ANYTHING, TIGHTER STEELMAKING MARGINS REINFORCE THE NEED TO BE POSITIONED CLOSER TO THE END CUSTOMER IN VALUE-ADDED PRODUCTS.



**ALTONA MEADOWS, VIC., AUSTRALIA**  
The elliptical shape of the Altona Meadows Library and Learning Centre is wrapped with COLORBOND® steel in CUSTOM ORB®. A three-metre racing stripe runs along both ends of the building, with the roof clad in LYSAGHT TRIMDEK® made from ZINCALUME® steel.

The Company's despatches were six per cent higher overall. Exports comprised 42 per cent of our product mix, up from 31 per cent, as additional slab and hot rolled coil was sold in response to the Western Port fire and weaker domestic markets. However, lower steel commodity margins in international markets reduced earnings for the year.

Our New Zealand Steel operation, with its second best performance ever, was adversely affected by softer demand in residential markets, lower steel prices and much higher electricity costs due to drought.

In response to the challenging environment and volatile market conditions, we have taken further steps across the Company to reduce costs, improve efficiencies, and increase performance levels.

At the end of June, we announced some major cost cutting measures, including the final closure of our tin mill at Port Kembla and our manufacturing operations in Taiwan. Further, we are reducing approximately 250 management and staff positions across all operations. These are not decisions we take lightly, as they affect the lives of often long-standing employees.

Despite all these pressures, volumes grew and revenue rose to \$8.0 billion, an increase of one per cent. Post our restructuring charges, earnings before interest and tax (EBIT) was lower at \$556 million, and net profit after tax (NPAT) reduced to \$338 million.

We marked some significant achievements during the year. In North America, North Star BlueScope Steel had a record year of

steel production and despatches, and was again voted the number one flat rolled steel supplier in the prestigious Jacobson survey. Downstream, we are delighted to see that the effort we have put into turning around the acquired Butler Buildings business is beginning to reap returns. The business reported its best financial performance since 2001.

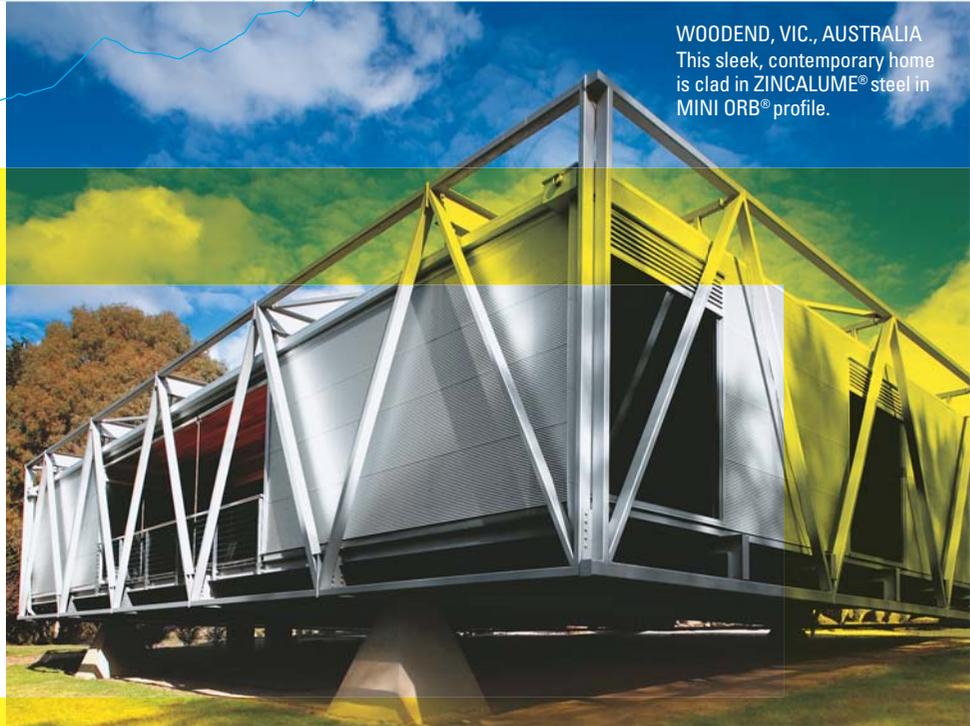
We have established a strong footprint for growth in North America, where we have a strategic focus on increasing our downstream businesses, supported by an excellent upstream hot rolled coil business. With our Butler business, we are well on our way to achieving our vision of becoming the pre-eminent global designer and supplier of pre-engineered steel buildings (PEBs).

Port Kembla Steelworks achieved its best ever delivery performance and record production levels.

The overall performance of our Asian business was very disappointing. Higher operating and start-up costs associated with the Company's many growth projects, increased regional volatility in market demand and pricing, lower volumes, and losses in the Taiwan operations all contributed. We have taken steps to improve performance across the regions, appointed Kathryn Fagg as President of Asian Building and Manufacturing Markets, and announced the closure of the Taiwan operations. We will see a better result from our Asian businesses in FY2007 as we move into production.



THE 2005/06 FINANCIAL YEAR SHOULD BE SEEN AS A TURNING POINT FOR BLUESCOPE STEEL AS A LARGE PART OF OUR ACTIVITY AND SPENDING SHIFTS FROM CONSTRUCTION TO PRODUCTION.



WOODEND, VIC., AUSTRALIA  
This sleek, contemporary home is clad in ZINCALUME® steel in MINI ORB® profile.

#### INVESTMENT FOR GROWTH

We are making excellent progress with our capital investment program. In July, the first slab was rolled from our \$100 million improvement to the Port Kembla Steelworks hot strip mill, increasing capacity by 400,000 tonnes. The \$150 million development of the Western Sydney COLORBOND® steel centre is on schedule for completion by mid 2007. This COLORBOND® steel paintline facility will meet the specific needs of local customers in the building and manufacturing sectors.

In Asia, we have five major plants under construction. The largest of these, the \$280 million metal coating and painting facility in Suzhou, China, will be officially opened in October 2006. Also in China, the Guangzhou pre-engineered building (PEB) and Lysaght facilities were completed in June, on schedule and budget.

In Vietnam, near Ho Chi Minh City, a new metallic coating and painting facility commenced operations in November.

In the same month, at our Map Ta Phut plant in Thailand, a second metallic coating line opened. A PEB manufacturing facility, adjacent to the coating line, will be in operation in October 2006.

We announced the establishment of a new joint venture company in India in May. Tata BlueScope Steel will be a significant player in this fast emerging market. In Pune, India, the LYSAGHT™ rollforming plant and the BUTLER™ PEB and Design Centre was commissioned ahead of schedule and formally opened in August. Construction of the two rollforming and PEB manufacturing facilities at Chennai and New Delhi is progressing ahead of schedule, and expected to be completed by the end of 2006.

In North America, at Jackson, Tennessee, our Butler specialty plant came on stream at the start of the financial year, and the Vistawall extrusion plant expansion was completed in late November.

#### LEADERSHIP TEAM

During the year, we welcomed Paul O'Malley as Chief Financial Officer following the appointment of Brian Kruger to the position of President Australian Manufacturing Markets. Mike Courtnall retired in February and Kathryn Fagg was appointed President Asian Building and Manufacturing Markets.

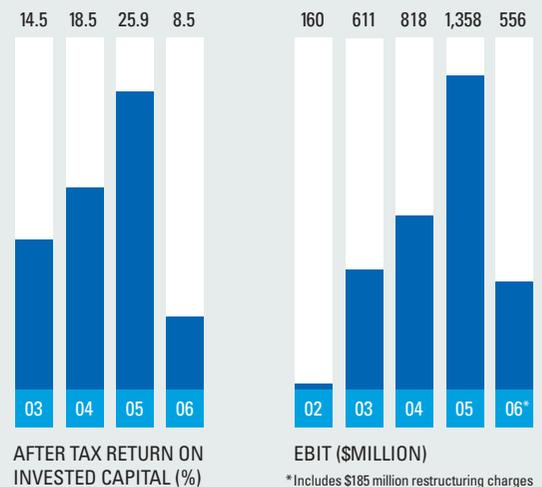
In August, I announced my intention to retire from the Company in October 2007. For some time, the Board and I have had an understanding that I would provide at least one year's notice of my retirement plans, to enable appropriate succession planning and leadership transition to occur.

In 12 months time, I look forward to reporting an improved financial result and the completion of our growth strategy to reshape BlueScope Steel for the 21st century.

WE ARE ABSOLUTELY FOCUSED ON PROFITABLY GROWING OUR BUSINESSES IN AUSTRALIA, ASIA, NEW ZEALAND AND NORTH AMERICA. THE BEST IS YET TO COME.



Left: JACKSON, TENNESEE, USA  
Josh Anderson, at the Butler specialty plant.



To date, our Company's achievements have been numerous; from the successful demerger, to international growth, to the implementation of our midstream and downstream business strategies and our world leading safety record.

Over the next year there remains much to do – delivering returns on our rapid expansion in Asia, continuing to drive home the benefits of our acquisition in North America, focusing on our goal of Zero Harm, and delivering superior and tax-effective returns to shareholders. I remain fully committed to achieving these goals for you in 2007.

#### OUTLOOK

The 2005/06 year was truly a challenging one. Despite the highest raw material costs ever, weaker global steel markets, tighter margins, a major fire at our second-largest facility, a persistently strong Australian dollar and our audacious growth plan with over 20 capital projects in eight countries, the Company

delivered many records. We hold a positive long-term view of the global steel industry. Your Company is uniquely positioned across the fastest growing economies of the world, and well established in the world's most populous countries of China, India, Indonesia and the United States.

The pace of business is accelerating, and the competition is tough. To stay in front, we will work hard, be innovative and ready to adapt and change. Globally the steel industry is consolidating, and in Australia we are participating in the restructure of the domestic steel industry through the acquisition of an interest in Smorgon Steel.

As high raw material costs continue to put pressure on margins, we are making tough decisions and taking strong action to ensure we meet our longer-term corporate and financial targets.

Importantly, our business strategy is on track and has not changed. If anything, tighter

steelmaking margins reinforce the need to be positioned closer to the end customer in value-added products.

In the meantime, we are absolutely focused on profitably growing our businesses in Australia, Asia, New Zealand and North America. The best is yet to come.

It is extremely gratifying to see BlueScope Steel people bringing *Our Bond* to life, through their commitment to achieve common goals, to safety, and to our customers and communities. I thank our employees for their dedication and contribution. I would also like to recognise the loyalty of our many customers and shareholders who choose to buy BlueScope Steel products and shares. Thank you.

KIRBY ADAMS, MANAGING DIRECTOR AND CEO

## EXECUTIVE LEADERSHIP TEAM

Left to right: Kathryn Fagg, Ian Cummin, Kirby Adams, Paul O'Malley, Noel Cornish, Brian Kruger, Lance Hockridge.



**Kathryn Fagg** has held the position of President of Asian Building and Manufacturing Markets since March 2006. She is also responsible for BlueScope Steel's Australian building products and solutions businesses, including BlueScope Lysaght. Previously, she was President Australian Building and Logistics Solutions.

**Ian Cummin** is responsible for People and Performance. This role includes Human Resources, Safety and Corporate Affairs.

**Kirby Adams** is Managing Director and Chief Executive Officer of BlueScope Steel. Mr Adams was appointed to the Board on 10 May 2002, having been Chief Executive Officer of BHP Steel since March 2000.

**Paul O'Malley** joined BlueScope Steel as Chief Financial Officer in December 2005. He is responsible for leading BlueScope Steel's finance function and has responsibility for Information Services. Mr O'Malley was formerly the CEO of a leading energy company based in the US.

**Noel Cornish** is President of Australian and New Zealand Industrial Markets, with responsibility for the Port Kembla Steelworks, New Zealand and Pacific Steel Products businesses, and the Company's Logistics operations. For the previous three years he was President of our Coated Products business in Australia.

**Brian Kruger** is President of Australian Manufacturing Markets. This unit comprises our Illawarra Coated Products business, including the Springhill facility, our Western Port operation and our Service Centre network. Mr Kruger succeeded Mr Cornish in this role in July 2005, having previously been BlueScope Steel's Chief Financial Officer.

**Lance Hockridge** is President of our North American business, which comprises North Star BlueScope Steel, Butler Buildings, Vistawall and Castrip LLC. Mr Hockridge has held this position since April 2005. He was previously President of Industrial Markets, a position he held since 2000.

## BLUESCOPE STEEL BOARD OF DIRECTORS

### GRAHAM KRAEHE AO

Chairman (Independent),  
Age 63, BEc  
Director since: May 2002

Extensive background in manufacturing and was Managing Director and Chief Executive Officer of Southcorp Limited from 1994 to February 2001. A board member of Brambles Industries Limited since December 2005, Djerriwarrh Investments Limited since July 2002, the Innovation Economy Advisory Board for Victoria since December 2002 and a member of the Chairman's Panel of the Business Council of Australia. Mr Kraehe was a Non-Executive Director of National Australia Bank Limited from August 1997 to September 2005, including as Chairman from February 2004 to September 2005, and a Non-Executive Director of News Corporation Limited from January 2001 until April 2004 and Brambles Industries Limited from December 2000 until March 2004. He brings skills and experience in manufacturing management and in companies with substantial and geographically diverse industrial operations. Mr Kraehe's experience with a wide range of organisations is relevant for his role as Chairman of the Board.

### RON McNEILLY

Deputy Chairman (Independent),  
Age 62, BCom, MBA, FCPA  
Director since: May 2002

Deputy Chairman of the Board with over 30 years' experience in the steel industry. He joined BHP in 1962, and until December 2001 held various positions with the BHP (now BHP Billiton) Group, including Executive Director and President BHP Minerals, Chief Operating Officer, Executive General Manager and was Chief Executive Officer BHP Steel until 1997. The latter role developed his knowledge of many of the businesses comprising BlueScope Steel today.

He is Chairman of Melbourne Business School Limited, Chairman of Worley Parsons Limited and a Director since October 2002, and a Director of Alumina Ltd since December 2002. Vice President of the Australia Japan Business Cooperation Committee and a member of the Council on Australia Latin America Relations. A Director of Ausmelt Limited from September 2002 until November 2004.

### KIRBY ADAMS

Managing Director  
and Chief Executive Officer,  
Age 50, BSc (Industrial Eng), MBA  
Director since: May 2002.

Appointed Managing Director and Chief Executive Officer of BlueScope Steel Limited in July 2002. Joined the BHP Group in 1995 and held various positions including President BHP Services, Group General Manager and Chief Executive Officer BHP Service Companies, Corporate General Manager Planning and Development and President BHP Steel since February 2000.

A Director and previous Chairman of the International Iron and Steel Institute and a member of the Business Council of Australia.

### PAUL RIZZO

Non-Executive Director  
(Independent),  
Age 61, BCom, MBA  
Director since: May 2002.

A Director of National Australia Bank Limited since September 2004, member of the Advisory Board of Mallesons Stephen Jaques, Chairman of Foundation for Very Special Kids and Director of Villa Maria. Formerly Chief Executive Officer and Dean, Director and Professorial Fellow of the Melbourne Business School. Held positions as Group Managing Director – Finance and Administration of Telstra Corporation Limited and senior executive positions at Commonwealth Bank of Australia Limited, State Bank of Victoria Limited and Australia and New Zealand Banking Group Limited. Formerly a Director of Seven Network Limited and N M Rothschild & Sons (Australia) Pty Limited, and Chairman of the Financial Reporting Council. His extensive financial and commercial experience is valuable to the Board and in his role as Chairman of the Audit and Risk Committee.



**TAN YAM PIN**

Non-Executive Director (Independent),  
Age 65, BEc (Hons), MBA, CA  
Director since: May 2003.

A chartered accountant by profession, formerly Managing Director of Fraser and Neave Group, one of South-East Asia's leading public companies, and Chief Executive Officer of its subsidiary company, Asia Pacific Breweries Limited. A Member of the Public Service Commission of Singapore since 1990. Chairman of PowerSereya Limited (Singapore) and is also a member of the Supervisory Board of Keppel Land Limited (Singapore), Singapore Post Limited, Great Eastern Holdings Limited, CISCO Security Pte. Ltd, and International Enterprise Singapore. He resigned as Director of The East Asiatic Company Limited A/S (Denmark) in April 2006.

Mr Tan resides in Singapore. He brings extensive knowledge of Asian markets, an area of strategic importance to BlueScope Steel. His financial and leadership skills complement the skills on the Board.

**DIANE GRADY**

Non-Executive Director (Independent)  
Age 58, BA (Hons), MA (Chinese Studies), MBA  
Director since: May 2002.

Director of Woolworths Ltd since July 1996, Watty Ltd since December 1994, Member of ASIC Business Consultative Panel and Senior Advisor to McKinsey & Co. Has served on the Board of a number of public and not-for-profit organisations including Lend Lease Corporation, MLC, Greengrocer.com (Chair), Sydney Opera House and as President of Chief Executive Women. Formerly a partner of McKinsey & Co. serving clients in a wide range of industries on strategic growth and change initiatives.

A highly experienced Director who brings valuable strategic and business expertise to the Board and to her role as Chair of the Remuneration and Organisation Committee.

**KEVIN McCANN AM**

Non-Executive Director (Independent),  
Age 64, BA LLB (Hons), LLM  
Director since: May 2002

Chairman of Healthscope Limited since March 1994, Origin Energy Limited since February 2000, Triako Resources Limited since April 1999, and the Sydney Harbour Federation Trust. Lead independent Director of Macquarie Bank Limited and appointed as Director in December 1996, member of the Defence Procurement Advisory Board and has served on the Boards of Pioneer International Limited, Ampol Limited and the State Rail Authority of New South Wales. A member of the Takeovers Panel and the Council of the National Library of Australia. Until the end of 2004, he was a non-Partner Chairman of Partners of Allens Arthur Robinson, a national law firm. A partner of the firm from 1970 until June 2004, specialising in mergers and acquisitions, mineral and resources law and capital markets transactions. Brings extensive legal expertise, commercial experience as a director of a number of major listed companies and experience in corporate governance to the Board.

