The Changing Face of the Australian Steel Industry

Geoff Plummer, MD & CEO, OneSteel

American Chamber of Commerce

25 May 2007

onesteel

Agenda

- The Global Steel Industry
- China – The Driving Force
- Change in the Australian Steel Industry

The Global Steel Industry

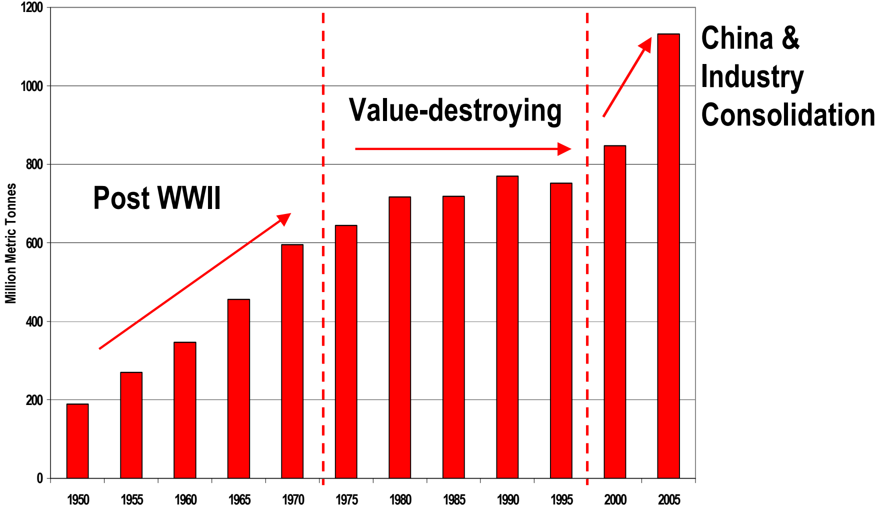
Prior to 2000

- Global over-capacity
- High level of government ownership
- Fragmented industry
- Steel seen as value destroying

Post-2000

- Supply and demand more closely aligned
- Higher private ownership
- Regional consolidation underway
- Steel companies are creating value

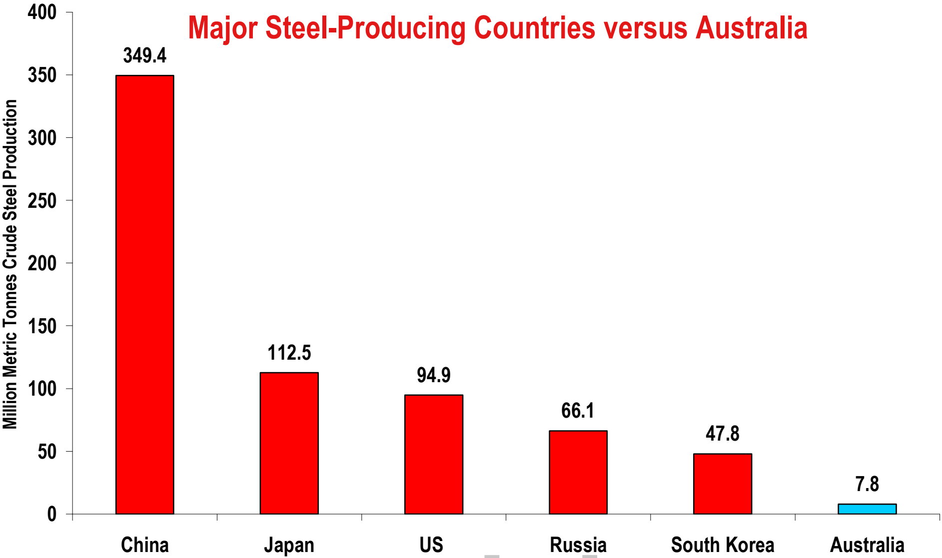
World Crude Steel Production – 1950 to 2005



Source: International Iron and Steel Institute,
World Steel in Figures 2006

onesteel

Global Steel Industry



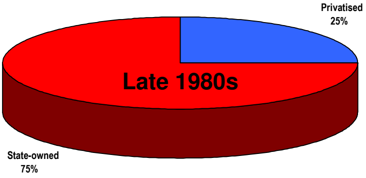
Source: International Iron and Steel Institute,
World Steel in Figures 2006

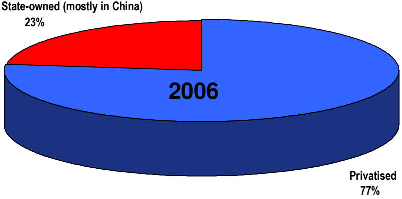
onesteel

Global Steel - Decreasing Public Ownership

Ownership of global steel industry

Source: IISI, JP Morgan estimates





- Steel production used to be viewed as part of nation building in several countries and a convenient way of creating employment and development in key political regions
- Access to government balance sheets meant capital costs were often ignored when investing in new capacity. This led to a situation of global over-supply
- The industry is now predominantly operated for profit with steel companies more heavily weighing the very high capital costs when deciding whether to invest in new capacity
- Greater private sector ownership is driving consolidation at a regional level

onesteel

Source: JP Morgan research 2005

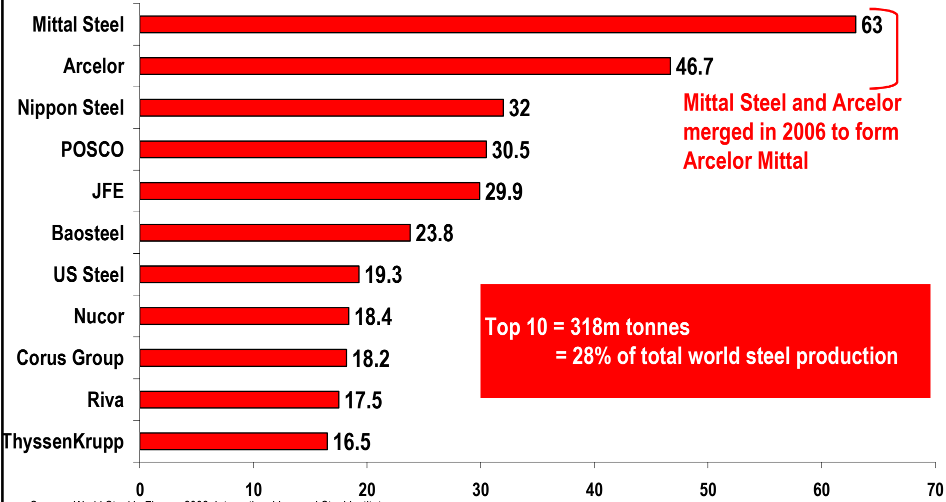
Global Steel – Regional Consolidation

- Regional consolidation has been a key feature of the global steel industry over the last five years
- Arguably, consolidation has been driven by privatisation
- During 2001 more than 36 US steel companies filed for bankruptcy and consolidation began as healthy steel companies began buying the assets of bankrupt steel companies
- Consolidation has also accelerated in Europe, Latin America and Asia (ex-China) and several giant, multi-national steel companies, including Arcelor Mittal, are emerging
- Consolidation of the Chinese steel industry has not been on a large scale but could gain momentum as capitalism evolves and privatisation occurs
- A feature of this steel cycle is a more rational and disciplined approach to bringing on new capacity

Source: JP Morgan research 2005

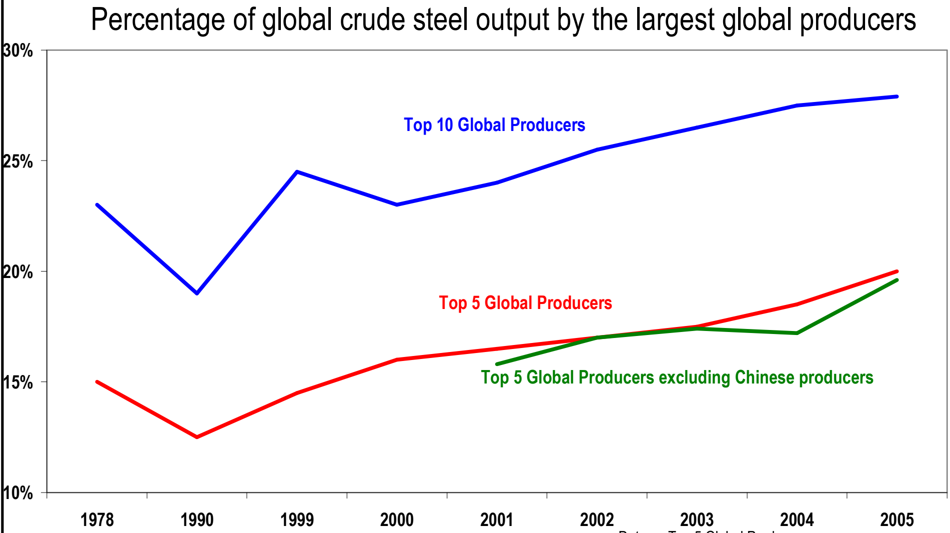
Global Steel - Emergence of a five-company top tier

Crude Steel Production (m tonnes) - 2005



Source: World Steel in Figures 2006, International Iron and Steel Institute

Global Steel - Emergence of a five-company top tier



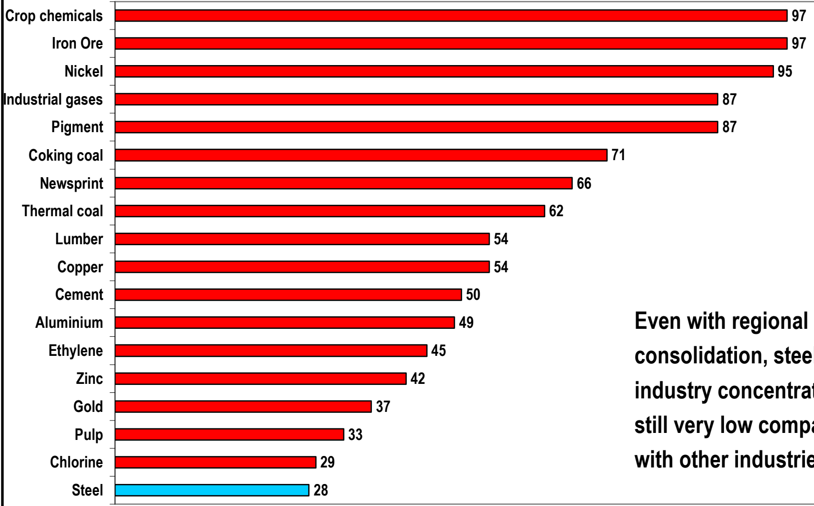
Source: CRU Strategies, CRU Steel Conference Barcelona March 2006 (data to 2004)
2005 data from International Iron and Steel Institute World Steel in Figures 2006

onesteel

Data on Top 5 Global Producers excl Chinese companies International Iron and Steel Institute World Steel in Figures

Global Steel Consolidation Still Has Some Way To Go

Top 10 Market Share (%)



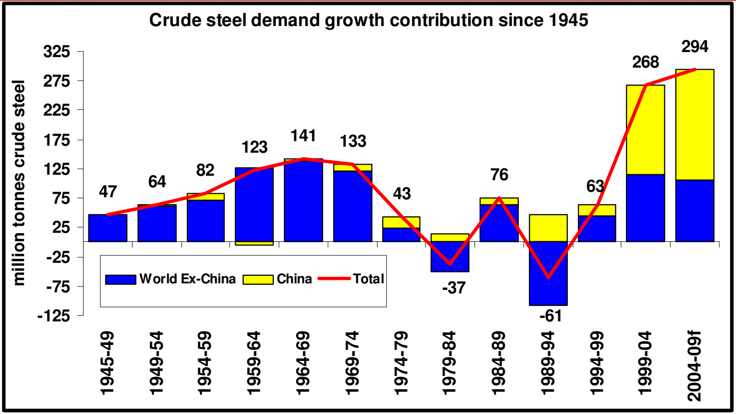
Even with regional consolidation, steel industry concentration is still very low compared with other industries

Source: Hatch Associates, Joint India/OECD/IISI Workshop, New Delhi, India, 16-17 May 2006

China – The Driving Force

OneSteel is commercialising its magnetite iron ore through Project Magnet. This frees OneSteel's hematite iron ore reserves for sale on the export market. This photo shows iron ore in the export storage facility being prepared for export shipment. Over one million tonnes has now been moved through this facility.

China – The Driving Force



- China has caused a massive acceleration in world steel demand growth since 1999
- Annual world steel demand growth back to 5-6% for the first time since the 1960s

Source: Macquarie Research Commodities, China's impact on world freight markets – role of bulk commodities, McCloskey's European Coal Outlook Conference, Nice, France, 22-23 May 2006

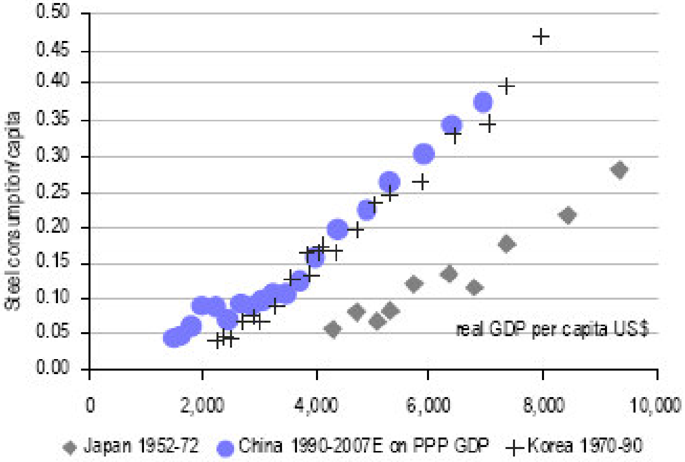
onesteel

The Role of China

- China has fuelled one of the biggest resource booms in history
- Steel, steelmaking raw materials (including iron ore, coking coal and scrap) and a wide range of commodities are in growing demand
  - China has gone from 5-8% of world demand for the main base metals in 1990 to 25-30% of world demand in 2005/06
  - Even allowing for a slowdown from current growth rates, China is likely to account for 30%+ of world demand by 2010 and 40% by 2020
- China is on a well-worn path to development already trodden by most Western countries
- The Chinese government has espoused very ambitious goals for development out to 2020 (quadrupling GDP)

Sources: Macquarie Research Commodities, China's impact on world freight markets – role of bulk commodities, McCloskey's European Coal Outlook Conference, Nice, France, 22-23 May 2006

Steel consumption/capita
China versus the experience of Japan and Korea



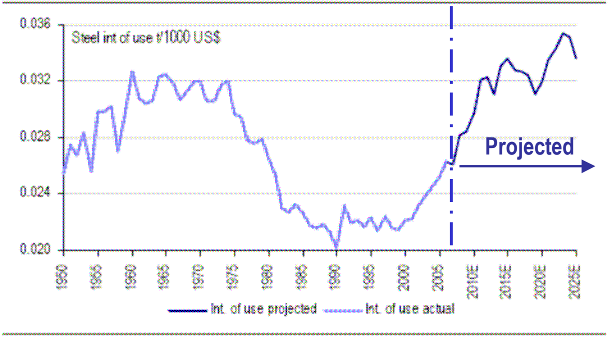
China is treading a well-worn path to development already trodden by most Western countries – the differences are the size and the speed at which Western technologies are embraced and duplicated

Source: Japanese Iron and Steel Institute, BOK, NSO, IISI, UBS

onesteel

Where to After China?

Steel Intensity of Use per Unit GDP



Source: UN, World Bank, IMF, UBS estimates

- In the 1960s, the amount of steel per unit of global GDP was 30% higher than in the 1990s
- Between 2000 and 2006 the intensity of use of materials has risen 15%
- UBS is forecasting that intensity of use of steel per unit of global GDP will continue to rise, eventually eclipsing the materials intensity of the 1960s

Where to After China - The 'Next Billion'

- The driver of the current increase in steel intensity is the rising influence of the materials intensive economy of China (population 1.3 billion)

- Underlying the UBS forecast of continued increase in steel intensity are projections that Brazil, India (population 1.1 billion) and Russia, plus the 'Next Billion' of world population will add to materials intensity with rising GDP

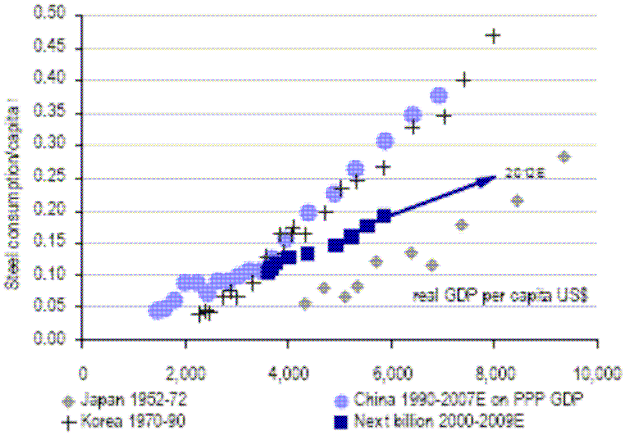
- The 'Next Billion' comprises an aggregate of oil-rich economies (Saudi Arabia, Iran, Gulf States, Venezuela, Mexico, Indonesia) and the dynamic economies of developing ASEAN, Eastern Europe (Poland, Czech Republic), Latin America (Chile, Argentina), Africa (South Africa, Egypt) and Turkey

- The wealth transfer to these commodity-rich economies has been preferentially directed to infrastructure development, stimulating above-average consumption of steel and other materials

- Measured by purchasing power parity, the 'Next Billion' is the fourth largest economic bloc after the US, the EU-7 and China.

Where to After China – The 'Next Billion'

Projected Steel Intensity of Use per Unit GDP – the Next Billion



Source: IISI, Chinese Customs, IMF, UN, UBS estimates

UBS' assumptions of oil and commodity prices, which are driving the rapid GDP growth in the 'Next Billion', leads it to forecast that this bloc's steel consumption will reach 230 million tonnes by 2010, up from 137 million tonnes in 2005

This compares with China's estimated steel consumption of 440 million tonnes this year

onesteel

Consolidation in Australia

onesteel

Australian Steel Industry

- Extremely small on an international scale (7.8mt vs total 1,132mt)
- Negligible ability to impact global or regional trends
- Local industry is advanced, relatively innovative, less fragmented at the production end and has access to good quality raw materials
- Enjoys a broad distribution footprint
- Can compete effectively against imported and fabricated product
- Provides a solid return for shareholders
- Manages complexity well
- Mutual dependence means strong relationships are necessary

International Impacts on Australian Steel Industry

- Imports, at all levels, are a reality of the Australian steel landscape
- Choices available to our customers have increased markedly over the last 10 years
- Competing on price alone will not provide sufficient returns for longevity

The Australian steel industry must play a critical role.
It must continue to add value and evolve with the dynamic landscape or it will fall the way of steel within the automotive industry

Current Structure of Australia's Steel Industry

The Australian steel industry has capacity of 7.6 million tonnes

- Long products – domestic market less fragmented than international markets
  - 2 major players
  - 2.6 million tonnes
  - Aligned to domestic market
  - Both long products players have significant downstream distribution businesses
- Flat products
  - One major player
  - 5.0 million tonnes
  - Large proportion exported

Key Focuses for the Australian Steel Industry

To continue to compete, Australian steel companies need

- A competitive strategy to provide:
  - lower cost make and serve
  - continuous increases in value to our customers
  - innovation in product and service delivery at all levels
- To understand and deliver value to changing customer requirements and demands, while delivering maximum value to shareholders
- A whole of industry approach to delivering a competitive and highly valued offer to our customers

Australian Steel Long Products Industry post OneSteel/Smorgon Steel Merger

- Long products – domestic market less fragmented than international markets
    - 1 major producer
    - 2.6 million tonnes
    - Aligned to domestic market
    - Significant downstream distribution business

- **Australia's steel long products industry has a high degree of integration into raw materials and into its end markets**

Benefits of Proposed Transaction with Smorgon Steel

Customer and market benefits	• Increased ability to service customers with new product and service offerings and a greater diversity and scope of operations
Competitive benefits	• A more competitive business with lower costs, improved raw material integration and opportunities with diversified revenue streams
Corporate benefits	• A stronger, more financially flexible company with enhanced growth opportunities

Next Steps Include

- ACCC determination and taxation rulings
- Despatch documentation to Smorgon Steel shareholders
- Meeting of Smorgon Steel shareholders to approve transaction
- Court Approval
- OneSteel remains committed to transaction

OneSteel – More Than a Steel Company

There is more to OneSteel than raw steel manufacturing

- OneSteel is a uniquely integrated portfolio of complementary businesses, which leverages its value chain to make our customers more competitive and deliver reliable and sustainable returns to shareholders

- OneSteel's capabilities include:
  - Niche marketing and strong distribution network
  - Manufacturing and value add steel products
  - Mining and exporting iron ore

In Summary

The Steel Industry

- Is going through an accelerated phase of evolution
- Has shaken off the shackles of regulation
- Is experiencing regional consolidation
- Is still fragmented but some large regional players are forming

Therefore

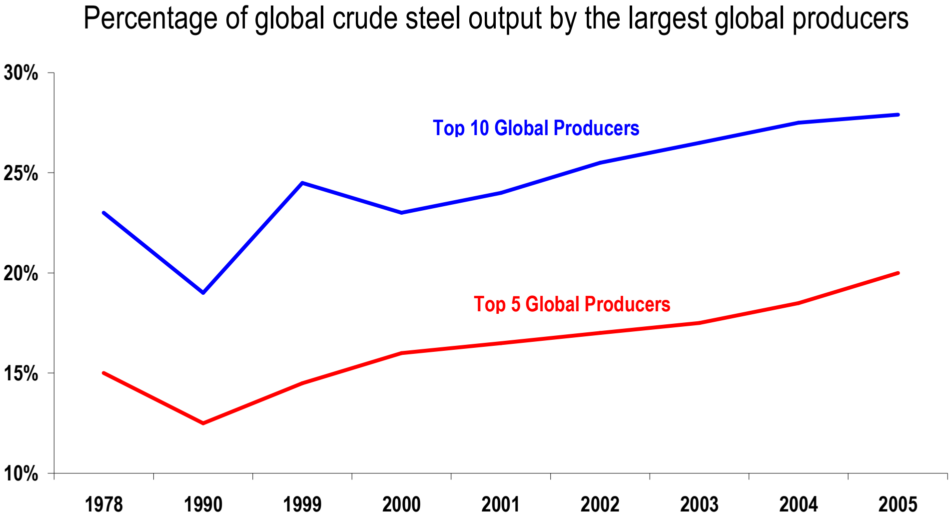
- We must become more competitive to help our customers be more successful
- Domestic consolidation in long products manufacturing is a step towards becoming more competitive

The ladle car that will be used to move the ladle of hot metal when desulphurising the iron made from magnetite-derived pellets. Because of its size the ladle car was only allowed to leave Melbourne on a Sunday. It took five days to travel 1,150km.

The Changing Face of the Australian Steel Industry
Geoff Plummer, MD & CEO, OneSteel
American Chamber of Commerce , 25 May 2007

onesteel

Global Steel - Emergence of a five-company top tier



Source: CRU Strategies, CRU Steel Conference Barcelona March 2006 (data to 2004)
2005 data from International Iron and Steel Institute World Steel in Figures 2006

onesteel