BlueScope Steel Limited today reported net profit after tax (NPAT) of $596 million for the year ended June 2008, down 13 percent from the previous year. Underlying NPAT, excluding significant items and discontinued operations, was up 27 percent to $816 million, versus your earlier implied forecast of about $780 million. What factors caused the variance from expectations?

**MD Paul O’Malley**

NPAT was slightly higher than the indication we provided in May, when we gave a very detailed presentation to the market, largely due to stronger demand and better than expected product sales prices, particularly in the export market.

You’ve provided very little guidance in respect of the current year ending June 2009. Given most of your first quarter pricing would have been locked in back in June and second quarter pricing will largely be locked in next month, why can’t you be more definitive? What is the expected earnings impact of the planned reline of the No. 5 blast furnace at Port Kembla, scheduled for the second half of the 2009 financial year and what level of certainty do you have in relation to the cost and down-time associated with the reline?

**MD Paul O’Malley**

As we explained in our outlook statement we expect a strong first half for fiscal 2009, having already had a good start to fiscal 2009, mainly driven by continued strong global steel demand and prices. More recently we’ve also seen a relatively
lower Australian dollar, down from its recent record highs. We will provide further
guidance on the first half fiscal 2009 performance during the AGM in November.

Obviously the biggest factor in the second half will be the scheduled blast furnace
reline. We provided the market with a very detailed update on the reline exercise
during an analysts’ site visit in May. This included information on the expected
loss of slab production, changes in raw material usage and other factors. You can
access this information from our website www.bluescopesteel.com; go to investors
and then presentations. When we release our half-year results in February we’ll
provide a further update as to how we’re going as we lead into the reline.

We have as much certainty on the reline as could be reasonably expected for a
project of this complexity. We’ve used our best judgement to make appropriate
allowances and based on what we know, we expect to meet our budget cost.

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For the 2008 financial year you’ve provided a reconciliation of your new external
reporting segments to your previous reporting segments, which gives some
transparency around the drivers of the business. Given the new reporting
segments appear to provide less transparency, particularly as the principal driver of
BlueScope’s consolidated earnings is the old Hot Rolled Products business, why
did you change the reporting segments and will you provide this reconciliation in
future releases?

CFO Charlie Elias
It’s not our intention to continue providing a reconciliation to the old segments.
However, we will, as we’ve done in today’s ASX release and presentation,
continue to provide additional information to assist investors’ understanding of the
core drivers of our Australian businesses. In fact, the market now has far better
visibility and more information about our Australian solutions business than under
the previous segmental split.

We changed our reporting segments to comply with a new AIFRS accounting
standard on segment reporting that will come into effect from 1 July 2009. That
standard requires us to formally report our business segments in alignment with
the way we manage the business internally. We took the decision to commence
reporting under this new regime a year earlier principally because this is how we
currently run our business.

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Can you comment on the outlook for the global steel market as there appears to be
some concern about China’s growth slowing, the US is already slowing and steel
prices appear to be softening in Asia?

MD Paul O’Malley
Changes in sentiment can have an adverse impact on markets, especially in the
short term. However, we maintain our view that the long-term trends and
fundamentals remain favourable, particularly for China. The Chinese economy is
showing some signs of a slowdown however it’s from a very high base. Growth in
Chinese industrial production is still averaging around 15 to 16 percent in 2008
following average growth of 17 percent in 2007. The Chinese government is keen to avoid a boom-bust scenario and has indicated it will take the necessary action to either accelerate or decelerate the economy as needed.

There’s also no doubt that the steam has come out of the steel market with some recent softening in steel prices in Asia, but steel prices remain at robust levels, driven both by very strong global demand and higher raw material costs. Looking ahead, we think the overall supply-demand balance is likely to remain tight, supported by relatively low levels of global inventory with tight supply conditions especially in the slab and plate markets.

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You’ve flagged substantial increases in iron ore, coal and scrap prices as of the beginning of this financial year. What is the outlook for the next round of negotiations on input prices that will be applicable from the 2010 financial year? Are you expecting to see the major iron ore companies putting more pressure on steel companies to accept an indexed price structure as opposed to the normal fixed annual resets?

MD Paul O’Malley
My perspective is that strong demand for steel ultimately leads to strong demand for raw materials and given the current strong demand I think we’re going to see continued high prices for raw materials. The price of raw materials, whether it’s set by reference to an index or a benchmark price, will ultimately reflect supply and demand and in either case will reflect the ongoing demand for raw materials by steel makers globally.

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Is BlueScope looking to move further upstream and purchase an iron ore or coking coal asset like some of its peers?

MD Paul O’Malley
I’d note that our New Zealand steel business is supplied by our own iron sands mines and that we have a long-term contract with over 20 years to run for the supply of coking coal to our Port Kembla steel works.

We focus on quality of supply, security of supply, price, and the relative competitiveness of our steel making operations when we think about raw materials. We’d be prepared to invest in steel making raw materials provided it made commercial sense and addressed those factors I’ve just mentioned.

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What is your capital program over the next couple of years and what will it mean for your balance sheet?

MD Paul O’Malley
We have a significant capital program over the next couple of years. Not only is there the reline of the No. 5 blast furnace and sinter plant upgrade at Port Kembla, which will be undertaken this year, but also there’s the steam cogeneration project, which if approved could have an ultimate capital cost greater than $1 billion.
There are three parts to the cogeneration project. A significant part relates to the replacement of equipment that’s nearing the end of its useful life. Another part relates to the introduction of a cogeneration facility and the third component relates to the capture of CO₂ or CO₂ equivalent and the use of the captured gases in the cogeneration process. The Federal Government’s Carbon Pollution Reduction Scheme outcomes will influence the ultimate scope of the project.

There’s a very strong focus in the business on freeing up additional cash flow to contribute towards meeting part of our capital commitments and towards keeping our gearing (net debt) within the optimal 30 to 35 percent range. This position will also enable the company to be opportunistic on the growth front given the volatility in the global equity market.

**corporatefile.com.au**

An important element of your BluePrint strategy announced in November 2007 was to improve customer relationships, particularly in Australia. What is the progress and has it been hampered by the increase in global steel prices?

**MD Paul O’Malley**

We’re put a lot of effort into improving customer relationships. In fact, we’ve created a new customer facing division which is accountable for delivering our high quality products to customers in a competitive manner. The business unit, Australian Coated and Industrial Markets, reports directly to me. The customer now has a stronger voice in influencing our company. ACIM is structured into three internal business units – the building market, industrial market and international market – each of which has its own discrete area of focus, and is basically aligned to our market demand.

Notwithstanding this, we’ve been going through an unprecedented period of higher global steel prices amidst a global shortage in most key steel products since the early part of calendar 2008. In Australia, even though we’re producing at full capacity, and expanding capacity in some areas such as plate, we haven’t been able to meet all the customer demand, which has increased dramatically through the past 12 months. Another issue is that the market share of imported products has reduced in recent months as suppliers of imported steel have stopped sending that steel to Australia. Locally this has driven an increase in demand for our Australian manufactured products.

Our manufacturing team here in Australia is setting production records to try to meet the domestic demand and we’ll continue to focus on delivering record output. We’ll also continue to work with our customers to ensure we’re best able to meet demand but it’s certainly not without its challenges.

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Can you be more specific about the business initiatives that might generate “substantial delivery” in the current year under BluePrint?
CFO Charlie Elias
We’re doing a lot of work on our supply chain, both the physical supply chain and the financial supply chain, as well as in systems and procurement. We’ve also got initiatives in place to monetise surplus assets, drive productivity on key manufacturing lines, better optimise coating mass on coated steel products and drive various market-based initiatives to generate wider use of our products in all our markets. These initiatives are not easy, quick wins, rather they’ll take time but we believe there’s substantial value to be released over the next few years.

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Working capital was down $69 million compared with a year earlier. Given continuing high input prices, what ability do you have to control working capital increases and what is your ability to fund potentially higher levels of working capital? What will be the impact of continuing high input prices on your target of reducing working capital by $200 million by June 2009?

CFO Charlie Elias
We’ve focused on working capital as a source of cash and a source of competitive advantage. We continue to work on ways to improve our supply chain and expect to continue to deliver improvements. In 2008, we increased sales by 18 percent with no increase in working capital. That’s an outstanding achievement and at face value we’ve more than delivered our $200 million working capital savings. But that result partly reflects global prices of steel and raw materials, which we can’t control. Our target is very much about reducing debtor days, inventory days and sensibly maintaining creditor days. As such, the target is relative to what working capital would have been had we not better managed our working capital days. We’re still confident of achieving our target of a $200 million reduction; we’re at least half way there.

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Can you comment on the performance of your major acquisitions of 2008, Smorgon Distribution and IMSA Corp? Will these assets deliver the expected returns, particularly IMSA given the continued economic slowdown in the US?

MD Paul O’Malley
I’m very pleased with the Smorgon and IMSA acquisitions. Smorgon, or as it’s known today, BlueScope Distribution, had a very good second half performance. The integration process is on schedule and we’re on track to achieve the expected synergy target. This business is also providing us with far greater insight into how to be a more effective supplier to our customers.

The IMSA business has exceeded our expectations for its first five months under the BlueScope banner. It has broadened our value chain in North America, and we’re on track to deliver the expected group synergy benefits by 2011. I should also note the outstanding performance of our Butler Buildings business which we acquired back in 2004. Butler’s performance has been in large part driven by internal productivity initiatives, which if repeated at IMSA, will give us a very strong North American business for the longer term.
We factored conservative US economic growth into our IMSA pre-acquisition work and as mentioned earlier, we expect to generate synergy improvements at the EBITDA line of US$40 million by 2011. Furthermore, most of our Northern American sales are into the non-residential market which is still holding up. While there’s definitely a slowdown in the US financial services and residential property sectors, where we operate business is still going quite well.

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Is North America likely to be the focus of growth in your footprint, particularly for M&A growth initiatives? Do you intend to sell the ASC Profiles and Metl-Span assets purchased under the IMSA transaction?

MD Paul O’Malley
Our stated strategy is to grow within our global capabilities with a focus on brown field expansions and M&A, rather than green field development. North America is a core growth market for us as is our downstream pre-engineered buildings (PEB) capability, particularly given our expanded solutions base post the IMSA acquisition.

We continue to improve our position in North America and further evaluate opportunities to expand our presence in that market, particularly in the building products and solutions space. We have no plans to sell either ASC Profiles or Metl-Span. They’re both good businesses that fit our strategy of providing steel based solutions with a sustainability benefit to the construction industry, and they complement our other North American businesses very well.

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You’ve indicated that inflation in Vietnam is running at around 25 percent and that government initiatives to bring this under control have significantly undermined demand for construction and other activities. Could this result in BlueScope having to further write down its coated asset in Vietnam?

CFO Charlie Elias
When we impaired our Vietnam coated assets at the half year, we completed a very thorough analysis of the future cash flows the business would generate, including the factors you’ve mentioned. We don’t consider a further write-down of our coated business in Vietnam will be required.

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The recent Australian government Green Paper recommendations on an emissions trading scheme (ETS) suggested there would be assistance for emissions-intensive trade-exposed industries when a scheme is introduced in 2010. Can you quantify the earnings impact on BlueScope of the ETS framework proposed in the Green Paper? What is your stance on the ETS and how are you seeking to put your case forward in the government’s ETS review process?

MD Paul O’Malley
According to the Green Paper, eligibility for assistance will be determined according to an emissions-to-revenue calculation, but there’s no certainty as to how that will play out in actual legislation. But on current indications, activities
producing about 10.6 million tonnes of direct greenhouse gas emissions are likely to be eligible for 90 percent assistance. So we would have to buy permits to cover about 1.0 million tonnes of emissions (i.e. 10 percent of 10.6 million). We are also likely to be eligible for the government’s proposed compensation for increased electricity costs relating to these same activities. Until the government releases its emissions reduction trajectory and until the legislation for the Carbon Pollution Reduction Scheme is finalised, it’s difficult to accurately estimate the earnings impact.

We support the introduction of an Australian ETS to the extent that it will actually deliver a reduction in CO$_2$ emissions and be part of a global solution to reduce CO$_2$ emissions. We support the scheme on the basis that it provides adequate assistance for emissions-intensive trade-exposed industries until such a global program is in place. We’re encouraged by the recognition in the Green Paper of the challenges faced by steel makers and we’re working constructively with the Federal Government by responding to the policy options detailed in the Green Paper and encouraging government to maintain the long-term competitiveness of iron and steel making in Australia. We’ve included a lot more detail on this subject in our annual results presentation pack, also released today.

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Thank you Paul and Charlie.

For more information about BlueScope Steel, visit www.bluescopesteel.com or call VP Investor Relations John Knowles on +61 3 9666 4150.

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