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BLUESCOPE POSTS A$126M PROFIT, DECLARES 5 CPS DIVIDEND.

BlueScope Steel today announced a A$192 million profit turnaround from the previous twelve months, delivering a reported A$126 million Net Profit After Tax (NPAT) for FY2010 (underlying NPAT of A$113 million).

Directors have declared a 5 cents per share (cps) fully franked final ordinary dividend.

Speaking at the full-year results briefing in Sydney, Managing Director and CEO, Mr Paul O'Malley, said: "Given the unprecedented circumstances of FY2009 and the challenging business environment in FY2010, I am pleased with the improvement in our overall business performance.

"We delivered an outstanding improvement in our Asian businesses, including record profits in China, Indonesia, Malaysia and Vietnam. We also achieved a significant reduction in the company's permanent cost base. Also encouraging was increasing demand in Australia, strong export sales and good earnings results both in New Zealand and at North Star BlueScope Steel, our steelmaking joint venture in the United States.

"We have been successful in maintaining conservative gearing (held at around 11%, net debt over net debt plus equity) and a strong liquidity position (held at $1.6B of undrawn debt and cash). Our target gearing has been reassessed and we believe a range of 25% to 30%, down from the range of 30% to 35%, to be appropriate for a business operating in a cyclical industry whilst seeking to maintain strong investment grade metrics.

"The highlights for the year were:

- The overall turnaround in profit
- The significant reduction in permanent costs ($340M down on FY2008)
- The outstanding earnings improvement in Asian businesses ($116M underlying EBIT vs $21M loss in FY2009)
- The core strength of our balance sheet and the platform for growth it provides (gearing at 11.4%).

"Importantly for shareholders, the Board has decided to reinstate dividend payments. This decision reflects our view of the financial performance of the business post the Global Financial Crisis, the medium to long-term outlook for BlueScope and the global steel industry and improved conditions in economies where we operate," said Mr O'Malley.

BlueScope's Outlook - Improved Market Conditions Over Medium-Long Term

Turning to the outlook, Mr O'Malley said: "In the first half of FY2011, we expect continued strong performance from our Asian businesses and the benefit of ongoing cost reductions achieved during FY2010.

"However, in the first quarter we currently see:

- significant spread contraction (recent fall in export steel prices by more than US$100/tonne, coupled with higher raw material costs)
- softer demand where customers, particularly distributors, buy less during periods of price pessimism
- continued demand weakness in the U.S. and
- an ongoing drag due to the strong A$ vs. US$.

"We are seeing a modest real-time increase in export steel prices in our region for Q2 delivery.

"Overall, we are planning for significantly improved market conditions over the medium to long term, despite the short term concerns. Over the last couple of years we have strengthened the balance sheet and improved the effectiveness of the global BlueScope operations – particularly the reduced cost base and improved productivity.

"The strategic imperative now is to increase market penetration across our footprint, enabling the company to capitalise on improving market conditions and to grow our presence in global building and construction markets," said Mr O'Malley.

FY2010 in Review – A Progressive Return to Profitability

In FY2010 improved earnings emerged as the year progressed.

First Half - Net underlying loss after tax of A$53M

First Quarter: Low global demand, continuing from the previous year, resulted in a first quarter loss. The company operated below capacity with only No.6 Blast Furnace operating at 100%, whilst No. 5 was ramping up after being restarted in August 2009, at the Port Kembla Steelworks. Additionally, there was a carry-over of higher priced raw materials inventory from 2H FY 2009.

Second Quarter: On the back of improving global demand, the company returned to near full production capacity by early October, following the successful re-line and ramp up of the No.5 Blast Furnace. To support full production, a strong sales campaign resulted in improved volumes in Australia and Asia. We also saw a marked increase in capacity utilisation rates at the North Star BlueScope operations. Allied to this, a material reduction in cost base enabled the company to deliver better margins and a return to profit.

Second Half - Net underlying profit after tax of A$166M

Third Quarter: Reinvigorated sales, including improved domestic and export sales from the Coated & Industrial Products Australia (CIPA) segment, improved export sales volumes from New Zealand Steel and improved net sales volumes in Asia, contributed to a positive result.

Fourth Quarter: More than two thirds of the half year result was delivered in this quarter, reflecting the culmination of the hard work done earlier in the year. Collectively, the lower cost base, improved sales and better spreads (export HRC prices increased by 20-25% in Q4 vs. Q3) drove a much stronger final quarter result.

Global Steel Industry Conditions

Mr O'Malley said: "In the second half of June 2010 global steel prices fell in response to reduced demand and concern about increased exports from China. A prompt response from global steel producers to reduce production, and continued supply discipline in China, contributed to steel prices stabilising in the mid-US$600/tonne as at mid August. Global capacity utilisation is currently around 80% (or around 75% ex-China). We need to see a return to mid 80% capacity utilisation (including China) to achieve a sustained improvement in the steel pricing environment.

"Other major global steel influences are the continued high cost of raw materials and concern about the Chinese economy slowing due to credit tightening and softer demand. The Chinese Government is taking the appropriate action to move their economy back to a more sustainable growth path. Our businesses in China continue to see robust physical activity through their order books," Mr O'Malley said.

Strategy – Leveraged and Positioned for Growth

Commenting on the strategy, Mr O'Malley said: "We recently undertook a review of our strategy, following the GFC, a period where we essentially focussed on strengthening the balance sheet and reducing costs.

"The recent review concludes we will continue to focus on:

1. reinvigorating our Australian and New Zealand businesses;
2. continuing improvements across our Asian and North American businesses; and
3. growing, or acquiring, new businesses that build on our distinct competitive advantage.

"There are three additional areas where we will broaden our strategic activities:

- increasing our participation in building and construction markets with our premium sustainable steel products and solutions and pre-engineered buildings capability,
- considering expansion into large, high growth regions leveraging those existing capabilities, and
- considering raw material opportunities that reduce our raw material cost base.

"We will, of course, continue to pursue the fundamentals of maximum asset utilisation, structural cost reductions and management to strict financial targets.

"A further update will be provided at our AGM in November," Mr O'Malley said.

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