BLUESCOPE STEEL

ASX – Media Release

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BLUESCOPE STEEL EXPECTS SMALL PROFIT FOR FULL YEAR 2010

BlueScope Steel today announced a reported Net Loss After Tax (NLAT) of A$28 million for the first half FY2010 (following on from a $473 million loss in 2H FY2009). The Company expects a small profit for the full year.

First Half FY2010 – Transition to Profitability

Speaking at the half-year results briefing in Sydney, Managing Director and CEO, Mr Paul O'Malley, said: "The first half result comprises an unaudited loss of $61 million in the September quarter followed by a $33 million profit in the December quarter."

"The business improvement and return to profitability in the December quarter is encouraging, although the gains were partially offset by the strong Australian dollar.

"Increased steel despatches, generally increased prices, the depletion of higher priced inventory including raw materials and a sharp focus on cost savings contributed to the improvement" said Mr O'Malley.

As foreshadowed at the Company's Annual General Meeting in November, the Board has not declared an interim dividend, but is committed to resuming dividend payments as a high priority once sustainable economic recovery becomes more certain.

Trading Conditions – Improved Demand and Prices

In light of improved domestic and export demand, No.5 Blast Furnace at Port Kembla was restarted on 19 August, following its successful reline, and fully ramped up in October 2009. Total slabmake from both blast furnaces was 83% of capacity for the half.

Turning to BlueScope's key markets, Mr O'Malley commented: "In Australia, domestic demand improved 51% in the first half compared to the previous six months (2H FY2009). This was particularly evident in the residential construction segment and in despatches to pipe and tube and distribution channel customers. Non-residential construction sales remain soft. Domestic pricing, while constrained by the strong Australian dollar, improved into the September quarter, reflecting the lagged flow-through of regional spot prices in the first few months of the financial year.

"Export demand, particularly from external customers in Asia, and from the affiliates in Asia and North America improved. International prices improved through the September quarter, moderated late in the December quarter and are increasing again into the third quarter.

"New Zealand Steel's domestic sales increased by 28% compared to the previous six months, with market share improving relative to imports.

"Pleasingly, in Asia profitability improved strongly to $50 million EBIT for the half. In South East Asia, Indonesian residential steel demand remains strong and in December we announced our intention to complete construction of the second metallic coating line with in-line painting. Thailand's agricultural and residential segments are strengthening and we have decided to resume production on our second metallic coating line in Thailand.

“In China, our overall business continues to improve. China Coating business despatches increased 21% in the first-half compared to the previous six months. Our Buildings business saw a 24% increase in despatches, reflecting improvements in both our Lysaght and PEB business units.

“In North America, the non-residential construction segment of the US market remains weak, with no improvement in the immediate outlook. However, the NorthStar BlueScope Joint Venture has seen improved margins in the December quarter and continues to operate at higher than national average utilisation rates. Steelscape despatches rose by 57% compared to the previous six months, as a result of increased domestic demand and a decline in imports,” Mr O’Malley said.

Maintaining a Sound Balance Sheet

With global markets (apart from China, which is well advanced), now cautiously recovering from the worst of the global financial crisis, the Company continues to take a conservative view of the near term and is focused on maintaining the strength of its balance sheet position.

Mr O’Malley said: “We have continued to pursue a number of initiatives commenced in FY2009 when markets weakened. Key achievements include:

- Major cost reductions – The cost base was reduced by $216 million in 1H FY2010 (over FY2009 levels) through permanent and temporary savings. We are on track to deliver in excess of $325 million of cumulative permanent reduction in the cost base by end FY2010 against the FY2008 cost base.
- Production and inventory levels appropriately matched to demand – inventory was reduced from $2.8 billion at 31 December 2008 to $1.7 billion at 30 June 2009. 1H FY2010 saw a further slight decrease to $1.6 billion.
- Management of capital structure – following the capital restructuring undertaken during FY2009, gearing at 30 June 2009 was 11.8%. At 31 December 2009 gearing was essentially unchanged at 11.6%. The Company has no material refinancing obligations due until July 2011 and at 31 December 2009 liquidity remained strong at $1,631 million.

Global Steel Industry Conditions

Mr O’Malley said: “We currently see supply and demand in balance in China, however we can expect some volatility. The Chinese Government’s stimulus package has certainly supported its economy to date. However the key to future overall Chinese growth will be to achieve higher domestic consumer demand.

“The continued consumption growth in India, Brazil and other developing economies is also good for the steel industry.

“Capacity utilisation in the rest of the world is increasing off a low base. Higher levels of capacity utilisation are required to support a sustainable recovery in steel prices. This can occur through improved economic conditions, including lower unemployment in the developed economies.

“Raw material costs remain a concern. Prices for steel-making raw materials are being driven by continued strong Chinese steel production. As the world recovers from the global financial crisis, margins for steel producers will be volatile.

“We expect growth to continue in China and across Asia and we are focused on better business execution in these markets to ensure we benefit from that growth,” said Mr O’Malley.

BlueScope's Outlook – Small Profit Expected for Full Year FY2010

Commenting on the outlook, Mr O'Malley said: "We expect to deliver a small reported profit for the full year largely due to:

- Continued improvement in domestic/export demand conditions
- Improved steel prices
- Further cost reduction initiatives.

"Key sensitivities in the second half include steel prices, iron ore prices and the exchange rate.

"Coming out of the global economic downturn, BlueScope Steel is well positioned with:

- a strong balance sheet and liquidity position
- significant upside when economies fully recover in all our markets, and
- a sustainable reduction in our cost base

"After a tough period across all our businesses, we are pleased to report a more positive trend in demand and pricing and expect a profit in the second half. We will continue working on safety, cost management and serving our customers," Mr O'Malley said.

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