BlueScope Steel Limited
ABN 16 000 011 058
Level 11, 120 Collins St
Melbourne VIC 3000
AUSTRALIA
Telephone +61 3 9666 4000
Facsimile +61 3 9666 4111
www.bluescopesteel.com

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BLUESCOPE - TRADING CONDITIONS REMAIN TOUGH

BlueScope Steel today reported a $55 million net loss after tax (NLAT) for the first half FY2011 (compared to a NLAT of $28 million in the previous corresponding period). In accordance with accounting standards, the reported NLAT includes a $77 million write-down of goodwill in the BlueScope Distribution business and a $68 million write-back to the Coated China asset base.

The write-down of the goodwill in the BlueScope Distribution business was due to a revised medium term outlook for that business that is influenced by the current reduced market demand and increased import competition which is driving margins lower. The write-back to the Coated China asset base was due to the material growth in its financial performance and positive outlook.

The underlying NLAT for the half was $47 million (NLAT of $53 million in 1H FY2010). This includes net realisable value (NRV) provisions of $42 million, mainly for finished product inventory on hand at 31 December 2010.

Speaking at the half-year results briefing in Sydney, BlueScope Steel's Managing Director and CEO, Mr Paul O'Malley, said "the result is 'in line' with the Company's guidance at the Annual General Meeting and reflective of the developed world steel industry performing near the bottom of its cycle.

"The result was largely driven by three external factors:

1. Stronger A$ vs US$, negatively impacting export margins, Australian commoditised product volumes and margins, and translation of offshore earnings
2. Reduced spreads, ie higher raw material costs more than offsetting slight improvements in steel prices
3. Lower demand in the Australian market

"The Board declared a 2 cent per share interim dividend (fully franked), noting there will be no Dividend Reinvestment Share Plan attaching to this dividend.

"At the reporting segment level:

- Coated & Industrial Products Australia (C&IPA) – $97m underlying earnings loss before interest and tax (EBIT loss) in the first half of FY2011 (vs $80m EBIT loss in 1H FY2010), largely driven by the abovementioned three external factors. Australian sales volumes were lower due to softer demand, particularly in the Manufacturing and Pipe and Tube markets.
- Australia Distribution and Solutions – $15m underlying EBIT loss in the first half of FY2011 (vs $3m underlying EBIT in 1H FY2010) due to increased competition from imports driving lower margins.
- New Zealand Steel – $49m underlying EBIT in the first half of FY2011 (vs $21m underlying EBIT in 1H FY2010). A good start to the year with a solid contribution from the minerals businesses, stronger margins and improved fixed cost recoveries.
- Asia – $46m underlying EBIT in the first half of FY2011 (vs $50m underlying EBIT in 1H FY2010). Continued strong performance largely driven by the increased sales volumes in China (up 40% on 1H FY2010), partly offset by unfavourable exchange rate movements and increased competition in Thailand impacting margins.
- Hot Rolled Products North America – $8m underlying EBIT in the first half of FY2011 (vs $14m underlying EBIT in 1H FY2010). A modest start to the year due to low steel prices and higher input costs.

- Coated & Building Products North America – $16m underlying EBIT loss in the first half of FY2011 (vs $11m underlying EBIT in 1H FY2010) largely due to the continued depressed non residential building market conditions.

"The Company continued its focus on cost reduction. In August 2010 we reported that we had taken:

- $340 million of permanent costs out of our system since FY2008; and
- $318 million of temporary costs out in respect of FY2010

"These permanent and temporary cost savings have been maintained for the first half FY2011.

"We continue to maintain a strong balance sheet, with:

- Gearing below 15%
- Liquidity of $1,332 million
- Refinanced the loan note facility, extending the tenor and improved pricing," said Mr O'Malley.

BlueScope's Outlook

Commenting on the outlook, Mr O'Malley said, "We are still in a volatile period as we come out of the low point of this steel cycle. There are signs of stronger industrial activity in the developed world this calendar year. However, steel supply, excluding China, remains in an oversupply position. We need to see GDP in the developed world improve, and drive increased steel demand, to narrow the supply/demand gap.

"Steel margins continue to be impacted by the high cost of raw materials. Spot coal prices have spiked higher following the recent flooding and cyclone in Queensland, which supplies 50-60% of the global seaborne coking coal market.

"The three key drivers which affected trading in the first half FY 2011 will continue to be strong influences in the second half.

"The second half FY2011 financial performance will largely depend upon the steel spread (steel price less raw material cost) outcome for Q4. This spread is difficult to forecast. At the moment, we expect to deliver a breakeven reported NPAT (excluding NRVs) in 2H FY2011.

"However, we are encouraged by our upside earnings leverage to a number of factors, including:

- The current higher steel price environment
- Recovery in developed economies, principally USA
- Continuing strong performance in Asia, including our China expansion," said Mr O'Malley.

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For further information about BlueScope Steel Limited: www.bluescopesteel.com

Contacts:

Media
Michael Reay
Manager Corporate Affairs and Corporate Brand
BlueScope Steel Limited
Tel: +61 3 9666 4004
Mobile: +61 (0) 437 862 472
E-mail: Michael.Reay@bluescopesteel.com

Investor
John Knowles
Vice President Investor Relations
BlueScope Steel Limited
Tel: +61 3 9666 4150
Mobile: +61 (0) 419 893 491
E-mail: John.Knowles@bluescopesteel.com

Don Watters
Manager Investor Relations and Special Projects
BlueScope Steel Limited
Tel: +61 3 9666 4206
Mobile: +61 (0) 409 806 691
E-mail: Don.Watters@bluescopesteel.com