BLUESCOPE STEEL LIMITED
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ASX Code: BSL

20 August 2012

The Manager – Listings
Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir,

Re: Compliance with Listing Rule 4.3A for the twelve months ended 30 June 2012

Attached in accordance with Listing Rule 4.3A is the financial report for BlueScope Steel Limited (ASX Code: BSL) for the twelve months ended 30 June 2012.

The financial report has been prepared in accordance with the Australian Accounting Standards issued by the Australian Accounting Standards Board, which are compliant with International Financial Reporting Standards (IFRS).

References to 'reported' financial information throughout this report are consistent with IFRS financial information disclosed in the audited financial report.

References to 'underlying' information are to non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 (Disclosing non-IFRS financial information) issued in December 2011 and the principles provided by the Financial Services Institute of Australasia and the Australian Institute of Company Directors. Non-IFRS financial information, whilst not subject to audit or review, has been extracted from the financial report that has been subject to audit by our external auditors.

Yours faithfully

Michael Barron
Company Secretary
BlueScope Steel Limited

RESULTS FOR ANNOUNCEMENT TO THE MARKET
(Under ASX listing rule 4.2A)

Melbourne – 20 August 2012 – BlueScope Steel Limited (ASX Code: BSL) today reported its financial results for the twelve months ended 30 June 2012.

Table 1: FY2012 Headlines

Financial items	FY2012	FY2011	Movements
▪ Group raw steel production	4,742mt	6,785mt	(2043mt) / (30%)
▪ Sales revenue from continuing operations	$8,454M	$8,969M	($515M) / (6%)
▪ Reported NPAT (NLAT)	($1,044M)	($1,054M)	$10M / 1%
▪ Underlying NPAT (NLAT) (1)	($238M)	($127M)	($111M) / (87%)
▪ Final ordinary dividend	0cps	0cps	
▪ Earnings per share (2)	(39.1)cps / (8.9)cps	(48.6)cps / (5.9)cps	
▪ Gearing (net debt/net debt plus equity)	9.2%	19.5%	

Notes:

(1) Underlying results in this report are categorised as non-IFRS financial information provided to assist readers to better understand the financial performance of the underlying business in each reporting period. Please refer to Table 2(b) on page 6 for a reconciliation of this information to the financial report.

(2) Shows reported / underlying.

Core outcomes/issues for the FY2012

- Sales revenue from continuing operations of $8,454M for FY2012, down $515M compared to FY2011, was primarily due to stronger A$ vs US$, lower sales volumes (largely due to halving Australian steel production from October 2011) and lower sales prices.
- Reported NLAT of $1,044M for FY2012, compared to $1,054M in FY2011. This in large part reflects the cost of the major Australian steelmaking business restructure as announced in August 2011 and impairment charges of approx $314M in the Australian businesses.
- Underlying NLAT of $238M for FY2012, down $111M on FY2011, largely due to lower spread and higher fixed conversion costs per unit associated with the closure of No. 6 Blast Furnace (No. 6 BF) partly offset by lower loss making exports and favourable FX.
- 2H FY2012 underlying NLAT including Metl-Span operational earnings and before net realisable value adjustments of A$67M was in accordance with BlueScope's market guidance.
- Group raw steel production was 4,742Mt (vs. 6,785Mt in FY2011), with Port Kembla production being 3,150Mt (vs. 5,173Mt), with the reduction being largely due to the closure of No. 6 BF in October 2011.
- Australian domestic flat external sales volumes of 2,003kt in FY2012 were largely in line with FY2011 (2,045kt) (excluding long product sales from AD&S).
- Segment Underlying EBIT results (vs. FY2011):
    1. New Zealand and Pacific Steel Products produced another strong result of $69M, however, down $13M due to higher utility costs and stronger NZ$ vs. US$.
    2. Coated and Building Products Asia produced another strong result of $98M, however, down $10M due to higher feed costs, start up costs in Indonesia and India, stronger AUD and floods in Thailand.
    3. Coated and Building Products North America improved to a $8M loss compared to a $26M loss in FY2011, largely due to a targeted profit improvement program lowering costs.
    4. Hot Rolled Products North America produced another strong result of $62M, however down $10M, largely due to higher scrap prices partly offset by higher selling prices.
    5. Coated & Industrial Products Australia had another difficult year ($327M loss), $69M higher than FY2011 due to reduced spread, higher fixed conversion costs per unit as a result of the BF closure and adverse domestic product mix partly offset by lower loss making exports and favourable FX. The restructuring announced in August 2011 was implemented in accordance with the plan presented at the time.
    6. Australia Distribution & Solutions also had a difficult year ($52M loss), $18M higher that FY2011, largely due to lower margins and volumes. The restructure of the Distribution business is well underway with closure, sale or consolidation of 17 branches.
- Consolidated operating working capital excluding Port Kembla restructure provisioning, as at 30 June 2012 was A$608M, vs. A$1,034M as at 31 December 2011.
- Net debt reduced to $384M at 30 June 2012, largely due to a more favourable working capital reduction than originally expected. Adjusting for the favourable timing of various year end cashflows, a net debt balance of approx $580M would be more appropriate as a comparison against our 30 June 2012 net debt target of $650 – 750M.
- Liquidity A$1,571M at 30 June 2012 vs. A$1,137M at 31 December 2011.
- BSL received $100M cash advance from the Federal Government in January 2012 under the Steel Transformation Plan. $66M recognised 1H FY2012 and $34M recognised 2H FY2012.
- For the 1H FY2013, we expect a continued improvement in financial performance with an underlying Net Loss After Tax (before period end net realisable value adjustments) approaching break even (subject to spread, FX and market conditions).
- Expect CIPA to deliver positive underlying EBITDA in FY2013, with a positive contribution in 2H FY2013 and neutral to negative contribution in 1H FY2013 (subject to spread, FX and domestic margin and demand).

Consolidated Results

Table 2a provides the FY2012 consolidated financial results and the comparable FY2011 period. Table 2b explains why management have disclosed underlying results and reconciles underlying earnings to reported earnings.

Table 2a : Financial Headlines
Twelve months ended 30-Jun-2012 ("FY2012") and 30-June-2011 ("FY2011")

Financial Measure			FY2012	FY2011	Variance $	Variance %
Total revenue [1]		A$M	8,622	9,134	(512)	(6)
Earnings before interest, tax, depreciation and amortisation (EBITDA) [2]	**– Reported**	A$M	(489)	(687)	198	29
	– Underlying	A$M	99	240	(141)	(59)
EBIT/(EBIT loss)[2]	**– Reported**	A$M	(820)	(1,043)	223	21
	– Underlying	A$M	(224)	(107)	(117)	(109)
Finance costs		A$M	(120)	(106)	(14)	(13)
NPAT/(NLAT) attributable to BlueScope Steel Shareholders	**– Reported**	A$M	(1,044)	(1,054)	10	1
	– Underlying	A$M	(238)	(127)	(111)	(87)
Earnings per share[3]	**– Reported**	¢/s	(39.1)	(48.6)	9.5	20
	– Underlying	¢/s	(8.9)	(5.9)	(3.0)	(51)
Diluted earnings per share	**– Reported**	¢/s	(39.1)	(48.6)	9.5	20
Interim Dividend		¢/s	0	2	(2)	(100)
Full Year Dividend		¢/s	0	0	0	0
Net cash flow from operating and investing activities (pre-tax and finance costs)			375	(225)	600	267
Return on invested capital [4]	**– Reported**	**%**	(16.0%)	(16.2%)		
	– Underlying	%	(4.4%)	(1.7%)		
Return on equity [5]	**– Reported**	%	(25.5%)	(19.6%)		
	– Underlying	%	(5.8%)	(2.4%)		
Gearing (net debt / net debt plus equity) [6]		%	9.2%	19.5%		
Net tangible assets per share		$/s	0.91	1.92		

(1) Excludes the company's 50% share of North Star BlueScope Steel revenue of $683M in FY2012 ($697M in FY2011). Includes revenue other than sales revenue of $19M in FY2012 ($22M in FY2011).
(2) Includes 50% share of net profit from North Star BlueScope Steel of $64M in FY2012 ($74M in FY2011).
(3) Earnings per share is based on the average number of shares on issue during the respective reporting periods, ie. 2,668.7M in FY2012 vs. 2,171.3M in FY2011.
(4) Return on invested capital is defined as earnings before interest and tax (annualised in case of half year comparison) over average monthly capital employed.
(5) Return on equity is defined as net profit after tax (annualised in case of half year comparison) attributable to shareholders over average monthly shareholders' equity.
(6) FY2012 gearing was 10.3% lower than FY2011 mainly driven by lower debt levels delivered through reductions in working capital, a 4 for 5 entitlement offer in December 2011 (gross proceeds $600M) and impact on equity driven by the net loss after tax for FY2012.

Variance Analysis (FY2012 vs. FY2011)

- Total revenue

  The $512M (6%) decrease principally reflects:
  - Lower export and domestic volumes combined with lower domestic selling prices at Coated & Industrial Products Australia.
  - Higher average AUD:USD exchange rate for FY2012 of 1.032 compared to the previous corresponding period of 0.989.
  - An adverse domestic product mix at Coated & Industrial Products Australia to lower margin products.
  - Lower domestic volumes driven from sustained weakness in the domestic market at Australia Distribution & Solutions.

  These were partly offset by:
  - Higher domestic selling prices and sales volumes at Coated & Building Products Asia and North America.
  - Higher export sales volumes at New Zealand steel.

- Higher international slab and hot rolled coil prices.

- <u>EBIT</u>

  The $117M (109%) decrease in underlying EBIT principally reflects:

  Spread ($116M unfavourable)

  Prices ($23M favourable)
  - Higher domestic selling prices at Coated & Building Products North America and Asia.
  - Higher international slab and hot rolled coil prices.

  Partly offset by:
  - Lower average domestic selling prices at Coated & Industrial Products Australia.

  Raw material costs ($139M unfavourable)
  - Principally higher USD coal and iron ore purchase prices combined with higher value of opening inventory carried forward into FY2012 at Coated & Industrial Products Australia compared to lower value of opening inventory carried forward into FY2011 partly offset by improved mix of lower cost iron ore.
  - Higher steel feed costs at Coated & Building Products North America and Asia.
  - Lower inventory net realisable value provisions for inventory on hand at June 2012 ($45M) compared to June 2011 ($87M).

  North Star BlueScope Steel ($10M unfavourable)
  - Higher scrap prices partly offset by higher selling prices.

  Exchange rates ($40M favourable)
  - Net favourable foreign exchange movement in the AUD:USD vs. FY2011 in respect of the favourable impact on raw materials purchased in USD within Coated & Industrial Products Australia partly offset by the unfavourable impact in respect of export sales revenue. Average AUD:USD exchange rate for FY2012 was 1.032 compared to 0.989 in FY2011.

  Sales volumes and product mix ($164M favourable)
  - Lower export despatches at negative margins as a result of the BF closure partly offset by adverse domestic product mix into lower margin products at Coated & Industrial Products Australia.
  - Higher despatch volumes at Coated & Building Products Asia, predominantly Thailand and Indonesia.

  Costs ($224M unfavourable) comprising the following components:

  Cost improvement initiatives ($45M favourable)
  - Lower repairs and maintenance, contract labour, operational, overhead and discretionary costs delivered through cost reduction initiatives. Note: Not including initiatives at Coated and Industrial Products Australia which were associated with the restructuring to one BF operations.

  Cost escalation ($116M unfavourable)
  - Escalation of utilities, employment, consumables and other costs.

  One-off and discretionary costs ($132M unfavourable)
  - Higher per unit fixed conversion costs as a result of restructuring to reduce production volumes at Coated & Industrial Products Australia.
  - Higher conversion costs driven by the start-up of the second metal coating line in Indonesia and coating and painting line in India and higher overheads in China.

  Other costs ($21M unfavourable)
  - Mainly higher freight costs driven by a combination of higher rates and destination mix.

  Other items ($29M favourable)
  - Mainly lower depreciation expense primarily in Coated & Industrial Products Australia partly offset by Coated & Building Products Asia.

Underlying adjustments included in Reported EBIT ($340M favourable)
- $100M advance received in January 2012 in relation to the Federal Government's Steel Transformation Plan at Coated & Industrial Products Australia.
- Pre-tax profit on sale of Metl-Span business ($29M) in June 2012 and Metl-Span earnings during FY2012 ($10M) and FY2011 ($6M) transferred to discontinued operations.
- Profit on land sale in Indonesia ($4M) during FY2012.
- Net asset impairment write-down in FY2011 ($922M – refer Table 2b for further details).
- Staff redundancies and other internal restructuring costs ($7M) at Coated & Industrial Products Australia during FY2011.

Partly offset by:

- Staff redundancies and other internal restructuring costs ($366M) at Coated & Industrial Products Australia and Corporate in relation to the move to one blast furnace operation at Port Kembla Steelworks during FY2012.
- Non-current asset impairments in the Australian businesses during FY2012 comprising Distribution goodwill ($157M), CIPA fixed assets ($136M), Lysaght goodwill ($10M) and BlueScope Water goodwill and BlueScope Buildings ($11M) due to a slower recovery in domestic demand than previously expected and a higher discount rate applied to expected future cash flows as a result of increased volatility in equity markets and asset impairments in Coated and Building Products North America ($4M).
- Plant closure and rationalisation costs ($18M) and restructure and redundancy costs ($12M) at Australia Distribution & Solutions during FY2012 and $2M and $5M respectively during FY2011.
- Restructure and redundancy costs ($12M) at Coated & Building Products North America during FY2012.
- Restructure and redundancy costs ($4M) at New Zealand Steel during FY2012.
- Profit on sale of Packaging Products assets and favourable foreign exchange translation gains within the Lysaght Taiwan business ($2M) during FY2011.

▪ Funding

Financing costs for the twelve months ended 30 June 2012 were $120M ($106M in FY2011, $50M in 2H FY2012 and $70M in 1H FY2012). The increase in financing costs was largely due to a $139M increase in average borrowings to $1,230M combined with one-off costs and higher margins associated with restructuring existing financing facilities following the decision to move to a one blast furnace operation ($14M) partly offset by the partial buy-back of the US Private Placement.

1H FY2012 was impacted by one-off costs and higher margins associated with restructuring existing financing facilities following the decision to move to a one blast furnace operation and higher average borrowings.

▪ Equity Raising

Completed a 4 for 5 entitlement offer in December 2011 to raise gross $600M (net proceeds $577M). The principal purpose of the raising was to strengthen BlueScope’s balance sheet and improve financial flexibility.

▪ Tax

The net tax expense in FY2012 was $91M (FY2011 $101M tax benefit). FY2012 includes a $296M impairment of Australian deferred tax asset generated during the period, mainly in relation to export losses and restructure costs, of which $28M has been recorded directly against retained earnings in relation to actuarial losses from the Australian Defined Superannuation Plan. Australian Accounting Standards impose a stringent test for the recognition of tax losses where there is a history of recent tax losses and the Company has deferred the recognition of any further Australian deferred tax asset until a return to taxable profits has been demonstrated. Australian tax losses are able to be carried forward indefinitely.

Following the Australian Taxation Office (“ATO”) audit of a sale and leaseback transaction entered into by BSL in August 2006, the ATO have issued amended assessments under the general anti-avoidance provisions of the Australian tax law totalling $174M. These assessments are based on two alternative determinations by the ATO relating, firstly, to the assessment of the gain made on the sale of the equipment and, secondly, to the denial of the deduction for lease rentals paid to the new owner of the equipment. If BSL is unsuccessful, BSL’s maximum liability in relation to the first assessment would be approximately $140 million (including penalties and interest) and BSL’s maximum liability in relation to the second assessment (after appropriate compensatory adjustments) would be approximately $51M to $63M (including penalties and interest). BSL considers that these assessments involve mutually exclusive outcomes and that the real amount of tax in dispute relates to the second assessment. BSL will defend the assessments and pursue all necessary avenues of objection. Part payment of these assessments of $21M was made on 9 July 2012. The amount paid will be fully refundable in the event that the matter is resolved in favour of BSL. This matter has been disclosed as a contingent liability in the accounts.

▪ Defined Benefit / Pension Liability

The defined benefit liability increased by $261M to $432M due to a $279M actuarial loss ($250M of which was reported in 1H FY2012) primarily arising from significant decreases in long term bond rates and poor international and domestic equity market performances.

Table 2b: Reconciliation of Underlying Earnings to Reported Earnings
FY2012 vs. FY2011; $ millions

Management have provided an analysis of unusual items included in the reported IFRS financial information. These items have been considered in relation to their size and nature, and have been adjusted from the reported information to assist readers to better understand the financial performance of the underlying business in each reporting period. Throughout this report management have used the term ‘reported’ to reference IFRS financial information and ‘underlying’ to reference non-IFRS financial information. These adjustments are assessed on a consistent basis from period to period and include both favourable and unfavourable items. Non-IFRS financial information whilst not subject to audit or review has been extracted from the financial report which has been subject to audit by our external auditors. An explanation of each adjustment and reconciliation to the reported IFRS financial information is provided in the table below.

Factors	EBIT		NLAT		EPS$[8]	
	FY2012	FY2011	FY2012	FY2011	FY2012	FY2011
Reported earnings	(820)	(1,043)	(1,044)	(1,054)	(0.39)	(0.49)
Net (gains)/losses from businesses discontinued [1]	(38)	(7)	(4)	(10)	(0.00)	(0.00)
Reported earnings (from continuing operations)	(858)	(1,050)	(1,048)	(1,064)	(0.39)	(0.49)
Underlying adjustments:						
Restructure and redundancy costs [2]	412	14	288	10	0.11	0.00
Borrowing amendment fees associated with restructuring [3]	0	0	6	0	0.00	0.00
Steel Transformation Plan advance [4]	(100)	0	(70)	0	(0.03)	0.00
Asset impairment [5]	318	922	315	922	0.12	0.43
Business Development Costs [6]	7	7	5	5	0.00	0.00
Asset Sales	(3)	0	(2)	0	(0.00)	0.00
Tax asset impairment [7]	0	0	268	0	0.10	0.00
Underlying Earnings	(224)	(107)	(238)	(127)	(0.09)	(0.06)

(1) FY2012 reflects pre-tax profit/post tax loss on sale of Metl-Span business during June 2012, Metl-Span earnings during FY2012 and a foreign exchange translation gain within the Lysaght Taiwan business. FY2011 reflects Metl-Span earnings during FY2011, profit on sale of Packaging Products assets and a foreign exchange translation gain within the Lysaght Taiwan business.

(2) FY2012 reflects staff redundancies and restructuring costs at Coated & Industrial Products Australia, in relation to the move to a one blast furnace operation at Port Kembla Steelworks, Coated & Building Products North America, Australia Distribution & Solutions, New Zealand and Corporate. FY2011 reflects staff redundancies and other internal restructuring costs at Coated & Industrial Products Australia and Australia Distribution & Solutions and plant rationalisation costs at Australia Distribution & Solutions.

(3) FY2012 reflects the costs associated with restructuring existing financing facilities following the decision to move to a one blast furnace operation at Port Kembla Steelworks.

(4) FY2012 reflects recognition of the $100M advance under the Australian Federal Government Steel Transformation Plan (STP). The STP is provided to assist BSL transition to a carbon tax environment.

(5) FY2012 reflects non-current asset impairments in the Australian Business comprising Distribution goodwill ($157M), CIPA fixed assets ($136M), Lysaght goodwill ($10M) and BlueScope Water and BlueScope Buildings goodwill and fixed assets ($11M) due to a slower recovery in the domestic demand than previously expected and a higher discount rate applied to expected future cash flows as a result of increased volatility in equity markets. In addition, there were impairment of assets in Coated & Building Products North America ($4M) associated with restructuring. FY2011 reflects asset impairment write downs Coated & Industrial Products Australia ($797M); Australia Distribution & Solutions ($177M); and Coated & Building Products North America ($16M); partly offset by a write back at China Coated ($68M).

(6) FY2012 and FY2011 reflects Corporate business development costs.

(7) FY2012 includes a $268M impairment of Australian deferred tax asset generated during the period mainly in relation to export losses and restructure costs incurred during the period, of which $28M has been recorded directly against retained earnings in relation to actuarial losses from the Australian Defined Benefit Superannuation Plan.

(8) Earnings per share is based on the average number of shares on issue during the respective reporting periods, ie. 2,668.7M in FY2012 vs. 2,171.3M in FY2011 (In accordance with AASB 133 Earnings per Share, the comparative earnings per share calculations have been restated for the bonus element of the four-for-five share rights issue undertaken in December 2011. The previously recorded June 2011 weighted average number of shares has been adjusted by a factor of 1.1823 being the market price of one ordinary share at the close of the last day at which the shares traded together with the rights $0.61, divided by the theoretical ex-rights value per share of $0.52).

Equity, Financial Flexibility and Cash Flow

Table 3 below provides a summary of consolidated equity and return measures at 30 June 2012 and 2011.

Table 3: Consolidated – Return Statistics
FY2012 and FY2011

Financial Measure	FY2012	FY2011	%
Shares outstanding – end of period (million)	3,349.2	1,842.2	82
Average shares – for the period (million) (1)	2,668.7	2,171.3	23
Return on equity – based on reported NLAT attributable to shareholders	(25.5%)	(19.6%)	(30)
Return on equity – based on underlying NLAT	(5.8%)	(4.6%)	(26)
Return on invested capital – based on reported EBIT	(16.0%)	(16.2%)	1
Return on invested capital – based on underlying EBIT	(4.4%)	(6.9%)	37

(1) Earnings per share is based on the average number of shares on issue during the respective reporting periods, ie. 2,668.7M in FY2012 vs. 2,171.3M in FY2011 (In accordance with AASB 133 Earnings per Share, the comparative earnings per share calculations have been restated for the bonus element of the four-for-five share rights issue undertaken in December 2011. The previously recorded June 2011 weighted average number of shares has been adjusted by a factor of 1.1823 being the market price of one ordinary share at the close of the last day at which the shares traded together with the rights $0.61, divided by the theoretical ex-rights value per share of $0.52).

Table 4 below provides a summary of key financial flexibility metrics based on underlying operational performance.

Table 4: Consolidated – Financial Flexibility Measures
FY2012 and FY2011

Financial Measure (1)		FY2012	FY2011	Variance $M	Variance %
Underlying EBITDA	$M	99	240	(141)	(59)
Finance costs	$M	120	106	14	13
Net Debt	$M	384	1,068	(684)	(64)
Underlying EBITDA / finance costs (1)	times	0.8	2.3	(1)	(44)
Net Debt / Underlying EBITDA (2)	times	3.9	4.4	(0.6)	(13)

(1) These measures are reported based on underlying results because reported includes unusual items. The financial results for FY2012 have been impacted significantly by the restructuring costs and asset impairments. These financial measures do not reflect the Company's debt covenant measures.

Table 5 below provides a summary of consolidated operating and investing cash flows.

Table 5: Consolidated Cash Flow
FY2012 and FY2011; $ millions

Factors	FY2012	FY2011	Variance $M	Variance %
Reported EBITDA [1]	(489)	(687)	198	(29)
Add back non cash items				
- Share of profits from associates and joint venture partnership not received as dividends	30	62	(32)	(52)
- Impaired assets	320	925	(605)	(65)
- Net (gain) loss on sale of assets	(30)	1	(31)	(3,100)
- Expensing of share-based employee benefits	7	7	0	0
Cash EBITDA	(162)	308	(470)	(153)
Changes in working capital [2]	617	(166)	783	472
Net cash from operating activities	455	142	313	220
Net cash from investing activities	(80)	(367)	287	78
Cash from operating and investing (pre-tax)	375	(225)	600	267
Net finance costs paid	(106)	(101)	(5)	(5)
Tax received / (paid) [3]	(81)	(13)	(68)	(523)
Cash from operating and investing (post-tax) (as per statutory cash flow)	188	(338)	526	156

(1) Refer EBIT Variance analysis for major changes in EBITDA.
(2) FY2012 changes in working capital primarily reflect lower inventories resulting from lower raw material costs and a decrease in volumes on hand combined with higher creditors and lower receivables. FY2011 changes in working capital primarily reflect an increase in inventories mainly delivered through higher raw material and steel feed costs along with an increase in volumes on hand partly offset by lower receivables.
(3) The BlueScope Steel Australian tax consolidated group is estimated to have carry forward tax losses, as at 30 June 2012, in excess of $2.2B. There will be no Australian income tax payments until these are recovered.

Business Unit Reviews

Table 6a: Sales Revenue
FY2012 and FY2011; 2H FY2012; 1H FY2012 and 2H FY2011; $ millions

Segment	FY2012	FY2011	2H FY2012	1H FY2012	2H FY2011
Coated & Industrial Products Australia	4,280	5,193	1,877	2,403	2,691
Australia Distribution & Solutions	1,612	1,675	771	841	808
Inter-segment [1]	(570)	(584)	(276)	(294)	(298)
Sub-total Australia	5,322	6,284	2,372	2,950	3,201
New Zealand and Pacific Steel Products	755	672	409	346	342
Coated and Building Products Asia	1,626	1,487	787	839	747
Hot Rolled Products North America [2]	0	0	0	0	0
Coated and Building Products North America	1,258	1,197	585	673	584
Inter-segment [1]	0	0	0	0	0
Sub-total North America	1,258	1,197	585	673	584
Corporate and Group	0	0	0	0	0
Inter-segment [1]	(507)	(671)	(148)	(359)	(429)
Continuing Businesses	8,454	8,969	4,005	4,449	4,445
Discontinued Businesses	164	159	75	89	74
Inter-segment	(15)	(16)	(7)	(8)	(7)
Total BLUESCOPE STEEL	8,603	9,112	4,073	4,530	4,512

Table 6b: Reported EBIT
FY2012 and FY2011; 2H FY2012; 1H FY2012 and 2H FY2011; $ millions

Segment	FY2012	FY2011	2H FY2012	1H FY2012	2H FY2011
Coated & Industrial Products Australia	(726)	(1,063)	(263)	(463)	(966)
Australia Distribution & Solutions	(260)	(218)	(227)	(33)	(126)
Inter-segment (1)	5	(2)	0	5	(3)
Sub-total Australia	(981)	(1,283)	(490)	(491)	(1,095)
New Zealand and Pacific Steel Products	65	82	31	34	33
Coated and Building Products Asia	102	176	55	47	62
Hot Rolled Products North America (2)	62	72	42	20	64
Coated and Building Products North America	(24)	(42)	(8)	(16)	(22)
Inter-segment (1)	0	0	0	0	0
Sub-total North America	38	30	34	4	42
Corporate and Group	(81)	(74)	(47)	(34)	(40)
Inter-segment (1)	(2)	18	(2)	0	1
Continuing Businesses	(859)	(1,051)	(419)	(440)	(997)
Discontinued Businesses	39	8	34	5	3
Inter-segment	0	0	0	0	(1)
Total BLUESCOPE STEEL	(820)	(1,043)	(385)	(435)	(995)

Table 6c: Underlying EBIT
FY2012 and FY2011; 2H FY2012; 1H FY2012 and 2H FY2011; $ millions
Note: A reconciliation of underlying EBIT to reported EBIT for the group is provided in Table 2b and for segments in the commentary below.

Segment	FY2012	FY2011	2H FY2012	1H FY2012	2H FY2011
Coated & Industrial Products Australia	(327)	(258)	(145)	(182)	(161)
Australia Distribution & Solutions	(52)	(34)	(23)	(29)	(19)
Inter-segment (1)	5	(2)	1	4	(3)
Sub-total Australia	(374)	(294)	(167)	(207)	(183)
New Zealand and Pacific Steel Products	69	82	35	34	33
Coated and Building Products Asia	98	108	51	47	62
Hot Rolled Products North America (2)	62	72	42	20	64
Coated and Building Products North America	(8)	(26)	(8)	0	(7)
Inter-segment (1)	0	0	0	0	0
Sub-total North America	54	46	34	20	57
Corporate and Group	(69)	(67)	(37)	(32)	(33)
Inter-segment (1)	(2)	18	(2)	0	1
Continuing Businesses	(224)	(107)	(86)	(138)	(63)
Discontinued Businesses	0	0	0	0	0
Inter-segment	0	(0)	(1)	1	(1)
Total BLUESCOPE STEEL	(224)	(107)	(87)	(137)	(64)

(1) Inter-segment revenue reflects the elimination of internal sales between reporting segments. Inter-segment EBIT reflects the elimination of profit-in-stock associated with inter-segment sales.
(2) Excludes the company's 50% share of North Star BlueScope Steel's sales revenue of A$683M in FY2012 (A$697M in FY2011).

BLUESCOPE STEEL AUSTRALIA

Coated & Industrial Products Australia

This segment comprises:

- Port Kembla Steelworks, NSW, Australia (coke, iron, slab, plate and hot rolled coil production);
- Springhill Coated, Port Kembla, NSW, Australia (cold rolled coil, metal coated and painted steel production);
- Western Port facility, Hastings, VIC, Australia (cold rolled coil, metal coated and painted steel production);
- Western Sydney COLORBOND® steel facility, NSW, Australia;
- Acacia Ridge COLORBOND® steel facility, Queensland, Australia;
- Sheet and Coil Processing Services, with 6 sites across Australia; and
- North America, European and Asian export trading offices.

(i) Financial Performance

Table 7a: Financial Performance
FY2012 and FY2011

Financial Measure ($M, unless marked)	FY2012	FY2011	Variance $M	Variance %
Sales revenue (1), (2)	4,280	5,193	(913)	(18)
Reported EBITDA/(EBITDA loss) (2)	(549)	(861)	312	36
Reported EBIT loss	(726)	(1,063)	337	32
Underlying EBIT loss (3)	(327)	(258)	(69)	(27)
Capital and investment expenditure	117	250	(133)	(53)
Net operating assets (pre tax) (4)	2,003	2,754	(751)	(27)
Return on net assets (pre tax) (5)	(29%)	(30%)		

Table 7b: Financial Performance
2H FY2012 vs. 1H FY2011 and 1H FY2012

Financial Measure ($M, unless marked)	2H FY2012	2H FY2011	Variance	1H FY2012
Sales revenue (1), (2)	1,877	2,691	(814)	2,403
Reported EBITDA/(EBITDA loss) (2)	(174)	(864)	690	(375)
Reported EBIT loss	(263)	(966)	703	(463)
Underlying EBIT loss (3)	(145)	(161)	16	(182)
Capital and investment expenditure	71	160	(89)	46
Net operating assets (pre tax) (4)	2,003	2,754	(751)	2,437
Return on net assets (pre tax) (5)	(22%)	(55%)		(34%)

(1) FY2012 includes coke sales of 516kt (FY2011 172kt and 2H FY2012 317kt).

(2) FY2012 sales revenue, reported EBITDA and underlying EBIT include $3,024M, ($449M) and ($299M) respectively in relation to the old Hot Rolled Products Australia segment (FY2011 $3,999M, ($770M) and ($274M) respectively and 2H FY2012 $1,338M, ($125M) and ($107M) respectively). These numbers represent sales revenue and EBITDA for the old Hot Rolled Products Australia segment and have not been adjusted for profit in stock eliminations that will now be occurring within the Coated & Industrial Products Australia segment due to sales between the businesses in this segment.

(3) FY2012 EBIT has been adjusted for staff redundancies and other internal restructuring costs ($363M), fixed asset impairment write down ($136M) and the receipt of the Steel Transformation Plan funding ($100M) in FY2012. FY2011 EBIT has been adjusted for an asset impairment write down ($797M) and staff redundancies and other internal restructuring costs ($7M).

(4) 2H FY2012 vs. 1H FY2012 decrease in net operating assets primarily driven by further reductions in inventories and receivables partly offset by a decrease in provisions resulting from redundancy and contract payments as part of the transition to one BF operations combined with a fixed asset impairment write down. 1H FY2012 vs. 2H FY2011 decrease in net operating assets primarily driven by an increase in provisions and lower inventories partly offset by lower creditors as part of the move to 1 BF operations.

(5) Return on net assets is defined as reported EBIT (annualised in case of half year comparisons) / average monthly net operating assets.

(ii) Variance Analysis (FY2012 vs. FY2011)

The $913M decrease in sales revenue is primarily due to a decrease in export and domestic volumes combined with lower domestic prices, adverse foreign exchange impact due to the stronger AUD:USD and an adverse domestic product mix partly offset by an improvement in export prices. Anti-dumping applications have been lodged with Australian Customs.

The $69M decrease in underlying EBIT was largely due to:

- Higher per unit costs due to fixed conversion costs spread over lower production volumes as a result of the move to one BF operations in October 2011.
- Reduced spread driven by:
  - Higher coal and iron ore purchase prices partly offset by favourable iron ore feed mix.
  - Lower domestic prices driven by a stronger AUD:USD and increased competition from imports. Anti-dumping applications have been lodged with Australian Customs.
  - Lower valued opening inventory carried forward into FY2011 compared to higher valued opening inventory carried forward into FY2012.

  Partly offset by
  - Higher export prices driven by stronger international slab and hot rolled coil prices.
  - Lower inventory net realisable value provisions for inventory on hand at June 2012 compared to June 2011.
- Adverse domestic product mix with higher volumes into lower margin products combined with lower overall domestic volumes.

These were partly offset by:

- A decrease in loss making export volumes.
- Net favourable foreign exchange movement in the AUD:USD (FY2012 average 1.032 vs. FY2011 0.989) in respect of the favourable impact of raw material purchases in USD compared to FY2011 partly offset by the unfavourable impact on export sales revenue.

Underlying adjustments included in reported EBIT ($406M favourable)

- Staff redundancies and other internal restructuring costs of $363M recognised during FY2012 as a result of the move to one BF operation.
- Non-current asset impairment write downs of $136M recognised during FY2012 due to a slower recovery in domestic demand than previously expected and a higher discount rate applied to expected future cash flows as a result of increased volatility in equity markets.
- $100M Steel Transformation Plan advance received during FY2012.
- Asset impairment write downs of $797M recognised during FY2011 as a result of ongoing macroeconomic challenges of a high AUD, high raw material costs and low prices.
- Staff redundancies and other internal restructuring costs of $7M during FY2011.

(iii) Variance Analysis (2H FY2012 vs. 1H FY2012)

The $37M increase in underlying EBIT was largely due to:

- Lower loss making export volumes.
- Improved spread as a result of:
  - Lower USD denominated coal and iron ore purchase prices combined with improved iron ore consumption mix.
  - Lower inventory net realisable value provisions for inventory on hand at June 2012 compared to December 2011.

  Partly offset by:
  - Lower export prices driven by deterioration of global HRC and slab prices as a result of negative global economic sentiment and resultant negative impact on domestic prices.
  - Lower domestic prices impacted by import pricing pressure.
  - Higher value of opening inventory carried forward from 1H FY2012 into 2H FY2012 than from FY2011 into 1H FY2012.

These were partly offset by:

- Higher unit costs due to fixed conversion costs spread over lower production volumes following the move to 1 BF operations in October 2011.
- Adverse domestic product mix with higher volumes into lower margin products.

Underlying adjustments included in reported EBIT ($163M favourable)

- Staff redundancies and other internal restructuring costs following the move to a one blast furnace operation booked during 1H FY2012 ($348M) compared to 2H FY2012 ($15M).
- Non-current asset impairment write downs of $136M recognised during 2H FY2012 due to a slower recovery in domestic demand than previously expected and a higher discount rate applied to expected future cash flows as a result of increased volatility in equity markets.

- Recognition of Steel Transformation Plan advance recognised during 1H FY2012 ($66M) versus 2H FY2012 ($34M).

Operations Report

Port Kembla Steelworks

- Restructure – In August 2011 the company announced a major restructure of the Australian manufacturing business to reduce its exposure to loss making export markets for steel products. At the Port Kembla Steelworks, the changes were broadly to reduce production of steel by half through the closure of blast furnace No.6. This was accompanied by a significant reduction in the fixed cost base of operations through reductions in labour, maintenance, operations support costs and overheads, including a significant reduction in contractors.

  The changes in operations and costs were largely implemented in Q2 FY2012, commencing from early October. The key facility changes were:

  - Closure of No 4 Coke Battery (October)
  - Closure of No 6 Blast Furnace (BF No. 6) (October)
  - Closure of No 3 BOS (early CY2012)
  - Closure of No 1 Slab Caster (early CY2012)
  - Sinter production significantly reduced

  Steelmaking production capacity has been reduced from approximately 5.3Mtpa to approximately 2.6Mtpa.

  Negotiations with suppliers to amend or update supply and service contracts are largely complete. All raw material supply contracts have been renegotiated to match the reduced requirements.

  As a result of the restructuring, around 1400 employees in Australia exited the business, principally from Port Kembla and Western Port. An extensive consultation process with employees was undertaken. Expressions of interest for voluntary redundancies and job substitutions were sought and over 90% of employees left on a voluntary basis.

- Iron & Slab

  - Ironmaking production of 3.1Mt in FY2012 was 1.9Mt lower than the 5.05Mt in FY2011 (1.27Mt in 2H FY2012) due to the mothballing of No 6 Blast Furnace on 8th October 2011.
  - Slab production was 3.15Mt in FY2012 (vs. 5.17Mt for FY2011 and 1.29Mt in 2H FY2012) driven by the business restructure.
  - Iron ore supply arrangements:
    - Contracts in place for the supply of iron ore as follows:
      - BHP Billiton for lump and fines (as amended, total 4.2Mtpa to 30 June 2019)
      - Grange Resources for pellets (as amended, 0.25Mt to 31 December 2012)
      - Supply of additional requirements is secured through short term supply arrangements.
  - Further detail on supply arrangements can be found in the FY2012 investor presentation.

  - Coal supply arrangements:
    - Hard coking coal
      - Principally sourced from BHP Billiton Illawarra mines adjacent to the Steelworks in southern New South Wales. There are no supply issues and the contract has approximately 20 years to run expiring 30 June 2032.
    - Semi-soft coal, primarily used for pulverised coal injection (PCI) process:
      - Contract in place with Peabody Energy for Hunter Valley coal (as amended, up to 0.4Mtpa to 31 March 2014).
      - Supply of additional requirements is secured through short term supply arrangements.

- Hot Strip Mill (HSM)

  - Hot rolled coil production of 2.4Mt (vs. 2.8Mt in FY2011 and 1.1Mt in 2H FY2012).
  - Reduced shift pattern and rolling capacity post the closure of BF No. 6 with the No.2 reheat furnace turned off for part of FY2012.
  - Scheduled maintenance outage undertaken during March 2012.

- Plate Mill
  - Plate production of 0.4Mt (vs. 0.4Mt for FY2011 and 0.2Mt in 2H FY2012).
  - Scheduled maintenance outage undertaken from mid December 2011 to early January 2012.

Coated Businesses

- Restructure – In August 2011 the company announced a major restructure of the Australian manufacturing business to reduce its exposure to loss making export markets for steel products. At the Western Port facility the changes were broadly to reduce production of rolled and coated products through the closure of the hot strip mill and mothballing a metal coating line. This was accompanied by a significant reduction in the fixed cost base of operations through reductions in labour, maintenance, operations support costs and overheads, including a significant reduction in contractors.

  The changes in operations and costs were largely implemented in Q2 FY2012, commencing from mid October. The key facility changes are:

  - Closure of the Hot Strip Mill (October)
  - Mothballing of Metal Coating Line 5 (October)

  Negotiations with suppliers to amend or update contracts are largely complete.

- Western Port
  - Hot rolled coil production of 0.3Mt in 1H FY2012 (vs. 0.95Mt in FY2011). The Hot Strip Mill was successfully decommissioned in October 2011.
  - Metal coating line (MCL) production of 0.5Mt in FY2012 (vs. 0.8Mt in FY2011 and 0.3Mt in 2H FY2012). MCL5 was successfully decommissioned in October 2011. Reduced market demand saw MCL6 moved to a 5 day per week operation and MCL4 incurring periods of idle time during the year.
  - Paint line production of 0.2Mt in FY2012 (vs. 0.2Mt in FY2011 and 0.1Mt in 2H FY2012).

- Springhill
  - Coupled pickle cold mill production of 0.8Mt in FY2012 (vs. 0.9Mt in FY2011 and 0.3Mt in 2H FY2012).
  - Metal coating line production of 0.7Mt in FY2012 (vs. 0.8Mt in FY2011 and 0.3Mt in 2H FY2012).
  - No. 3 paint line production of 0.1Mt in FY2012 (vs. 0.2Mt in FY2011 and 0.1Mt in 2H FY2012). Operations were moved to 5 days per week in October 2011.

- Western Sydney Centre (Paint Line)
  - Paint line production of 0.08Mt in FY2012 (vs. 0.09Mt in FY2011 and 0.04Mt in 2H FY2012).

- Acacia Ridge Centre
  - Paint line production of 0.06Mt in FY2012 (vs. 0.09Mt in FY2011 and 0.03Mt in 2H FY2012). Operations were moved to 5 days per week during the year.

- Sheet and Coil Processing Services (S&CPS)
  - Demand for processing (slit coil and sheared sheet) in FY2012 was down approximately 4% relative to FY2011. Activity across the year was significantly impacted by continuing flatness in the building and manufacturing markets.
  - In response to market conditions the business has continued to align capacity to demand in order to optimise the manufacturing footprint. As part of this program our Fairbairn road site in Victoria has been closed.

Markets

- Anti-dumping Case
  - In May 2012, BlueScope Steel submitted an Anti-dumping application to Australian Customs in order to conduct a preliminary investigation. In June 2012, Customs announced the findings of their initial assessment, confirming they will launch an investigation into Anti-dumping of Hot Rolled Coil (HRC) with four countries: Taiwan, South Korea, Japan and Malaysia.
  - Customs are continuing their formal investigatory process and this could take up to six months before a final determination is made.
  - BlueScope Steel will continue to monitor the volume and value of imports into Australia

- Direct Sales to Domestic Building Sector (customers who participate in dwelling and non-dwelling segments)
  - This market sector is referred to as the Australian Domestic Building Sector.
  - Sales volumes to the domestic building sector decreased by approximately 6% in FY2012 (vs. FY2011).
  - Volumes were influenced by weak market activity within both residential and non residential construction.
  - Residential investment has contracted 4.3% in FY2012 with new dwelling activity declining 8% (HIA April 2012 release). Non residential construction activity has further declined 9.8% in FY2012 with Social and Institutional (S&I) investment decreasing 19.9% (BIS Shrapnel, May 2012 release). The low S&I activity largely reflects the winding up of the government's BER stimulus programs in FY2011.
  - BlueScope maintained market share for its painted products in FY2012. Non painted metallic coated products continued to face intense market pressure from increased import competition.
  - Average pricing for metallic coated products declined in FY2012 compared to FY2011 largely due to increased competition from imports and the strong appreciation in the Australian dollar. Pricing of the premier brand COLORBOND® has remained unchanged since February 2011.

- Sales to Domestic Customers and Distributors who participate across all end market segments
  - These market sectors are referred to as the Australian Domestic Industrial Sector (including engineering, manufacturing, agriculture, mining and automotive / transport).
  - Sales volumes remained largely flat in FY2012 (vs. FY2011).
  - Distribution customers maintained low to moderate inventory levels throughout FY2012 due to volatility in prices and market conditions.
  - Sales volumes for both plate and welded products increased due to strong investment within Mining and Engineering construction.
  - Sheet and coil product sales declined due to low demand within building and manufacturing segments.
  - Manufacturing continues to be impacted by the high AUD, low domestic demand and high levels of import competition, particularly in finished goods.
  - Pipe and Tube had moderate sales growth within structural products, largely driven by strong investment within Mining and Engineering construction. The sector was slightly impacted by the closure of Oil & Gas pipe manufacturing in Australia in May 2012.
  - Market share in FY2012 remained under pressure from strong import competition, largely due to imports, the high Australian dollar and low global demand for steel products. BlueScope has maintained relative price competitiveness to defend against market share loss.
  - Average pricing for industrial products declined in FY2012 compared to FY2011 largely due to increased competition from imports and the stronger Australian dollar.

- Export Markets
  - FY2012 total (external and internal) sales volume despatched to export markets was 1.5 million tonnes (76% flat products / 14% coated products) compared to 2.7 million tonnes in FY2011 due to the closure of No.6 Blast Furnace in October 2011. Sales volume despatched in 2H FY2012 was 0.4 million tonnes.
  - HRC prices softened slightly in 2H FY2012 vs 1H FY2012 with continued global uncertainty fuelling weaker demand and resulting in buyers de-stocking to minimum operating levels.

Australia Distribution & Solutions

This segment comprises:
- BlueScope Distribution with 61 sites throughout Australia;
- BlueScope Lysaght, with 33 sites throughout Australia;
- BlueScope Solutions Australia (formerly Design Manufacture Construct), incorporating BlueScope Buildings, Highline, BlueScope Water and Ranbuild with 9 sites throughout Australia.

(i) Financial Performance

Table 8a: Financial Performance
FY2012 and FY2011

Financial Measure ($M, unless marked)	FY2012	FY2011	Variance $	Variance %
Sales revenue	1,612	1,675	(63)	(4)
Reported EBITDA loss	(237)	(187)	(50)	(27)
Reported EBIT loss	(260)	(218)	(42)	(19)
Underlying EBIT loss (1)	(52)	(34)	(18)	(53)
Capital and investment expenditure	9	28	(19)	(68)
Net operating assets (pre tax) (2)	383	684	(301)	(44)
Return on net assets (pre tax) (3)	(43%)	(26%)		

Table 8b: Financial Performance
2H FY2012 vs. 2H FY2011 and 1H FY2012

Financial Measure ($M, unless marked)	2H FY2012	2H FY2011	Variance	1H FY2012
Sales revenue	771	808	(37)	841
Reported EBITDA/(EBITDA loss)	(215)	(110)	(105)	(22)
Reported EBIT loss	(227)	(126)	(101)	(33)
Underlying EBIT loss (1)	(23)	(19)	(4)	(29)
Capital and investment expenditure	6	16	(10)	3
Net operating assets (pre tax)	383	684	(301)	603
Return on net assets (pre tax) (3)	(79%)	(32%)		(10%)

(1) FY2012 EBIT has been adjusted for goodwill and other asset impairment write downs ($178M), plant closure and rationalisation costs ($18M) and restructure and redundancy costs ($12M). FY2011 EBIT has been adjusted for impairment write down of goodwill ($177M), plant closure and rationalisation costs ($5M) and restructuring and redundancy costs ($2M).

(2) 2H FY2012 vs. 1H FY2012 decrease in net operating assets primarily driven by higher creditors and provisions mainly in relation to restructuring and redundancies activities combined with asset impairments. 1H FY2012 vs. 2H FY2011 decrease in net operating assets primarily reflects asset impairments and transfer of fixed assets in relation to Sheet and Coil Processing Services to Coated & Industrial Products Australia during 1H FY2012 .

(3) Return on net assets is defined as reported EBIT (annualised in case of half year comparison) / average monthly net operating assets.

(ii) Variance Analysis (FY2012 vs. FY2011)

The $63M decrease in sales revenue was mainly due to lower despatch volumes as a result of sustained weakness in the domestic market.

The $18M decrease in underlying EBIT was largely due to:
- Lower despatch volumes due to market weakness.
- Reduced margins due to higher steel feed costs not being able to be recouped through higher selling prices.

Underlying adjustments included in reported EBIT ($24M unfavourable)
- Goodwill impairment write downs recognised during FY2012 due to a slower recovery in domestic demand that previously expected, comprising Distribution ($157M), Lysaght ($10M) and BlueScope Water and BlueScope Buildings ($11M).
- Staff redundancies and other internal restructuring costs ($12M) together with plant closure and rationalisation costs ($18M) recognised during FY2012.

- Goodwill impairment write down recognised during FY2011 ($177M).
- Plant closure and rationalisation costs ($5M) and restructuring and redundancy costs ($2M) recognised during FY2011.

(iii) Variance Analysis (2H FY2012 vs. 1H FY2012)

The $6M improvement in underlying EBIT was largely due to:

- Improved spread due to lower steel feed costs
- Lower conversion and other costs delivered through cost improvement initiatives.

Partly offset by:

- Lower despatch volumes.

Underlying adjustments included in reported EBIT ($200M unfavourable)

- Goodwill impairment write downs recognised during FY2012 due to a slower recovery in domestic demand that previously expected, comprising Distribution ($157M), Lysaght ($10M) and BlueScope Water and BlueScope Buildings ($11M).
- Plant rationalisation costs booked during 2H FY2012 ($18M).
- Staff redundancies and other internal restructuring costs recognised during 2H FY2012 ($8M). Staff redundancies and other internal restructuring costs recognised during 1H FY2012 ($4M).

(iv) Operations Report

- <u>BlueScope Distribution</u>
  - Distribution restructure well advanced:
    - Closure, sale or consolidation of 17 branches
    - Permanent overhead reductions
  - FY2012 volumes were up 2% on FY2011 with the most significant driver being growth in the mining, oil and gas segment with BlueScope manufactured products up 9%.
  - 2H FY2012 volumes were down 4% (vs. 1H FY2012) on a tonnes per day basis with most major market segments experiencing continuing levels of contraction with the timing of projects and supply being the most significant driver.
  - Continuing economic uncertainty, domestically and internationally, coupled with varying degrees of confidence around interest rate movements and changes in first home buyers support has seen residential building activity continuing to fall.
  - Commercial and non residential construction has also experienced contraction with confidence levels, availability of credit and overall confidence impacting private investment in areas such as retail premises and offices.
  - Volumes into the manufacturing sector continue to decline reflecting the uncertainty and adverse economic conditions.
  - The pricing and margin environment remains extremely tight, albeit the business has been able to improve margin outcomes in the second half.

- <u>BlueScope Lysaght</u>
  - Sales volumes in FY2012 were down 12% on FY2011. 2H FY2012 sales volumes were down 11% on 2H FY2011.
  - Overall market conditions remained weak throughout FY2012.
  - The residential segment continued to be subdued as reflected in low levels of new housing starts and housing finance approvals, despite recent interest rate decreases.
  - Commercial construction activity has continued to contract since mid-CY2010 with historically low private investment and weak public construction.
  - Market softness is evident across all states, albeit with some modest respite from rebuilding activity in far north Queensland mostly during 1H FY2012.
  - Lysaght has rationalised its manufacturing footprint and will deliver ongoing operating and overhead cost benefits. .

- <u>BlueScope Solutions Australia (formally known as Design Manufacture Construct)</u>
  - The buildings and construction business achieved 46% revenue growth in FY2012 vs. FY2011 on the back of a strong project order pipeline in Western Australia.

- Commercial building enquiries remain steady albeit at reduced margins. It is expected that growth in this sector, apart from the resource related projects will slow.
- The domestic and rural building sector for sheds and garages is down 16% as a result of a tough economic environment and reduced consumer spending.
- The water business has rationalised its manufacturing sites and reduced the workforce as a result of the slowdown in demand.
- The Residential Water business has been sold (effective 10 August 2012).

BLUESCOPE STEEL NEW ZEALAND
New Zealand and Pacific Steel Products

This segment comprises:
- New Zealand Steel; and
- Lysaght Pacific Islands

(i) Financial Performance

Table 9a: Financial Performance
FY2012 and FY2011

Financial Measure ($M, unless marked)	FY2012	FY2011	Variance $	Variance %
Sales revenue	755	672	83	12
Reported EBITDA	109	122	(13)	(11)
Reported EBIT	65	82	(17)	(21)
Underlying EBIT (1)	69	82	(13)	(16)
Capital and investment expenditure	42	38	4	11
Net operating assets (pre tax) (2)	296	406	(110)	(27)
Return on net assets (pre tax) (3)	19%	21%		

Table 9b: Financial Performance
2H FY2012 vs. 2HFY2011 and 1H FY2011; $ millions

Financial Measure ($M, unless marked)	2H FY2012	2H FY2011	Variance	1H FY2012
Sales revenue	409	342	67	346
Reported EBITDA	54	55	(1)	55
Reported EBIT	31	33	(2)	34
Underlying EBIT (1)	35	33	2	34
Capital and investment expenditure	32	21	11	10
Net operating assets (pre tax)) (2)	296	406	(110)	243
Return on net assets (pre tax) (3)	22%	17%		18%

(1) FY2012 EBIT has been adjusted for restructure and redundancy costs ($4M).

(2) 2H FY2012 vs. 1H FY2012 increase in net operating assets primarily driven by capital and investment expenditure (principally the new Taharoa buoy). 1H FY2012 vs. 2H FY2011 decrease in net operating assets primarily reflects higher provisions in relation to defined benefit superannuation fund.

(3) Return on net assets is defined as reported EBIT (annualised in case of half year comparisons) / average monthly net operating assets.

(ii) Variance Analysis (FY2012 vs. FY2011)

The $83M increase in sales revenue is primarily due to higher export volumes and higher international selling prices combined with a favourable foreign exchange translation impact from NZD to AUD partly offset by an adverse movement in the USD relative to the NZD.

The $13M decrease in underlying EBIT was largely due to:
- Higher utility costs.
- Net unfavourable movement in the USD relative to the NZD (FY2012 average 0.80 vs. FY2011 average 0.76) impacting export revenue partly offset by a favourable impact on raw materials purchased in USD and favourable translation impact from NZD to AUD.

Partly offset by:

- Improved spread driven by higher international hot rolled coil prices partly offset by a full year impact of the NZ Emissions Trading Scheme.
- Commencement of iron sands exports from Waikato North Head during FY2012.

Underlying adjustments included in reported EBIT ($4M unfavourable)

- Staff redundancies and other internal restructuring costs recognised during FY2012 ($4M).

(iii) Variance Analysis (2H FY2012 vs. 1H FY2012)

The $1M increase in underlying EBIT was largely due to:

- Stronger domestic despatch volumes.

Partly offset by:

- Adverse foreign exchange translation impact from restatement of debtors.

Underlying adjustments included in reported EBIT ($4M unfavourable)

- Staff redundancies and other internal restructuring costs recognised during 2H FY2012 ($4M).

(iv) Operations Report

- Steel production was 606kt (vs. 615kt FY2011 and 305kt in 2H FY2012). A small reduction in year on year production performance primarily in the first half.
- Total external steel product despatches were up 2% on FY2011; 562kt vs. 552kt, with domestic sales down 6kt and exports up 16kt.
- Hot rolled production of 593kt (vs. 613kt FY2011 and 294kt in 2H FY2012) was impacted by the North Island gas pipeline outage in October 2011 which limited production capacity for over a week.
- Metal coating production of 221kt (vs. 217kt FY2011 and 111kt 2H FY2012).
- Paint line production of 50kt (vs. 54kt in FY2011 and 25kt in 2H FY2012) with volumes continuing to be impacted by soft domestic market conditions.
- Delta light plate plant record production of 70kt (vs. 57kt FY2011 and 37kt 2H FY2012).
- Cost control continues to be a major focus for all operational areas along with business improvement initiatives across the site through an employee driven improvement scheme.
- Vanadium sales volumes were up 6% on FY2011 due to process improvements in vanadium recovery.
- Iron sands exports from Taharoa of 978kt (vs. 819kt FY2011), with 2 shipments in the new vessel, the Taharoa Destiny, which first arrived in NZ in May 2012. The vessel will increase iron sands exports from approximately 0.9mtpa to 1.2mtpa from FY2013.
- Iron sands exports for the first time from Waikato North Head of 163kt (vs. 0kt FY2011).

(v) New Zealand and Pacific Islands Markets

- <u>Domestic</u>
  - External domestic sales were 2.4% down on FY2011 (247kt vs. 253kt). Construction (residential and non-residential) activity remained soft.
  - The Canterbury region has seen a pick up in activity with new building consents up 120% on FY2011, from a very low base. However, most new building consents being issued are for areas outside Christchurch City.
- <u>Export</u>
  - Total FY2012 sales volumes were up 5.3% on FY2011 (315kt vs. 299kt).
  - Iron Sand exports index price was in line with FY2011.
  - Vanadium prices were down 17% on FY2011.

BLUESCOPE STEEL ASIA
Coated and Building Products Asia

This segment comprises:

- Metal coating and paint line operations in Thailand, Indonesia, Malaysia, Vietnam and China;
- Butler Pre-Engineered Buildings ("PEB") and Lysaght businesses across Asia (use product from the coating lines).
- Joint venture in India with Tata Steel Limited covering the recently completed metal coating line and paint line and existing Butler PEB and 3 Lysaght rollforming operations.

(i) Financial Performance (Refer to Attachment 2(a) for a breakdown of half year financial data by country and Attachment 2(b) for a breakdown of the annual China data by principal business)

Table 10a: Financial Performance
FY2012 and FY2011

Financial Measure ($M, unless marked)	FY2012	FY2011	Variance $	Variance %
Sales revenue	1,626	1,487	139	9
Reported EBITDA	148	218	(70)	(32)
Reported EBIT	102	176	(74)	(42)
Underlying EBIT (1)	98	108	(10)	(9)
Capital and investment expenditure (2)	49	56	(7)	(13)
Net operating assets (pre tax)	792	814	(22)	(3)
Return on net assets (pre tax) (3)	12%	21%		

Table 10b: Financial Performance
2H FY2012 vs. 2H FY2011 and 1H FY2012

Financial Measure ($M, unless marked)	2H FY2012	2H FY2011	Variance	1H FY2012
Sales revenue	787	747	40	839
Reported EBITDA	77	84	(7)	71
Reported EBIT	55	62	(7)	47
Underlying EBIT	51	62	(11)	47
Capital and investment expenditure (2)	39	29	10	10
Net operating assets (pre tax)	792	814	(22)	890
Return on net assets (pre tax) (3)	13%	15%		11%

(1) FY2012 EBIT has been adjusted for profit on land sale in Indonesia ($4M). FY2011 EBIT has been adjusted for part reversal of prior impairment write downs ($68M) at China Coated.
(2) The reduction in capital expenditure between FY2011 to FY2012 largely reflects the completion of the second metal coating line in Indonesia. The increase in capital expenditure between 1H FY2012 to 2H FY2012 largely reflects the Xi'an Butler / Lysaght development in China.
(3) Return on net assets is defined as reported EBIT (annualised in case of half year comparisons) / average monthly net operating assets.

(ii) Variance Analysis (FY2012 vs. FY2011)

The $139M increase in sales revenue is primarily due to higher volumes in Thailand, Indonesia and Vietnam and higher prices in Thailand and China, partly offset by lower volumes in China and unfavourable exchange rate movements compared to the AUD in Indonesia, Thailand and Malaysia.

Underlying EBIT is $10M lower largely due to:

- Higher conversion costs driven by the start-up of the second metal coating line in Indonesia and coating and painting line in India, together with higher overhead costs in China.
- Higher steel feed costs predominantly in Thailand and Indonesia.
- Net adverse foreign exchange impacts mainly in Indonesia, Malaysia and Thailand.
- Adverse impact of floods in Thailand.

Partly offset by:

- Higher domestic selling prices mainly in China and Thailand.
- Higher despatch volumes in Thailand and Indonesia partly offset by lower despatch volumes in China.

- Improved product mix in Thailand.

Underlying adjustments included in reported EBIT ($64M unfavourable)

- Part reversal of prior impairment write downs at Coated China recognised in FY2011 ($68M).
- Profit on land sale in Indonesia recognised during FY2012 ($4M).

(iii) Variance Analysis (2H FY2012 vs. 1H FY2012)

The $4M increase in underlying EBIT is largely due to:

- Lower steel feed costs mainly in China and Indonesia, partly offset by lower domestic and export prices, mainly in Thailand and Indonesia.
- Improved product mix in Thailand.

Partly offset by:

- Lower despatch volumes in China.
- Start-up costs at the coating and painting line in India.

Underlying adjustments included in reported EBIT ($4M favourable)

- Profit on land sale in Indonesia recognised during 2H FY2012 ($4M).

(iv) Operations and Market Report

China (BSC)

- **Markets**
  - China overview
    - China's 12th 5-year plan (from 2011-2015) focuses on moving Chinese industry up the value chain, increasing domestic consumption versus reliance on exports, and continuing urbanisation (particularly in interior cities). The government set the annual GDP growth target at 7% for the plan (vs. 7.5% target in the previous 5-year plan). GDP growth was 9% for CY 2011 and consensus forecast is for approx. 8% growth in CY 2012.
    - During CY 2011, Chinese monetary policy tightened on government efforts to manage inflation concerns for property prices and overall consumer prices. These policy changes negatively impacted construction markets. The government (PBOC) continues to manage / balance both global and domestic economic issues but has been slowly loosening monetary (credit) policies during H1 CY2012.
  - Coated
    - BlueScope Steel Suzhou (BSS) produces and sells metallic-coated and pre-painted steel primarily for the China non-residential building and construction market.
    - Approximately 50% of BSS sales volume is through its China affiliates (Butler and Lysaght).
  - Butler
    - BlueScope Butler principally sells low-rise metal building systems into the industrial, commercial, and community segments of the non-residential building market in China.
    - Sales mix is approximately 60% to China domestic enterprises and 40% to multi-national corporations investing into the China market.
  - Lysaght
    - Lysaght supplies metal components to China's residential, commercial, non-residential, and government (typically infrastructure) construction markets.
    - Lysaght has focused on increasing sales across non-residential industrial and commercial end use markets (to approximately 70% of sales) as government stimulus investment into infrastructure has diminished.

- **Current Operations**
  - Coated
    - FY2012 total external sales volume up 12% on FY2011.
    - Volumes negatively impacted by tighter credit conditions for end customers leading to fewer projects awarded and increased competition.
    - Metal coating production was 151kt in FY2012 whilst paint line production was 62kt.

- FY2012 metal coating capacity utilization was 69% and the paint line operated at approximately 41% (both in line with FY2011).

- Butler Buildings (PEB)
  - FY2012 sales volumes down 20% on FY2011.
  - Volumes negatively impacted by tighter credit conditions for end customers leading to fewer projects awarded and increased competition.

- Lysaght
  - FY2012 sales volume down (4%) on FY2011.
  - Volumes negatively impacted by tighter credit conditions for end customers leading to fewer projects awarded and increased competition.

- **Capital Growth Project Status**
  - The Company has commenced construction of a new Butler PEB and Lysaght rollforming plant
  - Details:
    - Located in Xi'an, Shaanxi province (geographic centre of China)
    - Capital cost approximately A$60M.
    - Construction: expected to be operational by 2H FY2013.

Thailand (BST)

- **Markets**
  - Thailand started FY2012 on a positive note with a more stable political and economic environment after the July elections but unfortunately the economy suffered from the worst floods in 50 years.
  - The flood reconstruction effort is expected to stimulate public and private sector spending, and help boost economic growth recovery in CY2012. The Bank of Thailand raised its economic growth forecast for CY2012 from 5.7% to 6.0%, as the economy recovered faster than expected post CY2011 floods. Stability in growth for Thai economy will require less export dependence (particularly in light of low global growth environment forecast) and greater contribution from domestic consumption to GDP.
  - Import competition, particularly cheaper imports from China, remains a challenge. Flat and declining HRC price sentiment also dampens demand as customers hold off purchases in anticipation of lower prices. New domestic competitors particularly in Painted & Galvanised Steel will add some competitive tension going into FY2013.
  - In the face of these challenges, BST operating profit grew by 59% over FY2011, largely supported by a number of successful initiatives. These initiatives included a) Go-to-Market customer loyalty programs, b) introduction of "Jing Joe Lek" (new product to combat import competition) distributor program, c) development of flood "stimulus offers" to support key customers through a very tough period for the entire value chain, and d) introduction in March 2012 of new painted products which received positive response from the market, boding well for FY2013.

- **Current Operations**
  - Production volume was higher in FY2012 vs. FY2011 driven by higher demand.

(kt)	2H FY2012	1H FY2012	FY2012	FY2011
Cold Rolling Mill	117	105	222	212
Metallic Coating Lines	147	135	282	235
Paint Line	35	32	67	61

Vietnam (BSV)

- **Markets**
  - Vietnam GDP growth for CY2012 was projected by IMF in April 2012 to be 5.6%. The economy was negatively impacted in FY2011 by a credit crunch after the Vietnamese Central Bank increased interest rates to fight inflation which peaked at 23% in August 2011. The government is focusing on reducing the double digit inflation to single digit in CY2012 albeit at the expense of GDP growth.
  - Overall macroeconomic environment is improving. Ease of credit restriction is expected to help stimulate real estate, and building and construction ("B&C") demand. VND/USD rate has also remained relatively stable (approximately 1% fluctuation) in the last six months.

- FY2012 was a tough year where tightening of credit policies, and prohibitively high interest rates impacted the B&C market. In spite of these challenges, BSV achieved 7% growth in operating profit in FY2012 vs. FY2011. The domestic market is expected to improve in FY2013, although increased competition as a result of reduction in import tax and new entrants to the domestic market will be a challenge.
- BSL in Vietnam focuses on delivery of long-term strategy of a) expanding geographically in the domestic markets through channel development, b) seeding and expanding to the provincial residential segment with new products, and c) aggressively penetrating the downstream market with new light-weight-steel building solution and new building products, to maintain/increase market share.

- **Current Operations**
  - Total production volume was slightly higher in FY12 vs. FY11 due to improved demand. Manufacturing efficiency was maintained at expected level driven by outstanding yield performance coupled with improved volume gauge mix and better line speed. Paint line production was down in FY2012 by 10kt primarily due to lower seeding tonnes to Indonesia following the successful commissioning of their second metal coating line. This was in part mitigated by higher Tier 4 painted product sales, seeding tonnes to Thailand and export tonnes.

(kt)	2H FY2012	1H FY2012	FY2012	FY2011
Metallic Coating Lines	57	58	115	99
Paint Line	20	28	48	58

  - Despite cost inflation especially energy prices, the business is focusing on improving business processes and energy efficiency to neutralise the unit cost increase. Seasonal cyclical shortage of electricity supply during the dry season has been partially alleviated with the commissioning of several new power plants, and more power plants are planned to come on stream as the electricity rate hikes make such investments more viable.

Indonesia (BSI)

- **Markets**
  - Indonesia GDP registered strong growth of 6.5% in 2011, and is expected to sustain strong growth of 6-7% in 2012-2015, supported by government investment in infrastructure and increasing consumer and business confidence. Domestic demand, consumption and investment remain strong while exports may slow down because of weakening global demand. Inflation decreased to 4.5% in May 2012 as price expectations eased after the government postponed its plan to raise fuel prices.
  - The Indonesian steel market is set to grow substantially with industry consensus forecasting an increase in demand for steel products of 10%. This growth is on the back of rapidly increasing FDI (Foreign Direct Investments), driving Tier 1 Industrial and Commercial segment growth, and an overall increase in prosperity driving regional residential growth.
  - Imports are expected to remain high with growing domestic consumption and insufficient domestic capacity to support steel demand growth.

- **Current Operations**
  - The existing Metal Coating Line 1 and the Coil Paint Line were operating at higher capacity in FY2012 due to higher loading of medium gauge products, allowing improved service offers to customers.
  - Metal Coating Line 2 achieved better than projected production yield after 13 months of operations.
  - Production volume in FY2012 is higher compared to FY2011 with the commissioning of new Metal Coating Line 2 with in-line painting for displacement of imported finished goods and increased domestic sales.

(kt)	2H FY2012	1H FY2012	FY2012	FY2011
Metallic Coating Line 1	63	55	118	98
Paint Line	25	23	48	37
Metallic Coating Line 2 (with in-line painting)	39	33	72	-

Malaysia (BSM)

- **Markets**
  - Malaysia's GDP for CY2012 is expected to be marginally down on 5.1% in CY2011 (source: Bank Negara). Growth in Malaysia will be driven primarily by domestic demand due to global economic uncertainties. Foreign Direct Investment (largely from Japan and Korea) is expected to increase by 15% in CY2012. Inflation is expected to be in the range of 2.5% to 3% in CY2012 (3.2% in CY2011).

- The overall outlook for steel in Malaysia remains uncertain; eg most government projects have been delayed pending the outcome of the General Election (date to be established).
- The Malaysia & Australia Free Trade Agreement (MAFTA) was signed on 22 May 2012. This agreement entails a gradual decrease of duty for hot-rolled coils (HRC) from 18% in 2013 to 0% in 2020. Duty on cold-rolled coils (CRC), in contrast, will see a faster liberalisation from 10% in 2013 to 0% from 2016 onwards. Current duty for steel imports into Malaysia is 20%, 15% in 2015 and 0-10% in 2018. Currently, three quarters of BSM's 160ktpa steel feed requirement is sourced via imports. A sourcing plan is in place to source feed from both local and foreign suppliers to minimise any impacts of changes in tariffs or other regimes.
- The increase in local rollformers negatively impacted the market leading position of Lysaght in government and high-end projects. A strong focus on strategic initiatives, such as the revitalisation of the Lysaght brand and introduction of Lysaght 360 Seam™ profile as a high-end residential solution targeting developers and architects, will help to strengthen and enhance Lysaght's market leading position and geographical coverage.

Current Operations

- Production volumes were slightly lower in FY2012 vs. FY2011 because of lower exports to South Africa due to the fluctuation of RAND against USD making exports uncompetitive and local competition.

(kt)	2H FY2012	1H FY2012	FY2012	FY2011
Metallic Coating Lines	64	69	133	138
Paint Line	35	37	72	72

India (in joint venture with Tata Steel (50:50) for all operations)

Current Operations / Markets

- Tata BlueScope Steel operates Coated Steel, PEB, and Building Products (BP) businesses. Coated Steel operates with two brands, Zincalume steel and Colorbond. PEB business operates with two brands, Butler and Ecobuild. The BP Business has several branded products and significant volumes are sold through Lysaght and Durashine brands.
- BP business sales volume growth was up approx 50% on FY2011 (39.8kt to 60.3kt). Durashine brand which is mainly sold through distributors has been well accepted in the market.
- Steel Buildings (PEBs) are gaining acceptance in the manufacturing and warehousing segments, with customers preferring to contract with a single supplier who takes responsibility for full design, supply and erection. This business segment has been operating at full capacity and new growth strategies are being evaluated.
- Zn-Al coated steel market has grown approximately 34% in FY2012 (vs. FY2011) and is expected to grow between 15%-20% during FY2013. The trend of migration from Galvanize/Prepainted Galvanize to higher performance Zn-Al coated/painted continues. Market share of Zn-Al coated steel amongst steel roofing has grown to 24% in FY2012 from 19% in FY2011.
- Painted product demand continues to grow vis-à-vis Bare as customers trade up to those offering better aesthetics.
- Competition is expected to intensify in the near future with new entrants Arcelor Mittal, POSCO, and ESSAR.
- Manufacturing sector and Construction sector, which are important segments for Coated Steel Market, have shown an average growth of 3.6% and 14.7% respectively in FY2012.

Capital Growth Project Status

- The new coating facility is now operational with the Color Coating Line (CCL) commencing production in November 2011. The Metal Coating Line (MCL) commenced production during March 2012. Ramp up performances of both lines have been at expected levels to date.

BLUESCOPE STEEL NORTH AMERICA

Hot Rolled Products North America

- BlueScope Steel's 50% interest in North Star BlueScope Steel, USA (hot rolled coil production).
- BlueScope Steel's 47.5% interest in Castrip LLC, USA (thin strip casting technology), in joint venture with Nucor and IHI Ltd.

(i) Financial Performance

Table 11a: Financial Performance
FY2012 and FY2011

Financial Measure ($M, unless marked)	FY2012	FY2011	Variance $	Variance %
Sales revenue [1]	0	0	0	0
Reported EBITDA [2]	62	72	(10)	(14)
Reported EBIT [2]	62	72	(10)	(14)
Underlying EBIT	62	72	(10)	(14)
Capital and investment expenditure	1	2	(1)	(50)
Net operating assets (pre tax)	73	82	(9)	(11)
Return on net assets (pre tax) [3]	67%	55%		

Table 11b: Financial Performance
2H FY2012 vs. 2H FY2011 and 1H FY2012

Financial Measure ($M, unless marked)	2H FY2012	2H FY2011	Variance	1H FY2012
Sales revenue [1]	0	0	0	0
Reported EBITDA [2]	42	64	(22)	20
Reported EBIT [2]	42	64	(22)	20
Underlying EBIT	42	64	(22)	20
Capital and investment expenditure	0	1	(1)	1
Net operating assets (pre tax)	73	82	(9)	96
Return on net assets (pre tax) [3]	91%	110%		44%

(1) Excludes the company's 50% share of North Star BlueScope Steel's sales revenue being A$683M in FY2012 (A$697M in FY2011 and A$340M in 1H FY2012 and A$343M in 2H FY2012).

(2) Includes 50% share of net profit before tax from North Star BlueScope Steel of A$64M in FY2012 (A$74M FY2011 and A$21M in 1H FY2012 and A$43M in 2H FY2012).

(3) Return on net assets is defined as reported net profit before tax (annualised in case of half year comparison) / average monthly net operating assets (includes equity investment).

(ii) Variance Analysis (FY2012 vs. FY2011)

The $10M decrease in underlying EBIT was largely due to:

- Reduced spread driven by higher scrap costs only being partly offset by higher selling prices.

Partly offset by:

- Lower depreciation charges.

(iii) Variance Analysis (2H FY2012 vs. 1H FY2012)

The $22M increase in underlying EBIT was largely due to:

- Improved spread as a result of lower cost of scrap.
- Lower depreciation charges.
- Conversion cost improvement and various cost reduction initiatives more than offsetting escalating energy costs.

(iv) Operations Report

- North Star BlueScope Steel (BlueScope Steel has a 50% interest)

  - Despatches for FY2012 were in line with FY2011 (963kt vs. 974kt).
  - High capacity utilisation rates, relative to the market, (average USA steel mill output capacity utilisation rate of 78.2% during FY2012 (source: American Iron & Steel Institute)), have been maintained at North Star due to its ability to satisfy customers on-time delivery and quality requirements.
  - During the period, North Star was again voted the #1 North American flat rolled steel supplier in the Jacobson survey for customer satisfaction. North Star has now held this title for nine consecutive years.
  - Dividends paid to BSL in FY2012 totalled US$80M (US$135M in FY2011 and US$68M in 2H FY2012).

- Castrip LLC

  - Castrip LLC is a joint venture that owns the Castrip® technology, a revolutionary process for the direct casting of steel strip. It is owned 47.5% by BlueScope; 47.5% by Nucor and 5% by IHI. BlueScope has exclusive rights to use and license the technology in Australia, New Zealand, Thailand, Indonesia, Malaysia and the Philippines.

(v) Markets

- North Star BlueScope Steel

  - North Star sells approximately 80% of its production in the Mid-West, U.S.A, with its end customer segment mix being broadly 35% automotive, 25% construction, 10% agricultural and 30% manufacturing/industrial applications.
  - USA vehicle sales in June 2012 rebounded to over 14m units (annualised).

Coated and Building Products North America

This segment comprises:
- BlueScope Buildings North America's Pre-Engineered Buildings business;
- Steelscape's pickling, cold rolling, metal coating and paint lines; and
- ASC Profiles' West Coast steel components business.

(i) Financial Performance and Operating Report (Noting the Metl-Span business was sold in June 2012 and is treated as a "Discontinued Business" and therefore excluded from Tables 12a and 12b)

Table 12a: Financial Performance
FY2012 and FY2011

			Variance	
Financial Measure ($M, unless marked) [1]	**FY2012**	**FY2011**	**$**	**%**
Sales revenue	1,258	1,197	61	5
Reported EBITDA	5	(11)	16	145
Reported EBIT/(EBIT loss)	(24)	(42)	18	43
Underlying EBIT/(EBIT loss) [2]	(8)	(26)	18	69
Capital and investment expenditure	16	18	(2)	(11)
Net operating assets (pre tax) [3]	536	591	(55)	(9)
Return on net assets (pre tax) [4]	(4%)	(7%)		

Table 12b: Financial Performance
2H FY2012 vs. 2H FY2011 and 1H FY2012

Financial Measure ($M, unless marked) [1]	2H FY2012	2H FY2011	Variance	1H FY2012
Sales revenue	585	584	1	673
Reported EBITDA/(EBITDA loss)	6	(7)	13	(1)
Reported EBIT/(EBIT loss)	(8)	(22)	14	(16)
Underlying EBIT/(EBIT loss) [2]	(8)	(7)	(1)	0
Capital and investment expenditure	11	11	0	5
Net operating assets (pre tax)	536	591	(55)	575
Return on net assets (pre tax) [4]	(3%)	(7%)		(5%)

(1) All measures exclude Metl-Span financials. Asset was sold in June 2012 and treated as a Discontinued Business
(2) FY2012 EBIT has been adjusted for restructure and redundancy costs ($12M) and asset impairments ($4M). FY2011 EBIT has been adjusted for an asset impairment write down at Steelscape ($16M).
(3) FY2012 vs. FY2011 decrease in net operating assets primarily reflects higher provisions in relation to defined benefit superannuation fund.
(4) Return on net assets is defined as reported EBIT (annualised in case of half year comparison) / average monthly net operating assets.

(ii) Variance Analysis (FY2012 vs. FY2011)

The $61M increase in sales revenue is primarily due to higher volumes and higher average selling prices from all businesses partly offset by an adverse foreign exchange translation impact from USD to AUD (FY2012 average 1.032 vs. FY2011 0.989).

The $18M increase in underlying EBIT was largely due to:

- Higher volumes from BlueScope Buildings and ASC Profiles despite the relatively weak U.S. non-residential construction market (F.W. Dodge sq. ft contract awards were down 4.2% for the 12 months ended June 2012 vs. FY2011).
- Higher margins generated by BlueScope Buildings as a result of higher selling prices and a targeted profit improvement program including a manufacturing integration process (refer operations report below).

Partly offset by

- Lower margins at Steelscape as higher steel feed costs were only partly offset by higher selling prices.

Underlying adjustments included in reported EBIT (nil movement)

- Restructure and redundancy costs during FY2012 at BlueScope Buildings ($9M) and ASC Profiles ($3M) and an asset impairment during FY2012 at BlueScope Buildings ($4M).
- Asset impairment write down as a result of forecast lower margins at Steelscape during FY2011 ($16M).

(iii) Variance Analysis (2H FY2012 vs. 1H FY2012)

The $8M decrease in underlying EBIT was largely due to:

- Lower volumes mainly from BlueScope Buildings and ASC Profiles driven by seasonality where shipments are typically higher in the first half. The seasonally lower volumes resulted in a lower absorption of fixed costs on a per ton basis.
- Higher inventory net realisable value provisions for inventory on hand at June 2012 compared to December 2011 at Steelscape.

Partly offset by:

- Improved spread at Steelscape as a result of lower steel feed costs only partly offset by selling price decreases.

Underlying adjustments included in reported EBIT ($16M favourable)

- Restructure and redundancy costs during 1H FY2012 at BlueScope Buildings ($9M) and ASC Profiles ($3M) and an asset impairment during 1H FY2012 at BlueScope Buildings ($4M).

(iv) Operations Report

- <u>BlueScope Buildings (Pre-Engineered Buildings)</u>
  - BlueScope Buildings improved profitability during FY2012 as a result of a targeted profit improvement project and the manufacturing integration process.
  - The profit improvement project was focused on improving manufacturing efficiency, plant capacity optimisation and various overhead initiatives. Execution of this project was in part facilitated by the manufacturing integration efforts, which included rolling out the Vision engineering system into the last of nine manufacturing facilities in H2 FY2011. Vision is BlueScope Building's integrated engineering design platform.
  - The manufacturing efficiency initiatives have enabled management to more accurately schedule work-loads proportionately with demand, thereby improving flexibility to manage the cost base in line with production activity.
  - Manufacturing efficiency improvements have resulted in plant capacities increasing across the BlueScope Buildings North America network. This led to the decision to close the Arlington, WA plant and partially idle the San Marcos, TX plant, with the remaining facilities being able to more than absorb the volumes that were produced by the affected plants.
  - Overhead costs have been permanently reduced through a range of initiatives, including the consolidation of certain regional support activities.
  - External despatches for FY2012 were up 13% on FY2011, despite the weak U.S. non-residential construction market. This increase was influenced by a significant refocus on new product development and enhanced product differentiation.

- <u>Steelscape (metal coating & pre-painted steel)</u>
  - Steelscape continued to operate efficiently and at high utilisation compared to market averages. This was achieved despite the transition during the period from a single source feed supply arrangement with BlueScope Steel's Port Kembla Steelworks to feed being supplied from a portfolio of qualified external suppliers.
  - Total Steelscape despatches for FY2012 were up 1% compared to FY2011. The increase in despatches was primarily due to intercompany sales to sister companies.
  - Margins in FY2012 were lower than FY2011 driven by higher feed stock prices being only partly offset by higher selling prices.

- <u>ASC Profiles (components)</u>
  - External despatches for FY2012 were up 1% on FY2011.
  - An improvement in production efficiency, assisted by volume increase and overall general cost containment throughout the business, countered the continued competitive pressures resulting from the depressed West Coast U.S. non-residential construction market, to which ASC Profiles is largely exposed.
  - During the period, the BlueScope U.S.A. Water business, which had operations in Madera, California and a distribution facility in Austin, Texas was realigned to become part of ASC Profiles. These facilities have been closed and operations have been transferred to existing BlueScope facilities. Restructuring efforts were completed during FY2012 to integrate the BlueScope Water product lines into ASC Profiles as well as other BlueScope North America business to drive improved sales volumes and reduce operating costs.

(v) Markets

- U.S. overview (Noting: Coated & Building Products North America is almost solely exposed to the U.S. non-residential construction market.)
  - The U.S. non-residential construction market saw continued, but moderating declines in FY2012 when compared to FY2011, due to the sluggish U.S. economy.
    - F.W. Dodge sq. ft contract awards were down 4.2% for the 12 months ended June 2012 when compared to the previous 12 month period.
    - The AIA Architectural Billings Index (ABI), a leading economic indicator of construction activity, finished June 2012 at 45.9. The ABI reflects the approximate nine to twelve month lag between architectural billings and construction spending.
    - The Industrial Capacity Utilisation Rate, a leading indicator of industry despatches was at 78.9 in June 2012. The rate is at the highest level since late 2008, but remains below the index average from 1972 to 2010 of 80.4.

- <u>BlueScope Buildings</u>
  - BlueScope Buildings primarily sells low-rise metal building systems into the industrial, commercial and community segments of the non-residential building market in North America.
  - During the period, the broader metal buildings industry experienced a slight increase in despatches, outpacing the broader declines in the U.S. non-residential construction market. Domestic industry despatches (tonnage) in the twelve months to June 2012, as reported by the MBMA, increased 0.8% over the same period last year (BlueScope Buildings despatches were up 13%).
  - Market indicators have shown there is increased interest in traditional design-build projects compared to pure bid projects. Design-build work puts control of project delivery under a single project owner as opposed to bid projects, which utilise open bidding for different project deliverables. There are also signs of increased interest in manufacturing and industrial related projects.

- <u>Steelscape</u>
  - Steelscape produces metallic-coated and pre-painted steel primarily for the U.S. non-residential building and construction market.
  - Despite broader non-residential construction market weakness, Steelscape's volumes remained high primarily due to active customer recruitment efforts and innovation with new product lines.

- <u>ASC Profiles</u>
  - ASC Profiles supplies metal components to the West Coast U.S. residential, agricultural, commercial, non-residential and governmental construction markets.
  - The weak U.S.A. non-residential construction market, particularly on the West Coast, continues to be challenging. However, steady demand was seen in the segment supplying metal structural components to the solar industry.

OTHER INFORMATION

Capital Management

- <u>Dividend</u>
  - The Directors did not declare a final dividend for FY2012.
- <u>Debt facilities update</u>
  - On 9 May 2012, BlueScope closed a partial tender offer and repurchased US$305.4M of its US Private Placement Notes at par plus accrued interest. The repurchase was funded in US dollars using existing undrawn lines under the Company's Syndicated Bank Facility.
  - A further US$88.2M of the outstanding US Private Placement Notes were repurchased at par plus accrued interest on 7 August 2012 using existing undrawn US dollar lines under the Company's Syndicated Bank Facility.
  - Committed available undrawn capacity at 30 June 2012 under bank debt facilities A$1,356.8M, plus cash A$214.5M was A$1,571.3M (A$1,137M at 30 June 2011).
  - Average cost of drawn debt for FY2012 was approximately 7.14% (FY2011 7.29%). In addition finance costs include commitment fees on undrawn facilities, amortisation of facility establishment fees and the discount cost of long-term provisions.
- <u>Securitisation program</u>
  - On 22 August 2011, BlueScope entered into a receivables securitisation program, up to A$150M, over the Distribution business receivables.
- <u>Net debt</u>
  - During the period, the company's net debt decreased by $684M to $384M resulting in a gearing ratio of 9.2% (net debt/(net debt plus equity)). During the year, debt was drawn principally to fund capital and investment expenditure ($237M), net interest payments ($106M), tax payments ($81M) and operating cash outflows ($162M). Cash received from release of working capital ($617M), net proceeds from equity raising ($577M) and proceeds from Metl-Span sale ($140M) contributed to a reduction in debt. Net debt increased from additional finance leases ($34m) partly offset by the impact of foreign exchange translation on foreign currency debt ($36M) and other items ($5M).
- <u>Capital Raising</u>
  - On 22 November BlueScope Steel Limited announced a fully underwritten four-for-five accelerated renounceable entitlement offer with rights trading of new BlueScope Steel shares at an offer price of $0.40 per new share, which raised $600.0M ($576.1M, net of transaction costs).

Safety, Environment & Health

- Safety
  - The company remains committed to its goal of Zero Harm.
  - Some of the noteworthy safety achievements in FY2012 include:
    - Asia – Lysaght Thailand, Map Ta Phut – 1 year injury free. Lysaght Singapore achieved 13 years LTI free. Lysaght Vietnam achieved the milestone of 17 years LTI free. Malaysia, Lysaght Shah Alam – 10 years LTI free.
    - China – Butler BLiSS achieved 4 years LTI free. Lysaght Langfang & Lysaght Chengdu achieved 9 years LTI free. Lysaghts Guanzhou 2 years LTI free, Butler Guanzhou 2 years MTI free. Suzhou – 4 continuous months injury free and 6 years/6 million hours LTI free.
    - BANZ –New Zealand Steel, Slabmaking - 1 year LTI & MTI free, and Hot Strip Mill – 16 years LTI free. Mills & Coating, Platemill, Port Kembla – 1 million hours LTI free. Supply Chain, Processing Acacia Ridge achieved the milestone of 5 years LTI free. Steelmaking, Energy Services Operations, Port Kembla – 6 years LTI free. Distribution - 26 of 65 sites greater than 10 years LTI free. Lysaght Darwin 12 years LTI free, Lysaght Cairns 10 years LTI free.
    - North America – Buildings, Evansville – 18 months LTI free and St Joseph – 1 million hours LTI free (both a new record). ASC Anchorage – 2 years MTI free, ASC West Sacramento – 5 years LTI free. Steelscape Kalama – 7 years LTI free, BBNA, Annville 2 million hours LTI free. Visalia - 5 years LTI free.
    - GBCM – Bellevue site passed one year MTI free.
    - Tata BlueScope Steel (JV), Hinjewadi plant – 1 year LTI free.
  - Noteworthy external recognition includes:
    - Asia - BlueScope Steel Indonesia was awarded the "Zero Accident Award from the Minister of Manpower & Transmigration Republic Indonesia".
    - Asia – BlueScope Thailand was awarded the Corporate Social Responsibility Award from the Rayong Governor.
    - Asia - Lysaght Vietnam rewarded by MoLISA as Best OHS Performance Company in Vietnam for 2011
    - Australia – Lysaght won the Improvement Initiative award in the Australian Steel Institute National Health & Safety Excellence Awards.
    - Australia – Supply Chain & Processing awarded IFAP / CGU Platinum Safety Award
    - China – Buildings, Guangzhou (Butler and Lysaght) attained 2011 Guangzhou City Safety Culture Establishment Example Company
  - There are a broad range of initiatives being implemented across all of our businesses demonstrating the enormous effort and commitment BlueScope people are making to make our workplaces safer. These include safety leadership programs, employee engagement activities and implementation of critical procedures targeting key business risks.

- **Environmental Management**
  - The company remains committed to continuously improving the environmental footprint of its operations.
  - The BlueScope Steel Environment Management System comprises the following major elements:
    - Our Bond
    - HSEC Policy
    - Environment Principles
    - Environment Standards
    - BSL wide Procedures and Guidelines
    - Operational Procedures
  - BlueScope continues to work on improving its systems and performance through its network of environment reviews and audits, implementation of its compliance systems, the business planning process and risk management practices.
  - Even in difficult times, BlueScope Steel's commitment to caring for the environment remains strong, and the performance of a number of BlueScope Steel sites has been recognised by external bodies:
    - ISO 14001 - Many BlueScope Steel sites continue certification.

- World Steel Association – Continued membership of the Climate Action Program as participants in the worldsteel CO2 data collection program.
- New Zealand Steel – Finalist in the New Zealand Ministry of the Environment's Green Ribbon Awards.
- At the request of a renowned international steelmaking company environment representatives visited the Port Kembla Steelworks to discuss management of air emissions.
- BlueScope Steel has networked with other Australian manufacturers and universities to improve workforce skills and development in the area of energy efficiency opportunities.
- Regulator inspections - There were numerous positive examples of local regulators inspecting BlueScope facilities during the year.

- **Energy Efficiency and Greenhouse Gas Regulation**
    - The production of greenhouse gases is inherent in the integrated iron and steelmaking processes and there is currently no technology capable of substantially reducing or mitigating emissions of these greenhouse gases.
    - As a result of the restructure of the company's Australian operations announced on 22nd August 2011, Australian Greenhouse Gas emissions are expected to be reduced, in absolute terms, by the order of 5MT CO2-equivalent per annum once the changes have been fully implemented. While absolute levels of greenhouse gas emissions will be reduced, overall the resulting reduction in plant utilisation rates is expected to adversely influence near term environmental emission intensities (in terms of emissions per tonne of product).
    - BlueScope remains focussed on reducing emissions intensity and it is expected over time that continual improvement of emissions can be achieved off the new production baseline. The company is also playing an active role in the global steel industry's efforts to reduce greenhouse gas emissions.
    - BlueScope Steel's steel products will play an integral role in reducing society's greenhouse gas emissions, including as components in renewable energy infrastructure (e.g. wind towers; solar power plants), in more sustainable transport infrastructure (e.g. trains, buses; lighter, more efficient steel products for cars), and in greener, more energy efficient buildings. Steel is 100% recyclable and its life is potentially infinite.
    - A range of BlueScope Steel's operations, particularly iron and steelmaking in Australasia and the U.S., are emissions intensive and trade exposed, and consequently the company continues to participate in the ongoing national and international debate about the regulation of greenhouse gas emissions, including carbon taxes and emissions trading schemes.

- **Australian Carbon Pricing Mechanism**
    - The Australian Government has enacted a national greenhouse gas emissions trading scheme through the Carbon Pricing Mechanism ("CPM"). The CPM came into operation on 1 July 2012.
    - The CPM requires the Company to annually obtain and surrender emission permits to cover the Company's direct ("Scope 1") greenhouse gas emissions from facilities within Australia. The CPM will also increase the cost of electricity as generators pass on their carbon costs (BlueScope's "Scope 2" liability) and the cost of some other goods and services the company purchases as other suppliers pass through some, or all, of their carbon costs (BlueScope's "Scope 3" liability). The CPM begins with a three-year escalating fixed price phase, before converting to a flexible price, cap-and-trade emissions trading scheme. During the fixed price phase prices will be set by the Australian Government. For the first three years of the flexible price phase the price of emission permits will be determined by the market but will be subject to regulated floor and ceiling prices. From 1 July 2018, the price cap and floor will be removed and the emission unit price will be determined wholly by the market.
    - The Australian Government has enacted the Jobs and Competitiveness Programme (JCP) to allocate some permits to emissions-intensive trade exposed activities. This will involve the allocation of permits at the maximum rate (94.5% in the first year of the CPM) to BlueScope's iron and steelmaking activities up to and including hot rolling. Permit allocation will decrease by 1.3% per annum, with the Australian Productivity Commission to review arrangements for emissions-intensive trade exposed industries in 2014/2015 with a minimum three years' notice of any changes. This review is expected to take into account a range of factors, including whether 70% of international sectoral competitors face comparable carbon constraints.
    - The Company will incur significant additional costs as a result of the introduction of the CPM. However, the combination of permits issued under the JCP and BlueScope's assistance under the Steel Transformation Plan (STP) are expected to largely offset the Company's Scope 1 and Scope 2 derived carbon costs for the first four years of the CPM. The potential impact of the CPM beyond the first four

years is difficult to assess and will depend on a range of factors, including the outcome of the proposed Productivity Commission review, and the government of the day's response to this review.

- **Steel Transformation Plan**

    - During the first half of the year the Australian parliament passed the Steel Transformation Plan Act 2011. The Steel Transformation Plan (STP) is a four-year $300 million program from 2012-13 that aims to encourage investment, innovation and competitiveness in the Australian steel manufacturing industry in order to assist the industry to transform into an efficient and economically sustainable industry in a low carbon economy.

    - Companies manufacturing iron and steel in Australia via the integrated or cold ferrous feed methods are eligible to apply for funding under the STP. Of the $300 million allocated by the government for the steel industry, BlueScope is eligible to receive $183 million in total.

    - On 21 December 2011, the government announced that it would provide BlueScope Steel with a competitiveness assistance STP advance of $100 million. Payment of the $100 million advance by the government took place in January 2012.

    - Given payment of the advance, the company will be eligible for a further $83 million over the remaining Plan years, however no amount is expected to be received during FY2013 and FY2014.

- **New Zealand Emissions Trading Scheme**
    - Legislation was passed in October 2008 implementing an Emissions Trading Scheme ("ETS") for greenhouse gas emissions in New Zealand. The ETS was subsequently modified by the National-led Government that was elected in November 2008. New Zealand Steel is subject to the present ETS, and is responsible for approximately two million tonnes of carbon emissions (Scope 1 and Scope 2) per annum.

    - The activity of 'Iron and steel manufacturing from iron sand' as undertaken by New Zealand Steel has been assessed to be highly emissions intensive trade exposed and New Zealand Steel therefore qualifies for the free allocation of Emission Units at the maximum rate (90%). Under the modified scheme, allocation is based on the production of prescribed products (Tonnes of molten iron, Tonnes of cast carbon steel products, Tonnes of vanadium bearing materials and Tonnes of flat product of hot-rolled carbon steel).

    - The ETS is currently in a 'transition period'. During this period participants must surrender one emission unit for two tonnes of carbon dioxide equivalent emissions, free allocation of units to energy-intensive and trade-exposed activities (EITE) is halved, and an unlimited number of units priced at NZ$25 are available from the Government. Despite a review in 2011 that recommended significant changes to elements of the ETS, the New Zealand Government announced on 2nd July 2012 that it would effectively retain the current key transitional arrangements until a further review in 2015. Concerns in relation to the phasing out of the 50% surrender obligation and the introduction of a decay rate materially increasing the ETS costs faced by New Zealand Steel have now been allayed.

- **Water efficiency**

    Total water consumption across BlueScope Steel has reduced by 14% year-on-year and total fresh water consumption has reduced by 33% following the restructuring of the company's Port Kembla and Western Port operations in August 2012. However, the company continues to focus on reducing consumption of fresh water including:

    - Increasing the use of recycled water sourced from municipal sewage treatment facilities at BlueScope Steel's Port Kembla Steelworks and Western Port facility in Australia.

    - Improving process management has enabled incremental improvements in water consumption. The high awareness of BlueScope employees to the matter of water conservation has led to a number of successful operational improvements. Apart from the recent restructuring, Port Kembla Steelworks has saved more than one million litres of water per day by actively promoting water efficiency in new capital projects and improving existing manufacturing processes.

    - In addition to increasing the use of recycled water from municipalities, further investigations are underway to determine if there are other alternative water supplies that could be used to displace fresh water consumption. The harvesting of stormwater and the beneficial reuse of waste water from other industries are two significant potential opportunities.

- **Non-compliances, Fines and Prosecutions:**

    - BlueScope Steel notified relevant authorities of 31 statutory non-compliances with environmental regulations during the twelve months to 30 June 2012. During the period there were no serious environmental incidents.

    - An incident which occurred in May 2011 resulted in a fine of $1500, issued by the regulator in August 2011. The incident related to operations at No 6 Blast Furnace at the Port Kembla Steelworks where process water discharged into a drain and then to Port Kembla Harbour. The Environment Protection Licence discharge limit for ammonia concentration was exceeded.

    - An incident occurred in February 2012 resulted in two fines of $1500 each, issued by the regulator in March 2012. The incident related to operations at the Basic Oxygen Steelmaking (BOS) plant at the Port Kembla Steelworks, where the BOS plant continued to operate after the dedusting baghouse fan tripped on high vibrations and stopped operating. Whilst the baghouse was not operating there were several emissions from the BOS roof, of which three were rated significant. Investigations identified that the relevant alarm had failed to operate.

Senior Management Changes

- Sanjay Dayal – Chief Executive, Building Products
    - Effective 1 July 2012, Sanjay Dayal was appointed as Chief Executive Building Products, based in Singapore and continues to be a member of the Executive Leadership Team.
    - Mr Dayal leads a business that covers the Company's building products businesses across Asia and India and the Steelscape and ASC Profiles businesses on the US West Coast. Building Products focuses on building and construction markets, using the breadth of the BlueScope network to leverage operating technologies and supply chain opportunities.
    - Previously, Mr Dayal was Chief Executive Asia where he headed BlueScope's businesses in Thailand, Indonesia, Malaysia, Vietnam and the Company's joint venture with Tata Steel in India. Before joining BlueScope, Mr Dayal was a senior business leader at Orica.
- Keith Mitchelhill – Executive General Manager
    - Effective 1 July 2012, Keith Mitchelhill is assisting the CEO with the transition to the new organisation structure and continues to be a member of the Executive Leadership Team.
    - Prior to this role, Mr Mitchelhill was President, North America, Chief Executive, BlueScope Australia Distribution and Solutions, and before joining the Company, he was an Executive General Manager at Boral. He joined BlueScope Steel in 2008.
- . Bob Moore – Chief Executive, Global Building Solutions
    - Effective 1 July 2012, Bob Moore was appointed as Chief Executive Global Building Solutions, based in Shanghai and continues to be a member of the Executive Leadership Team.
    - Mr Moore leads a business that covers all the Company's market leading pre-engineered steel building businesses stretching from North America across China, Asia, India, the Middle East and Australia, creating an engineered building solutions capability unmatched by any competitor, anywhere in the world. Our existing metal coating, painting and Lysaght businesses in China also form part of this global building business.
    - Before this role, Mr Moore was BlueScope's President China, President Lysaght Australia, President OneSteel Distribution and held various downstream General Management roles in BHP Steel.
- Noel Cornish, previously Chief Executive Australian and New Zealand Steel Manufacturing Businesses, retired effective 31 July 2011 and acts as a consultant to the Company.
- Paul O'Keefe, previously Chief Executive Australian Coated and Industrial Markets, left the Company effective 27 January 2012 as this position became redundant following a restructure of the business.

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ATTACHMENT 1
PRODUCTION AND DESPATCH REPORT

Note: shows external despatch volumes. Notes regarding internal despatches (between BlueScope Steel segments) are found below the table

000 Tonnes	FY2012	FY2011	Variance	2H FY2011	1H FY2012	2H FY2012
AUSTRALIA						
Raw Steel Production (1)	**3,150**	**5,173**	**(39%)**	**2,530**	**1,864**	**1,286**
External Despatches						
Coated & Industrial Products Australia						
- Domestic - Slab	0	0	-	0	0	0
- HRC(2)	571	570	0%	281	260	312
- Plate	196	191	2%	108	106	90
- Other	802	854	(6%)	428	419	383
- Total	1,570	1,615	(3%)	817	785	785
- Export - Slab	218	853	(75%)	503	141	77
- HRC (3)	522	734	(29%)	255	349	173
- Plate	51	90	(43%)	36	32	19
- Other	329	458	(28%)	267	219	110
- Total	1,120	2,135	(48%)	1,061	741	379
Sub-total (external)(4) (5)	2,690	3,751	(28%)	1,878	1,527	1,163
Australia Distribution & Solutions						
- Domestic (6)	743	750	(1%)	381	389	354
- Export (6)	11	15	(27%)	6	6	5
Sub-total (external)	754	765	(2%)	387	395	359
Total Australian Despatches						
- Domestic	2,313	2,365	(2%)	1,198	1,174	1,139
- Export	1,131	2,150	(47%)	1,067	747	384
Total (external)	**3,444**	**4,516**	**(24%)**	**2,265**	**1,922**	**1,522**
NEW ZEALAND / PACIFIC (7)						
Raw Steel Production	**606**	**615**	**(1%)**	**310**	**301**	**305**
External Despatches						
- Domestic	247	253	(2%)	129	122	125
- Export	315	299	5%	186	156	159
Total (external)	**562**	**552**	**2%**	**315**	**278**	**284**
ASIA (Coated & Building Products)						
Raw Steel Production (8)	**-**	**-**	**-**	**-**	**-**	**-**
External Despatches						
- Domestic	1,191	1,060	12%	544	598	593
- Export (9)	61	72	(15%)	39	34	27
Total (external)	**1,252**	**1,132**	**11%**	**583**	**632**	**620**
NORTH AMERICA						
Raw Steel Production (10)	**985**	**997**	**(1%)**	**498**	**494**	**492**
External Despatches						
North Star BlueScope Steel (10)						
- Domestic	963	974	(1%)	491	479	484
- Export	0	0	-	0	0	0
Coated & Building Products North America						
- Domestic	565	537	5%	265	290	275
- Export	1	12	(94%)	5	1	0
Total (external)	**1,529**	**1,523**	**0%**	**761**	**770**	**759**
DISCONTINUED BUSINESSES						
Raw Steel Production	**-**	**-**	**-**	**-**	**-**	**-**
External Despatches						
- Domestic	21	21	0%	10	11	10
- Export	3	2	47%	1	2	1
Total	**24**	**23**	**4%**	**11**	**13**	**11**

000 Tonnes	FY2012	FY2011	Variance	2H FY2011	1H FY2012	2H FY2012
GROUP						
Raw Steel Production	**4,742**	**6,785**	**(30%)**	**3,338**	**2,659**	**2,083**
External Despatches						
- Domestic	5,300	5,211	2%	2,637	2,675	2,625
- Export	1,511	2,535	(40%)	1,298	939	572
Total	**6,811**	**7,746**	**(12%)**	**3,935**	**3,614**	**3,197**

Notes:

(1) Raw steel production at Port Kembla Steelworks (PKSW), noting one of the two blast furnaces was closed down in October 2011 reducing iron make capacity from 5.3 to 2.6mtpa.

(2) 96kt of the 571kt of domestic despatches for FY2012 were from Western Port (1H FY2012 53kt, 2H FY2012 43kt and 140kt FY2011).

(3) 2kt of the 522kt of export despatches for FY2012 were from Western Port (1H FY2012 0kt, 2H FY2012 2kt and 5kt FY2011).

(4) Total FY2012 internal and external despatches from PKSW (slab, HRC and plate) were 3,298kt (1H FY2012 1,937kt, 2H FY2012 1,361kt and 4,915kt FY2011).

(5) Total FY2012 internal and external despatches from Coated & Industrial Products Australia (C&IPA) were 3,544kt (1H FY2012 2,110kt, 2H FY2012 1,434kt and 4,829kt FY2011), comprised of:
- external 2,690kt (1H FY2012 1,527kt, 2H FY2012 1,163kt and 3,751kt FY2011); and
- internal 854kt (1H FY2012 584kt, 2H FY2012 271kt and 1,078kt FY2011).

C&IPA internal despatches comprised:
- 236kt of despatches to Steelscape Inc (1H FY2012 197kt, 2H FY2012 39kt and 384kt FY2011);
- 153kt to BlueScope Thailand (1H FY2012 129kt, 2H FY2012 24kt and 203kt FY2011); and
- 465kt of despatches to other BlueScope businesses including Distribution, Lysaght and BlueScope Malaysia and Vietnam (1H FY2012 257kt, 2H FY2012 208kt and 491kt FY2011).

(6) FY2012 includes 308kt of domestic despatches and 7kt of export despatches via BlueScope Distribution (1H FY2012 160kt and 4kt and 2H FY2012 148kt and 3kt respectively), which were not sourced internally, i.e. long products.

(7) Includes New Zealand Steel & Pacific Island operations.

(8) BlueScope Steel does not make steel in Asia. The Asian businesses source steel from a range of local suppliers as well as from BlueScope Steel's Port Kembla or New Zealand operations.

(9) Reflects despatches from the Asian country of production to external customers in other countries within Asia, the Pacific Islands, South Africa and Europe.

(10) Reflects BlueScope Steel's 50% share from North Star BlueScope Steel.

ATTACHMENT 2(a)
COATED AND BUILDING PRODUCTS ASIA – COUNTRY DESPATCH AND FINANCIAL DETAILS

FY2012 and FY2011; 2H FY2011, 1H FY2012 and 2H FY2012

Financial Measure	FY2012	FY2011	Change	2H FY2011	1H FY2012	2H FY2012
External Despatches (tonnes)						
- Thailand	326	258	68	141	157	169
- Indonesia	205	156	49	89	94	111
- Malaysia	163	160	3	84	82	82
- Vietnam	99	77	21	39	47	51
- China	347	400	(53)	184	204	143
- India	113	81	32	46	48	64
- Other	0	0	0	0	0	0
- Total	**1,252**	**1,132**	**120**	**583**	**632**	**620**
Sales Revenue ($M)						
- Thailand	435	340	95	186	215	220
- Indonesia	297	236	61	129	137	160
- Malaysia	246	245	1	123	124	122
- Vietnam	154	139	15	67	80	74
- China	535	591	(56)	271	310	225
- India	0	0	0	0	0	0
- Other	(41)	(64)	23	(29)	(27)	(14)
- Total	**1,626**	**1,487**	**139**	**747**	**839**	**787**
Reported EBIT ($M)						
- Thailand	30	20	10	15	11	19
- Indonesia	14	22	(8)	12	1	13
- Malaysia	28	30	(2)	18	13	15
- Vietnam	10	9	1	5	4	6
- China	41	107	(66)	19	24	17
- India	(15)	(5)	(10)	(2)	(5)	(10)
- Other	(6)	(7)	1	(5)	(1)	(5)
- Total	**102**	**176**	**(74)**	**62**	**47**	**55**
Underlying EBIT ($M)						
- Thailand	30	20	10	15	11	19
- Indonesia	11	22	(11)	12	1	10
- Malaysia	28	30	(2)	18	13	15
- Vietnam	10	9	1	5	4	6
- China	41	39	2	18	24	17
- India	(15)	(5)	(10)	(2)	(5)	(10)
- Other	(7)	(7)	0	(4)	(1)	(6)
- Total	**98**	**108**	**(10)**	**62**	**47**	**51**
Net operating Assets (pre tax) ($M)						
- Thailand	220	222	(2)	222	275	220
- Indonesia	200	204	(3)	204	212	200
- Malaysia	90	97	(7)	97	97	90
- Vietnam	73	70	3	70	75	73
- China	155	149	6	149	168	155
- India	32	47	(16)	47	38	32
- Other	22	25	(3)	25	25	22
- Total	**792**	**814**	**(22)**	**814**	**890**	**792**

ATTACHMENT 2(b)
COATED AND BUILDING PRODUCTS ASIA – COUNTRY DESPATCH AND FINANCIAL DETAILS – CHINA

FY2012 and FY2011; 2H FY2011, 1H FY2012 and 2H FY2012

Financial Measure	FY2012	FY2011	Change	2H FY2011	1H FY2012	2H FY2012
External despatches (tonnes)						
- China Coated	102	91	11	43	55	47
- China Buildings (1)	245	309	(64)	140	149	96
- Other / Eliminations	0	0	1	0	0	0
- Total	**347**	**400**	**(52)**	**183**	**204**	**143**
Sales revenue ($M)						
- China Coated	181	185	(4)	92	100	81
- China Buildings (1)	428	500	(72)	228	253	175
- Other / Eliminations	(74)	(94)	20	(49)	(43)	(31)
- Total	**535**	**591**	**(56)**	**271**	**310**	**225**
EBIT ($M) – Reported						
- China Coated	19	86	(67)	8	10	9
- China Buildings (1)	26	26	0	12	18	8
- Other / Eliminations	(4)	(5)	1	(1)	(4)	0
- Total	**41**	**107**	**(66)**	**19**	**24**	**17**
EBIT ($M) – Underlying Operational						
- China Coated	19	18	1	8	10	9
- China Buildings (1)	26	26	0	12	18	8
- Other / Eliminations	(4)	(5)	1	(2)	(4)	0
- Total	**41**	**39**	**2**	**18**	**24**	**17**

Notes:

(1) Includes BlueScope Lysaght businesses.

ATTACHMENT 2(c)
DISCONTINUED BUSINESSES

FY2012 and FY2011; 2H FY2011, 1H FY2012 and 2H FY2012

Financial Measure	FY2012	FY2011	Change	2H FY2011	1H FY2012	2H FY2012
External Despatches (tonnes)						
- Packaging Products	0	0	0	0	0	0
- Lysaght Taiwan	0	0	0	0	0	0
- Metl-Span	24	23	1	11	13	11
- Total	**24**	**23**	**1**	**11**	**13**	**11**
Sales revenue ($M)						
- Packaging Products	0	0	0	0	0	0
- Lysaght Taiwan	0	0	0	0	0	0
- Metl-Span	164	159	5	74	89	75
- Total	**164**	**159**	**5**	**74**	**89**	**75**
EBIT ($M)						
- Packaging Products	0	1	(1)	0	0	0
- Lysaght Taiwan	0	1	(1)	0	0	0
- Metl-Span	39	6	33	3	6	33
- Total	**39**	**8**	**31**	**3**	**6**	**33**
Net operating assets (pre-tax) ($M)						
- Packaging Products	0	(7)	7	(7)	(7)	0
- Lysaght Taiwan	(4)	(4)	0	(4)	(4)	(4)
- Metl-Span	0	104	(104)	104	111	0
- Total	**(4)**	**93**	**(97)**	**93**	**100**	**(4)**

ATTACHMENT 3
RECONCILIATION OF UNDERLYING EBIT TO UNDERLYING NLAT

$M	FY2012	FY2011	Change	2H FY2011	1H FY2012	2H FY2012
Underlying EBIT	**(224)**	**(107)**	**(117)**	**(64)**	**(137)**	**(87)**
Underlying finance costs [(1)]	(112)	(106)	(14)	(54)	(62)	(50)
Interest revenue	3	7	(4)	2	1	2
Tax on Underlying Earnings	111	93	27	48	68	43
Outside equity interest	(16)	(14)	(2)	(8)	(7)	(9)
Underlying NLAT	**(238)**	**(127)**	**(111)**	**(76)**	**(137)**	**(101)**

Notes:

(1) FY2012 reflects finance costs of $120M (refer to Table 2a) adjusted for pre-tax value of underlying adjustment relating to borrowing amendment fees (refer to Table 2b).

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DEBT REDUCTION TARGETS EXCEEDED, AUSTRALIAN BUSINESS RESTRUCTURE COMPLETED GLOBALLY WELL POSITIONED FOR GROWTH

BlueScope today reported a $1,044 million net loss after tax (NLAT) for FY2012. This compares with a $1,054 million reported NLAT in FY2011.

The reported NLAT includes an impairment charge of $315 million, as foreshadowed last week.

Underlying NLAT[1] for FY2012 was $238 million. This compares to an underlying NLAT of $127 million in FY2011.

Net debt was reduced to $384 million or approximately $580 million, adjusting for favourable timing of year end cashflows.

The Board has decided there will be no final ordinary dividend.

BlueScope's Managing Director and CEO, Mr Paul O'Malley said "FY2012 was a transforming year, we delivered what we promised. Net debt is lower than forecast. Our Australian businesses are expected to be EBITDA positive in FY2013, and globally we are now well positioned for growth.

"BlueScope is now structured into four main businesses: BlueScope Building Products; BlueScope Global Building Solutions; BlueScope Australia and New Zealand and in the US, North Star BlueScope Steel.

"Our Building Products business, across ASEAN and the US, will be incorporated in the new US$1.36 billion NS BlueScope Coated Products joint venture with Nippon Steel Corporation. It will provide a stronger platform to capture growth in new market segments. The net proceeds of approximately US$540 million from Nippon Steel's 50% investment will afford BlueScope further financial flexibility and balance sheet strength to grow businesses that deliver strong returns.

"Our Global Building Solutions business is well placed to capture opportunities in the world's largest and fastest growing non-residential construction markets with the potential to double current revenue of $1.45 billion within three years.

"BlueScope in Australia is delivering its turnaround. New Zealand Steel continues to be profitable and its iron sands export capability is on track to double within two years.

"In the US, our North Star BlueScope Steel business will concentrate on continuing its good operational performance and accelerating specific growth opportunities," said Mr O'Malley.

BLUESCOPE'S OUTLOOK

"For the 1HFY2013, we expect a continued improvement in financial performance with an underlying net after tax loss (before period-end net realisable value adjustments) approaching breakeven (subject to spread, FX and market conditions).

"In FY2013, total capital expenditure for the group is expected to be approximately $300 million with a third to be invested on growth projects," said Mr O'Malley.

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[1] Underlying financial results reflect the Company's assessment of financial performance after excluding non-current asset impairments ($315M), restructure costs ($288M), tax impairments ($268M), borrowing amendment fees ($6M), business development costs ($5M); partly offset by the Steel Transformation Plan advance $70M, profits from discontinued businesses ($4M) and asset sales ($2M). This financial information is provided to assist readers to better understand the financial performance of the underlying business.

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BlueScope Steel Limited

ABN 16 000 011 058

Directors' Report for the year ended 30 June 2012

Contents

CORPORATE DIRECTORY

Directors	G J Kraehe AO *Chairman*
	R J McNeilly *Deputy Chairman*
	P F O'Malley *Managing Director and Chief Executive Officer*
	D J Grady AM
	H K McCann AM
	Y P Tan
	D B Grollo
	K A Dean
	P Bingham-Hall
Secretary	M G Barron
Executive Leadership Team	P F O'Malley Managing Director and Chief Executive Officer
	M G Barron Chief Legal Officer and Company Secretary
	I R Cummin Executive General Manager, People and Organisation Performance
	S Dayal Chief Executive, Building Products
	S R Elias Chief Financial Officer
	P Finan Executive General Manager, Global Building and Construction Markets
	K Mitchelhill Executive General Manager
	R Moore Chief Executive, Global Building Solutions
	M R Vassella Chief Executive, BlueScope Australia and New Zealand
Notice of Annual General Meeting	The Annual General Meeting of BlueScope Steel Limited will be held at the Melbourne Convention and Exhibition Centre, 2 Clarendon Street, South Wharf, Victoria at 2.00 pm on Thursday 15 November 2012
Registered Office	Level 11, 120 Collins Street, Melbourne, Victoria 3000 Telephone: +61 3 9666 4000 Fax: +61 3 9666 4111 Email: bluescopesteel@linkmarketservices.com.au Postal Address: PO Box 18207, Collins Street East, Melbourne, Victoria 8003
Share Registrar	Link Market Services Limited Level 12, 680 George Street, Sydney, NSW 2000 Postal address: Locked Bag A14, Sydney South, NSW 1235 Telephone (within Australia): 1300 855 998 Telephone (outside Australia): +61 2 8280 7760 Fax: +61 2 9287 0303 Email: bluescopesteel@linkmarketservices.com.au
Auditor	Ernst & Young 8 Exhibition Street, Melbourne, Victoria 3000
Stock Exchange	BlueScope Steel Limited shares are quoted on the Australian Securities Exchange (ASX code: BSL)
Website Address	www.bluescopesteel.com

DIRECTORS' REPORT FOR THE YEAR ENDED 30 June 2012

The Directors of BlueScope Steel Limited ('BlueScope Steel') present their report on the consolidated entity ('BlueScope Steel Group' or 'the Company') consisting of BlueScope Steel Limited and its controlled entities for the year ended 30 June 2012.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the BlueScope Steel Group, based principally in Australia, New Zealand, North America, China and elsewhere in Asia, were:

(a) Manufacture and distribution of flat steel products;

(b) Manufacture and distribution of metallic coated and painted steel products;

(c) Manufacture and distribution of steel building products; and

(d) Design and manufacture of pre-engineered steel buildings and building solutions.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In August 2011, the Company announced a major restructure of the Australian manufacturing business to reduce its exposure to loss-making export markets for steel products. At the Port Kembla Steelworks, the changes were broadly to reduce production of steel by half through the closure of No. 6 Blast Furnace and other equipment to reflect the reduced ironmaking capacity. Steelmaking production capacity at Port Kembla has been reduced from approximately 5.3Mtpa to approximately 2.6Mtpa. At the Western Port facility the changes were broadly to reduce production of rolled and coated products through the closure of the Hot Strip Mill and moth balling of Metal Coating Line 5.

The Company commenced operations in its metallic coating and painting facility in India, which forms part of a 50/50 joint venture with Tata Steel, during March 2012.

The Company sold Metl-Span, its North American insulated metal panels business, during June 2012.

MATTERS SUBSEQUENT TO THE YEAR ENDED 30 JUNE 2012

The following matters occurred subsequent to the year ended 30 June 2012:

(a) BlueScope Steel Limited has announced a reorganisation to establish two businesses to focus on growth in the global pre-engineered building market and building products market to take effect on 1 July 2012. As a result of these changes on 26 July 2012 the Company announced changes to its external reporting segments.

BlueScope Global Building Solutions comprises the Company's North American pre-engineered buildings (PEB) businesses, the entire China business and all PEB businesses in ASEAN. BlueScope Building Products comprises the Company's metal coating, painting and roll-forming businesses in ASEAN and North America.

Mr Bob Moore, BlueScope's President, China and a member of the Executive Leadership Team (ELT), will become Chief Executive Global Building Solutions leading more than 5000 employees across 21 manufacturing plants in eight countries. Mr Sanjay Dayal, Chief Executive BlueScope Asia and a member of the ELT will take on a new role as Chief Executive Building Products with additional responsibility for the North American Steelscape and ASC Profiles businesses, leading 3300 employees at 29 manufacturing plants in seven countries.

These reporting segment changes will be applied in respect of the half year ending 31 December 2012 and thereafter.

(b) As announced to the market on 13 August 2012, BlueScope and Nippon Steel Corporation (NSC) agreed to form a new joint venture encompassing BlueScope's ASEAN and North American building products businesses.

The new 50:50 joint venture, called NS BlueScope Coated Products, provides a strong platform to capture expected growth in the $40 billion per annum building and construction sector in ASEAN and North America. The JV will facilitate entry into new markets not currently accessible to BlueScope. For example, the JV will supply whitegoods manufacturers offering products to Asia's fast growing middle class. The JV will also speed up entry into emerging markets in the ASEAN region.

NSC's investment recognises an agreed enterprise valuation for the JV of US$1.36 billion. BlueScope will receive approximately US$540 million in net proceeds through NSC's 50% acquisition of BlueScope's interest in the businesses after allowing for taxes, minority interests and transaction costs. BlueScope will continue to control and consolidate the business for financial reporting purposes. The cash consideration received from NSC will be recognised within equity, therefore no gain or loss on this transaction will be recorded in the income statement.

The joint venture will comprise BlueScope's current building products businesses in ASEAN (Indonesia, Malaysia, Thailand, Vietnam, Singapore and Brunei) and North America (Steelscape and ASC Profiles). The footprint of this business also covers Myanmar, Cambodia, Laos and the Philippines.

NSC and BlueScope will each hold 50 per cent of a new joint venture company, headquartered in Singapore. BlueScope will appoint the Chief Executive of NS BlueScope Coated Products. NSC will appoint the Chairman and a number of key executives to assist with business development and the introduction of new technology and products. The transaction is expected to complete in the March 2013 quarter, once regulatory approvals have been obtained.

The JV does not include BlueScope's building products businesses in Australia, China and India, or its Global Building Solutions business that operates across the world (including in ASEAN countries).

(c) On 7 August 2012 the Company repurchased a further US$88.2 million of its U.S. Private Placement Notes (subsequent to the repurchase of US$305.4 million in May 2012) at par, plus accrued interest. The repurchase will be funded in US dollars using existing undrawn lines under the Company's syndicated bank facility. No early redemption or make-whole costs were incurred by BlueScope in effecting the repurchase, and based on the Company's drawn debt balance at 30 June 2012, the US$88.2 million repurchase is expected to realise a pro-forma reduction in the Company's annual interest expense of approximately A$6 million per annum.

(d) On 16 August 2012 the Company acquired the 40% interest of the BlueScope Steel Malaysia that it did not own.

DIVIDENDS

In view of the financial performance of the Company the Directors determined not to pay an interim for the half year ended 31 December 2011 or final dividend for the year ended 30 June 2012.

REVIEW AND RESULTS OF OPERATIONS

The BlueScope Steel Group comprises six reportable operating segments: Coated & Industrial Products Australia, Australia Distribution & Solutions, New Zealand & Pacific Steel Products, Coated & Building Products Asia, Hot Rolled Products North America and Coated & Building Products North America.

			REPORTED[1]		UNDERLYING[2]	
	REVENUES 2012 $M	REVENUES 2011 $M	EARNINGS 2012 $M	EARNINGS 2011 $M	EARNINGS 2012 $M	EARNINGS 2011 $M
Sales revenue/EBIT[2]						
Coated & Industrial Products Australia	4,279.6	5,193.0	(725.8)	(1,062.5)	(327.3)	(257.8)
Australia Distribution & Solutions	1,612.4	1,675.4	(259.7)	(217.9)	(51.8)	(34.2)
New Zealand & Pacific Steel Products	755.0	672.1	64.7	82.5	68.6	82.5
Coated & Building Products Asia	1,625.8	1,486.8	101.9	175.6	98.5	107.8
Hot Rolled Products North America	-	-	62.2	72.3	62.2	72.3
Coated & Building Products North America	1,257.5	1,197.1	(24.4)	(42.1)	(8.6)	(26.5)
Discontinued operations	164.1	159.4	38.5	8.0	-	-
Segment revenue/EBIT[2]	9,694.4	10,383.8	(742.6)	(984.1)	(158.4)	(55.9)
Inter-segment eliminations	(1,091.7)	(1,271.4)	3.5	16.0	3.5	16.0
Segment external revenue/EBIT	8,602.7	9,112.4	(739.1)	(968.1)	(154.9)	(39.9)
Other revenue/(net unallocated expenses)	18.9	22.1	(80.8)	(74.6)	(69.4)	(67.6)
Total revenue/EBIT[2]	8,621.6	9,134.5	(819.9)	(1,042.7)	(224.3)	(107.5)
Net borrowing costs			(117.3)	(98.9)	(109.0)	(98.9)
Profit/(loss) from ordinary activities before income tax			(937.2)	(1,141.6)	(333.3)	(206.4)
Income tax (expense)/benefit			(90.7)	101.2	111.4	93.1
Profit/(loss) from ordinary activities after income tax expense			(1,027.9)	(1,040.4)	(221.9)	(113.3)
Net (profit)/loss attributable to outside equity interest			(15.6)	(13.8)	(15.6)	(13.8)
Net profit/(loss) attributable to equity holders of BlueScope Steel			(1,043.5)	(1,054.2)	(237.5)	(127.1)
Basic Earnings per share (cents)			(39.1)	(48.6)	(8.9)	(5.9)

[1] The use of the terms 'reported' refers to IFRS financial information and 'underlying' to non-IFRS financial information. Underlying earnings are categorised as non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 – Disclosing non-IFRS financial information, issued in December 2011. Underlying adjustments have been considered in relation to their size and nature, and have been adjusted from the reported information to assist readers to better understand the financial performance of the underlying business in each reporting period. These adjustments are assessed on a consistent basis from period to period and include both favourable and unfavourable items. The non-IFRS financial information, whilst not subject to an audit or review, has been extracted from the financial report which has been subject to audit by our external auditors.

[2] Performance of operating segments is based on EBIT which excludes the effects of interest and taxes. The Company considers this a useful and appropriate segment performance measure because interest income and expense are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

Underlying earnings

The reported earnings include the following unusual items:

Factors	EBIT		NLAT		EPS	
	2012	2011	2012	2011	2012	2011
Reported Earnings	**(819.9)**	**(1,042.7)**	**(1,043.5)**	**(1,054.2)**	**(0.39)**	**(0.49)**
Net (gains) / losses from discontinued businesses (1)	(38.5)	(8.0)	(3.8)	(9.9)	(0.00)	(0.00)
Reported earnings (from continuing operations)	(858.5)	(1,050.7)	(1,047.3)	(1,064.0)	(0.39)	(0.49)
Unusual or non-recurring events:						
Restructure and redundancy costs (2)	412.3	14.0	288.4	9.8	0.11	0.00
Borrowing amendment fees (3)	0.0	0.0	5.8	0.0	0.00	0.00
Steel Transformation Plan advance (4)	(100.0)	0.0	(70.0)	0.0	(0.03)	0.00
Asset impairments (5)	318.6	922.3	315.0	922.3	0.12	0.43
Business development and pre-operating costs (6)	6.7	6.9	4.7	4.8	0.00	0.00
Asset sales (7)	(3.4)	0.0	(2.4)	0.0	(0.00)	0.00
Tax asset impairment (8)	0.0	0.0	268.3	0.0	0.10	0.00
Underlying Operational Earnings	**(224.3)**	**(107.5)**	**(237.5)**	**(127.1)**	**(0.09)**	**(0.06)**

(1) 2012 reflects a pre-tax profit/post tax loss on sale of the Metl-Span business during June 2012, Metl-Span operational earnings during 2012 and a foreign exchange translation gain within the Lysaght Taiwan business. 2011 reflects Metl-Span operational earnings during that period, profit on sale of Packaging Products assets and a foreign exchange translation gain within the Lysaght Taiwan business.

(2) 2012 reflects staff redundancies and restructuring costs at Coated & Industrial Products Australia in relation to the move to a one blast furnace operations, Coated & Building Products North America, Australia Distribution & Solutions, New Zealand and Corporate. 2011 reflects staff redundancies and other internal restructuring costs at Coated & Industrial Products Australia and Australia Distribution & Solutions and plant rationalisation costs at Australia Distribution & Solutions.

(3) 2012 reflects the costs associated with restructuring existing financing facilities following the decision to move to a one blast furnace operation at Port Kembla Steelworks.

(4) 2012 reflects recognition of the $100M advance under the Australian Federal Government Steel Transformation Plan (STP).The STP is provided to assist BSL transition to a carbon tax environment.

(5) 2012 reflects non-current asset impairments in the Australian Business comprising Distribution goodwill ($157M), CIPA fixed assets ($136M), Lysaght goodwill ($10M) and BlueScope Water and BlueScope Buildings goodwill and fixed assets ($11M) due to a slower recovery in the domestic demand than previously expected and a higher discount rate applied to expected future cash flows as a result of increased volatility in equity markets. In addition, there were impairment of assets in Coated & Building Products North America ($4M) associated with restructuring. 2011 reflects asset impairment write downs Coated & Industrial Products Australia ($797M); Australia Distribution & Solutions ($177M); and Coated & Building Products North America ($16M); partly offset by a write back at China Coated ($68M).

(6) 2012 and 2011 reflect Corporate business development costs.

(7) 2012 reflects profit on the sale of surplus land in Coated and Building Products Asia.

(8) 2012 reflects impairment of Australian deferred tax asset generated during the period mainly in relation to export losses and restructure costs incurred during the period. Australian Accounting Standards impose a stringent test for the recognition of a deferred tax asset arising from unused tax losses where there is a history of recent tax losses. The Company has deferred the recognition of any further tax asset for the Australian tax group until a return to taxable profits has been demonstrated. Australian tax losses are able to be carried forward indefinitely.

Group Review

The Company reported a $1,043.5 million net loss after tax (NLAT) for 2012. This compares with a $1,054.2 million reported NLAT in 2011. The reported NLAT included non-current asset impairments ($315M), tax impairments ($268M) and restructure costs ($288M), partly offset by the receipt of the Steel Transformation Plan advance ($70M).

Underlying NLAT was $237.5 million, an increase of $110.4 million mainly due to lower spread (HRC selling price less raw material costs) and higher per unit conversion costs as a result of lower volumes.

Net debt was reduced to $384 million or approximately $580 million adjusting for favourable timing of year end cash flows.

The Board has decided there will be no final ordinary dividend.

2012 was a transforming year, we delivered what we promised. Net debt is lower than forecast. Our Australian businesses are expected to be EBITDA positive in 2013, and globally we are now well positioned for growth.

BlueScope is now structured into four main businesses: BlueScope Building Products; BlueScope Global Building Solutions; BlueScope Australia and New Zealand and in the U.S., North Star BlueScope Steel.

Our Building Products business, across ASEAN and the US, will be incorporated in the new US$1.36 billion NS BlueScope Coated Products joint venture with Nippon Steel Corporation. It will provide a stronger platform to capture growth in new market segments. The net proceeds of approximately US$540 million from Nippon Steel's 50% investment will afford BlueScope further financial flexibility and balance sheet strength to grow businesses that deliver strong returns.

Our Global Building Solutions business is well placed to capture opportunities in the world's largest and fastest growing non-residential construction markets with the potential to double current revenue of $1.45 billion within three years.

BlueScope in Australia is delivering its turnaround. New Zealand Steel continues to be profitable and its iron sands export capability is on track to double within two years.

In the US, our North Star BlueScope Steel business will concentrate on continuing its good operational performance and accelerating specific growth opportunities.

Segment Review

Coated and Industrial Products Australia
Coated and Industrial Products Australia delivered a $327.3 million underlying EBIT loss, an increase of $69.5 million mainly due to a lower spread (HRC selling price less raw material cost), lower domestic prices, higher per unit conversion costs on lower volumes and an adverse domestic product mix. These were partly offset by lower loss-making export sales and favourable foreign exchange movements.

The Company delivered the Australian restructure that was announced in August 2011, including:

- positive outcomes for major contract renegotiations, no significant supply or customer issues and significantly reduced exposure to loss-making export sales;
- targeted fixed cost reductions of $385m;
- restructure costs of $380 million, below the expected range of $400-$500m; and
- working capital release of $583 million, after adjusting for the timing of certain year end cash flows, better than the expected range of $400-500m.

We expect this business to deliver positive underlying EBITDA in 2013 (subject to spread, the strength of the Australian dollar relative to the US dollar, domestic margins and demand). Capital expenditure of $140 million is expected with a third of this being invested in manufacturing facilities to deliver the next generation of COLORBOND® and ZINCALUME® steel products, an investment in our future and commitment to the Australian market.

Australian Distribution and Solutions
Australian Distribution and Solutions delivered a $51.8 million underlying EBIT loss, an increase of $17.6 million mainly due to lower margins and volumes. An improvement program is now well advanced and the benefits of this restructure are starting to flow through its financial results.

New Zealand and Pacific Products
New Zealand and Pacific Products delivered a $68.6 million underlying EBIT, a decrease of $13.9 million mainly due to higher utility costs and a stronger NZ dollar relative to the US dollar. This business benefits from access to low cost captive iron units and the export of iron sands from Taharoa and Waikato North Head. The expansion of Taharoa iron sands exports increased to 1.2Mtpa late in the second half of 2012, enabled by the commissioning of a larger ore carrier, the Taharoa Destiny. A contract is in place for sale of a further 1.2Mtpa iron sands from Taharoa, which will commence within two years, once the customer has concluded the necessary shipping arrangements.

Coated and Building Products Asia
Coated and Building Products Asia delivered a $98.5 million underlying EBIT, a decrease of $9.3 million. This segment continues to grow but was affected during the year by start-up costs at our second coating facility in Indonesia and new coating facility in India, floods in Thailand and unfavourable foreign exchange translation as a result of the higher Australian dollar. Our China business continued its strong contribution, as did our Thailand and Indonesia businesses in the second half of 2012. An expansion in Xi'an will capitalise on strong demand for our Butler PEB and Lysaght roll forming products in Central and Western China. This new $60 million facility is expected to be operational by the end the 2013 financial year.

Hot Rolled Products North America
Hot Rolled Products North America delivered a $62.2 million underlying EBIT, a decrease of $10.1 million mainly due to higher scrap costs relative to higher selling prices, with the spread between scrap and selling price improving in the second half. We are actively assessing growth opportunities for this business.

Coated and Building Products North America
Coated and Building Products North America delivered a $8.6 million underlying EBIT loss, an improvement of $17.9 million mainly due to further restructuring steps in the Buildings (PEB) business lowering costs in engineering and manufacturing. The business has rationalised its US building footprint, achieving break-even run rate at volumes almost half pre-GFC levels. It is also leveraged for earnings growth as building and construction activity improves.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

For the first half of the 2013 financial year, we expect a continued improvement in financial performance with an underlying net after tax loss (before period-end net realisable value adjustments) approaching breakeven (subject to spread, FX and market conditions).

In 2013, total capital expenditure for the group is expected to be approximately $300 million with a third to be invested in growth projects.

BOARD COMPOSITION
The following were Directors for the full year ended 30 June 2012: Graham John Kraehe AO (Chairman), Ronald John McNeilly (Deputy Chairman), Diane Jennifer Grady AM, Daniel Bruno Grollo, Harry Kevin (Kevin) McCann AM, Kenneth Alfred Dean, Paul Francis O'Malley (Managing Director and Chief Executive Officer) Tan Yam Pin and Penelope Bingham-Hall.

Particulars of the skills, experience, expertise and special responsibilities of the Directors are set out below.

DIRECTORS' BIOGRAPHIES
Graham Kraehe AO, Chairman (Independent)
Age 69, BEc
Director since: May 2002

Extensive background in manufacturing and was Managing Director and Chief Executive Officer of Southcorp Limited from 1994 to February 2001. Chairman of Brambles Industries Limited since February 2008 and a Non-Executive Director since December 2000, Member of the Board of the Reserve Bank of Australia from February 2007 to February 2012, Member of the Board of Djerriwarrh Investments Limited since July 2002, Member of the Board of Governors of CEDA and a Director of European Australian Business Council. Mr Kraehe was a Non-Executive Director of National Australia Bank Limited from August 1997 to September 2005 and Chairman from February 2004 to September 2005, and was a Non-Executive Director of News Corporation Limited from January 2001 until April 2004.

He brings skills and experience in manufacturing management and in companies with substantial, geographically diverse, industrial operations. Mr Kraehe's experience with a wide range of organisations is relevant for his role as Chairman of the Board.

Ron McNeilly Deputy Chairman (Independent)
Age 69, BCom, MBA, FCPA
Director since: May 2002

Deputy Chairman of the Board with over 30 years experience in the steel industry. He joined BHP in 1962, and until December 2001 held various positions with the BHP Group (now BHP Billiton), including Executive Director and President BHP Minerals, Chief Operating Officer and Executive General Manager, and was Chief Executive Officer BHP Steel until 1997. The latter role developed his knowledge of many of the businesses comprising BlueScope Steel today.

Chairman of Worley Parsons Limited and a Director since October 2002. Director of Alumina Ltd from December 2002 to March 2011, Vice President of the Australia Japan Business Cooperation Committee until November 2010. He also served as a Member of the Council on Australia Latin America Relations and as Chairman of Melbourne Business School.

Mr McNeilly was Chair of the Health, Safety and Environment Committee until 21 March 2012.

Diane Grady AM, Non-Executive Director (Independent)
Age 64, BA (Hons), MA (Chinese Studies), MBA
Director since: May 2002

Director of Macquarie Group Limited and Macquarie Bank Limited since May 2011 and Member of the Advisory Board of McKinsey & Co. Director of Woolworths Ltd from July 1996 until November 2010 and Goodman Group from September 2007 to October 2010. Has served on the boards of a number of other public and not-for-profit organisations including Lend Lease Corporation, Wattyl Limited, Greengrocer.com (Chair), Sydney Opera House Trust, Ascham School (current Chair), The Hunger Project Australia (current Chair) and as President of Chief Executive Women. Formerly a partner of McKinsey & Co. serving clients in a wide range of industries on strategic growth and change initiatives.

Ms Grady is an experienced director who brings valuable strategic and business expertise to the Board and to her role as Chair of the Remuneration and Organisation Committee.

Kevin McCann AM, Non-Executive Director (Independent)
Age 71, BA LLB (Hons), LLM
Director since: May 2002

Mr McCann is Chairman of Macquarie Group Ltd and Macquarie Bank Ltd and has been on the Board of those companies since August 2007 and December 1996 respectively. He is also Chairman of Origin Energy Ltd (since February 2000). Mr McCann is a director of the Australian Institute of Company Directors (AICD) and is a member of the AICD Corporate Governance Committee and President of the NSW Advisory Council. He is a Fellow of the Senate of the University of Sydney and a director of the University of Sydney United States Studies Centre. Community activities include Chairman of the National Library of Australia Foundation.

Former Chairman of the Sydney Harbour Federation Trust, Chairman of ING Management Limited from September 2010 to June 2011 and Director of the Sydney Harbour Conservancy from January 2010 to September 2010. He also served as Chairman of Healthscope Ltd from May 1994 to October 2008 and as a Member of the Takeovers Panel and the Defence Procurement Advisory Board. He has served on the Boards of Pioneer International Limited, Ampol Limited and the State Rail Authority of New South Wales and as a member of the Council of the National Library of Australia.

Former Chairman of Partners of Allens Arthur Robinson, a national and international Australian law firm, and a partner of the firm from 1970 until June 2004. He brings extensive commercial experience as a Chairman and director and former Chairman and director of major listed companies and deep corporate governance and legal expertise to the Board.

Tan Yam Pin, Non-Executive Director (Independent)
Age 71, BEc (Hons), MBA, CA
Director since: May 2003

A chartered accountant by profession, formerly Managing Director of Fraser and Neave Group, one of South-East Asia's leading public companies, and Chief Executive Officer of its subsidiary company, Asia Pacific Breweries Ltd. A member of the Public Service Commission of Singapore since 1990 and a Director of the Board of Keppel Land Limited (Singapore) since June 2003, Singapore Post Limited since February 2005, Great Eastern Holdings Limited since January 2005, Leighton Asia Limited since January 2009 and The Lee Kuan Yew Scholarship Fund since January 2010. Mr Tan previously served as Chairman of PowerSeraya Limited (Singapore) from January 2004 to June 2009, as a Director of Certis CISCO Security Pte. Ltd from July 2005 to January 2009, The East Asiatic Company Limited A/S (Denmark) from 2003 to 2006, International Enterprise Singapore from January 2004 to June 2008 and Singapore Food Industries Ltd from December 2005 to December 2009.

Mr Tan resides in Singapore. He brings extensive knowledge of Asian markets, an area of strategic importance to BlueScope Steel. His financial and leadership skills complement the skills on the Board.

Daniel Grollo, Non-Executive Director (Independent)
Age 42
Director since: September 2006

Chief Executive Officer of Grocon Pty Ltd, Australia's largest privately owned development and construction company. He was appointed a Director of CP1 Limited in June 2007 and is a Director of the Green Building Council of Australia. He has previously been a Director and National President of the Property Council of Australia.

He brings extensive knowledge of the building and construction industry to the Board. In March 2012, Mr Grollo was appointed as Chair of the Health, Safety and Environment Committee.

Paul O'Malley, Managing Director and Chief Executive Officer
Age 48, BCom, M. App Finance, ACA
Director since: August 2007

Appointed Managing Director and Chief Executive Officer of BlueScope Steel on 1 November 2007.

Joined BlueScope Steel as its Chief Financial Officer in December 2005. Formerly the CEO of TXU Energy, a subsidiary of TXU Corp based in Dallas, Texas, and held other senior management roles within TXU including Senior Vice President and Principal Financial Officer and, based in Melbourne, Chief Financial Officer of TXU Australia. Before joining TXU, he worked in investment banking and consulting.

Ken Dean, Non-Executive Director (Independent)
Age 59, BCom (Hons), FCPA, FAICD
Director since: April 2009

Mr Dean has been a Director of Santos Limited since February 2005 and has held past directorships with Alcoa of Australia Limited, Woodside Petroleum Limited and Shell Australia Limited. In July 2012 he was appointed as a non-executive director of to TRUenergy Holdings Pty Ltd.

Mr Dean spent more than 30 years in a variety of senior management roles with Shell in Australia and the United Kingdom. His last position with Shell, which he held for five years, was as Chief Executive Officer of Shell Finance Services based in London. Upon his return to Australia in 2005, he was Chief Financial Officer of Alumina Limited, a position from which he resigned in 2009 to focus on non-executive directorship roles.

He brings extensive international financial and commercial experience to the Board and to his role as Chair of the Audit and Risk Committee.

Penny Bingham-Hall, Non-Executive Director (Independent)
Age 52, BA (Ind.Des) FAICD, SA(Fin)

Ms Bingham-Hall was appointed a Director of BlueScope Steel in March 2011. She spent more than 20 years in a variety of roles with Leighton Holdings prior to retiring from that company at the end of 2009. Senior positions held by her with Leighton include Executive General Manager Strategy, responsible for Leighton Group's overall business strategy and Executive General Manager Corporate, responsible for business planning and corporate affairs. Ms Bingham-Hall is a Director of Australia Post (since May 2011), the Sydney Ports Corporation (since April 2012) and SCEGGS Darlinghurst School (since February 2011). She was the inaugural Chairman of Advocacy Services Australia (the fiduciary company for the Tourism & Transport Forum and Infrastructure Partnerships Australia) from May 2008 to December 2011 and is a former Director of The Global Foundation and the Australian Council for Infrastructure Development and former Member of the Vis Asia Council, Art Gallery of NSW.

She brings extensive knowledge of the building and construction industry in both Australia and Asian markets.

COMPANY SECRETARIES

Michael Barron Chief Legal Officer and Company Secretary, BEc, LLB, ACIS
Responsible for the legal affairs of BlueScope Steel and for company secretarial matters. Joined the Company as Chief Legal Officer and Company Secretary in January 2002. Prior to that occupied position of Group General Counsel for Orica.

Clayton McCormack, BCom, LLB
Corporate Counsel, Governance and Secretariat with BlueScope Steel. A lawyer with over 15 years experience in private practice and corporate roles.

Darren Mackenzie, BA, LLB (Hons)
General Counsel, Corporate with BlueScope Steel. A lawyer with over 15 years experience in private practice and corporate roles.

PARTICULARS OF DIRECTORS' INTERESTS IN SHARES AND OPTIONS OF BLUESCOPE STEEL LIMITED

As at the date of this report the interests of the Directors in shares and options of BlueScope Steel are:

Director	Ordinary shares	Share rights
Director - Current		
G J Kraehe	641,297	-
R J McNeilly	2,378,704	-
P F O'Malley	499,704	2,607,631
D J Grady	377,007	-
H K McCann	162,368	-
Y P Tan	282,809	-
D B Grollo	230,681	-
K A Dean	146,924	-
P Bingham-Hall	122,000	-

MEETINGS OF DIRECTORS

Attendance of the current Directors at Board and Board Committee meetings from 1 July 2011 to 30 June 2012 is as follows:

	Board meetings		Audit and Risk Committee		Remuneration and Organisation Committee		Health, Safety and Environment Committee		Nomination Committee		Other Sub-Committees		Annual General Meeting	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
G J Kraehe	25	25	-	6[1]	7	7	4	4	2	2	5	5	1	1
R J McNeilly	25	23[4]	6	6	7	7	4	4	2	2	-	-	1	1
P F O'Malley	25	25	-	6[2]	-	7[2]	4	4	-	-	5	5	1	1
D J Grady	25	22[4]	-	-	7	7	4	4	2	2	-	-	1	1
H K McCann	25	21[4]	6	6	-	-	4	3	2	2	1	1	1	1
Y P Tan	25	20[3, 4]	-	-	7	6[3]	4	3[3]	2	2	-	-	1	1
D B Grollo	25	22[4]	6	6	-	-	4	4	2	2	-	-	1	1
K A Dean	25	25	6	6	-	-	4	4	2	2	2	2	1	1
P Bingham-Hall	25	23[4]	-	-	3	3	4	4	2	2	-	-	1	1

All Directors have held office for the entire year ended 30 June 2012.

Ms Bingham-Hall became a member of the ROC on 17 February 2012.

A = number of meetings held during the period 1 July 2011 to 30 June 2012 during the time the Director was a member of the Board or the Committee, as the case may be.

B = number of meetings attended by the Director from 1 July 2011 to 30 June 2012.

1 The Chairman of the Board is not a Committee member and attends as part of his duties as Chairman.

2 The Chief Executive Officer is not a Committee member and attends by invitation as required.

3 A scheduled meeting was missed due to illness.

4 An unscheduled meeting was missed through unavailability due to travel or other commitments. Unscheduled meetings are generally called at very short notice and any directors unable to attend are provided with separate briefings on the matters considered.

There were a number of unscheduled meetings held during the year. They are as follows:

Board meetings: 17

Audit & Risk Committee meetings: 2

Remuneration Committee meetings: 1

The Non-Executive Directors have met twice during the year ended 30 June 2012 (without the presence of management). Non-Executive Directors meetings are chaired by the Chairman of the Board.

REMUNERATION SUMMARY (UNAUDITED)

1. Introduction

Over the last two years, BlueScope's remuneration system has been under severe pressure from two competing interests; shareholders who want executive remuneration reduced, reflecting their experience of no dividends and a significant decline in share price and talented executives who are tempted by opportunities in less structurally challenged industries where remuneration prospects are greater.

The BlueScope Board understands and acknowledges the issues raised by shareholders in relation to executive remuneration. The Board also believes it is in both shareholder and Company interests that our executive remuneration policy assists to retain the Managing Director & Chief Executive Officer (MD&CEO) and the Key Management Personnel (KMP) Executives because they are best placed to lead the Company through the major structural challenges facing the industry.

In the Remuneration Report last year, the Board informed shareholders of the intention to conduct a comprehensive review of the Company's executive remuneration policies. As part of this review, the Chairman of the Remuneration and Organisation Committee, Ms Diane Grady, and another Independent Committee member, Ms Penny Bingham-Hall, met with over twenty of the Company's larger shareholders, corporate governance advisory bodies and the Australian Shareholders' Association to obtain feedback in relation to proposals developed by the Board. Those discussions were very valuable and suggestions have been incorporated in the remuneration structure described below.

Some of the more notable decisions include:

- **Reducing the MD & CEO's remuneration by 52% in FY 2012 due to no Short Term Incentive (STI) or Long Term Incentive (LTI) awards;**
- **Again freezing the MD & CEO's base salary to his 2010 level, and maintaining this freeze during FY2013;**
- **Withholding at least 50% of total STI awards by KMP Executives as deferred equity with a one year trading lock;**
- **Paying significantly lower cash STI in aggregate for the MD & CEO and all KMP Executives ($994,476 compared to $3,051,813 for FY 2011).**
- **Tightening LTI award conditions by:**
  - **Eliminating retesting;**
  - **Imposing a two year trading lock on awards that vest; and**
  - **Reducing payment at the 51st percentile of TSR to 40%;**
- **Using the capital raising price of 40 cents as a minimum to determine the quantum of share rights offered to KMP Executives for the FY 2013 LTI award and the addition of a hurdle that the FY 2013 LTI award will not vest unless the share price at the end of the vesting period is at least 40 cents; and**
- **Restructuring the organisation from 6 into 4 divisions thereby reducing the number of KMP Executives and the total cost of their fixed remuneration.**

2. Context

Board decisions in regard to the remuneration of the MD & CEO and senior executives have been made in the context of the challenging circumstances faced by BlueScope operating in an industry undergoing massive structural change and at a cyclical low. These circumstances which have particularly affected our Australian businesses include:

1. Historically high iron ore and coking coal prices;
2. Surplus global steelmaking capacity resulting in depressed prices for steel exports;
3. Increased penetration of imports attracted by the high A$; and
4. Reduced domestic sales due to sluggish demand from the construction and manufacturing sectors. While our Australian businesses are under severe pressure, BlueScope's businesses in Asia are profitable and continue to be well positioned in this fast growing region of the world. These differences in business environments require an appropriate remuneration response.

Management and employees across BlueScope have responded to these pressures by restructuring the business and undertaking a significant change program across all of the Company's operations. As a result of this restructure the number of KMP Executives has been reduced from 10 to 8.Major achievements in FY 2012 included:

- Outstanding cash flow management to outperform challenging debt reduction targets.
- The injury free shutdown of 2.6 million tonnes of export steel-making capacity with the closure of a blast furnace, a coke oven, one hot-strip mill, and the moth-balling of a metal coating line — achieved within 7 weeks and below budgeted cost.
- The sale of the Company's insulated panels business in North America, MetlSpan, at an attractive price.
- The negotiation of the Steel Transformation Plan resulting in an advance of $100m from the Australian Government to BlueScope. (The STP income has been specifically excluded from all calculations relating to STI awards.)
- Capturing more value from the Company's own reserves of NZ iron sands by incorporating this lower cost raw material into the Port Kembla feed-stock blend and by significantly increasing our iron sands export capacity.
- Consolidating businesses which formerly comprised six divisions into four:
  - A Global Building Products business which operates the largest integrated network of sales and manufacturing operations around the Pacific Basin.
  - A Global Building Solutions business to deliver growth in the pre-engineered steel building market through low cost design and manufacturing coupled with dedicated account management serving multi-national customers.
  - A single Australian and New Zealand business called BlueScope ANZ, that better aligns our manufacturing, sales and distribution operations to our customers and will be more responsive to tough markets, with a significant lowering of our total cost base.
  - A profitable joint venture with Cargill - North Star BlueScope Steel – which is the 5th largest producer by volume of hot rolled coil in North America.

A key issue for the Board has been selecting the appropriate peer group for remuneration benchmarking. In the Board's view using market capitalisation as the sole comparison is not appropriate for establishing BlueScope's remuneration benchmarks because it would lead to unmanageable fluctuations in executive remuneration and does not reflect our belief in BlueScope's future. A recent Ernst & Young paper, 'Rethinking market practice', May 2012 advocates the need for companies to establish the 'right' market to support remuneration governance. We believe the peer group shown below is reflective of the size and complexity of BlueScope. In choosing this peer group we have taken into account revenue, number of employees, number of geographies, industry similarities and market capitalisation.

BlueScope Steel Benchmarking Peer Group

Company	Revenue	Employees	Market Cap 23-Mar-2012	Market Cap Average past 3 years to 23-Mar-2012	Market Cap Average past 5 years to 23-Mar-2012	Multiple Geographies Y/N
Adelaide Brighton	1,100	1,600	1,845	1,800	1,774	N
Amcor	12,000	33,000	8,640	7,525	6,728	Y
Asciano	3,056	7,172	4,662	4,382	n.a.	N
Boral	4,700	15,200	3,061	3,132	3,356	Y
Brambles	4,672	17,000	10,245	9,640	11,412	Y
Coca Cola Amatil	4,500	15,000	9,031	8,340	7,654	Y
Caltex	22,105	4,000	3,707	3,215	3,682	N
CSR	1,914	4,000	903	2,042	2,294	Y
Downer	6,975	21,000	1,673	1,854	1,879	Y
Fletcher	7,416	20,000	3,619	3,766	3,807	Y
Incitec Pivot	3,906	5,000	5,065	5,442	5,489	Y
James Hardie	1,200	2,500	3,349	2,759	2,757	Y
Leighton	19,400	51,000	7,793	8,894	10,004	Y
Lend Lease	5,099	17,000	4,191	4,367	4,789	Y
Orica	6,182	14,000	9,647	8,851	8,592	Y
Arrium (formerly OneSteel)	7,133	11,000	1,678	3,233	3,741	Y
Sims	8,900	6,500	3,022	3,729	3,887	Y
Toll	8,225	45,000	4,116	4,388	5,397	Y
Transfield	4,000	27,000	1,336	1,491	1,657	Y
Worley Parsons	5,904	37,800	7,225	6,228	6,665	Y
Median	5,502	15,100	3,912	4,067	3,887	
BSL	9,112	18,344	1,323	3,500	4,763	Y
BSL Ranking (Total 21)	4	8	20	13	10	

Source:

1. Revenue, employees and geographies sourced from 2011 annual reports.
2. Peer Group market cap data as at 23 March 2012 source Factset.

The Board believes management has performed well in extremely difficult business conditions. While some businesses have delivered good financial results and there has been significant progress in restructuring the total organisation, the Company overall has not made a profit and has not resumed paying dividends. Both of these factors have been considered in determining executive remuneration.

The Board considers it particularly important in the transformation program underway in BlueScope to pay STI to KMP Executives for delivering outstanding quantified results even if the Company as a whole is not yet profitable. At the same time we have significantly reduced the cash component of executive remuneration and increased the deferred equity component of incentives. This will allow us to both retain and recognise executives for their achievements as well as reinforce the alignment between future shareholder value and executive reward.

The Board and management believe that at this stage in a major transition process these measures are an appropriate balance of the need for incentive, retention, shareholder alignment and executive accountability. It is expected that once the Company has returned to profitability, there will be further adjustments to the remuneration system.

Key remuneration decisions during the year are outlined below.

3. MD & CEO Remuneration

The Board, with the full support of the MD & CEO, has significantly reduced the MD & CEO's total remuneration package for FY 2012. No salary increase, no LTI and no STI awards have resulted in a 52% year on year reduction in his remuneration. As a result, the MD & CEO's total remuneration will be down from $4,156,129 in 2011 to $1,995,000 for 2012.

The following table summarises the reduction in Mr O'Malley's remuneration from FY 2011 to FY 2012.

	FY 2012 Actual $	FY 2011 $
Base pay including superannuation	1,995,000	1,995,000
STI paid	Nil	720,865
Total take home pay	1,995,000	2,715,865
LTI potential	Nil	1,440,264*
Total remuneration	1,995,000	4,156,129
Reduction in total remuneration from FY 2011	52%	
Actual remuneration received as a % of target remuneration	41%	

*Note: while the MD & CEO is unlikely to receive any value from the FY 2011 LTI which was awarded at $2.26, shareholders have incurred the cost as accounting standards require this fair value expense to be taken through the P&L.

A summary of the decisions made for FY 2012 and FY 2013 are as follows:

i) Base Pay

The Board has determined that base pay is appropriately positioned at about the 60th percentile relative to the selected peer group as of April 2012. Consequently, the MD & CEO has not had a salary increase in FY2012. Furthermore, the MD & CEO's base pay will be frozen during FY2013.

ii) Short Term Incentive

Although the MD & CEO has led the Company to achieve the targets set by the Board in relation to reduction in debt, cash management and Company restructuring, the MD & CEO's STI for FY2012 will be zero in view of EBIT performance.

STI objectives for FY2013 at target are based on the achievement of a major strategic transformational initiative; delivery of a positive underlying profit; and top quartile TSR performance relative to the ASX 100. Details of the targets and results will be disclosed to shareholders in the FY 2013 Remuneration Report. If any STI is awarded it will be delivered equally in cash and equity. The equity will be subject to a 12 month trading lock and will lapse on termination due to resignation or for cause.

The quantum of the MD & CEO's potential STI at target is 80% of base pay and 120% at stretch.

iii) Long Term Incentive (LTI)

The MD & CEO did not receive any LTI share rights in FY2012 in view of the Company's financial performance.

The MD & CEO will receive share rights for FY2013 under the existing terms of his LTI plan, as approved by shareholders at the AGM in 2010. However, notwithstanding the relative performance of share rights awarded in FY2013 under the approved performance hurdles, the MD & CEO has agreed that in addition to the relative total shareholder return hurdle, no share rights will vest unless the share price is at least 40 cents, the price offered to shareholders at the time of the capital raising in November 2011.

Shareholders will be asked to approve a new LTI plan for the MD & CEO to apply in FY 2014 and FY 2015 which will have a five year period from the date of the award of share rights before vested shares can be accessed. The new LTI plan will be more restrictive than the current plan with the removal of re-testing, a reduction in the number of shares that will vest at the 51st percentile of relative ASX100 TSR performance from 52% to 40%, and a requirement to hold any shares that do vest after 3 years for a further period of 2 years. Share rights are not eligible for dividends until they vest.

Share rights would be awarded using the current formula of 155% of base pay per annum. This percentage was agreed when the MD & CEO's initial contract was signed and at that time reflected an increased weighting to LTI and a reduced weighting of his STI. In considering remuneration for the MD & CEO, the Board focuses on total remuneration relative to the peer group recognizing the mix at BlueScope is more skewed toward the long term.

With this remuneration structure, 56% of the MD & CEO's potential remuneration for FY 2013 would be at risk in deferred equity.

4. KMP Executive Remuneration

The Board, with the support of the MD & CEO and KMP Executives implemented the following measures in relation to KMP Executive remuneration for FY 2012 and FY 2013.

i) Base Pay

There have been some significant base pay increases during FY 2012 reflecting the restructure of the business and our need to retain remaining KMP Executives to lead major strategic initiatives. There will be no "across-the-board" base pay increase for all KMP Executives for FY 2013. Examples of increased responsibilities are outlined below.

- Mr Mark Vassella was promoted to the new role of Chief Executive – BlueScope Australia & New Zealand which comprises responsibility for businesses previously led by Mr Noel Cornish, Mr Paul O'Keefe and Mr Keith Mitchelhill. His base pay increased to $1,000,000.
- Mr Sanjay Dayal had his salary increased to $880,000 in recognition of the additional responsibilities arising from the establishment of the Building Products business unit comprising a combination of the ASEAN and Indian businesses and the Steelscape and ASC Profiles businesses on the US West Coast.
- Mr Bob Moore, Chief Executive, China had his salary increased to $700,000 with effect from 1 July 2012 reflecting the increased responsibilities in leading the Company's pre-engineered steel building businesses stretching from North America across China, Asia, India, the Middle East and Australia.

ii) Short Term Incentive (STI)

STI objectives are set and approved by the Board at the beginning of each financial year and include measurable objectives for results achieved in financial, safety, operational excellence and strategic projects. At the end of each year achievements are assessed by the Remuneration and Organisation Committee. Payments have only been made for quantified results. Potential STI payments for KMP Executives at target are 60% of base salary and at stretch are 90% of base salary. All executives have at least 50% weighting to financials, including at least 25% for company-wide results. Safety and operational excellence targets are set using quantifiable measures.

As BlueScope's overall financial performance did not reach the required threshold established by the Board of an underlying profit for the 2nd half of the financial year, no STI is payable for Company Financials which make up 25% of total STI opportunity at target. The Company's safety LTIFR performance for the year did not meet the required hurdle. Accordingly, no STI is payable for safety performance which makes up 5% of STI opportunity at target.

For KMP Executives who achieved quantified results which otherwise would have warranted higher STI, awards have been capped at 60% of target (36% of base pay) if they did not achieve underlying EBIT targets.

STI awards were made for achievement of positive EBIT financial objectives, achieving outstanding cashflow results and implementation of fundamental restructuring initiatives to underpin a turnaround in company financial performance.

In addition, KMP Executives will have half of their STI cash awards withheld, and delivered as restricted shares. These will lapse if the KMP Executive resigns or is terminated for cause within 12 months. No dividends will be payable during the period of the holding lock. Also, the Chief Executive BANZ will have 100% of his STI award withheld and delivered in deferred equity. Half may be released early if certain H1 FY2013 objectives are achieved.

Details of awards to individual KMP are summarised below.

- Mark Vassella, and the corporate team of Charlie Elias, Ian Cummin and Michael Barron delivered the Australian restructure including:
  - Achieving targeted fixed cost reductions of $315m;
  - Containing restructure costs to $380 million, below the budgeted range of $400-$500m;
  - Releasing working capital of $583 million between October 2011 to June 2012, after adjusting for the timing of certain year end cashflows, better than the expected range of $400-500m;
  - Negotiating positive outcomes for major contract renegotiations;
  - Significantly reducing exposure to loss-making export sales.

  In addition, the corporate team managed the sale of MetlSpan at an attractive multiple, a significant initiative contributing to the reduction in net debt.
- Sanjay Dayal – Delivered business unit threshold EBIT and stretch cashflow objectives for the ASEAN business, including restructuring the cost base of the Asian building products businesses.
- Bob Moore – Delivered business unit EBIT and cashflow objectives, including improving the profitability of the coated business in China by both expanding sales channels and sourcing lower cost feed. In addition, established the Global Buildings Solutions business by merging the US, China, ASEAN and Australian buildings solutions businesses into a single group with a lower cost structure.
- Keith Mitchelhill - Rationalised the US buildings footprint achieving break-even run rate at volumes almost half Pre-GFC levels delivering a significant underlying EBIT improvement versus FY2011.
- Pat Finan - Established the global sales and marketing function for the Global Buildings Solutions business, delivering stretch sales revenue with new global accounts and enabling significant engineering cost reductions through the introduction of BlueScope's proprietary Vision Engineering system in Vietnam and Thailand. In addition, restructured the Australian solutions business to achieve positive underlying run rate and divested the Australian urban water business.

Due to outstanding achievements in cash delivery and debt reduction, overall STI awards are higher than FY 2011. However, because half of the total STI awards has been withheld and delivered in shares which will lapse in the event the executive resigns or is dismissed for cause within 12 months, and the MD and CEO did not receive an STI, the payment of cash STI awards is significantly less than FY 2011 for all KMP. The total cash STI awards in aggregate for the CEO & MD and all KMP Executives for FY 2012 was $994,476 compared to $3,051,813 for FY 2011.

iii) Long Term Incentive (LTI)

For FY2012, as the usual timing of the LTI award for all executives including KMP Executives coincided with the capital raising initiative, the Board deferred this award until 1 February 2012. Share rights were issued at 41.4 cents. At the same time, the Board tightened LTI award conditions as follows:

- Eliminated retesting by making share rights awarded in FY 2012 subject to a single performance hurdle test on 1 February 2015;
- Reduced the number of share rights that will vest at the 51st percentile of relative ASX 100 TSR from 52% to 40%; and
- Established a one year trading lock for any share rights that do vest.

In relation to FY2013, the Board will halve the value of LTI that would normally be awarded, and the quantum of share rights will be set to reflect, as a minimum, the 40 cent capital raising price. In addition, we have increased the trading lock over vested share rights from one to two years. The same tighter TSR hurdle introduced for FY2012 will also be applied, together with a minimum 40 cent share price for vesting and with no re-testing.

iv) Retention Equity

In times of specific need the Board has awarded retention shares to a limited number of executives throughout the Company, where their retention is particularly critical to the successful delivery of business strategy. As the Board stated in last year's Remuneration Report, in light of the major re-structure of the business 8 KMP Executives (not including the MD & CEO) were awarded retention shares. These will lapse if resignation occurs before 30 June 2014. As a condition of the award of retention shares, the KMP Executives agreed to vary their employment contracts to reduce any future severance payment.

The award of retention shares has been successful in retaining the participating executives. As the Company is part way through a significant restructure, in FY 2013 the Board has reduced the LTI award to KMP Executives by half the fair value and diverted this value to KMP Executives in the form of retention rights. Retention rights will have a retention hurdle of three years from the time of the award. These will lapse in circumstances of resignation or termination for cause. This change sees no increase in cost to shareholders. It is not envisioned that this retention rights structure will continue after FY2013.

The Board recognises that the agreed remuneration for KMP Executives in FY2012 will be examined closely by shareholders; however, we knew such intervention was urgent and necessary to safeguard the successful restructure of the businesses in Australia and overseas. As a result of the changes described above, executives will have approximately 43% of their total remuneration paid in deferred equity. These proposed changes, particularly reducing the cash opportunity will be challenging for executives. However, we believe this approach represents a balance between the concerns of shareholders and the need to retain the KMP Executives by offering fair reward for achievement.

5. <u>Summary</u>

The Board has considered in detail the complex issues relating to executive remuneration in a business undergoing major structural change. The MD & CEO supports the additional restrictions placed on his remuneration this year to reflect the performance of the Company. However, the Board has balanced this against the need to retain key capable leaders who have a critical contribution to make to return the Company to profitability. We ask shareholders to understand and respect the approach we have taken to remuneration, and look forward to a positive vote in favour of this Report.

REMUNERATION REPORT (AUDITED).

The Directors of the Company present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and the consolidated entity for the year ended 30 June 2012. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001*. This Remuneration Report forms part of the Directors' Report.

INTRODUCTION

Through its remuneration strategy, BlueScope aims to support the achievement of superior business performance over the long term by motivating talented executives to deliver results that reward shareholders.

The Board of Directors oversees BlueScope's remuneration arrangements, including executive remuneration and the remuneration of Non-Executive Directors. This year the Board, led by the Remuneration and Organisation Committee, conducted a comprehensive review of the Company's remuneration strategy to find a way to address the concerns of shareholders expressed in FY 2011 when only 61% voted in favour of our Report. This review included extensive consultation with shareholders and proxy advisors. Our goal has been to develop a remuneration strategy that both keeps our executive team focused on delivering the major restructuring initiatives required to return to profitability and wins widespread support from our shareholders.

Following this year's review, the Board resolved that while our basic remuneration principles (described later in this Report) remain sound, it is appropriate for BlueScope to adopt some transitional remuneration modifications until the Company returns to profit and is paying dividends. These changes have been developed by the Board and are being introduced on a transitional basis with the full support of management who appreciate the need to further align executive rewards with the delivery of superior returns to shareholders. It is intended once the business is stabilised, the Board will again review the Company's approach to remuneration and make further changes, if necessary.

Key elements of this transitional strategy are:

1) Shifting a significant percentage of executive remuneration from cash to deferred equity to more tightly link executive experience with shareholders;
2) Tightening Long Term Incentive (LTI) award conditions by eliminating retesting, imposing a two year trading lock, and reducing vesting at the 51st percentile of Total Shareholder Return (TSR) to 40%;
3) Using the capital raising price of 40 cents as a minimum to determine the quantum of share rights offered to Key Management Personnel (KMP) Executives for the FY 2013 LTI award and the addition of a hurdle that the FY 2013 LTI award will not vest unless the share price at the end of the vesting period is at least 40 cents;
4) Setting special FY 2013 Short Term Incentive (STI) objectives for the Managing Director and Chief Executive Officer (MD & CEO) as disclosed in this Report, after paying no STI or LTI in FY 2012;
5) Paying significantly lower cash STI for all KMP Executives with at least 50% of total STI awarded held as deferred equity with a one year trading lock;
6) For KMP Executives, who achieved quantified results which otherwise would have warranted higher STI, awards have been capped at 60% of target (36% of base pay) if they did not achieve underlying EBIT targets; and
7) Splitting LTI for KMP Executives other than the MD & CEO into a combination of retention rights with a 3 year time-based hurdle, and share rights which vest after 3 years if they meet TSR hurdles but have a further 2 year trading lock.

The table below outlines the issues raised by shareholders and BlueScope's response. Details of BlueScope's remuneration policies and the changes we have made this year are shown in the Report.

Shareholder Concerns with the 2011 Remuneration Report

ISSUES RAISED	BLUESCOPE'S RESPONSE
Fixed • MD & CEO's pay is high compared to ASX 75 to 100 companies. • No disclosure of peer group.	• No MD & CEO base pay increase since September 2010. • BSL peer group is disclosed and takes into account complexity not just market capitalisation.
STI • Cash STI paid despite large loss, share price decline and no dividends. • No specific disclosure of hurdles and targets. • No requirement for minimum level of financial performance before payment of STI.	• No STI for the MD & CEO in FY 2012. • 50% of KMP Executive STI payments will be awarded in deferred equity other than for the Chief Executive BlueScope ANZ who will have 100% delivered in deferred equity. • STI only paid to KMP Executives for demonstrated results with specific measures to be disclosed in FY 2012 Remuneration Report. • No STI will be paid for Companywide financials in FY 2012. • Executives in a structurally challenged industry need to believe they will be fairly rewarded for achievements, especially where businesses operate in very different markets eg BSL China versus BSL Australia. The Board believes it is in shareholders' interests to retain the BSL KMP Executives to drive the transformation program.

ISSUES RAISED	BLUESCOPE'S RESPONSE
LTI • Retention shares may not be effective. • Deficient linking of remuneration to Company performance.	• To date, retention shares have helped keep the BSL leadership team together and focused on the business turnaround. • MD & CEO's pay has dropped 52% between FY 2011 and FY 2012 and FY 2012 remuneration is only 41% of target remuneration. • Under the proposed remuneration structure, the MD & CEO will have 56% and KMP Executives will have approximately 43% of their total potential remuneration in deferred equity.
Directors' Fees • Directors should consider reduction in Directors' Fees as there have been no returns delivered to shareholders.	• Directors' Fees are fixed and reviewed periodically. Directors do not participate in any performance based incentive plans. • The last increase in fees was 5% which occurred on 1 January 2011. The previous increase in base fees occurred on 1 January 2006 and in committee fees on 1 January 2008.

1. CONTEXT: REMUNERATION DECISIONS REFLECT EXECUTIVE ACHIEVEMENTS IN OVERCOMING MAJOR STRUCTURAL CHALLENGES CONFRONTING THE COMPANY

The challenging circumstances faced by BlueScope provide the context for Board decisions in regard to the remuneration of the MD & CEO and KMP Executives. These circumstances include:

- Historically high iron ore and coking coal prices.
- Record high level of the A$ exchange rate, which has placed downward pressure on domestic steel pricing as the Company competes with imports that benefit from the high dollar, as well as unfair trade (dumping).
- A downturn in the building and manufacturing sectors of the Australian economy, while the strong resources sector imports a significant supply of fabricated products.
- The competitive demand for highly trained and capable management, technical and other professionals with skills relevant in other sectors, such as resources.
- The prolonged down-turn and slow pace of recovery in the US economy.

Against this background management and employees across BlueScope have responded to the need to restructure the business to succeed in the toughest business environment the Company has ever experienced. Major achievements included:

- Outstanding cash flow management to achieve a debt reduction outcome at the highest level of the Board's expectations.
- The injury free and operationally secure closure of 2.6 million tonnes of export steelmaking capacity with the closure of a blast furnace, a coke oven, one hot-strip mill, and the moth-balling of a metal coating line – achieved within 7 weeks and below budgeted cost.
- The successful transition to lower priced grades of iron ore, including the introduction of the Company's own reserves of NZ iron sands into the Port Kembla feed-stock blend.
- The sale of the Company's insulated panels business in North America – MetlSpan – at an attractive price.
- The negotiation of the Steel Transformation Plan (STP) resulting in an advance of $100m from the Australian Government to BlueScope. (The STP income has been specifically excluded from all calculations relating to STI awards).
- The restructure of debt and covenant facilities to enable the Company to embark on its operational and business transformation.
- Restructuring the organisation from 6 into 4 divisions effective from 1 July 2012. As a consequence the total cost of fixed remuneration for KMP Executives has reduced. These groups are:
  - i) <u>BlueScope ANZ</u>, comprises the integrated steelmaking, coating, painting, roll-forming and distribution operations across Australia, New Zealand and the Pacific Islands. This business has sales of $5,464m and employees 8,078.
  - ii) <u>Global Building Solutions</u>, a supplier of complete steel buildings worldwide; this business is led from Shanghai and Kansas City, and has manufacturing and sales offices across North America, China, ASEAN, Australia and elsewhere. It is the world's largest design, fabrication and supply business of complete steel buildings. In China, this business includes metal coating and painting operations, and Lysaght China. Sales are $1,442m and employees number 5,000.
  - iii) <u>Building Products</u>, headquartered in Singapore, this business comprises metal coating, painting and roll-forming across ASEAN and North America, along with the Tata BlueScope joint venture in India. 780,000 tonnes are coated and 620,000 tonnes painted per annum, giving this business the largest integrated network of sales and manufacturing operations around the Pacific Basin. Sales are $1,547m and employees number 3,300.
  - iv) <u>Hot Rolled Products North America,</u> comprising North Star BlueScope Steel located in Delta, Ohio a 50 – 50 joint venture between BlueScope and North Star Steel a subsidiary of Cargill and a 47% shareholding in Castrip LLC with Nucor. North Star BlueScope Steel produces around 2 million tonnes of hot rolled coil annually and is ranked fifth by volume in the production of hot rolled coil in North America. Sales are $1,366m and employees number 370.

The Board acknowledges the extremely difficult business conditions and significant achievements by management and employees. The Board identifies with investor concerns regarding the decline in share price and the urgent need to return the business to profit.

All of these factors have been considered by the Board in reaching decisions regarding executive remuneration.

2. REMUNERATION AND ORGANISATION COMMITTEE IS COMPRISED OF INDEPENDENT DIRECTORS AND ASSISTS THE BOARD IN OVERSEEING PEOPLE STRATEGIES AS WELL AS REMUNERATION

The Board oversees the BlueScope Human Resources Strategy, both directly and through the Remuneration and Organisation Committee of the Board (the Committee). The Committee consisted entirely of independent non-executive directors.

The members of the Committee during the year were:

Ms Diane Grady - Independent Director and Chairman of the Committee

Mr Graham Kraehe - Chairman of the Board and Committee Member

Mr Ron McNeilly - Deputy Chairman and Committee Member

Mr Tan Yam Pin - Independent Director and Committee Member

Ms Penny Bingham-Hall – Independent Director and Committee Member (effective 17 February 2012)

The purpose of the Committee is to assist the Board in overseeing that the Company:

- Has a human resources strategy aligned to the overall business strategy, which supports 'Our Bond';
- Has coherent remuneration policies that are observed and that enable it to attract and retain executives and directors who will create value for shareholders;
- Fairly and responsibly rewards executives having regard to the performance of the Company, the creation of value for shareholders, the performance of the executives and the external remuneration environment; and
- Plans and implements the development and succession of executive management.

The Committee has responsibility for overseeing and recommending to the Board remuneration strategy, policies and practices applicable to Non-Executive Directors, the Managing Director and Chief Executive Officer, senior managers and employees generally. The Committee focuses on the following activities in its decision making on the Company's remuneration arrangements:

- Approving the terms of employment of the Key Management Personnel (KMP), including determining the levels of remuneration;
- Ensuring a robust approach to performance management through approval of the STI objectives and awards and reviewing performance of members of the KMP Executives;
- Considering all matters relating to the remuneration and performance of the Managing Director and Chief Executive Officer prior to Board approval;
- Approving awards of equity to employees; and
- Ensuring the Company's remuneration policies and practices operate in accordance with good corporate governance standards, including approval of the Remuneration Report and communications to shareholders on remuneration matters.

The Committee seeks input from the Managing Director and Chief Executive Officer and the Executive General Manager People and Organisation Performance, who attend Committee meetings, except where matters relating to their own remuneration are considered.

The Committee engages and considers advice from independent remuneration consultants where appropriate. Remuneration consultants are engaged by, and report directly to, the Committee. Potential conflicts of interest are considered when remuneration consultants are selected and their terms of engagement regulate their level of access to, and require independence from, BSL's management. Any advice from external consultants is used as a guide, and is not a substitute for thorough consideration of all the issues by the Committee.

During FY2012, the Remuneration and Organisation Committee employed the services of PwC to review and provide recommendations on remuneration strategy and structure which covers KMP. Under the terms of the engagement, PwC provided a remuneration recommendation as defined in section 9B of the Corporations Act 2001 and was paid $24,000 for these services. PwC has confirmed that the remuneration recommendations were made free from undue influence by members of BlueScope Steel Limited's KMP.

The following arrangements were made to ensure that the remuneration recommendation was free from undue influence:

- PwC was engaged by, and reported directly to, the independent Chair of the Remuneration and Organisation Committee. The agreement for the provision of remuneration consulting services was executed by the Chair of the Remuneration and Organisation Committee under delegated authority on behalf of the Board.
- The report containing the remuneration recommendation was provided by PwC directly to the Chair of the Remuneration and Organisation Committee.
- Management provided factual information to PwC throughout the engagement about Company processes, practices and other business issues. However, PwC did not provide any member of management with a copy of the draft or final report that contained the remuneration recommendation.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the KMP.

In addition to providing remuneration recommendations, PwC also provided advice on various other services. PwC was paid a total of $1,306,586 for financial, tax and other remuneration services.

In FY 2012 there was no increase in fees for Non-Executive Directors and all Directors participated in the Capital Raising. The last increase in fees was 5% which occurred on 1 January 2011. The previous increase in base fees occurred on 1 January 2006 and in committee fees on 1 January 2008.

3. EXECUTIVE REMUNERATION POLICY & PRINCIPLES HAVE BEEN MODIFIED THIS YEAR TO REFLECT INVESTOR FEEDBACK

At BlueScope, executive remuneration packages typically comprise three elements – fixed pay (base pay and superannuation), short-term incentive and long-term incentive. In exceptional circumstances, a further element relating to targeted retention may be applied. Although these elements are described separately, they must nevertheless be viewed as part of an integrated package. Whilst each element has a particular design purpose, taken together the intent of the package is to:

- Align executives with the interests of shareholders;
- Competitively reward executives in response to the external market conditions;
- Encourage the retention of highly capable leaders;
- Provide incentive to take well managed risks; and
- Reward executives relative to their performance and accountability.

The mix of elements differs depending on the level in the organisation with a higher skew towards fixed at lower levels. Overall the aim is to provide executives the opportunity to earn top quartile remuneration for stretch performance. For KMP the mix of elements as a proportion of total remuneration at target is shown below.

	Fixed Pay %	STI %	LTI* %	Total %
MD & CEO	40%	29%	31%	100%
KMP Executives	52%	28%	20%	100%

*LTI value based on an estimate of the fair value of target awards. The face value equivalent award levels as a % of base pay are 155% for the MD &CEO and 80% for the KMP Executives.

Careful remuneration benchmarking is critical to achieving these objectives. The Board has taken advice and invested considerable thought in determining the appropriate peer group for BlueScope shown below.

BlueScope Steel Benchmarking Peer Group

Company	Revenue	Employees	Market Cap 23-Mar-2012	Market Cap Average past 3 years to 23-Mar-2012	Market Cap Average past 5 years to 23-Mar-2012	Multiple Geographies Y/N
Adelaide Brighton	1,100	1,600	1,845	1,800	1,774	N
Amcor	12,000	33,000	8,640	7,525	6,728	Y
Asciano	3,056	7,172	4,662	4,382	n.a.	N
Boral	4,700	15,200	3,061	3,132	3,356	Y
Brambles	4,672	17,000	10,245	9,640	11,412	Y
Coca Cola Amatil	4,500	15,000	9,031	8,340	7,654	Y
Caltex	22,105	4,000	3,707	3,215	3,682	N
CSR	1,914	4,000	903	2,042	2,294	Y
Downer	6,975	21,000	1,673	1,854	1,879	Y
Fletcher	7,416	20,000	3,619	3,766	3,807	Y
Incitec Pivot	3,906	5,000	5,065	5,442	5,489	Y
James Hardie	1,200	2,500	3,349	2,759	2,757	Y
Leighton	19,400	51,000	7,793	8,894	10,004	Y
Lend Lease	5,099	17,000	4,191	4,367	4,789	Y
Orica	6,182	14,000	9,647	8,851	8,592	Y
Arrium (formerly OneSteel)	7,133	11,000	1,678	3,233	3,741	Y
Sims	8,900	6,500	3,022	3,729	3,887	Y
Toll	8,225	45,000	4,116	4,388	5,397	Y
Transfield	4,000	27,000	1,336	1,491	1,657	Y
Worley Parsons	5,904	37,800	7,225	6,228	6,665	Y
Median	5,502	15,100	3,912	4,067	3,887	
BSL	9,112	18,344	1,323	3,500	4,763	Y
BSL Ranking (Total 21)	4	8	20	13	10	

Source:

1. Revenue, employees and geographies sourced from 2011 annual reports.
2. Peer Group market cap data as at 23 March 2012 source Factset.

These companies have been selected because they reflect the size and complexity of BlueScope with similarities on one or more of the following dimensions: operate in multiple geographies, have manufacturing or logistics operations in Australia, are involved in the building and construction industry, have similar number of employees, have similar revenue, or similar market capitalisation. In the Board's view it is not appropriate to benchmark against global steel companies, as these are not prime candidates for attracting our executives. Nor is using a simple market capitalisation measure helpful, as the volatile market would result in unmanageable fluctuations in executive remuneration.

i) Fixed Pay

Fixed pay recognises the market value of an individual's skills, experience, accountability and their expected sustained contribution in delivering the fundamental requirements of their role. In order to attract and retain skilled leaders, BlueScope aims to maintain a competitive position for base pay – around the 60th percentile of the most relevant market.

ii) Short Term Incentive (STI)

Whereas base pay recognises the attributes an individual executive brings to their role, short term incentive focuses all executives on priority team based outcomes. The targets are re-set each year in the context of the specific business strategy and new priorities. Short term incentive awards are assessed at the end of each year and covers financial, safety, operational and strategic and new project measures. Failure to achieve a team based target does not necessarily reflect inadequate performance on the part of a particular individual. The threshold, target and maximum STI award settings reflect general market practice for large Australian based industrial companies. Executives are not assured of an STI reward, as the Board retains the discretion to limit, defer or cancel STI awards and specifically considers and approves the objectives and awards for all KMP Executives and the MD&CEO each year.

The Board considers it particularly important in a transformation program to pay STI to KMP Executives for delivering outstanding quantified results even if the Company as a whole is not yet profitable. At the same time we have significantly reduced cash STI by withholding 50% of any STI grant in restricted shares that have a 12 month trading lock and will lapse on resignation or termination for cause.

Target STI levels are set having regard to appropriate levels in the market and range from 10% of base pay through to 60% for the KMP other than the MD & CEO whose STI is 80% of base pay. These levels are reviewed annually. For outstanding results, participants may receive up to a further 50% of their target award amount:

The goals for each participant are drawn from the following categories:

- Companywide Financial Measures - performance measures may include Net Profit After Tax, Cash Flow and Return on Invested Capital;
- Own Business Controllables – performance measures against a range of controllable business unit financial and operational excellence measures based on approved business plans;
- Zero Harm - safety performance measures, including Lost Time Injury Frequency Rates, and Medical Treatment Injury Frequency Rates;
- Projects & New Initiatives – performance measures based on measurable execution and implementation of business priorities included in the strategic plan.

STI plans are developed using a balanced approach to financial measures and key performance indicator ('KPI') metrics. At the senior executive level, there is a minimum weighting of 25% allocated to Companywide financials and a weighting of 5% to Zero Harm, with the balance of the STI allocated between Own Business Controllables comprising Business Unit financials, and Operational Excellence measures and Projects and New Initiatives. The minimum weighting to financials for KMP Executives is usually 55% comprising a 25% weighting to Companywide financials and 30% to business unit financials.

The weightings that applied for FY 2012 were as follows:

	Company Financials %	Zero Harm %	Own Business Controllables (with a minimum weighting of 30% for business unit financial measures) %	Projects and New Initiatives %	Total %
MD & CEO	60%	5%	0%	35%	100%
KMP Executives	25%	5%	30 –70%	0 – 40%	100%

The allocated weightings will vary from year to year reflecting business priorities and the individual's role.

Performance conditions, including threshold, target and stretch hurdles, are set for each plan and approved by the Board for KMP Executives. If the threshold level is not reached, no payment is made in respect of that goal. The Board retains the discretion to adjust any STI payments in exceptional circumstances, including determining that a reduced award or even no award is paid. In FY 2009 the Board decided that no STI would be paid even though some performance objectives had been met because the overall Company profit performance was poor. Below target STI awards were paid in 2010 and 2011.

Although the MD & CEO has led the Company to achieve the targets set by the Board in relation to reduction in debt, cash management and Company restructuring in view of EBIT performance the MD & CEO's STI for FY2012 will be zero.

For KMP Executives, where businesses did not achieve their underlying EBIT hurdles, the Board has exercised discretion to cap STI at 60% of target notwithstanding higher levels of achievement on measurable results. All KMP received less than their target STI outcome.

iii) Long Term Incentive (LTI)

Long term incentive is one of the means of aligning executives with the experience of shareholders. BlueScope uses a three year time period to test total shareholder return (TSR) relative to the ASX 100, to determine whether or not an executive receives a reward from this element in their remuneration package. The Board considered shifting to a combination of TSR and earnings measures this year, but determined that in light of ongoing volatility in both the cost of raw materials and steel pricing it would be not be appropriate to use an earnings measure at this time.

The quantum of LTI awards is normally calculated based on an agreed percentage of base salary divided by the face value of shares at the time of issue rather than fair value. Fair value however is used for reporting purposes as required by accounting standards, and is also used in benchmarking executive remuneration against the selected peer group which reports fair value.

For FY 2013, the Board has taken into account shareholder feedback and tightened conditions related to long term incentive awards even further. Specifically, we have agreed that the quantum of rights for KMP Executives will be calculated using a minimum share price of 40 cents reflecting the capital raising price even if the share price at the time of the grant is lower. We also extended the trading lock from one to two years which takes the effective period of awards to 5 years, and retained the tighter vesting hurdles introduced in FY 2012.

Executives at BlueScope are not permitted to hedge (such as "cap and collar" arrangements) LTI awards, or vested shares held under trading lock restrictions. The last LTI that vested for BlueScope executives was the 2005 award, which vested in 2008.

iv) Retention Equity

In unprecedented circumstances, the Board has awarded retention shares to a limited number of executives throughout the Company, where their retention is critical to the successful delivery of business strategy. As the Board stated in last year's Remuneration Report, in light of the major re-structure of the business 8 KMP Executives (not including the MD & CEO) were awarded retention shares, which will lapse if resignation occurs before 30 June 2014. As a condition of the award of retention shares KMP Executives agreed to vary their employment contracts to limit any future severance payment to 12 months of final average fixed pay over the previous three years. The award of retention shares has been successful in retaining participating executives.

This year the Board has determined to split executive LTI (except for the MD & CEO) into two parts. Half will be offered under normal LTI conditions described above. The other half will be offered as retention rights which have a 3 year vesting hurdle and will lapse if the executive leaves the Company. The Board does not expect to continue this retention rights offer after FY2013.

v) Deferred Equity Offered

A goal of the Board in developing the remuneration structure for this transition period has been to increase the percentage of remuneration paid in deferred equity to further reinforce the alignment of executive experience with shareholders. At the same time the Board is cognisant of investor concerns regarding further equity dilution. The following table shows the number of shares and percentage of equity potentially available to the MD & CEO, KMP Executives and other participants in long term equity plans in FY 2012 and FY 2013 pending performance against hurdles and satisfying retention conditions. The Share Rights will only vest in the event that the Company achieves its relative TSR hurdles against the ASX 100 and the participant is employed by BlueScope at the end of the 3 year performance period. Retention Rights will only vest if the share price is at least 40 cents and the participant is employed by BlueScope at the end of 3 years. If an executive retires or is made redundant, rights will be retained on a prorata basis but will only be accessible after the normal vesting and holding requirements` are met. The Board, however, has discretion to release sufficient rights to pay any associated tax liability.

LTIP Awards, Retention & STI Shares

	FY2012				FY2013				
	Share Rights (1)	Retention Shares (1)	Total	Total as a % of Issued Shares	Share Rights (2)	Retention Rights (2)	STI Shares for FY 2012 (3)	Total	Total as a % of issued Shares(4)
MD& CEO	0	0	0	0	6,781,250	0	0	6,781,250	0.20%
KMP Executives	11,339,940	3,685,900	15,025,840	0.45%	5,052,679	3,789,510	3,259,575	12,101,764	0.36%
Other Executives & participants	34,973,500	5,056,500	40,030,000	1.20%	11,515,335	20,104,228	0	31,619,563	0.94%
Total	46,313,440	8,742,400	55,055,840	1.65%	23,349,264	23,893,738	3,259,575	50,502,577	1.50%

Notes:

(1) Includes cash rights, vesting subject to satisfying relative TSR hurdles and a minimum 40 cent share price

(2) Allocation based on share price of 40 cents and estimated participation levels. Vesting subject to a minimum 40 cent share price and 3-year service period with prorata vesting on retirement and redundancy.

(3) Assume share price of 40 cents (closing share price on 17 August 2012)

(4) BSL Issued Capital at 3.3b shares

(5) Target parcels calculated on base salary as at 30 June 2012

HOW THESE TRANSITION POLICIES & PRINCIPLES APPLY TO THE MD & CEO

This section of the Remuneration Report provides shareholders with an explanation of how the policies referred to above have been applied to the MD & CEO.

The Board, with his full support, has significantly reduced the MD & CEO's total remuneration package for FY 2012. No salary increase, no Long Term Incentive (LTI) and no Short Term Incentive (STI) awards have been paid, resulting in a 52% year on year reduction in his remuneration or 41% of his target remuneration as shown in this table.

	FY 2012 Actual Remuneration $	FY 2011 Actual Remuneration $
Base pay including superannuation	1,995,000	1,995,000
STI paid	Nil	720,865
Total take home pay	**1,995,000**	**2,715,865**
LTI awarded	Nil	1,440,264
Total remuneration	**1,995,000**	**4,156,129**
Reduction in total remuneration from FY 2011	52%	
Actual remuneration received as a % of target remuneration	41%	

A summary of the decisions made for FY 2012 and FY 2013 follows:

i) Base Pay

The Board has determined that the MD&CEO's base pay is appropriately positioned around the 60th percentile relative to the selected peer group as at 3 April 2012. Consequently, the MD & CEO has not had a salary increase in FY 2012. Furthermore, the MD & CEO's salary will be frozen again in FY 2013.

The following table sets out the MD & CEO's actual remuneration for FY 2012 relative to his potential target remuneration and to the 60th percentile of the selected peer group.

	Fixed pay $	Short term incentive $	Long term incentive $	Total remuneration $
BSL CEO actual remuneration FY 2012	1,995,000	Nil	Nil	1,995,000
BSL CEO Target remuneration	1,995,000	1,400,000	1,491,875	4,886,875
Peer Group remuneration at the 60th%*	1,998,150	1,718,000	1,397,000	5,144,000

(Source PWC remuneration benchmarking report dated 3 April 2012)

*Note the individual remuneration components (including the total) are benchmarked to market separately.

ii) Short Term Incentive (STI)

Although the MD & CEO has achieved the targets set by the Board in relation to reduction in debt, cash management and Company restructuring in view of EBIT performance, the MD & CEO's STI for FY 2012 will be zero. The payment of a target STI for FY 2013 will depend upon the achievement of the following target objectives: delivery of a major strategic transformational initiative; returning to a positive underlying profit and top quartile TSR performance relative to the ASX 100. Details of the targets and results will be disclosed to shareholders in the FY 2013 Remuneration Report. Importantly, if any STI is awarded, it will be delivered equally in cash and equity. The equity will be subject to a 12 month trading lock and will lapse on termination due to resignation or for cause.

iii) Long Term Incentive (LTI)

The MD & CEO did not receive any LTI share rights in FY 2012 in view of the Company's financial performance and no share rights have vested since the 2005 award vested in September 2008.

The MD & CEO will receive share rights for FY 2013 under the existing terms of his LTI plan, as approved by shareholders at the AGM in 2010. However, the MD & CEO agreed that in addition to the relative total shareholder return hurdle previously approved, no share rights will vest unless the share price is at least 40 cents, the price offered to shareholders at the time of the capital raising in November 2011.

Shareholders will be asked to approve a new LTI plan for the MD & CEO to apply in FY 2014 and FY 2015 which will have a five year period from the date of the award of share rights before vested shares can be accessed. The new LTI plan will be more restrictive than the current plan with the removal of re-testing, a reduction in the number of shares that will vest at the 51st percentile of relative ASX100 TSR performance from 52% to 40%, and a requirement to hold any shares that do vest after 3 years for a further period of two years. Share rights are not eligible for dividends until they vest.

Share rights would be awarded using the current formula of 155% of base salary per annum. This percentage was agreed when the MD & CEO's initial contract was signed and at that time reflected an increased weighting to LTI and a reduced weighting of his STI.

The following table shows what the MD & CEO will earn in cash and shares if he achieves target or stretch objectives in FY 2013 including his potential LTI award assuming full vesting in three years.

	Previous Remuneration Structure				New Remuneration Structure			
	Target		Stretch		Target		Stretch	
	$	%	$	%	$	%	$	%
Base Pay	1,750,000		1,750,000		1,750,000		1,750,000	
Super	245,000		245,000		245,000		245,000	
Fixed Pay	1,995,000		1,995,000		1,995,000		1,995,000	
Cash STI	1,400,000		2,100,000		700,000		1,050,000	
Total Cash	**3,395,000**	**69%**	**4,095,000**	**73%**	**2,695,000**	**55%**	**3,045,000**	**55%**
STI Shares	-		-		700,000		1,050,000	
Retention Shares	-		-		-		-	
LTIP Share Rights (based on Fair Value)	1,491,875		1,491,875		1,491,875		1,491,875	
Total Equity	**1,491,875**	**31%**	**1,491,875**	**27%**	**2,191,875**	**45%**	**2,541,875**	**45%**
TOTAL REM	**4,886,875**	**100%**	**5,586,875**	**100%**	**4,886,875**	**100%**	**5,586,875**	**100%**

5. HOW THESE TRANSITION POLICIES & PRINCIPLES APPLY TO KMP EXECUTIVES

This section explains how the executive remuneration policies adopted as part of our transition process have been applied to KMP Executives during FY 2012 and FY2013.

i) Base Pay

The KMP Executive Team was reduced by two in FY 2012 resulting in the total cost of KMP Executive fixed remuneration declining by 10%. However, increased accountabilities from the restructure of the business in FY 2012 and the need to retain remaining KMP Executives to lead major strategic initiatives resulted in increases to base pay reflecting peer group benchmarking. There will be no "across-the-board" base pay increase for all KMP Executives for FY 2013.

Mr Mark Vassella was promoted to the new role of Chief Executive – BlueScope Australia & New Zealand which comprises responsibility for businesses previously led by Mr Noel Cornish, Mr Paul O'Keefe and Mr Keith Mitchelhill. His base pay increased to $1,000,000.

Mr Sanjay Dayal had his base pay increased to $880,000 in recognition of the additional responsibilities arising from the establishment of the Building Products business unit comprising a combination of the ASEAN, Indian, Steelscape and ASC Profiles businesses on the US West Coast.

Mr Bob Moore, Chief Executive, China had his base pay increased to $700,000 with effect from 1 July 2012 reflecting the increased responsibilities in leading the Company's pre-engineered steel building businesses stretching from North America across China, Asia, India, the Middle East and Australia.

Mr Keith Mitchelhill replaced Mr Vassella as Chief Executive, North America. He was seconded to Kansas City and his base pay increased to $852,000.

The Corporate KMP group, Mr Charlie Elias – CFO, Mr Ian Cummin – EGM People & Organisation Performance and Mr Michael Barron – CLO and Mr Pat Finan EGM Global Building and Construction Markets received increases ranging from 8% to 10%. These increases re-aligned their base remuneration to the market, after the salary freeze in FY 2010 and nominal increases in FY 2011. Over the past three years salary increases for corporate KMP Executives have averaged between 4% and 6%.

Mr Noel Cornish, formerly Chief Executive ANZ Manufacturing Businesses, retired on 31 July 2011 and did not receive a base pay increase for FY 2012.

Mr Paul O'Keefe, formerly Chief Executive Australian Coated & International Markets left the Company on 27 January 2012 as a result of the restructure of the Australian business. He did not receive a base pay increase during FY 2012.

ii) Short Term Incentive

As BlueScope's overall financial performance did not reach the required EBIT threshold established by the Board, no STI is payable for Company Financials. This applies notwithstanding that the cash flow performance has been excellent. In addition, the Company's safety LTIFR performance for the year did not meet the required hurdle. Accordingly, no STI is payable for safety performance.

STI awards were made for achievement of positive business unit EBIT objectives, achieving outstanding cashflow results and implementation of fundamental restructuring initiatives to underpin a turnaround in company financial performance.

In addition, KMP Executives will have half of their total STI awards withheld, and delivered as restricted shares. These will lapse if the KMP executive resigns or is terminated for cause within 12 months. No dividends will be payable during the period of the holding lock. Also, the Chief Executive BANZ will have 100% of his STI award withheld and delivered in equity. Half may be released early if certain H1 FY2013 objectives are achieved.

The basis of awards to individual KMP Executives are outlined below:

- Mark Vassella, and the corporate team of Charlie Elias, Ian Cummin and Michael Barron delivered the Australian restructure including:
  - Achieving targeted fixed cost reductions of $315m;
  - Containing restructure costs to $380m, below the targeted range of $400-$500m;
  - Releasing working capital of $583m between October 2011 and June 2012, after adjusting for the timing of certain year end cashflows, better than the expected range of $400-500m;
  - Negotiating positive outcomes for major contract renegotiations; and
  - Significantly reducing exposure to loss-making export sales.

  In addition, the corporate team managed the sale of Metl Span at an attractive price, a significant initiative contributing to the reduction in net debt.
- Sanjay Dayal – Delivered business unit threshold EBIT and stretch cashflow objectives for the ASEAN business, including restructuring the cost base of the ASEAN Building Products.
- Bob Moore – Delivered business unit EBIT and cashflow objectives, including improving the profitability of the coated business in China by expanding sales channels and sourcing lower cost feed. In addition, he established the Global Buildings Solutions business by merging the US, China, ASEAN and Australian businesses into a single group with a lower cost structure.
- Keith Mitchelhill - Rationalised the US buildings footprint achieving break-even run rate at volumes almost half Pre-GFC levels delivering a significant underlying EBIT improvement versus FY2011.
- Pat Finan - Established the global sales and marketing function for the Building Solutions business, delivering stretch sales revenue with new global accounts and enabling significant engineering cost reductions through the introduction of BlueScope's proprietary Vision Engineering system in Vietnam and Thailand. In addition, he restructured the Australian Solutions business to achieve positive underlying run rate and divested the Australian Urban Water business.

Further details of the STI awards are included in this Remuneration Report at paragraph 7.2 and details of the STI forfeited are included at paragraph 7.3.

Due to outstanding achievements in cash delivery and debt reduction, overall STI awards are higher than FY 2011. However, because half of the STI awards have been withheld in "at risk" shares, and the MD and CEO did not receive an STI, the payment of cash STI awards is significantly less than FY 2011 for all KMP. The total cash STI awards in aggregate for the CEO & MD and all KMP Executives for FY 2012 was $994,476 compared to $3,051,813 for FY 2011

iii) Long Term Incentive

As the usual timing of the award of LTI for KMP Executives generally coincided with the capital raising initiative, the Board deferred this award until 1 February 2012 at 41.1 cents. LTI conditions were significantly tightened reflecting investor feedback including: 1) eliminating the previous two year retesting period in favour of a single performance hurdle test on 1 February 2015; 2) reducing the number of share rights that will vest at the 51st percentile of relative ASX 100 TSR (from 52% of share rights to 40%) through to the 75th percentile where vesting is unchanged at 100% of share rights; and 3) imposing a further one year trading lock on any share rights that do vest.

In relation to FY 2013, and as part of this transition process the Board will halve the value of LTI that would normally be awarded, and the quantum of share rights will be set to reflect, as a minimum, the 40 cent capital raising price. In addition, we have increased the trading lock over vested share rights from one to two years. The same tighter TSR hurdle introduced for FY 2012 will also be applied, together with a minimum 40 cent share price for vesting, only 40% vesting at the 51st percentile and with no re-testing.

iv) Retention Equity

As foreshadowed in the 2011 Remuneration Report, retention shares were awarded to continuing KMP Executives in FY2012. Those retention shares will lapse if the executive resigns or is terminated for cause before 1 July 2014. The Board retains discretion in other circumstances, such as redundancy and agreed retirement. As a condition for participation, KMP Executives agreed to reduce the maximum termination payment previously included in their employment contracts.

This intervention was taken to address the unique circumstances facing the Company and the critical contribution required by KMP Executives in leading the restructure of the Company.

The Board intends to introduce a new retention rights scheme in FY 2013. This has been funded by halving the value of the executive LTI program and there is no change in cost to shareholders. Retention rights will have a retention hurdle of three years from the time of the award, and a minimum share price of 40 cents for vesting to occur. These retention rights will lapse in circumstances of resignation or termination for cause. The Board retains discretion in other circumstances. It is not envisaged that this retention rights structure will continue after FY 2013.

A key objective in determining the remuneration structure during this transition period has been to increase the percentage of remuneration paid in deferred equity and reduce the percentage paid in cash. The following table illustrates what the total remuneration would look like for a sample KMP Executive other than the MD &CEO if the executive were to achieve target or stretch STI outcomes in FY2012 and FY2013 and were also eligible for all LTI and retention rights offered. This example shows the target and maximum outcomes and provides the breakdown of cash and deferred equity with comparisons to the previous structure.

	Previous Remuneration Structure				**New Remuneration Structure**			
	Target		**Stretch**		**Target**		**Stretch**	
	$	%	$	%	$	%	$	%
Base Pay	800,000		800,000		800,000		800,000	
Super	112,000		112,000		112,000		112,000	
Fixed Pay	912,000		912,000		912,000		912,000	
Cash STI	480,000		720,000		240,000		360,000	
Total Cash	**1,392,000**	**80%**	**1,632,000**	**82%**	**1,152,000**	**66%**	**1,272,000**	**64%**
STI Shares	-		-		240,000		360,000	
Retention Shares	-		-		176,000		176,000	
LTIP Share Rights (based on Fair Value)	352,000		352,000		176,000		176,000	
Total Equity	**352,000**	**20%**	**352,000**	**18%**	**592,000**	**34%**	**712,000**	**36%**
TOTAL REM	**1,744,000**	**100%**	**1,984,000**	**100%**	**1,744,000**	**100%**	**1,984,000**	**100%**

V) Long Term Incentive Plan

The following table summarises the key features of the current unvested long term incentive plan awards.

SUMMARY TABLE OF LONG TERM INCENTIVE PLAN AWARDS

	FY2007	FY2008	FY2009	FY2010[1]	FY2011[1]	FY2012[1]
Grant Date	18 November 2006 (The grant to the MD & CEO was subject to shareholder approval at the 2006 AGM)	5 November 2007 (all executives excluding MD & CEO) 14 November 2007 (MD & CEO)	28 November 2008 (The grant to the MD & CEO was subject to shareholder approval at the 2008 AGM)	30 November 2009 (The grant to the MD & CEO was subject to shareholder approval at the 2008 AGM)	30 November 2010 (The grant to the MD & CEO was subject to shareholder approval at the 2009 AGM)	16 April 2012 (In view of Company financial performance, the MD & CEO did not receive a grant of share rights this year)
Exercise Date	From 1 September 2009	From 1 September 2010	From 1 September 2011	From 1 September 2012	From 1 September 2013	From 1 February 2015
Expiry Date	31 October 2011	31 October 2012	31 October 2013	31 October 2014	31 October 2015	31 January 2015
Total Number of Share Rights Granted	2,310,950	1,934,845	2,248,246	8,090,480	10,536,550	43,190,960
Total Number of Cash Rights Granted[2]				158,000	166,000	3,122,480
Number of Participants at Grant Date	206	217	255	313	285	266
Number of Current Participants	0	113	162	282	265	266
Exercise Price	Nil	Nil	Nil	Nil	Nil	Nil
Fair Value Estimate at Grant Date	$12,012,780	$11,468,263	$2,765,343	$10,516,812	$9,723,180	$7,234,294
Fair Value per Share Right at Grant Date	$5.53	$6.37 (5 Nov 2007) $6.42 (14 Nov 2007)	$1.64	$1.70	$1.20	$0.21
Share Rights Lapsed since Grant Date	2,310,950	860,073	734,850	1,154,049	1,620,369	0
Cash Rights Lapsed since Grant Date	-	-	-	13,000	26,000	0
Vesting Schedule						
TSR Hurdle - 75th-100th percentile	100%	100%	100%	100%	100%	100%
TSR Hurdle - 51st-<75th percentile	There is no vesting until the 51st percentile, at which point 52% vests increasing on a linear basis to 100% vesting at the 75th percentile. Any unvested Share Rights will be carried over for assessment at subsequent performance periods.					No vesting until 51st percentile, at which point 40% vests increasing on a linear basis to 100% vesting at the 75th percentile. Any unvested Share Rights will lapse.
TSR Hurdle - < 51st percentile	All Share Rights will be carried over for assessment at subsequent performance periods.					All Share Rights will lapse.
Vesting Outcome 1st Performance Period	0.00%	0.00%	0.00%	-	-	-
Vesting Outcome 2nd Performance Period	0.00%	0.00%	0.00%	-	-	No retesting
Vesting Outcome 3rd Performance Period	0.00%	0.00%	-	-	-	No retesting
Vesting Outcome 4th Performance Period	0.00%	0.00%	-	-	-	No retesting
Vesting Outcome 5th Performance Period	0.00%	-	-	-	-	No retesting

[1] These grants are within the first performance period and are yet to be tested.

[2] For some countries, where there are additional restrictions relating to awards of equity, a 'Cash Rights' award is made which delivers a cash payment on vesting.

WHAT IS THE RELATIONSHIP BETWEEN COMPANY PERFORMANCE AND REMUNERATION?

The short-term and long-term incentive components of the remuneration structure reward achievement against Company and individual performance measures over one year and multi-year timeframes. Company profit and TSR performance over the last year have been unsatisfactory notwithstanding significant management achievements in restructuring BlueScope to adapt to major challenges affecting the industry. Executive remuneration has been substantially reduced as a consequence. Nevertheless, the Board believes it is important to retain our leadership team to deliver the turnaround initiatives underway and to recognise that some BlueScope businesses are performing well.

The table below summarises the Company's performance for FY 2012 and the previous 4 years.

Measure	30 June 2008	30 June 2009	30 June 2010	30 June 2011	30 June 2012
Share Price	$11.34	$2.53	$2.10	$1.21	$0.30
Dividend per Share:					
Ordinary (cents)	49	5	5	2	0
Earnings per Share (cents) [1]	56.0	-6.0	5.8	-48.6	-39.1
REPORTED [2]					
NPAT $ million	$596	-$66	$126	-$1,054	-$1,044
EBIT $ million	$1,063	$15	$240	-$1,043	-$820
EBITDA $ million	$1,420	$380	$590	-$687	-$489
UNDERLYING [2]					
NPAT $ million	$809	$35	$110	-$127	-$238
EBIT $ million	$1,267	$152	$253	-$107	-$224
EBITDA $ million	$1,618	$506	$594	$240	$99

[1] Prior period earnings per share has been restated for the bonus element of the four-for-five share rights issue undertaken in December 2011 using a factor of 1.1823.

[2] The use of the terms 'reported' refers to IFRS financial information and 'underlying' to non-IFRS financial information. Underlying earnings are categorised as non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 – Disclosing non-IFRS financial information, issued in December 2011. Underlying adjustments have been considered in relation to their size and nature, and have been adjusted from the reported information to assist readers to better understand the financial performance of the underlying business in each reporting period. These adjustments are assessed on a consistent basis from period to period and include both favourable and unfavourable items. The non-IFRS financial information, whilst not subject to an audit or review, has been extracted from the financial report which has been subject to audit by our external auditors. A detailed reconciliation of adjustments to the reported information is provided on page 5 of the Director's Report.

As BlueScope's overall financial performance did not reach the required threshold established by the Board of an underlying profit for the 2nd half of the financial year, no STI is payable for Company Financials which make up 25% of total STI at target. The Company's safety LTIFR performance for the year did not meet the required hurdle. Accordingly, no STI is payable for safety performance which makes up 5% of STI at target. For KMP Executives, who achieved quantified results which otherwise would have warranted higher STI, awards have been capped at 60% of target (36% of base pay) if they did not achieve underlying EBIT objectives. STI awards were made for achievement of positive EBIT financial objectives, achieving outstanding cashflow results and implementation of fundamental restructuring initiatives to underpin a turnaround in Company financial performance.

SPECIFIC REMUNERATION DETAILS

7.1 Key Management Personnel – Directors' Remuneration

Details of the audited remuneration for the year ended 30 June 2012 for each Non-Executive Director of BlueScope are set out in the following table

KMP Remuneration – Non Executive Directors

		Short-term employee benefits				
Name	**Year**	**Fees**	**Non-monetary**	**Sub-Total**	**Post-employment benefits [1]**	**Total [2]**
		$	$	$	$	$
Director - Current						
G J Kraehe	2012	472,500	10,672	483,172	15,775	498,948
	2011	460,385	10,498	470,883	15,199	486,082
R J McNeilly	2012	273,000	-	273,000	15,775	288,775
	2011	266,000	-	266,000	15,199	281,199
D J Grady	2012	197,400	-	197,400	15,775	213,175
	2011	192,339	-	192,339	15,199	207,538
H K McCann	2012	190,050	-	190,050	15,775	205,825
	2011	185,177	-	185,177	15,199	200,376
Y P Tan	2012	205,800	-	205,800	15,991	221,791
	2011	200,523	-	200,523	15,199	215,722
D B Grollo	2012	193,103	-	193,103	15,775	208,878
	2011	185,177	-	185,177	15,199	200,376
K A Dean	2012	207,900	-	207,900	15,775	223,675
	2011	202,569	-	202,569	15,199	217,768
P Bingham-Hall	2012	175,665	-	175,665	15,775	191,440
	2011	38,838	-	38,838	3,449	42,287
Total 2012		1,915,418	10,672	1,926,090	126,416	2,052,506
Total 2011		1,731,007	10,498	1,741,505	109,842	1,851,347

[1] Post employment benefits relate to government compulsory superannuation contributions.

[2] There was no increase in directors' fees during the year. The FY2011 figures include 6 months of the 5% increase from 1 January 2011 and the FY2012 figure reflects the increase for the full 12 months to 30 June 2012. The previous increase in base fees occurred on 1 January 2006 and in Committee fees on 1 January 2008.

Key Management Personnel – Executives (including Managing Director and Chief Executive Officer's) remuneration

The Key Management Personnel of BlueScope Steel Limited includes those members of the KMP Executive Team who have the authority and responsibility for planning, directing and controlling the activities of the Company. These executives also represent the five most highly remunerated executives within the organisation.

The following table shows the composition of the KMP Executive Team during the year.

Key Management Personnel - Executives		
Current KMP - Executives	**Position**	**Dates position held during year ended 30 June 2012**
P F O'Malley	Managing Director and Chief Executive Officer	1 July 2011 – 30 June 2012
I R Cummin	Executive General Manager, People and Organisation Performance	1 July 2011 – 30 June 2012
M R Vassella	Chief Executive BlueScope Australia and New Zealand	1 July 2011 – 30 June 2012
S R Elias	Chief Financial Officer	1 July 2011 – 30 June 2012
M G Barron	Chief Legal Officer and Company Secretary	1 July 2011 – 30 June 2012
K A Mitchelhill	President North America	1 July 2011 – 30 June 2012
S Dayal	Chief Executive, Asia	1 July 2011 – 30 June 2012
R Moore	President, China	1 July 2011 – 30 June 2012
P Finan	Executive General Manager, Global Building & Construction Markets	1 July 2011 – 30 June 2012
P E O'Keefe[2]	Former Chief Executive, Australian Coated & Industrial Markets	1 July 2011 – 27 January 2012
N H Cornish[1]	Former Chief Executive, Australian & New Zealand Steel Manufacturing Businesses	1 July 2011 – 31 July 2011

[1] Noel Cornish retired from the Company on 31 July 2011.

[2] Following the restructure of the Australian Business involving the consolidation of three ELT roles in Australia to one role, Paul O'Keefe's role became redundant and he left the Company 27 January 2012.

The audited information contained in the following tables represents the annual remuneration for the year ended 30 June 2012 for the KMP. The aggregate remuneration of the KMP of the Company is set out below:

	2012	2011
		$
Short-term employee benefits[1]	11,324,526	12,009,503
Post-employment benefits	346,715	432,438
Other long-term benefits	335,994	231,934
Termination benefits	-	578,810
Share-based payments[2,3]	4,385,420	2,452,180
Total	16,392,655	15,704,867

[1] This includes base salary, annual leave accruals, non-monetary benefits, superannuation received as cash allowance and STI payments.

[2] This relates to awards of share rights that can only vest when performance hurdles are achieved.

[3] For some countries, where there are additional restrictions relating to awards of equity, a 'Cash Rights' award is made which delivers a cash payment on vesting.

The remuneration of each member of the KMP of the Company is set out in the following tables.

KMP - Remuneration –2012

Name	Year	Short-term employee benefits: Salary and fees	Short-term employee benefits: Movement in annual leave provision [1]	Short-term employee benefits: Bonus	Short-term employee benefits: Non-monetary	Short-term employee benefits: Other [2]	Sub-total	Post-employment benefits [3]	Other long-term employee benefits [4]	Termination benefits	Share-based payment: Shares and units	Share-based payment: Options and rights [9]	Total [13]	% of performance related pay [10]
		$	$	$	$	$	$	$	$	$	$	$	$	%
Executive Director														
P F O'Malley [5,9]	2012	1,750,000	-20,008	0	995	220,000	1,950,987	25,000	43,811	0	42,725	741,498	2,804,021	26.4
	2011	1,702,346	-11,903	720,865	980	213,404	2,625,692	25,000	51,079	0	88,754	997,804	3,788,329	45.4
KMP executives														
N H Cornish [11]	2012	89,432	0	0	28,394	0	117,826	12,520	0	0	0	-360,031	-229,685	0.0
	2011	770,560	-16,284	254,845	1,869	0	1,010,990	109,526	34,386	0	0	213,279	1,368,181	34.2
M R Vassella [6,9]	2012	961,538	29,917	0	538,312	110,577	1,640,344	24,038	123,188	0	267,921	603,238	2,658,729	22.7
	2011	762,600	-39,619	269,361	261,105	81,190	1,334,637	25,000	27,849	0	7,889	188,745	1,584,120	28.9
P E O'Keefe [12]	2012	356,191	0	50,646	5,167	34,482	446,486	15,384	0	0	0	-106,145	355,725	0.0
	2011	573,298	19,587	182,325	0	55,291	830,501	25,000	16,840	578,810	0	145,355	1,596,506	20.5
I R Cummin [5]	2012	618,376	8,231	111,600	995	30,796	769,998	55,769	24,701	0	166,100	289,008	1,305,576	30.7
	2011	569,752	4,639	196,341	980	53,659	825,371	26,106	17,176	0	0	158,411	1,027,064	34.5
M G Barron	2012	618,376	16,506	111,600	0	35,537	782,019	50,000	26,448	0	166,100	289,008	1,313,575	30.5
	2011	569,752	13,599	196,341	0	29,765	809,457	50,000	17,798	0	0	145,261	1,022,516	33.4
S R Elias	2012	760,590	42,000	137,340	1,493	81,483	1,022,906	25,000	24,888	0	204,427	347,832	1,625,053	29.9
	2011	683,708	38,148	237,554	0	70,771	1,030,181	25,000	20,149	0	0	169,706	1,245,036	32.7
S Dayal [6]	2012	835,710	22,543	217,800	-25,410	67,770	1,118,413	47,917	35,531	0	56,363	423,852	1,682,076	38.1
	2011	680,973	23,713	300,623	-90,007	45,550	960,852	50,000	18,917	0	16,067	115,210	1,161,046	35.8
K A Mitchelhill [5,8]	2012	852,000	44,560	127,800	316,137	94,280	1,434,777	25,000	27,299	0	239,953	329,071	2,056,100	22.2
	2011	747,520	9,686	236,849	50,452	54,653	1,099,160	50,000	19,563	0	19,833	131,694	1,320,250	27.9
P J Finan [6,7,8]	2012	445,506	5,607	82,764	357,392	0	891,269	18,170	0	0	126,411	154,843	1,190,693	20.0
	2011	302,823	-5,706	155,869	198,902	0	651,888	17,639	0	0	0	26,466	695,993	26.2
R J Moore [6,7]	2012	604,000	-17,853	154,926	372,461	35,967	1,149,501	47,917	30,128	0	161,850	241,396	1,630,792	24.3
	2011	334,283	16,317	300,840	161,543	17,792	830,775	29,167	8,179	0	0	27,706	895,827	36.7
Total 2012		7,891,719	131,503	994,476	1,595,936	710,892	11,324,526	346,715	335,994	0	1,431,850	2,953,570	16,392,655	
Total 2011		7,697,615	52,177	3,051,813	585,824	622,076	12,009,503	432,438	231,934	578,810	132,543	2,319,637	15,704,867	

[1] Negative movement in annual leave provision indicates leave taken during the year exceeded leave accrued during the current year.
[2] Due to changes in the superannuation legislation resulting in maximum contribution levels, members of the Defined Contribution Division can elect to receive a proportion of their superannuation as a cash allowance.

[3] Post-employment benefits relate to superannuation arrangements. There are no other post-employment benefits.

[4] This shows movement in long service leave benefits during the year.

[5] Non-monetary includes executive health check.

[6] Non-monetary includes benefits provided under the Company's international assignment policy e.g. accommodation, tax equalisation, and medical coverage. The Company continued to incur costs related to Mr Vassella's North America assignment as a consequence of his early return to Australia on appointment as Chief Executive BlueScope Australia and New Zealand.

[7] KMP appointed to ELT during year ended 30 June 2011. Amounts disclosed for year ended 30 June 2011 are for part year only.

[8] Non-monetary includes relocation expenses.

[9] For the MD&CEO LTI represents the accounting amortisation of prior year awards as no LTI award was made in FY2012.

[10] The % of remuneration that is performance related recognises STI payouts at below target. LTI is based on accounting values rather than the amounts actually received. The last LTI award to vest was the 2005 Award that vested in September 2008.

[11] Mr Cornish retired from the Company on 31 July 2011. No payments other than statutory entitlements were paid. The Company entered into an agreement with Mr Cornish for the provision of consultancy services for a period of up to 2 years. As part of this arrangement Mr Cornish is a member of the Boards of North Star BlueScope Steel and Tata BlueScope Steel. He also represents BlueScope on the Executive of AI Group and provides safety leadership across our operations, particularly in Asia. In addition, he provided project management leadership during the commissioning of MCL2 in Indonesia.

[12] Mr O'Keefe left the company on 27 January 2012 due to the restructure of the Australian businesses, at which time he was entitled to a termination payment of 12 months base pay, under the terms of his employment contract. This was disclosed in the FY2011 Remuneration Report.

[13] Notwithstanding the reduction of the two KMP Executives, due to disclosures required under Australian Accounting Standards, total reported KMP remuneration for FY2012 is higher than that reported for FY2011 due to increases in base pay as referred to in paragraph 5(i), the inclusion of remuneration for Mr Finan and Mr Moore on a full year basis in FY2012 compared to a part year basis for FY 2011, an increase in the number of KMP Executives covered by the Company's international assignment policy and the amortisation of the special retention share awards issued during the year.

7.3 Short term incentive awards

For the year ended 30 June 2012 no KMP executive received target STI. In addition half of any STI earned has been withheld and delivered as restricted shares. These will lapse if the executive resigns or is dismissed within 12 months of the award. Also, the Chief Executive BANZ will have 100% of his STI award withheld and delivered in equity. Half may be released early if certain H1 FY2013 objectives are achieved. Eligibility to receive an STI award is subject to the terms and conditions of the plan, including a minimum of six months performance during the plan year and employment during the period is not terminated for resignation or performance-related reasons.

Under the Company's Short Term Incentive Plan each executive can earn between 0% and 150% (maximum) of the STI target award. The table below shows the, actual percentage outcome achieved and percentage forfeited for the year ended 30 June 2012.

SHORT TERM INCENTIVES

Name	**Actual STI as a % of maximum STI for year ended 30 June 2012**	**% of maximum STI forfeited for year ended 30 June 2012**
	%	%
Executive Director		
P F O'Malley	0	100
KMP executives		
N H Cornish [1]	0	0
M R Vassella	40	60
P E O'Keefe	17	83
I R Cummin	40	60
M G Barron	40	60
S R Elias	40	60
S Dayal	55	45
K A Mitchelhill	33	67
P J Finan	38	62
R J Moore	57	43

[1] Mr Cornish retired on 31 July 2011 and was not entitled to participate in the STI plan for the year ending 30 June 2012.

7.4 Share Rights Holdings

Share Rights granted, exercised and forfeited by the KMP during the year ended 30 June 2012 were as follows:

Name	Remuneration consisting of share rights[1]	Value of share rights granted during the year at grant date[2]	Value of share rights exercised during the year	Value of share rights at lapse date, that lapsed during the year	Total value of share rights granted, exercised and lapsed during the year
	%	$	$	$	$
Executive Director					
P F O'Malley	0	0		387,653	387,653
KMP executives					
N H Cornish[3]	-	-	-	376,554	376,554
M R Vassella	26	405,798	-	-	405,798
P E O'Keefe[4]	-	-	-	200,840	200,840
I R Cummin	24	251,595	-	298,067	549,662
M G Barron	25	251,595	-	274,288	525,883
S R Elias	25	309,624	-	-	309,624
S Dayal	31	357,101	-	-	357,101
K A Mitchelhill	26	345,740	-	-	345,740
P J Finan	31	214,834	-	154,840	369,674
R J Moore	27	245,102	-	132,720	377,822

[1] This figure is calculated on the value of share rights awarded in the year ended 30 June 2012 as a percentage of the total value of all remuneration received in that same year.

[2] External valuation advice from PricewaterhouseCoopers Securities Limited has been used to determine the value of share rights awarded in the year ended 30 June 2012. The valuation has been made using the Black-Scholes Option Pricing Model (BSM) that includes a Monte Carlo simulation analysis.

[3] Mr Cornish retired on 31 July 2011.

[4] Mr O'Keefe left the Company on 27 January 2012 following restructure of the Australian businesses.

The Share Rights awarded to executives under the September 2006 Award were tested after the last (31 August 2011) performance period and no vesting occurred. As this was the final performance period for the 2006 Award and as the Award has not vested, all Share Rights granted under the Award have been lapsed under the terms of the Award. The September 2007 Award was tested after the third (31 August 2011) and fourth (28 February 2012) performance periods and no vesting occurred. The September 2008 Award was tested after the first (31 August 2011) and the second (28 February 2012) performance periods and no vesting occurred. Both the September 2007 and 2008 Awards will be tested after the conclusion of the fifth and third performance period respectively on 31 August 2012.

Details of the audited Share Rights holdings for year ended 30 June 2012 for the KMP - Executives are set out in the following table. Refer to the Summary Table of Long Term Incentive Plan Awards (paragraph 5.V) for details with respect to fair values, exercise price and key dates.

Share Rights holdings for the financial year ended 30 June 2012

2012	Balance at 30 June 2011	Granted in year ended 30 June 2012	Exercised in year ended 30 June 2012[1]	Lapsed in year ended 30 June 2012	Balance at 30 June 2012	Vested and not yet exercised in year ended 30 June 2012	Unvested at 30 June 2012	Total Share Rights vested in year ended 30 June 2012
Executive Director								
P F O'Malley	2,677,731	0	-	70,100	2,607,631	-	2,607,631	-
KMP executives								-
N H Cornish [2]	668,170	-	-	446,977	221,193	-	221,193	-
M R Vassella	584,568	1,932,370	-	-	2,516,938	-	2,516,938	-
P E O'Keefe [2]	454,429	-	-	149,292	305,137	-	305,137	-
I R Cummin	496,289	1,198,070	-	53,900	1,640,459	-	1,640,459	-
M G Barron	491,989	1,198,070	-	49,600	1,640,459	-	1,640,459	-
S R Elias	522,919	1,474,400	-	-	1,997,319	-	1,997,319	-
S Dayal	470,710	1,700,480	-	-	2,171,190	-	2,171,190	-
K A Mitchelhill	529,980	1,646,380	-	-	2,176,360	-	2,176,360	-
P J Finan [3]	347,210	1,023,020	-	28,000	1,342,230	-	1,342,230	-
R J Moore [3]	365,183	1,167,150	-	24,000	1,508,333	-	1,508,333	-

[1] The number of shares issued is equal to the number of rights exercised and no amount was paid or remains unpaid for each share issued.

[2] Mr Cornish and Mr O'Keefe retain pro rata Share Rights with vesting subject to achieving performance hurdles.

[3] Mr Finan and Mr Moore's Share Rights holdings for 30 June 2011 includes share right awards from 2006, 2007, 2008, 2009 & 2010 before becoming a KMP.

SHARE RIGHTS holdings for the financial year ended 30 June 2011

2011	Balance at 30 June 2010	Granted in year ended 30 June 2011	Exercised in year ended 30 June 2011[1]	Lapsed in year ended 30 June 2011	Balance at 30 June 2011	Vested and not yet exercised in year ended 30 June 2011	Unvested at 30 June 2011	Total Share Rights vested in year ended 30 June 2011
Executive Director								
P F O'Malley	1,477,511	1,200,220	-	-	2,677,731	-	2,677,731	-
KMP executives								-
N H Cornish	393,810	274,360	-	-	668,170	-	668,170	-
M R Vassella	314,758	269,810	-	-	584,568	-	584,568	-
P E O'Keefe	249,539	204,890	-	-	454,429	-	454,429	-
I R Cummin	293,429	202,860	-	-	496,289	-	496,289	-
M G Barron	289,129	202,860	-	-	491,989	-	491,989	-
S R Elias	277,469	245,450	-	-	522,919	-	522,919	-
S Dayal	225,400	245,310	-	-	470,710	-	470,710	-
K A Mitchelhill	263,820	266,160	-	-	529,980	-	529,980	-
P J Finan[2]	172,000	175,210	-	-	347,210	-	347,210	-
R J Moore[3]	181,763	183,420	-	-	365,183	-	365,183	-

[1] The number of shares issued is equal to the number of rights exercised and no amount was paid or remains unpaid for each share issued.

[2] Appointed to KMP on 1 November 2010.

[3] Appointed to KMP on 1 December 2010.

The table below sets out the details of each specific share right tranche and awards granted and vested during the year ended 30 June 2012 for each KMP.

Share Rights Award Summary

2012	Number of Share Rights awarded	Date of grant	% vested in year ended 30 June 2012	% forfeited in year ended 30 June 2012	Share Rights yet to vest	Financial year in which awards may vest	Value of Share Rights not vested 30 June 2012[1] $ Min	Value of Share Rights not vested 30 June 2012[1] $ Max
Executive Director								
P F O'Malley	70,100	18-Nov-06	-	100%	-	2011	-	-
	231,053	14-Nov-07	-	-	231,053	2011	-	1,483,360
	246,358	28-Nov-08	-	-	246,358	2012	-	404,027
	930,000	30-Nov-09	-	-	930,000	2013	-	1,581,000
	1,200,220	30-Nov-10	-	-	1,200,220	2014	-	1,440,264
	0	16-Apr-12	-	-	0	2015	-	-
KMP executives								
N H Cornish	70,100	18-Nov-06	-	100%	-	2011		-
	51,756	05-Nov-07	-	100%	-	2011	-	-
	56,954	28-Nov-08	-	100%	-	2012	-	-
	215,000	30-Nov-09	-	36%	137,361	2013	-	233,514
	274,360	30-Nov-10	-	69%	83,832	2014	-	100,598
M R Vassella	47,320	05-Nov-07	-	-	47,320	2011	-	301,428
	56,008	28-Nov-08	-	-	56,008	2012	-	91,853
	211,430	30-Nov-09	-	-	211,430	2013	-	359,431
	269,810	30-Nov-10	-	-	269,810	2014	-	323,772
	1,932,370	16-Apr-12	-	-	1,932,370	2015	-	405,798
P E O'Keefe[2]	11,500	18-Nov-06	-	100%	-	2011	-	-
	38,817	05-Nov-07	-	10%	34,935	2011	-	222,536
	41,722	28-Nov-08	-	12%	36,507	2012	-	59,871
	157,500	30-Nov-09	-	17%	131,250	2013	-	223,125
	204,890	30-Nov-10	-	50%	102,445	2014	-	122,934
I R Cummin	53,900	18-Nov-06	-	100%	-	2011	-	-
	38,447	05-Nov-07	-	-	38,447	2011	-	244,907
	42,112	28-Nov-08	-	-	42,112	2012	-	69,064
	158,970	30-Nov-09	-	-	158,970	2013	-	270,249
	202,860	30-Nov-10	-	-	202,860	2014	-	243,432
	1,198,070	16-Apr-12	-	-	1,198,070	2015	-	251,595

M G Barron[2]	49,600	18-Nov-06		100%	-	2011	-	-
	38,447	05-Nov-07	-	-	38,447	2011	-	244,907
	42,112	28-Nov-08	-	-	42,112	2012	-	69,064
	158,970	30-Nov-09	-	-	158,970	2013	-	270,249
	202,860	30-Nov-10	-	-	202,860	2014	-	243,432
	1,198,070	16-Apr-12	-	-	1,198,070	2015	-	251,595
S R Elias	44,362	05-Nov-07	-	-	44,362	2011	-	282,586
	48,817	28-Nov-08	-	-	48,817	2012	-	80,060
	184,290	30-Nov-09	-	-	184,290	2013	-	313,293
	245,450	30-Nov-10	-	-	245,450	2014	-	294,540
	1,474,400	16-Apr-12	-	-	1,474,400	2015	-	309,624
S Dayal[3]	45,400	28-Nov-08	-	-	45,400	2012	-	74,456
	180,000	30-Nov-09	-	-	180,000	2013	-	306,000
	245,310	30-Nov-10	-	-	245,310	2014	-	294,372
	1,700,480	16-Apr-12	-	-	1,700,480	2015	-	357,101
K A Mitchelhill	55,250	28-Nov-08	-	-	55,250	2012	-	90,610
	208,570	30-Nov-09	-	-	208,570	2013	-	354,569
	266,160	30-Nov-10	-	-	266,160	2014	-	319,392
	1,646,380	16-Apr-12	-	-	1,646,380	2015	-	345,740
P J Finan[4]	28,000	18-Nov-06	-	100%	-	2011	-	-
	19,000	14-Nov-07	-	-	19,000	2011	-	121,030
	25,000	28-Nov-08	-	-	25,000	2012	-	41,000
	100,000	30-Nov-09	-	-	100,000	2013	-	170,000
	175,210	30-Nov-10	-	-	175,210	2014	-	210,252
	1,023,020	16-Apr-12	-	-	1,023,020	2015	-	214,834
R J Moore[4]	24,000	18-Nov-06	-	100%	-	2011	-	-
	24,000	14-Nov-07	-	-	24,000	2011	-	152,880
	28,013	28-Nov-08	-	-	28,013	2012	-	45,941
	105,750	30-Nov-09	-	-	105,750	2013	-	179,775
	183,420	30-Nov-10	-	-	183,420	2014	-	220,104
	1,167,150	16-Apr-12	-	-	1,167,150	2015	-	245,102

[1] External valuation advice from PricewaterhouseCoopers Securities Limited has been used to determine the value of Share Rights held by KMP at 30 June 2012

[2] Award granted 2006 prior to appointment to ELT.

[3] Due to restrictions relating to awards of equity in Singapore, Mr Dayal was awarded Cash Rights in 2012 which delivers a cash payment on vesting.

[4] Award granted 2006, 2007, 2008 & 2009 prior to appointment to KMP.

7.5 Shares Awarded as Remuneration

In the year ended 30 June 2012 a number of senior executives were awarded shares under a Special Share Retention Plan. Full details of the terms of the award of these shares are included in paragraph 3(iii) above. During the year some shares that were awarded under previous special share awards vested in the year ended 30 June 2012.

Share Award Summary

2012	Number of Shares awarded	Date of grant	% vested in year ended 30 June 2012	% forfeited in year ended 30 June 2012	Shares yet to vest	Financial year in which awards may vest	Value of Shares not vested 30 June 2012[1] $ Min	Value of Shares not vested 30 June 2012[1] $ Max
Executive Director								
P F O'Malley	17,000	06-Aug-07	100	-	-	-	-	-
	18,000	06-Aug-07	-	-	18,000	2013	-	191,520
KMP executives								
N H Cornish	-	-	-	-	-	-	-	-
M R Vassella	649,400	29-Aug-11	-	-	649,400	2015	-	551,990
P E O'Keefe	-	-	-	-	-	-	-	-
I R Cummin	402,600	29-Aug-11	-	-	402,600	2015	-	342,210
M G Barron	402,600	29-Aug-11	-	-	402,600	2015	-	342,210
S R Elias	495,500	29-Aug-11	-	-	495,500	2015	-	421,175
S Dayal[2,3]	20,000	10-Mar-09	100	-	-	2012	-	-
	483,800	29-Aug-11	-	-	483,800	2015	-	411,230
K A Mitchelhill[2]	25,000	27-Feb-09	100	-	-	2012	-	-
	553,300	29-Aug-11	-	-	553,300	2015	-	470,305
P J Finan	306,400	29-Aug-11	-	-	306,400	2015	-	260,440
R J Moore	392,300	29-Aug-11	-	-	392,300	2015	-	333,455

[1] Share price at grant date has been used to determine the value of Shares held by KMP at 30 June 2012.

[2] Granted on appointment to BlueScope in 2009.

[3] Due to restrictions relating to awards of equity in Singapore, Mr Dayal was awarded Cash Rights in 2012 which delivers a cash payment on vesting.

7.6 Share Holdings in BlueScope Steel Limited

The following table details the shares held by KMP – Non Executive Directors and Executives, as well as any related-party interests in BlueScope Steel Limited as at 30 June 2012.

SHARE HOLDINGS[1] IN BLUESCOPE STEEL LIMITED

Name	Ordinary shares held as at 30 June 2012	Ordinary shares held as at 30 June 2011
Non-Executive Directors		
G J Kraehe	641,297	286,279
R J McNeilly	2,378,704	1,321,502
D J Grady	377,007	128,382
H K McCann	162,368	152,720
Y P Tan	282,809	157,116
D B Grollo	230,681	128,156
K A Dean	146,924	41,624
P Bingham-Hall	122,000	-
Executive Director		
P F O'Malley	499,704	227,613
KMP executives		
N H Cornish [2]	67,199	67,199
M R Vassella	707,703	57,303
P E O'Keefe [3]	115,303	15,303
I R Cummin	741,892	336,679
M G Barron	595,524	191,924
S R Elias	561,480	10,000
S Dayal [4]	20,000	20,000
K A Mitchelhill	674,099	77,666
P J Finan	493,851	63,695
R J Moore	1,346,708	355,315

[1] Including related party interests.

[2] Mr Cornish retired on 31 July 2011.

[3] Mr O'Keefe left the company on 27 January 2012 following the restructure of the Australian businesses.

[4] Mr Dayal also holds 483,800 Cash Rights awarded under the Special Retention Award.

8. NON-EXECUTIVE DIRECTORS' REMUNERATION

The Committee, on behalf of the Board, seeks the advice of expert external remuneration consultants to ensure that fees and payments reflect the duties of Board Members and are in line with the market. The Chairman and the Deputy Chairman of the Board do not participate in any discussions relating to the determination of their own fees.

Non-Executive Directors do not receive share rights or other performance-based rewards. Non-Executive Directors are expected to acquire over time a shareholding in the Company at least equivalent in value to their annual remuneration.

Fees are normally reviewed annually on 1 January. In response to the Company's financial performance, the Board decided that there would be no increase in directors' fees on 1 January 2012. The schedule of fees effective 1 January 2012, and which currently applies, is as follows:

Role	**Fees effective 1 Jan 2012**
Chairman[1]	$472,500
Deputy Chairman[1]	$273,000
Non-Executive Director	$157,500
Chairman of Audit and Risk Committee	$36,750
Member of Audit and Risk Committee	$18,900
Chairman of Remuneration and Organisation Committee	$26,250
Member of Remuneration and Organisation Committee	$13,650
Chairman of Health, Safety and Environment Committee	$26,250
Member of Health, Safety and Environment Committee	$13,650
Travel and Representation Allowance[2]	$21,000

[1] Additional fees are not payable to the Chairman and Deputy Chairman for membership of Committees.

[2] Allowance paid to Tan Yam Pin who is based in Singapore.

The maximum fee pool limit is currently $2,925,000 per annum (inclusive of superannuation) as approved by shareholders at the Annual General Meeting in 2008. Total fees paid to Directors for the year ended 30 June 2012 amounted to $2,052,507.

Compulsory superannuation contributions per director capped at $16,470 per annum (commencing 1 July 2012) are paid on behalf of each Director. Compulsory superannuation contributions for the year ended 30 June 2012 were $15,775 per annum. Non-Executive Directors do not receive any other retirement benefits.

9. KMP EXECUTIVES – SUMMARY OF TERMS OF EMPLOYMENT

9.1 Managing Director and Chief Executive Officer – Outline of Employment Contract

Paul O'Malley was appointed to the position of Managing Director and Chief Executive Officer effective from 1 November 2007.

Mr O'Malley's current annual base pay is $1,750,000. This has not changed since 1 September 2010 when he received a 4% increase. Prior to this his base salary had not changed since 1 September 2008. In addition, in view of the Company's financial performance he has agreed no STI or LTI should be awarded for FY 2012 and that no increase in base pay will be made during year ending 30 June 2013.

Remuneration is reviewed annually in accordance with the Board's senior executive salary review policy. In addition, Mr O'Malley is eligible to participate in the Short Term Incentive Plan and, subject to shareholder approval, Long Term Incentive Plan awards.

Upon appointment Mr O'Malley was provided with 50,000 BlueScope Steel Limited shares (purchased on-market) to be held subject to certain restrictions. Some or all of these shares will be forfeited by Mr O'Malley if his employment with BlueScope is terminated within the restriction period specified, other than as a result of fundamental change in his employment terms.

The employment of Mr O'Malley may be terminated in the following circumstances:

- **by notice**: on six months' notice by either party. If BlueScope terminates Mr O'Malley's employment by notice, it may provide payment in lieu of notice and must make an additional payment of 12 months' annual base pay.
- **with cause**: immediate termination by BlueScope if, among other things, Mr O'Malley wilfully breaches his Service Contract, is convicted of various offences for which he can be imprisoned or is disqualified from managing a corporation, or engages in conduct which is likely to adversely impact the reputation of BlueScope. In this circumstance, Mr O'Malley will be entitled to his annual base pay up to the date of termination.

- **illness or disablement**: BlueScope may terminate Mr O'Malley's employment if he becomes incapacitated by physical or mental illness, accident or any other circumstances beyond his control for an accumulated period of six months in any 12-month period and, in this circumstance, will make payment of six months' notice based on annual base pay.
- **fundamental change**: Mr O'Malley may resign if a fundamental change in his employment terms occurs and within three months of the fundamental change Mr O'Malley gives notice to BlueScope. In this event, the Company will provide Mr O'Malley with six months' notice, or a payment in lieu of that notice, and a termination payment of 12 months' annual base pay.

The rules governing the Company's Long Term Incentive Plan and Short Term Incentive Plan will apply to his LTIP and STI awards on termination of his employment. These rules which provide that STI and LTIP awards will be forfeited if Mr O'Malley's employment is terminated for cause. Provision has also been made for early vesting (subject to satisfying performance testing requirements) of LTIP awards on a change of control.

Mr O'Malley is subject to a 12-month non-compete restriction after his employment ceases with BlueScope. Mr O'Malley cannot solicit or entice away from BlueScope any supplier, customer or employee or participate in a business that competes with BlueScope during the 12-month period.

9.2 Other Key Management Personnel - Executives

Remuneration and other terms of employment for the disclosed KMP Executives are formalised in employment contracts that can be terminated with notice. Each of these agreements provide for an annual review of annual base pay, provision of performance-related STI awards, other benefits, including annual health assessment, and participation, when eligible, in the Long Term Incentive Plan. The contracts provide for notice of six months for resignation by the executive or termination by the Company. In the event of termination by the Company other than for cause, a termination payment of 12 months' pay applies. The maximum amount payable on termination will not exceed 12 month's fixed pay.

Agreements are also in place for KMP Executives detailing the approach the Company will take with respect to payment of their termination payments and with respect to exercising its discretion on the vesting of share rights in the event of a 'Change of Control' of the organisation.

ENVIRONMENTAL REGULATION

BlueScope Steel's Australian manufacturing operations are subject to significant environmental regulation. Throughout its Australian operations, the Company notified relevant authorities of 27 incidents resulting in statutory non-compliances with environmental licensing requirements during the financial year. During the period there were no serious environmental incidents. An incident which occurred in May 2011 resulted in a fine of $1500, issued by the regulator in August 2011. The incident related to operations at No 6 Blast Furnace at the Port Kembla Steelworks where process water discharged into a drain and then to Port Kembla Harbour. An incident occurred in February 2012 resulting in two fines of $1500 each, issued by the regulator in March 2012. The incident related to operations at the Basic Oxygen Steelmaking plant at the Port Kembla Steelworks.

BlueScope Steel reports on an annual basis to the National Pollutant Inventory and, under the National Greenhouse and Energy Reporting scheme, on its greenhouse gas emissions and energy consumption and production. BlueScope Steel also assesses and reports publicly upon its energy efficiency opportunities at the Commonwealth level and prepares and monitors progress on water and energy savings plans required under state legislation.

Each year BlueScope Steel publishes a Community Safety and Environment Report which is available on our website. The report provides further details of the Company's environmental performance and initiatives.

INDEMNIFICATION AND INSURANCE OF OFFICERS

BlueScope Steel has entered into directors' and officers' insurance policies and paid an insurance premium in respect of the insurance policies, to the extent permitted by the *Corporations Act 2001*. The insurance policies cover former Directors of BlueScope Steel along with the current Directors of BlueScope Steel (listed on page 2). Executive officers and employees of BlueScope Steel and its related bodies corporate are also covered.

In accordance with Rule 21 of its Constitution, BlueScope Steel to the maximum extent permitted by law:

- must indemnify any current or former Director or Secretary; and
- may indemnify current or former executive officers,

of BlueScope Steel or any of its subsidiaries, against all liabilities (and certain legal costs) incurred in those capacities to a person, including a liability incurred as a result of appointment or nomination by BlueScope Steel or its subsidiaries as a trustee or as a director, officer or employee of another corporation.

The current Directors of BlueScope Steel, the Chief Financial Officer and the Chief Legal Officer & Company Secretary have each entered into an Access, Insurance and Indemnity Deed with BlueScope Steel. The Deed addresses the matters set out in Rule 21 of the Constitution and includes, among other things, provisions requiring BlueScope Steel to indemnify a Director to the extent to which they are not already indemnified as permitted under law, and to use its best endeavours to maintain an insurance policy covering a Director while they are in office and seven years after ceasing to be a Director.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contract, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the contract.

PROCEEDINGS ON BEHALF OF BLUESCOPE STEEL

As at the date of this report, there are no leave applications or proceedings brought on behalf of BlueScope Steel under section 237 of the *Corporations Act 2001*.

ROUNDING OF AMOUNTS

BlueScope Steel is a company of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, or in certain cases, the nearest thousand or the nearest dollar.

AUDITOR

Ernst & Young was appointed as auditor for BlueScope Steel at the 2002 Annual General Meeting.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Auditor's Independence Declaration for the year ended 30 June 2012 has been received from Ernst & Young. This is set out at page 44 of the Directors' Report. Ernst & Young provided the following non-audit services during the year ended 30 June 2012:

Audit related assurance services
$178,333 equity raising related assurance;
$164,403 debt funding related assurance;
$175,000 restructuring activity related assurance; and
$44,800 Greenhouse gas emissions related assurance.

Other services
$184,395 taxation compliance services.

The Directors are satisfied that the provision of these non-audit services is compatible with the general standard of independence for auditors in accordance with the *Corporations Act 2001*. The nature, value and scope of each type of non-audit service provided is considered by the Directors not to have compromised auditor independence.

This report is made in accordance with a resolution of the Directors.

G J KRAEHE AO
Chairman

P F O'MALLEY
Managing Director and Chief Executive Officer

Melbourne

20 August 2012

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Auditor's Independence Declaration to the Directors of BlueScope Steel Limited

In relation to our audit of the financial report of BlueScope Steel Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Rodney Piltz
Partner
20 August 2012

CORPORATE GOVERNANCE STATEMENT

Introduction

As a global organisation with businesses operating in many countries, the BlueScope Steel Group must comply with a range of legal, regulatory and governance requirements.

The Board places great importance on the proper governance of the Group.

The Board operates in accordance with a set of corporate governance principles that take into account relevant best practice recommendations. These include the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council with 2010 Amendments (2nd edition) (ASX Principles and Recommendations).

The Company complies with each of the recommendations in the ASX Principles and Recommendations. A summary of BlueScope Steel's compliance with the recommendations follows, including details of specific disclosures required by a recommendation.

Further information on the Company's corporate governance policies and practices can be found on the Company's website.

Principle 1 – Lay solid foundations for management and oversight

The Board has adopted a Charter which sets out, among other things, its specific powers and responsibilities and the matters delegated to the Managing Director and Chief Executive Officer and those specifically reserved for the Board.

A statement of the matters reserved for the Board and the areas of delegated authority to senior management is available on the Company's website.

As part of the Board's oversight of senior management, all Company executives are subject to annual performance review and goal planning. This involves evaluation of the executives by their immediate superior. Each executive is assessed against a range of criteria, including achievement of goals relating to financial performance, operational excellence, safety and delivery of strategic projects and initiatives. All senior executives participated in a performance evaluation on this basis during the year ended 30 June 2012.

Principle 2 – Structure the Board to add value

The Board is structured to bring to its deliberations a range of commercial, operational, financial, legal and international experience relevant to the Company's global operations.

Pages 7 and 8 set out the qualifications, expertise and experience of each Director in office at the date of this Directors' Report, and their period of office.

The Board considers all of its Non-Executive Directors to be independent. In making this assessment, the Board considers whether the Director is free of any business or other relationship that could, or could reasonably be perceived to, materially interfere with the exercise by the Director of an independent judgement in the interests of the Company as a whole.

In determining whether a relationship between the Company and a Director is material and would compromise the Director's independence, the Board has regard to all the circumstances of the relationship including, where relevant:

- the proportion of the relevant class of expenses or revenues that the relationship represents to both the Company and the Director; and
- the value and strategic importance to the Company's business of the goods or services purchased or supplied by the Company.

Further details regarding the circumstances considered by the Board in making assessments of independence are contained on the Company's website under 'Directors' Independence Policy'.

The Board seeks to achieve a Board composition with a balance of diverse attributes relevant to the Company's operations and markets including skill sets, background, gender, geography, and industry experience.

Board renewal and succession planning is an ongoing process at BlueScope Steel and in recent years has seen the appointment of Ken Dean and Penny Bingham-Hall to the Board. The Nomination Committee has identified the key skills and experience desirable on the Board as including financial/risk management, legal/governance, people management and operations management expertise; experience in the building and construction and steel or other heavy manufacturing industries; strategic and M&A/transactional experience; and experience with customers. The Board also strives for both gender and geographic diversity within these skill sets. Based on the assessment by the Nomination Committee of the particular skill profile for new appointees, a sub-committee is appointed to engage a search firm to assist in identifying appropriate candidates for consideration by the Board from a broad pool of possible candidates. The renewal process has been suspended to provide continuity as the Company goes through a major re-structuring process, but will re-commence in the current financial year.

The Board (and Board Committees and individual Directors) may obtain independent professional advice, at the Company's cost, in carrying out their responsibilities. Independent advice can be obtained without the involvement of the Company's management, where the Board or the Director considers it appropriate to do so. Procedures have been adopted by the Board setting out the practical steps by which independent advice may be obtained.

All Non-Executive Directors are members of the Nomination Committee. Their attendance at meetings of the Committee are set out on page 9.

The Board reviews its effectiveness and the performance of each Director regularly.

The Board completed an internal review of its effectiveness in August 2012 involving distribution of a questionnaire to Directors and senior management. Confidential responses were collated by the Company's auditors and discussed by the Board. The review concluded that the Board is functioning well with an appropriate mix of skills and experience and that an effective working relationship exists among Board members and between Board and management.

In addition, each Committee reviews its performance and effectiveness periodically through a confidential questionnaire completed by members of the Committee and relevant management attendees. The results of these reviews are discussed by the Committee. Each Board Committee has conducted a review on this basis in the last 12 months. A formal review of the performance of individual Directors takes place periodically, particularly when a director is standing for re-election. The process generally involves the completion of an evaluation questionnaire by other Board members, the results of which are collated and discussed by the Chairman with the director concerned (or the Deputy Chairman in the case of the review of the Chairman) and with the Board as a whole. In addition, the performance of the Chairman and other Directors are reviewed regularly through other informal mechanisms such as meeting critiques, discussions between Directors and the Chairman, and as part of Board and Committee evaluations. Performance evaluation for individual directors has taken place consistent with the process described above.

Principle 3 – Promote ethical and responsible decision making

Business Conduct

The Company has a set of values known as 'Our Bond' and a 'Guide to Business Conduct', which provides an ethical and legal framework for all employees. The Guide defines how the BlueScope Steel Group relates to its customers, employees, shareholders and the community. Information relating to the Guide and 'Our Bond' is available on the Company's website.

In addition, the Board has established a Securities Trading Policy which governs dealing in the Company's shares and derivative securities. A copy of the policy has been lodged with ASX and is available on the Company's website.

Diversity

At BlueScope Steel, we know that our success comes from our people. We understand that the range of perspectives that result from a diverse and inclusive workplace will strengthen BlueScope Steel's capability for sustained business success. We strive to hire, develop, promote and retain the most qualified people available to reflect the global diversity of our customers, markets, and the communities in which we operate.

The Board and executive leadership team of BlueScope Steel recognise and value the diversity of the skills, perspectives, and backgrounds that our employees bring to the Company. Our aim is to foster an inclusive environment and culture that values difference and thereby attracts, encourages, and develops a talented, diverse, and capable workforce.

Our Board approved Diversity Policy can be found on the Company's website. Included in the policy are the key principles that underpin our approach to Diversity along with requirements for setting objectives, reporting and monitoring.

Our immediate priorities are to continue to improve gender diversity, both through the recruitment pipeline and in management positions and to maintain/improve the representation of local nationals on management teams.

In terms of gender, the proportion of women as at June 30, 2012 is:

-	Total employees	16.6%
-	Senior Executives	10.8%
-	Non-Executive Directors	22.2%

Our key objective for the financial year ended 30 June 2012 was the development and launch of a Diversity Action Plan in each region (Australia/NZ, China, ASEAN, North America). These plans have been developed and identify actions around our strategic drivers for diversity – Raising Awareness, Recruitment, Development and Retention.

Progress and actions to date include:

- In 2011, graduate recruitment programs were run to support business growth across the ASEAN region and in China. More than 50% of the recruits into these programs were women, hired into operational as well as functional areas of the business.
- The proportion of women participating in our leadership programmes globally has steadily improved and is now above the percentage of the workforce by category for all programs.
- Gender pay equity reviews have been conducted annually since 2000 in Australia, 2007 in New Zealand and North America, and 2008 in Asia. Results are reported to the Remuneration and Organisation Committee. Progress has been made with the average pay for female Executives in 2011 now equal to that of males in similar roles.
- The business has a mature EEO complaint investigation process in place.

The Diversity Action Plans will continue to provide the framework and platform for the businesses to drive and monitor improvements in their gender profile and improve/maintain the number of local nationals on leadership teams.

For the year ended 30 June 2013, our diversity objective is therefore to review the implementation and progress of the Diversity Action Plans on a quarterly basis. Each business has a plan identifying actions around recruitment, development, retention and awareness to improve/maintain the proportion of women in the business and local nationals on leadership teams.

Principle 4 – Safeguard integrity in financial reporting
The Board has established an Audit and Risk Committee which assists the Board in the effective discharge of its responsibilities for financial reporting, internal controls, risk management, internal and external audit, and insurance (with the exception of directors' and officers' liability insurance). The Committee's Charter is set out in full on the Company's website.

Separate discussions are held with the external and internal auditors without management present.

The composition and structure of the Audit and Risk Committee complies with the requirements of the ASX Principles and Recommendations.

The names of the members of the Audit and Risk Committee and their attendance at meetings of the Committee are set out on page 9 of this Directors' Report. The qualifications of the members are set out on pages 7 and 8.

Principle 5 – Make timely and balanced disclosure
The Company is subject to continuous disclosure obligations under the ASX Listing Rules and Australian corporations legislation. Subject to limited exceptions, the Company must immediately notify the market, through ASX, of any information that a reasonable person would expect to have a material effect on the price or value of its securities. As part of its continuous disclosure responsibilities, the Company has established market disclosure protocols to promote compliance with these requirements and to clarify accountability at a senior executive level for that compliance.

A summary of the Company's Continuous Disclosure Policy is included on the Company's website.

Principle 6 – Respect the rights of shareholders
Respecting the rights of shareholders is of fundamental importance to the Company and a key element of this is how the Company communicates with its shareholders. In this regard, the Company recognises that shareholders must receive high-quality relevant information in a timely manner in order to be able to properly and effectively exercise their rights as shareholders. The Company's communications policy is summarised on the Company's website.

Principle 7 – Recognise and manage risk

The Board has required management to design and implement a risk management and internal control system to manage the Company's material business risks and management has reported that those risks are being managed effectively.

For the annual and half-year accounts released publicly, the Board has received assurance from the Managing Director and Chief Executive Officer and the Chief Financial Officer that, in their opinion:

- the financial records of the Group have been properly maintained;
- the financial statements and notes required by accounting standards for external reporting:
  - (i) give a true and fair view of the financial position and performance of the Company and the consolidated BlueScope Steel Group; and
  - (ii) comply with the accounting standards (and any further requirements in the Corporations Regulations) and applicable ASIC Class Orders; and
- the above representations are based on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Information relating to the Company's policies on risk oversight and management of material business risks is available on the Company's website.

Principle 8 – Remunerate fairly and responsibly
The Remuneration Report (on pages 16 to 41) sets out details of the Company's policy and practices for remunerating Directors, key management personnel and senior executives.

The names of the members of the Remuneration and Organisation Committee and their attendance at meetings of the Committee are set out on page 9.

Information relating to:

- the role, rights, responsibilities and membership requirements for the Remuneration and Organisation Committee; and
- the Company's Securities Trading Policy which prohibits entering into transactions in associated products that limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes,

is also available on the Company's website.

Other than superannuation, there are no schemes for retirement benefits for Non-Executive Directors.

All information referred to in this Corporate Governance Statement as being on the Company's website is included under the 'Responsibilities/Corporate Governance' section of the website at www.bluescopesteel.com/responsibilities/corporate-governance.

A summary of the location of corporate governance information relevant to the ASX Principles and Recommendations can also be found in this section of the website.

BlueScope Steel Limited ABN 16 000 011 058
Annual Financial Report - 30 June 2012

BlueScope Steel Limited
Statement of comprehensive income
For the year ended 30 June 2012

	Notes	Consolidated 2012 $M	2011 $M
Revenue from continuing operations	6	**8,472.5**	8,991.3
Other income	7	**113.2**	19.8
Changes in inventories of finished goods and work in progress		**(411.4)**	223.6
Raw materials and consumables used		**(5,032.3)**	(5,797.4)
Employee benefits expense		**(1,397.1)**	(1,493.1)
Depreciation and amortisation expense	8	**(323.3)**	(347.8)
Impairment of non-current assets	8	**(319.9)**	(925.9)
Freight on external despatches		**(529.8)**	(586.6)
External services		**(884.5)**	(935.6)
Restructuring costs	8	**(403.6)**	1.7
Finance costs	8	**(120.4)**	(106.1)
Other expenses		**(192.7)**	(267.2)
Share of net profits (losses) of associates and joint venture partnerships accounted for using the equity method	45, 46	**53.2**	73.3
Loss before income tax		**(976.1)**	(1,150.0)
Income tax (expense) benefit	9	**(50.2)**	103.9
Loss from continuing operations		**(1,026.3)**	(1,046.1)
Profit/(loss) from discontinued operations after income tax	10	**(1.6)**	5.7
Net loss for the year		**(1,027.9)**	(1,040.4)
Other comprehensive income			
Gain (loss) on cash flow hedges taken to equity	36(a)	**-**	(0.6)
Gain (loss) on cash flow hedges transferred to inventory	36(a)	**-**	1.1
Net gain (loss) on hedges of subsidiaries	36(a)	**(2.4)**	(13.0)
Exchange differences on translation of foreign operations		**43.1**	(218.8)
Exchange differences transferred to profit on translation of foreign operations disposed	36(a)	**11.6**	-
Actuarial gain (loss) on defined benefit superannuation plans	36(b)	**(278.7)**	(4.9)
Income tax (expense) benefit on items of other comprehensive income	9	**59.0**	3.4
Other comprehensive loss for the year		**(167.4)**	(232.8)
Total comprehensive loss for the year		**(1,195.3)**	(1,273.2)
Profit (loss) is attributable to:			
Owners of BlueScope Steel Limited		**(1,043.5)**	(1,054.2)
Non-controlling interests		**15.6**	13.8
		(1,027.9)	(1,040.4)
Total comprehensive loss for the year is attributable to:			
Owners of BlueScope Steel Limited		**(1,212.5)**	(1,272.1)
Non-controlling interests		**17.2**	(1.1)
		(1,195.3)	(1,273.2)
		Cents	Cents
Earnings per share for profit (loss) from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share	49	**(39.0)**	(48.8)
Diluted earnings per share	49	**(39.0)**	(48.8)
Earnings per share for profit (loss) attributable to the ordinary equity holders of the Company			
Basic earnings per share	49	**(39.1)**	(48.6)
Diluted earnings per share	49	**(39.1)**	(48.6)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

BlueScope Steel Limited
Statement of financial position
As at 30 June 2012

	Notes	Consolidated 2012 $M	2011 $M
ASSETS			
Current assets			
Cash and cash equivalents	11	**214.5**	172.2
Receivables	12	**952.9**	1,026.8
Inventories	13	**1,337.4**	1,947.4
Intangible assets	14	**5.6**	18.2
Other	16	**56.7**	57.5
Total current assets		**2,567.1**	3,222.1
Non-current assets			
Receivables	17	**42.2**	22.7
Inventories	18	**71.6**	81.4
Investments accounted for using the equity method	19	**117.1**	142.0
Property, plant and equipment	20	**3,295.6**	3,500.6
Deferred tax assets	21	**189.0**	160.8
Intangible assets	22	**448.3**	660.7
Other	23	**2.6**	2.7
Total non-current assets		**4,166.4**	4,570.9
Total assets		**6,733.5**	7,793.0
LIABILITIES			
Current liabilities			
Payables	24	**1,049.1**	1,156.6
Borrowings	25	**144.9**	165.7
Current tax liabilities	26	**72.7**	23.1
Provisions	27	**416.2**	399.3
Deferred income	28	**117.6**	133.5
Derivative financial instruments	15	**1.7**	-
Total current liabilities		**1,802.2**	1,878.2
Non-current liabilities			
Payables	29	**7.5**	6.9
Borrowings	30	**453.5**	1,074.2
Deferred tax liabilities	31	**18.7**	69.1
Provisions	32	**236.7**	193.5
Retirement benefit obligations	33	**432.0**	170.7
Deferred income	34	**4.1**	4.3
Total non-current liabilities		**1,152.5**	1,518.7
Total liabilities		**2,954.7**	3,396.9
Net assets		**3,778.8**	4,396.1
EQUITY			
Contributed equity	35	**4,650.1**	4,073.8
Reserves	36(a)	**(267.0)**	(324.8)
Retained profits (loss)	36(b)	**(703.8)**	559.8
Parent entity interest		**3,679.3**	4,308.8
Non-controlling interest		**99.5**	87.3
Total equity		**3,778.8**	4,396.1

The above statement of financial position should be read in conjunction with the accompanying notes.

Consolidated - 30 June 2012	Notes	**Contributed equity $M**	**Reserves $M**	**Retained earnings $M**	**Non-controlling interests $M**	**Total $M**
Balance at 1 July 2011		**4,073.8**	**(324.8)**	**559.8**	**87.3**	**4,396.1**
Profit (loss) for the period		-	-	(1,043.5)	15.6	(1,027.9)
Other comprehensive income (loss)		-	51.4	(220.4)	1.6	(167.4)
Total comprehensive loss for the year		**-**	**51.4**	**(1,263.9)**	**17.2**	**(1,195.3)**
Transactions with owners in their capacity as owners:						
Shares issued						
- General Employee Share Plan	35(c), 36(a)	0.2	(0.3)	-	-	(0.1)
- Share Plan Retention awards	35(c)	11.3	-	-	-	11.3
- Capital raisings	35(c)	600.0	-	-	-	600.0
Transaction costs on share issues	35(c)	(23.9)	-	-	-	(23.9)
Share-based payment expense	36(a)	-	7.0	-	-	7.0
Dividends declared		-	-	-	(5.0)	(5.0)
Treasury shares	35(e)	(11.3)	-	-	-	(11.3)
Other		-	(0.3)	0.3	-	-
		576.3	6.4	0.3	(5.0)	578.0
Balance at 30 June 2012		**4,650.1**	**(267.0)**	**(703.8)**	**99.5**	**3,778.8**

Consolidated - 30 June 2011	Notes	**Contributed equity $M**	**Reserves $M**	**Retained earnings $M**	**Non-controlling interests $M**	**Total $M**
Balance at 1 July 2010		**4,032.4**	**(118.4)**	**1,747.3**	**94.4**	**5,755.7**
Profit (loss) for the period		-	-	(1,054.2)	13.8	(1,040.4)
Other comprehensive income (loss)		-	(212.6)	(5.3)	(14.9)	(232.8)
Total comprehensive loss for the year		**-**	**(212.6)**	**(1,059.5)**	**(1.1)**	**(1,273.2)**
Transactions with owners in their capacity as owners:						
Shares issued						
- Dividend Reinvestment Plan	35(c)	41.3	-	-	-	41.3
- General Employee Share Plan	35(c), 36(a)	0.3	(0.3)	-	-	-
- Exercise of share rights	35(c), 36(a)	-	-	-	-	-
Transaction costs on share issues	35(c)	(0.3)	-	-	-	(0.3)
Share-based payment expense	36(a)	-	6.6	-	-	6.6
Dividends declared	36(b)	-	-	(128.0)	(6.0)	(134.0)
Tax credits recognised directly in equity	35(c)	0.1	-	-	-	0.1
Other		-	(0.1)	-	-	(0.1)
		41.4	6.2	(128.0)	(6.0)	(86.4)
Balance at 30 June 2011		**4,073.8**	**(324.8)**	**559.8**	**87.3**	**4,396.1**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	Consolidated 2012 $M	2011 $M
Cash flows from operating activities			
Receipts from customers		**9,032.3**	9,616.9
Payments to suppliers and employees		**(8,776.7)**	(9,630.1)
		255.6	(13.2)
Associate dividends received		**4.9**	3.3
Joint venture partnership distributions received		**78.5**	131.9
Interest received		**3.2**	7.2
Other revenue		**15.9**	19.9
STP Government grant	7(a)	**100.0**	-
Finance costs paid		**(109.2)**	(108.3)
Income taxes (paid) received		**(81.5)**	(12.5)
Net cash (outflow) inflow from operating activities	47	**267.4**	28.3
Cash flows from investing activities			
Payments for property, plant and equipment		**(215.5)**	(387.2)
Payments for intangibles		**(14.0)**	(14.8)
Payments for investments in joint venture partnerships		**(7.0)**	(1.7)
Payments for investments in business assets		**-**	(0.4)
Proceeds from sale of property, plant and equipment		**11.8**	31.9
Proceeds from sale of subsidiary, net of cash disposed		**140.0**	-
Repayment of loans by related parties		**5.0**	5.7
Net cash (outflow) inflow from investing activities		**(79.7)**	(366.5)
Cash flows from financing activities			
Proceeds from issues of shares	35(c)	**600.0**	-
Capital share raising costs	35(c)	**(23.9)**	(0.3)
Proceeds from borrowings		**10,720.9**	9,347.5
Repayment of borrowings		**(11,440.2)**	(8,981.5)
Dividends paid to Company's shareholders	37(d)	**-**	(86.7)
Dividends paid to minority interests in subsidiaries		**(5.0)**	(6.0)
Net cash inflow (outflow) from financing activities		**(148.2)**	273.0
Net increase (decrease) in cash and cash equivalents		**39.5**	(65.2)
Cash and cash equivalents at the beginning of the financial year		**171.2**	249.3
Effects of exchange rate changes on cash and cash equivalents		**1.9**	(12.9)
Cash and cash equivalents at end of financial year	11	**212.6**	171.2
Financing arrangements	30		
Non-cash investing and financing activities	48		

The above statement of cash flows should be read in conjunction with the accompanying notes.

Contents of the notes to the consolidated financial statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements include the consolidated entity consisting of BlueScope Steel Limited and its subsidiaries (the 'Group').

(a) Basis of preparation

This financial report is a general purpose financial report, prepared by a for-profit entity, in accordance with the requirements of the *Australian Corporations Act 2001*, Accounting Standards applicable in Australia and other authoritative pronouncements of the Australian Accounting Standards Board.

(i) Compliance with IFRS
The consolidated financial statements of the BlueScope Steel Limited Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Group
The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2011:

- AASB 124 (Revised) *AASB 124 Related Party Disclosures (December 2009)*
- AASB 2009-12 *Amendments to Australian Accounting Standards*
- AASB 2010-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2010-5 *Amendments to Australian Accounting Standards*
- AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets*
- AASB 2010-9 *Amendments to Australian Accounting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time adopters*
- AASB 2011-5 *Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation*
- AASB 1054 - *Australian Additional Disclosures*

The adoption of the above standards and interpretations did not have any impact on the financial position and performance of the Group, except for minor changes to the disclosures in the financial report. The major impact arose from the AASB 2010-6 amendment which requires increased disclosure requirements for transactions involving the transfers of financial assets which are not derecognised from the financial statements. Additional disclosures around the BlueScope Distribution receivable securitisation program have been provided in note 12(f).

(iii) Early adoption of new accounting standards
The Group has not elected to early adopt any of the standards set out under '(b) New accounting standards and interpretations' for the current reporting period.

(iv) Historical cost convention
These financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value.

(v) Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

1 Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations

Certain new Accounting Standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2015 based on the proposed AASB 9 amendments)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets.The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will impact accounting for available- for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. These changes are not expected to have an impact on the amount recognised in the Group's financial statements.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

(ii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010 2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010, the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. BlueScope Steel Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the Group.

(iii) AASB 119 Amendments to Australian Accounting Standards Employee Benefits (effective from 1 July 2013)

The AASB has issued an amended AASB 119 *Employee Benefits* which will change how the Group will account for its defined benefit pension plans in relation to the expected returns on plan assets. Fund assets will be required to produce a credit to income based on government bond yields irrespective of the actual composition of fund assets held. The difference between actual returns and the amount reported in the profit and loss will permanently bypass the profit and loss by being recorded as an actuarial variance. Actuarial gains and losses will continue to be recorded in other comprehensive income. These amendments are expected to have a significant impact on the Group's profit and loss, given government bond yields are currently lower than the actuarial estimation of the expected return on plan assets (refer note 33).

In addition to the increase in the defined benefit pension plan expense, short and long term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement. The Group will now be required to discount to present value annual leave which is not expected to be settled within 12 months.

The Group will apply this amendment from 1 July 2013.

1 Summary of significant accounting policies (continued)

(iv) AASB 10 Consolidated Financial statements (effective from 1 January 2013)

AASB 10 establishes a new control model that applies to all entities. It replaces parts of *AASB 127 Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and *Interpretation 112 Consolidation - Special Purpose Entities*. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. A detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules has been performed. The Group does not expect the new standard to have a significant impact on the entities required to be consolidated or the financial statements.

(v) AASB 11 Joint Arrangements (effective from 1 January 2013)

AASB 11 replaces *AASB 131 Interests in Joint Ventures* and *Interpretation 113 Jointly Controlled Entities - Non-monetary Contributions by Venturers.* AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.

The Group's investment in joint venture partnerships will be classified as joint ventures under the new rules. As the Group already applies the equity method in accounting for these investments, AASB 11 will not have any impact on the amounts recognised in its financial statements.

(vi) AASB 12 Disclosure of Interests in Other Entities (effective from 1 July 2013)

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

(vii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 July 2013)

AASB 13 was released in September 2011. AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value but provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. It explains how to measure fair value and aims to enhance fair value disclosures. The Group does not expect its current measurement techniques to materially change as a result of the new standard. However, application of the new standard will impact the type of information disclosed in the notes to the consolidated financial statements.

(viii) AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Other Comprehensive Income (effective from 1 July 2012)

This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not. The standard is expected to have an impact on the Group's classification of items currently in other comprehensive income. The Group will apply this amendment from 1 July 2012.

1 Summary of significant accounting policies (continued)

(ix) Annual Improvements to IFRS 2009-2011 Cycle (effective from 1 July 2013)

This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process.

The following items are addressed by this standard:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* - Repeated application of IFRS1 and Borrowing costs
- IAS 1 *Presentation of Financial Statements* -Clarification of the requirements for comparative information
- IAS 16 *Property, Plant and Equipment* - Classification of servicing equipment
- IAS 32 *Financial Instruments: Presentation* - Tax effect of distribution to holders of equity instruments
- IAS 34 *Interim Financial Reporting* - Interim financial reporting and segment information for total assets and liabilities

The standard is not expected to have a material impact on the financial statements.

The following further Accounting Standards issued but not yet effective, which when effective, will have no impact on the financial statements of the Group are as follows:

- AASB 2011-4 *Amendments to Australian Accounting Standards to remove individual key management personnel disclosure requirements* (effective 1 July 2013)
- AASB 1048 *Interpretation of Standards (effective 1 July 2012)*
- AASB 2010-8 *Amendments to Australian Accounting Standards - Deferred tax : Recovery of Underlying Assets (effective 1 July 2012)*
- AASB *Interpretation 20 Stripping costs in the Production Phase of a Surface Mine (effective 1 July 2013)*
- AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities (effective 1 July 2015)*
- AASB 2012-4 *Amendments to Australian Accounting Standards - Government Loans (effective 1 July 2013)*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle (effective 1 July 2015)*

(c) Parent entity financial information

The financial information for the parent entity, BlueScope Steel Limited, disclosed in note 51 has been prepared on the same basis as the consolidated financial statements , except as set out below.

(i) Investments in subsidiaries
Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the financial statements of BlueScope Steel Limited.

(ii) Tax consolidation legislation
BlueScope Steel Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, BlueScope Steel Limited, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured in a systematic manner that is consistent with the broad principles of AASB 112 *Income Taxes* ('Group allocation approach').

In addition to its own current and deferred tax amounts, BlueScope Steel Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 51 .

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

1 Summary of significant accounting policies (continued)

(d) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of BlueScope Steel Limited ('Company' or 'parent entity') as at 30 June 2012 and the results of all subsidiaries for the year then ended. BlueScope Steel Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(k)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 45).

The Group's share of its associates' post acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates in the consolidated financial statements reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Joint venture entities

The interests in joint venture partnerships are accounted for in the financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the partnerships are recognised in profit or loss, and the share of post acquisition movements in reserves is recognised in other comprehensive income. Details relating to the partnership are set out in note 46.

Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

1 Summary of significant accounting policies (continued)

(iv) Changes in ownership interests
The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of BlueScope Steel Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(e) Segment reporting

Operating segments are reported in a manner which is materially consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director and Chief Executive Officer.

(f) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is BlueScope Steel Limited's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on available-for-sale financial assets are included in equity until such time as the available-for-sale asset is sold and the translated amount is reported in the profit and loss.

(iii) Foreign operations
The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold a proportionate share of such exchange differences is reclassified to profit or loss as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets and liabilities of the foreign entities and translated at the closing rate.

1 Summary of significant accounting policies (continued)

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. This is considered to have occurred when legal title of the product is transferred to the customer and the Group is no longer responsible for the product. The point at which title is transferred is dependent upon the specific terms and conditions of the contract under the sale.

(ii) Rendering of services
Contract revenue is recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated. Where the outcome of the contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable the costs will be recovered, revenue is recognised to the extent of costs incurred.

(iii) Interest income
Interest income is recognised using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(iv) Dividends
Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, (refer to note 1(l)).

(h) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(i) Income tax and other taxes

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

1 Summary of significant accounting policies (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

BlueScope Steel Limited and its wholly-owned Australian controlled entities have entered into a tax sharing and funding agreement in relation to their participation in the tax consolidation regime. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Other taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(j) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

1 Summary of significant accounting policies (continued)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(k) Business combinations

The acquisition method of accounting is used to account for all business combinations, excluding business combinations involving entities or businesses under common control which are transferred using the underlying carrying values of the entity being acquired regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition-date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Restructuring costs associated with a business combination are brought to account on the basis described in note 1(ac).

(l) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Refer to note 4 for impairment testing methodology and key assumptions.

Refer to notes 20 and 22 for a detailed allocation of goodwill and intangible assets with indefinite useful lives to cash generating units (CGUs) and impairment losses and reversals recognised in the current period.

(m) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(n) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 to 90 days.

1 Summary of significant accounting policies (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(o) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials. Costs are assigned to inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(p) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of comprehensive income.

(q) Investments and other financial assets

Classification
The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

(i) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

1 Summary of significant accounting policies (continued)

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position (notes 12 and 17).

(iii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

(iv) Available-for-sale financial assets
Available-for-sale financial assets, comprising principally equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments are designated as available for sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. Assets in this category are classified as non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period, in which case they are classified as current assets.

Financial assets - reclassification
The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition
Regular purchases and sales of financial assets are recognised on trade date the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

1 Summary of significant accounting policies (continued)

Details on how the fair value of financial instruments is determined are disclosed in note 3.

Impairment
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the assets carrying amount, including working capital, and the present value of estimated future cash flows discounted at the financial assets original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in profit or loss.

(r) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 15. Movements in the hedging reserve in shareholder's equity are shown in note 36. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in the hedging reserve are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in the hedging reserve are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

1 Summary of significant accounting policies (continued)

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedging reserve is immediately reclassified to profit or loss.

(iii) Net investment hedges
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Gains and losses accumulated in the foreign currency translation reserve are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

(iv) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

(s) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on a straight-line basis to allocate their cost over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The useful lives of major categories of property, plant and equipment are as follows:

Category	*Useful life*
Buildings	Up to 40 years
Plant, machinery and equipment	Up to 40 years

The assets’ useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(l)).

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in profit or loss on a net basis as either income (a gain) or an expense (a loss).

(t) Intangible assets

(i) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1 Summary of significant accounting policies (continued)

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose (note 22).

(ii) Patents, trademarks and other rights
Patents, trademarks and other rights are carried at cost less accumulated amortisation and impairment losses. Amortisation on patents, trademarks and other rights that have finite lives is calculated using the straight- line method to allocate the cost over their estimated useful lives.

(iii) Research and development
Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over the period of expected benefit.

(iv) IT development software
Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 10 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

(v) Customer relationships
Customer relationships and items of similar substance are only recognised as an intangible asset if they are acquired as part of a business combination and meet the recognition criteria as set out in the business combinations accounting policy (refer to note 1(k)).

When recognised, such items are carried at fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation on customer relationships with finite lives is calculated using the straight-line method to allocate the asset carrying amount over its estimated useful life.

(u) Trade and other payables

These amounts are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 62 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

1 Summary of significant accounting policies (continued)

(v) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs and are consequently recognised in profit or loss over the term of the associated borrowing.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(w) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is, where applicable, the interest rate applicable to associated borrowings or the weighted average interest rate applicable to the Group's borrowings outstanding during the period.

(x) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

(y) Employee benefits

(i) Short-term obligations
Liabilities for wages and salaries, including non monetary benefits, annual leave and other employee benefits expected to be settled within 12 months of the reporting period, are measured at the amounts expected to be paid when the liabilities are settled. These short-term obligations are recognised as provisions for employee benefits, except accrued wages and salaries, which is presented as an other payable due to the increased certainty around the timing of the attached cash outflows. Non-accumulating sick leave is recognised when the leave is taken and measured at the rates paid or payable.

(ii) Other long-term employee benefit obligations
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

1 Summary of significant accounting policies (continued)

(iii) Retirement benefit obligations
All employees of the Group are entitled to benefits from the Group's superannuation plans on retirement, disability or death. The Group has both defined benefit and defined contribution plans. The defined benefit plans provide defined lump sum benefits based on years of service and final average salary. The defined contribution plans receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of defined benefit superannuation plans is recognised in the statement of financial position and is measured as the present value of the defined benefit obligation at the end of the reporting period less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the end of the reporting period, calculated half yearly by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income.

Past service costs are recognised immediately in profit or loss, unless the changes to the superannuation plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes that are funded by the entity and are part of the provision of the existing benefit obligation (e.g. taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

Contributions to the defined contribution fund are recognised as an expense as they become payable.

(iv) Share-based payments
The Group provides benefits in the form of share-based payment transactions to employees. Information relating to these schemes is set out in note 50 and the 30 June 2012 Remuneration Report.

There are currently three plans in place providing share based payment benefits:

- *General Employee Share Plans (GESP)*

  GESP is a share award program which, at the determination of the Board, issue eligible employees with a grant of ordinary BlueScope Steel shares (or a reward of equal value in countries where the issue of shares is not practicable). The decision to issue GESP is made annually.

- *Long Term Incentive Plans (LTIP)*

  LTIP is a share rights program which, at the determination of the Board, provides eligible senior managers with the right to receive ordinary BlueScope Steel shares at a later date subject to the satisfaction of certain performance creteria. The decision to issue a LTIP share rights program is made annually.

- *Special share grants and rights*

  Special share grants and rights are awarded by the Board from time to time to meet specific or exceptional demands.

The fair values of share awards and share rights are recognised as an employee benefit expense with a corresponding increase to the share based payments reserve within equity. The total amount to be expensed is determined by reference to the fair value of the share awards or share rights granted, which includes any market performance conditions but excludes the impact of non-market performance vesting conditions.

1 Summary of significant accounting policies (continued)

Non-market vesting conditions are included in assumptions about the number of share awards or share rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are expected to be satisfied. At the end of each period, the entity revises its estimates of the number of share awards and share rights that are expected to vest based on non- market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity, or the provision account as is the case for cash settled share awards.

The fair value of share rights at grant date is independently determined by an external valuer using Black Scholes option pricing model which takes into account the exercise price, the term of the share right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the share right.

The cumulative expense recognised for share-based payment transactions at each reporting date until vesting date reflects the extent to which the expected vesting period has expired and the number of rights that are expected to ultimately vest. This number is based on the best available information at the reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Upon the exercise of share rights and issue of equity settled share awards, the balance of the share-based payments reserve relating to those rights and awards is transferred to share capital. The dilutive effect, if any, of outstanding rights is reflected as additional share dilution in the computation of diluted earnings per share.

No expense is recognised for share awards and share rights that do not ultimately vest, except for share rights where vesting is only conditional upon a market condition. The Group's current LTIP program is a market condition share-based payment.

(v) Short Term Incentive plans (STI)
The Group recognises a liability and an expense for STI plan payments made to employees. STI goals are based on both overall Company performance and the individual or team contribution to performance. The Group recognises a provision where past practice and current performance indicates that a probable constructive obligation exists.

(vi) Employee benefit on-costs
Employee benefit on costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(vii) Termination benefits
Liabilities for termination benefits, not in connection with a business combination or the closure of an operation, are recognised when the group is demonstrably committed to either terminating the employment of current employees according to a formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Liabilities for termination benefits relating to an acquired entity or operation that arise as a consequence of business combinations are recognised as at the date of acquisition only if the liability has already been recognised in the statement of financial position of the acquiree.

Redundancy costs associated with the closure of an operation are accounted for as restructuring costs.

(z) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If BlueScope Steel Limited reacquires its own equity instruments, e.g. as the result of a share buy back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid, including any directly attributable incremental costs (net of income taxes), is recognised directly in equity.

1 Summary of significant accounting policies (continued)

(aa) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the balance sheet date.

(ab) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing:
- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:
- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(ac) Restructuring costs

(i) Restructuring and the closure of an operation
Liabilities arising directly from undertaking a restructuring program, defined as the closure of an operation, are recognised when a detailed plan of the restructuring activity has been developed and implementation of the restructuring program as planned has commenced, by either entering into contracts to undertake the restructuring activities or making a detailed announcement such that affected parties are in no doubt the restructuring program will proceed.

(ii) Restructuring and the sale of an operation
A restructuring liability associated with the sale of an operation is not recognised unless a purchaser has been identified and a binding sale agreement has been entered into.

(i) Restructuring and acquisitions through a business combination
When acquiring another entity through a business combination, a restructuring liability is not recognised or included in the goodwill fair value calculation unless a liability has already been recognised by the acquiree, in accordance with note 1(ac)(i).

Redundancy costs that are not part of a restructuring program which closes or sells an operation are classified as employee benefits (refer note 1(y)(vii)).

(ad) Emissions trading schemes

The Group is a participant in the New Zealand Government's uncapped emissions trading scheme (ETS) which was implemented with effect from 1 July 2010. The Australian Carbon Pricing Mechanism is to commence on 1 July 2012 with the intention to move to a cap and trade ETS from 1 July 2015. Other than in consideration of non current asset carrying values (refer note 20), the proposed scheme has no accounting consequences in the current year. There are currently no other countries in which the Group operates where an emissions trading scheme would require the Group to be a participant.

Under New Zealand's ETS, emission unit permits (EUs) are received from the New Zealand Government based on the Allocative Baselines for the Defined Activity of Manufacture of Iron and Steel from Iron Sands. Permits are able to be sold or can be held to offset obligations accruing under the ETS.

EUs received are accounted for at fair value at the date of grant with a corresponding entry to deferred income. Income is recognised based on the production outputs from the defined activity. EUs that are acquired are initially recognised at cost. EUs that are held for trading in the ordinary course of business are classified as inventory and subsequently held at the lower of cost and fair value less cost to sell. Non-held-for-trading EUs are classified as intangible assets and are carried at cost. Intangible EU assets are not amortised or subject to impairment as the economic benefits are realised from surrendering the rights to settle obligations arising from the ETS.

1 Summary of significant accounting policies (continued)

The emissions liability is recognised as a provision for carbon and is measured with reference to the carrying amount of EUs held with any excess measured at the current market value of EUs. ETS costs passed through from suppliers are included as part of the underlying cost of the good or service rendered. The liability for this cost pass through is either included within trade creditors or recorded as an emissions liability within the carbon provision account when an agreement has been reached with the supplier to settle the ETS cost by transferring EUs.

When EUs are delivered to the government or a third party, the EU asset along with the corresponding carbon provision is derecognised from the statement of financial position.

(ae) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

2 Corporate information

The financial report of BlueScope Steel Limited for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 20 August 2012.

BlueScope Steel Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The registered office of the Company is Level 11, 120 Collins Street, Melbourne, Victoria, Australia 3000.

The nature of the operations and principal activities of the Group are described in note 5 and the directors' report.

3 Financial risk management

The Group's principal financial instruments include receivables, payables, borrowings and derivatives. The accounting classification of each category of financial instruments as defined in note 1(q) , and their carrying amounts are set out below.

		Loans and receivables	**Derivative instruments** Designated as hedges	Held for trading	**Financial liabilities at amortised cost**	**Total carrying amount**
30 June 2012	Notes	**$M**	**$M**	**$M**	**$M**	**$M**
Financial assets						
Receivables (current)	12	952.9	-	-	-	952.9
Receivables (non-current)	17	42.2	-	-	-	42.2
Financial liabilities						
Payables (current)	24	-	-	-	(1,049.1)	(1,049.1)
Payables (non-current)	29	-	-	-	(7.5)	(7.5)
Derivative financial instruments (current)	15	-	-	(1.7)	-	(1.7)
Borrowings (current)	25	-	-	-	(144.9)	(144.9)
Borrowings (non-current)	30	-	-	-	(453.5)	(453.5)
		995.1	-	(1.7)	(1,655.0)	(661.6)

		Loans and receivables	**Derivative instruments** Designated as hedges	Held for trading	**Financial liabilities at amortised cost**	**Total carrying amount**
30 June 2011	Notes	**$M**	**$M**	**$M**	**$M**	**$M**
Financial assets						
Receivables (current)	12	1,026.8	-	-	-	1,026.8
Receivables (non-current)	17	22.7	-	-	-	22.7
Financial liabilities						
Payables (current)	24	-	-	-	(1,156.6)	(1,156.6)
Payables (non-current)	29	-	-	-	(6.9)	(6.9)
Borrowings (current)	25	-	-	-	(165.7)	(165.7)
Borrowings (non-current)	30	-	-	-	(1,074.2)	(1,074.2)
		1,049.5	-	-	(2,403.4)	(1,353.9)

3 Financial risk management (continued)

The Group's obligations expose it to market risk (including interest rate risk, currency risk and price risk), liquidity risk and credit risk. The nature of these risks and the policies the Group has for controlling them and any concentrations of exposure are discussed as follows:

Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the financial risk management framework. The Board approves written policies for overall financial risk management, covering market, credit and liquidity risks. The objective of these policies is to support the delivery of the Group's financial targets while protecting future financial security. The Board also has established policies regarding the use of derivatives and does not permit their use for speculative purposes.

The Group's Audit & Risk Committee reviews the adequacy of the financial risk management framework established by the Board. In doing so, the Committee considers the financial risks faced by the Group and changes in market conditions. The Committee also oversees how management monitors compliance with the Group's financial risk management policies and procedures.

The Audit & Risk Committee reports regularly to the Board on its activities and:

- undertakes comprehensive reviews of the financial risk management controls and procedures; and
- monitors the levels of exposure to fluctuations in commodity prices, interest rates, foreign exchange rates and the market assessments in respect of these.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of the Group's financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

(i) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial asset or financial liability will fluctuate due to changes in interest rates. Exposure to cash flow interest rate risk for the Group arises due to holding floating rate interest bearing liabilities and investments in cash and cash equivalents. Any changes in the current market rate will affect the cash flows payable and receivable on floating rate interest bearing liabilities and investments in cash and cash equivalents and hence impact the Group's profit (loss) after tax.

Although a change in the current market interest rate may impact the fair value of the Group's fixed interest bearing liabilities and other receivables, it does not impact the Group's profit (loss) after tax or equity as these financial liabilities are carried at amortised cost and not at fair value through profit or loss.

Sensitivity disclosure analysis

The Group's exposure to its floating interest rate financial assets and financial liabilities is as follows:

	Consolidated	
	2012 $M	2011 $M
Financial assets		
Cash and cash equivalents	**214.5**	172.2
Financial liabilities		
Borrowings - external	**249.8**	512.2
Net exposure	**(35.3)**	(340.0)

3 Financial risk management (continued)

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, the Group believes the impacts on profit or loss and on equity in the following table are 'reasonably possible' over the next 12 months if interest rates change by +/- 50 basis points from the year-end rates with all other variables including foreign exchange rates held constant.

	Post-tax profit higher (lower)		**Equity higher (lower)**	
Judgement of reasonably possible movements:	**2012 $M**	2011 $M	**2012 $M**	2011 $M
+50 basis points	**(0.1)**	(1.2)	**(0.1)**	(1.2)
-50 basis points	**0.1**	1.2	**0.1**	1.2

The sensitivity analysis is based on the Group's composition of floating rate financial instruments held at reporting date. For purposes of the sensitivity analysis, the effect of interest rate changes on floating rate instruments held is calculated assuming no change in other assumptions. In reality, the composition of floating instruments will vary throughout the financial reporting period and interest rates will change continually. Changes in one factor may contribute to changes in another, which may magnify or counteract the above sensitivities.

(ii) Currency risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of movements in international exchange rates. The Group is exposed to exchange rate transaction risk on foreign currency sales and purchases primarily with respect to the United States dollar (USD). The Group's most significant foreign currency exposure on financial instruments arises from USD receipts and payments on receivables, payables and interest bearing liabilities denominated in USD as held by Australian based entities, some of which are used to hedge net investments in foreign operations.

The Group is also exposed to exchange rate translation exposure on foreign currency financial assets and financial liabilities. In certain currencies the Group has a full or partial natural hedge between investments in net foreign assets and interest bearing liabilities.

The Group's exposure to its external non-functional currency USD financial assets and financial liabilities are as follows:

	Consolidated	
	2012 $M	2011 $M
Financial assets		
Cash and cash equivalents	**32.5**	40.3
Trade and other receivables	**63.1**	70.4
	95.6	110.7
Financial liabilities		
Trade and other payables	**146.1**	97.1
Borrowings	**218.9**	578.1
Forward foreign exchange contracts	**1.7**	-
	366.7	675.2
Net exposure	**(271.1)**	(564.5)

This exposure for the Group does not reflect the natural hedge of USD assets against USD borrowings of AUD 311.3M (2011: AUD 621.0M).

Although the Group is economically exposed to currency risk in relation to future purchases and sales this is not a recognised market risk under the Accounting Standards as the risk is embedded within normal purchases and sales and are therefore not financial instruments.

3 Financial risk management (continued)

Sensitivity disclosure analysis

The table below summarises the impact of +/- 10% (2011: +/- 10%) weakening/strengthening of the AUD against the USD on the Group's post-tax profit for the year and on equity based on the Group's external net exposure. The analysis is based on the assumption that the AUD has weakened/strengthened by 10% with all other variables held constant.

A sensitivity of 10% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed on a historical basis.

	Post-tax profit higher (lower)		**Equity higher (lower)**	
Judgement of reasonably possible movements:	**2012 $M**	2011 $M	**2012 $M**	2011 $M
AUD/USD + 10% (2011: +10%)	**17.1**	36.3	**17.1**	36.3
AUD/USD - 10% (2011: -10%)	**(20.8)**	(44.4)	**(20.8)**	(44.4)

(iii) Other price risk
Other price risk is the risk that the fair value or future cash flows of the transacted financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group is exposed to other price risks arising from commodity prices.

The Group takes a portfolio approach to price risk management. Hedging of price risks is undertaken infrequently due to the inherent limitations in being able to materially reduce volatility in earnings and cash flow. The primary limitation is that liquid derivative markets are not currently operating in the Group's most significant price risks, being international steel prices (particularly hot rolled coil and slab), coal and iron ore. The absence of derivative markets for these commodities means that any hedging program for other price risks will not have a material impact on reducing cash flow at risk.

Commodity price risk
The Group is exposed to price risk on steel that it produces, purchased steel feed and on the commodities that it utilises in its production processes, in particular iron ore, coal, scrap, zinc, aluminium and electricity. Although the Group is economically exposed to commodity price risk on its above mentioned inputs, this is not a recognised market risk under Accounting Standards as the risk is embedded within normal purchases and sales and are therefore not financial instruments.

The Group periodically enters into hedges to manage exposure to fluctuations in electricity prices (New Zealand operations) in accordance with the Group's financial risk management policies. No electricity hedge exists at balance date.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group expects to satisfy its ongoing capital expenditure requirements and meet its working capital needs through cash generated from operations, together with cash on hand and borrowings available under existing and new financing facilities. The total amount of financing facilities carried by the Group takes into account a liquidity buffer which is reviewed at least annually. Group Treasury monitors liquidity risk through the development of future rolling cash flow forecasts.

The Group's net exposure to liquidity risk is not significant based on available funding facilities and cash flow forecasts. Refer to note 30(c) for a summary of the Group's material financing facilities.

Contractual maturity analysis
The table below reflects all contractual repayments of principal and interest resulting from recognised financial liabilities at 30 June 2012 and 30 June 2011. The amounts disclosed represent undiscounted, contractual cash flows for the respective obligations in respect of upcoming fiscal years and therefore do not equate to the values shown in the statement of financial position.

3 Financial risk management (continued)

Non-derivatives	**Contractually maturing in:**						
30 June 2012	**< 1 year** $M	**1 - 2 years** $M	**2 - 3 years** $M	**3 - 4 years** $M	**4 - 5 years** $M	**> 5 years** $M	**Total** $M
Payables (current & non-current)	1,049.1	-	-	-	-	7.5	1,056.6
Borrowings (current & non-current)	52.4	280.0	204.0	22.6	22.6	204.6	786.1
	1,101.5	280.0	204.0	22.6	22.6	212.1	1,842.7
Derivatives							
Gross settled (forward foreign exchange contracts)							
-Cash outflow	38.3	-	-	-	-	-	38.3
-Cash (inflow)	(36.6)	-	-	-	-	-	(36.6)
	1.7	-	-	-	-	-	1.7
30 June 2011							
Payables (current & non-current)	1,156.6	-	-	-	-	6.9	1,163.5
Borrowings (current & non-current)	243.2	75.4	550.2	309.3	30.5	397.1	1,605.7
	1,399.8	75.4	550.2	309.3	30.5	404.0	2,769.2

(c) Credit risk

Credit risk arises from financial assets of the Group, such as cash (including cash equivalents), receivables and derivative financial instruments. Credit risk arises from the possibility that counterparties to the Group's financial assets will fail to settle their obligations under the respective contracts at maturity, causing the Group to incur a financial loss.

To manage this risk, the Group:

- has a policy for establishing credit approvals and limits, including the assessment of counterparty creditworthiness;
- may require collateral when appropriate;
- undertakes monitoring procedures such as periodic assessments of the financial viability of its counterparties, ageing analysis and reassessment of credit allowances provided; and
- manages exposures to individual entities it enters into derivative contracts with (a maximum exposure threshold is applied and transaction approval is required).

The maximum exposure of the Group's credit risk is represented by the carrying amount of the financial assets it holds (without taking account of the value of any collateral obtained), reduced by the effects of any netting arrangements with financial institution counterparties. As at 30 June 2012 and 30 June 2011, the Group held minimal amounts of collateral as security relating to any of its financial assets.

Irrespective of the above processes unexpected credit losses may occur. Exposure to unexpected losses increases when dealing with parties in similar industries or geographical regions whose ability to meet their contractual obligations are impaired by changes in economic, political or other conditions. The Group's primary customers, suppliers and financial institutions with whom it transacts are dispersed throughout the world. These risks are monitored at both the Group and operational level to ensure that all material credit risks are managed.

(i) Concentrations of risk
The Group's credit risks are categorised under the following concentrations of risk: counterparty type and geographical region.

3 Financial risk management (continued)

Counterparties
The Group has a large number of customers, internationally dispersed. Sales to the Group's customers are made either on open terms or subject to independent payment guarantees with prime financial institutions. The Group obtains letters of credit from these institutions to guarantee the underlying payment from trade customers or undertake debtor insurance to cover selective receivables for both commercial and sovereign risks.

The Group has significant transactions with major customers, being Arrium Limited (previously called OneSteel Limited), Fletcher Building's Group and Hills Industries. These entities are major customers of the Group's Australian operations and credit risk with these businesses is managed on an active and ongoing basis, using both quantitative and qualitative evaluation (based on transactional and credit history).

The Group's receivable counterparties consist of a number of prime financial institutions in the relevant markets. The Group has no significant transaction with any single counterparty or group of counterparties and generally does not require collateral in relation to the settlement of financial instruments.

Geographical
The Group trades in several major geographical regions and when appropriate export finance insurance and other risk mitigation facilities are utilised to ensure settlement. Regions in which the Group has a significant credit exposure are Australia, USA, China, South East Asia and New Zealand. Terms of trade are continually monitored by the Group.

As mentioned previously, selected receivables are covered for both commercial and sovereign risks by payment guarantee arrangements with various banks and specialist credit insurers.

(ii) Renegotiations and amounts past due and not impaired
The Group does not typically renegotiate the terms of trade receivables. However, should a renegotiation occur, the outstanding balance is included in the analysis based on the original payment terms. There were no significant renegotiated balances outstanding at 30 June 2012 (30 June 2011: Nil). Refer to note 12(e) for an ageing analysis of trade receivables past due and not impaired. Significant financial difficulties of the debtor, probability that the debtor will enter insolvency or financial reorganisation, and default or delinquency in payments are considered indicators of impairment.

With respect to the trade receivables which are neither impaired nor past due, there are no indications as at reporting date that the debtors will not meet their obligations as they fall due. Refer to notes 12 and 17 for impairment losses recognised for the period.

The Group's exposure to credit risk is large but due to the diversification of customers and geography the risk of loss is low.

(d) Fair value

The fair value of financial assets and financial liabilities is estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(*i*) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
(*ii*) Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (i.e. derived from prices); and
(*iii*) Level 3 - inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

3 Financial risk management (continued)

The table below presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011.

30 June 2012	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**Total $M**
Liabilities				
Forward foreign exchange contracts	-	1.7	-	1.7
Total liabilities	**-**	**1.7**	**-**	**1.7**
30 June 2011				
Liabilities				
Forward foreign exchange contracts	-	-	-	-
Total liabilities	**-**	-	**-**	-

As at 30 June 2012, the $1.7M derivative liability relates to the fair value of outstanding forward foreign exchange contracts relating to foreign currency sales and purchases.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) are determined using valuation techniques.

With the exception of the table below, the fair value of financial assets and financial liabilities (including those recognised and measured at amortised cost) are assumed to approximate their fair values due to their short- term nature and/or application of floating rate interest charges. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current interest bearing liabilities approximates the carrying amount, as the impact of discounting is not significant.

	At 30 June 2012		At 30 June 2011	
	Carrying amount $M	**Fair value $M**	**Carrying amount $M**	**Fair value $M**
Non-traded financial assets				
Loans to related parties	**-**	**-**	5.0	5.1
Non-traded financial liabilities				
Other loans	**218.9**	**268.8**	640.0	758.8
Net assets (liability)	**(218.9)**	**(268.8)**	(635.0)	(753.7)

None of the above financial assets or liabilities are readily traded on organised markets in standardised form. The fair value of loans receivable and interest bearing financial liabilities where no market exists is based upon discounting the expected future cash flows by the current market interest rates on liabilities with similar risk profiles that are available to the Group.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of cash generating units (CGUs), including goodwill
The Group tests property, plant and equipment and intangible assets with definite useful lives when there is an indicator of impairment. Goodwill and other intangible assets with indefinite useful lives are tested at least annually for any impairment or reversal of a previous impairment loss in accordance with the accounting policy stated in note 1(t). All cash generating units (CGU's) were tested for impairment at the reporting date. The recoverable amounts of CGUs have been determined based on the key assumptions listed below.

Key assumptions

The recoverable amount of each CGU is determined on the basis of value-in-use (VIU), unless there is evidence to support a higher fair value less cost to sell. The following describes assumptions on which the Company has based its projections when determining the recoverable value of each CGU.

The carrying amounts of property, plant and equipment as set out in note 20 and intangible assets as set out in note 22 are subject to major estimation uncertainty, in the form of the key operating assumptions used to estimate the future cash flows and discount rates. The nature and basis for the key assumptions used for impairment testing are outlined below.

Future cash flows
VIU calculations use pre-tax cash flows, inclusive of working capital movement, are based on financial projections approved by the Company covering a three-year period, being the basis of the Group's forecasting and planning processes or up to five years where the circumstances pertaining to a specific CGU support a longer period. Cash flows beyond the projection period are extrapolated to provide a maximum of 30 years of cash flows with adjustments where necessary to reflect changes in long-term operating conditions. No terminal value is calculated.

The key operating assumptions and their basis of estimation are:

- Raw material costs are based on commodity price forecasts derived from a range of external global commodity forecasters.
- Selling prices are management forecasts, taking into account commodity steel price forecasts derived from a range of external global commodity forecasters.
- Sales volumes are management forecasts, taking into account external forecasts of underlying economic activity for the market sectors and geographies in which each CGU operates.
- The strength of the Australian dollar relative to the US dollar is based on forecasts derived from a range of external banks. This assumption is relevant as foreign currency exchange rates, in particular the Australian dollar relative to the US dollar, impacts the competitiveness of domestically manufactured product relative to imported product.

Growth rate
The growth rate used to extrapolate the cash flows for each CGU beyond the forecast period does not exceed 2.5% (2011: 2.5%). The growth rate represents a steady indexation rate which does not exceed the Company's expectations of the long-term average growth rate for the business in which each CGU operates.

4 Critical accounting estimates and judgements (continued)

Discount rate
The discount rate applied to the cash flow projections has been assessed to reflect the time value of money and the perceived risk profile of the industry in which each CGU operates. The post-tax discount rates range from 9.4% to 10.8% (2011: all at 10.5%).

Given the differing characteristics, currencies and geographical locations of the Group's CGUs, where appropriate the base discount rate is adjusted by a country risk premium (CRP) to reflect country specific risks. Such adjustments do not reflect risks for which cash flow forecasts have already been adjusted. The CRP is derived from a range of externally sourced foreign country risk ratings.

The adjusted post-tax discount rate is translated to a pre-tax rate for each CGU based on the specific tax rate applicable to where the CGU operates.

All foreign currency cash flows are discounted using a discount rate appropriate for that currency.

Carbon pricing schemes
The estimated impact of the New Zealand Emissions Trading Scheme (ETS), which came into effect on 1 July 2010, and the Australian Carbon Pricing Mechanism (CPM), to come into effect on 1 July 2012, have been included in determining cash flow projections.

The carbon pricing schemes (CPS) requires the Company to annually obtain and surrender emission units to cover the Group's direct greenhouse gas emissions for our facilities in Australia and New Zealand (scope 1 emissions). The CPS increases the costs of electricity (scope 2 direct emissions) and the cost of other goods and services (scope 3 indirect emissions).

The Australian and New Zealand Governments have enacted programs to allocate some permits to emissions-intensive trade exposed activities, including integrated iron and steel making. In Australia this will involve the allocation of permits at the maximum rate (permits covering 94.5% of the industry based line emissions in the first year) with the permit allocation decreasing by 1.3% per annum. New Zealand Steel has qualified for a free allocation of emission unit permits at the maximum rate (90% of industry based line emissions) with no decision yet to be reached on the reduction rate of permits to be allocated.

The Australian Government has also announced a Steel Transformation Plan (STP) to encourage investment, innovation and competitiveness in the Australian steel manufacturing industry in order to assist the industry to transform into an efficient and economically sustainable industry in a low carbon economy. The STP will provide $300M of funding to the Australian steel industry over a four-year period for eligible expenditure on innovation, investment and production. The Group expects to receive 61% of this funding. The STP included an advance payment mechanism which the Company utilised with a $100M advance received in January 2012.

The Group will incur significant additional costs from these schemes. In Australia, the STP is expected to offset the cost of the CPM for the first four years. The potential impact of the CPM beyond the first four years is difficult to assess and will depend upon a range of factors.

In estimating the impact of carbon pricing schemes for impairment testing purposes the Group has taken into account the assistance to be provided by the STP for the first four years, net of any advances already received, the pass through of costs by suppliers and the ability of the Group to implement mitigation plans.

Sensitivity of carrying amounts
The carrying value of property plant and equipment of the Group is most sensitive to cash forecasts for the Group’s largest CGU, Coated & Industrial Products Australia (CIPA) which are determined taking into account the key assumptions set out above. The property, plant and equipment of this CGU was impaired during the period and is therefore carried at its recoverable amount.

External forecasters estimate the current economic circumstances will continue for the next 12 months but in the longer term will see a strengthening of the US dollar relative to the Australian dollar, lowering of iron ore and coal raw material costs relative to global commodity steel prices and increasing domestic demand for steel products. The Company has risk adjusted the cash flows for CIPA by assuming a delayed recovery scenario for the next two years. The Company believes that the long term assumptions adopted are appropriate. However, to illustrate the sensitivity of these assumptions, if they were to differ such that the expected cash flows were to decrease materially, that is in the range of 5-10%, across the five year forecast period without the implementation of mitigation plans, this could lead to a future impairment write-down of approximately $150M - $300M.

4 Critical accounting estimates and judgements (continued)

(ii) Income taxes
The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

In addition, deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future forecast taxable profits are available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the nature and timing of their origination and compliance with the relevant tax legislation associated with their recoupment.

(iii) Workers compensation
Calculations for the Group's self-insured workers compensation are determined by external actuaries. These calculations require assumptions in relation to the expectation of future events. Refer to notes 27 and 32 for amounts recognised for workers compensation.

(iv) Product claims
Provision for claims is based on modelled data combining sales volumes with past experiences of repair and replacement levels in conjunction with any specifically identified product faults. The provision requires the use of assumptions in relation to the level of future claims made. Refer to notes 27 and 32 for amounts recognised for product claims.

(v) Share-based payment transactions
The Group measures the cost of equity settled transactions with employees by reference to the fair value of equity instruments at grant date. The fair value is determined by an external valuer using a Black Scholes option pricing model. These calculations require assumptions to be made as per note 1(y)(iv) and illustrated in note 50.

(vi) Defined benefit plans
Various actuarial assumptions underpin the determination of the Group's pension obligations. These assumptions and the related carrying amounts are discussed in note 33.

(vii) Restructuring and redundancy provisions
Provisions for restructuring and redundancy are based on the Group's best estimate of the outflow of resources required to settle commitments made by the Group to those likely to be affected. Where the outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income statement in the period in which such determination is made. Refer to notes 27 and 32 for amounts recognised for restructuring and redundancy provisions.

(viii) Plant and machinery useful lives
The estimation of the useful lives of plant and machinery has been based on historical experience and judgement with respect to technical obsolescence, physical deterioration and usage capacity of the asset in addition to any legal restrictions on usage. The condition of the asset is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary (refer to note 1(s)).

(ix) Restoration and rehabilitation provisions
In accordance with the Group's accounting policy on provisions (note 1(x)), for sites where the requirements have been assessed and are capable of reliable measurement, estimated restoration and remediation costs have been provided for. Provisions have been made for the present value of anticipated costs for future remediation and restoration of leased premises and the iron sand mine operations in New Zealand. In addition, a number of sites within the Group are subject to ongoing environmental review and monitoring.

Recognising restoration, remediation and rehabilitation provisions across the Group requires assumptions to be made as to the application of environmental legislation, site closure dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. When reliable estimates of any remediation work required to be performed are possible and remediation techniques are identified for those sites subject to ongoing environmental review and monitoring, provisions will be established in accordance with the Group’s accounting policy (refer notes 27 and 32).

4 Critical accounting estimates and judgements (continued)

(x) Legal claims
Recognising legal provisions requires judgement as to whether a legal claim meets the definition of a liability (refer accounting policy note 1(x)). There is an inherent uncertainty where the validity of claims are to be determined by the courts or other processes which may result in future actual expenditure differing from the amounts currently provided (refer note 40).

5 Segment information

(a) Description of segments

The Group has six reportable operating segments: Coated & Industrial Products Australia, Australia Distribution & Solutions, New Zealand & Pacific Steel Products, Coated & Building Products Asia, Hot Rolled Products North America, and Coated & Building Products North America.

Coated & Industrial Products Australia
Coated & Industrial Products Australia includes the Port Kembla Steelworks, a steel making operation with an annual production capacity of approximately 2.6 million tonnes of crude steel. The Port Kembla Steelworks is the leading supplier of flat steel in Australia, manufacturing slab, hot rolled coil and plate products. The segment also comprises two main metallic coating and painting facilities located in Springhill, New South Wales and Western Port, Victoria together with steel painting facilities in western Sydney and Acacia Ridge, Queensland. Steel from the Port Kembla Steelworks is processed by these facilities to produce a range of COLORBOND® pre-painted steel and ZINCALUME® zinc/aluminium branded products. Export offices are also incorporated within this segment to trade steel manufactured at these facilities on global markets.

Australia Distribution & Solutions
Australia Distribution & Solutions contains a network of service centres and distribution sites from which it forms a key supplier to the Australian building and construction industry, automotive sector, major white goods manufacturers and general manufacturers. The operating segment also holds the Lysaght steel solutions business, providing a range of LYSAGHT® branded products to the building and construction sector and BlueScope's water business containing rain storage tank solutions.

New Zealand & Pacific Steel Products
The New Zealand Steel operation at Glenbrook, New Zealand, produces a full range of flat steel products for both domestic and export markets. It has an annual production capacity of approximately 0.6 million tonnes. The segment also includes facilities in New Caledonia, Fiji and Vanuatu, which manufacture and distribute the LYSAGHT® range of products.

Coated & Building Products Asia
Coated & Building Products Asia manufactures and distributes a range of metallic coated, painted steel products and pre engineered steel building systems primarily to the building and construction industry and to some sections of the manufacturing industry across Asia.

Hot Rolled Products North America
Hot Rolled Products North America includes a 50% interest in the North Star BlueScope Steel joint venture, a steel mini mill in the United States and a 47.5% shareholding in Castrip LLC.

Coated & Building Products North America
Coated & Building Products North America includes the North American Buildings Group, which designs, manufactures and markets pre-engineered steel buildings and component systems; Steelscape, producer of metal coated and painted steel coils and ASC Profiles, manufacturer of building components including architectural roof and wall systems and structural roof and decking.

Geographical information
The Group's geographical regions are determined based on the location of markets and customers. The Group operates in four main geographical regions being Australia, New Zealand, Asia and North America.

5 Segment information (continued)

(b) Reportable segments

The segment information provided to the strategic steering committee for the reportable segments for the year ended 30 June 2012 is as follows:

30 June 2012	Coated & Industrial Products Australia $M	Australia Distribution & Solutions $M	New Zealand & Pacific Steel Products $M	Coated & Building Products Asia $M	Hot Rolled Products North America $M	Coated & Building Products North America $M	Discontinued Operations $M	Total $M
Total segment sales revenue	4,279.6	1,612.4	755.0	1,625.8	-	1,257.5	164.1	9,694.4
Intersegment revenue	(897.7)	(1.7)	(125.9)	(15.0)	-	(36.4)	(15.0)	(1,091.7)
Revenue from external customers	**3,381.9**	**1,610.7**	**629.1**	**1,610.8**	**-**	**1,221.1**	**149.1**	**8,602.7**
Segment EBIT	**(725.8)**	**(259.7)**	**64.7**	**101.9**	**62.2**	**(24.4)**	**38.5**	**(742.6)**
Depreciation and amortisation	176.8	23.2	44.6	46.4	-	29.6	7.6	328.2
Impairment (write-back) of non-current assets	136.0	178.9	-	0.1	1.4	3.5	-	319.9
Share of profit (loss) from associates and joint venture partnerships	-	-	3.1	(14.3)	63.9	0.5	-	53.2
Total segment assets	**3,037.4**	**691.0**	**647.0**	**1,127.1**	**72.9**	**839.1**	**0.2**	**6,414.7**
Total assets includes:								
Investments in associates and joint venture partnerships	-	2.8	6.8	33.9	72.6	1.0	-	117.1
Additions to non-current assets (other than financial assets and deferred tax)	116.6	8.8	82.1	48.4	-	16.8	2.9	275.6
Total segment liabilities	**1,034.0**	**308.5**	**350.8**	**335.3**	**-**	**303.1**	**3.9**	**2,335.6**

30 June 2011	Coated & Industrial Products Australia $M	Australia Distribution & Solutions $M	New Zealand & Pacific Steel Products $M	Coated & Building Products Asia $M	Hot Rolled Products North America $M	Coated & Building Products North America $M	Discontinued Operations $M	Total $M
Total segment sales revenue	5,193.0	1,675.4	672.1	1,486.8	-	1,197.1	159.4	10,383.8
Intersegment revenue	(1,084.2)	(3.5)	(122.8)	(6.2)	-	(38.5)	(16.2)	(1,271.4)
Revenue from external customers	**4,108.8**	**1,671.9**	**549.3**	**1,480.6**	**-**	**1,158.6**	**143.2**	**9,112.4**
Segment EBIT	**(1,062.5)**	**(217.9)**	**82.5**	**175.6**	**72.3**	**(42.1)**	**8.0**	**(984.1)**
Depreciation and amortisation	201.9	31.1	39.3	42.3	-	39.3	-	353.9
Impairment (write-back) of non-current assets	797.3	179.1	-	(67.8)	1.7	15.6	(1.0)	924.9
Share of profit (loss) from associates and joint venture partnerships	-	-	2.9	(4.1)	74.3	0.2	-	73.3
Total segment assets	**3,837.5**	**994.4**	**623.0**	**1,132.2**	**82.3**	**833.4**	**119.3**	**7,622.1**
Total assets includes:								
Investments in associates and joint venture partnerships	-	2.9	8.0	49.2	81.0	0.9	-	142.0
Additions to non-current assets (other than financial assets and deferred tax)	253.0	36.1	85.1	60.4	-	19.8	-	454.4
Total segment liabilities	**1,083.3**	**310.6**	**217.5**	**318.1**	**-**	**242.1**	**26.1**	**2,197.7**

5 Segment information (continued)

(c) Geographical information

	Segment revenues from sales to external customers		Non-current assets	
	2012 $M	2011 $M	**2012 $M**	2011 $M
Australia	**3,924.0**	4,006.7	**2,275.2**	2,664.3
New Zealand	**407.1**	336.0	**412.8**	372.9
Asia	**1,934.4**	2,482.9	**651.2**	641.7
North America	**1,760.2**	1,525.5	**613.7**	727.1
Other	**577.0**	761.3	**3.3**	4.1
	8,602.7	9,112.4	**3,956.2**	4,410.1

Segment revenues are allocated based on the country in which the customer is located.

Segment non-current assets exclude tax assets and are allocated based on where the assets are located.

(d) Other segment information

(i) Segment revenue
Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in a manner consistent with that in the statement of comprehensive income.

Segment revenue reconciles to total revenue from continuing operations as follows:

		Consolidated	
	Notes	**2012 $M**	2011 $M
Total segment revenue		**9,694.4**	10,383.8
Intersegment eliminations		**(1,091.7)**	(1,271.4)
Revenue attributable to discontinued operations		**(149.1)**	(143.2)
Other revenue	6	**18.9**	22.1
Total revenue from continuing operations		**8,472.5**	8,991.3

(ii) Segment EBIT
Performance of the operating segments is based on EBIT. This measurement basis excludes the effects of interest and taxes. Interest income and expense are not allocated to segments, as this type of activity is driven by the centralised treasury function, which manages the cash position of the Group.

A reconciliation of total segment EBIT to operating profit before income tax is provided as follows:

	Consolidated	
	2012 $M	2011 $M
Total segment EBIT	**(742.6)**	(984.1)
Intersegment eliminations	**3.1**	15.6
Interest income	**3.1**	7.1
Finance costs	**(120.4)**	(106.0)
EBIT (gain) loss attributable to discontinued operations	**(38.5)**	(8.0)
Corporate operations	**(80.8)**	(74.6)
Profit (loss) before income tax from continuing operations	**(976.1)**	(1,150.0)

5 Segment information (continued)

(iii) Segment assets
Segment assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Cash is not considered to be a segment asset as it is managed by the Group's centralised treasury function.

As the segment information is focused on EBIT, tax assets, which by their nature do not contribute towards EBIT, are not allocated to operating segments.

Reportable segment assets are reconciled to total assets as follows:

	Consolidated	
	2012	2011
	$M	$M
Segment assets	**6,414.7**	7,622.1
Intersegment eliminations	**(128.4)**	(191.9)
Unallocated:		
Deferred tax assets	**189.0**	160.8
Cash	**214.5**	172.2
Corporate operations	**15.6**	29.8
Tax receivables	**28.1**	-
Total assets as per the statement of financial position	**6,733.5**	7,793.0

(iv) Segment liabilities
Segment liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

Liabilities arising from borrowing and funding initiatives are not considered to be segment liabilities due to these being managed by the Group's centralised treasury function. As the segment information is focused on EBIT, tax liabilities, which by their nature do not impact EBIT, are not allocated to operating segments.

Reportable segment liabilities are reconciled to total liabilities as follows:

	Consolidated	
	2012	2011
	$M	$M
Segment liabilities	**2,335.6**	2,197.7
Intersegment eliminations	**(119.2)**	(179.3)
Unallocated:		
Current borrowings	**144.9**	165.7
Non-current borrowings	**453.5**	1,074.2
Current tax liabilities	**72.7**	23.1
Deferred tax liabilities	**18.7**	69.1
Accrued borrowing costs payable	**11.2**	11.0
Corporate operations	**37.3**	35.4
Total liabilities as per the statement of financial position	**2,954.7**	3,396.9

6 Revenue

	Notes	Consolidated 2012 $M	2011 $M
Revenue from operating activities			
Sales revenue			
Sale of goods		**8,428.4**	8,947.2
Services		**25.2**	22.0
Total sales revenue		**8,453.6**	8,969.2
Other revenue			
Interest external		**2.9**	5.9
Interest related parties	42(d)	**0.2**	1.2
Royalties external		**1.6**	1.6
Rental external		**5.3**	5.3
Other		**8.9**	8.1
Total other revenue		**18.9**	22.1
Total revenue from ordinary activities		**8,472.5**	8,991.3
From discontinued operations			
Sales revenue		**164.1**	159.4
Intersegment eliminations		**(15.0)**	(16.2)
Total revenue from discontinued operations	10	**149.1**	143.2

7 Other income

	Notes	Consolidated 2012 $M	2011 $M
Net gain on disposal of property, plant and equipment (2011 net loss - note 8)		**0.3**	-
Insurance recoveries		**-**	0.1
Litigation settlement		**0.1**	0.7
Carbon permit - Government grant	1(ad)	**12.8**	19.0
STP Government grant (a)		**100.0**	-
		113.2	19.8

(a) Steel Transformation Plan Government grant
A $100M advance payment under the Federal Government Steel Transformation Plan (STP) was received on 13 January 2012. The STP was established to encourage investment, innovation and competitiveness in the Australian steel manufacturing industry. In accordance with the Company's accounting policy on accounting for Government grants (refer to note 1(h)), the $100M STP advance payment has been recognised as income in line with the related costs which it is intended to compensate.

8 Expenses

	Notes	Consolidated 2012 $M	2011 $M
Loss before income tax includes the following specific expenses for continuing operations:			
Depreciation and amortisation			
Depreciation	20	**295.1**	320.6
Amortisation	22	**28.2**	27.2
Total depreciation and amortisation		**323.3**	347.8
Impairment losses - financial assets			
Loans and receivables			
- trade receivables		**9.8**	4.7
- reversal of impairment loss		**(3.5)**	(2.1)
Total impairment of financial assets	12(d)	**6.3**	2.6
Impairment of non-current assets			
BlueScope Distribution goodwill	22	**156.8**	177.2
Coated & Industrial Products Australia PP&E	20	**136.0**	728.7
Lysaght Australia goodwill	22	**10.0**	-
BlueScope Water Australia goodwill	22	**7.5**	-
BlueScope Buildings North America PP&E	20	**3.5**	-
Australia Distribution & Solutions PP&E and other intangibles	20	**4.7**	1.8
Coated & Industrial Products Australia goodwill	22	**-**	68.6
Steelscape goodwill	22	**-**	15.6
BlueScope Water other intangible	22	**-**	0.1
Castrip joint venture	46(d)	**1.4**	1.7
Reversal of impairment loss	20(d)	**-**	(67.8)
Total impairment of non-current assets		**319.9**	925.9
Finance costs			
Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss		**88.9**	80.7
Ancillary finance charges		**26.1**	25.2
Provisions: unwinding of discount	32	**6.4**	7.2
		121.4	113.1
Amount capitalised (b)		**(1.0)**	(7.0)
Finance costs expensed		**120.4**	106.1
Net loss on disposal of property, plant and equipment (2012 net gain - note 7)		**-**	1.1
Net foreign exchange losses		**7.5**	34.8
Rental expense relating to operating leases		**101.6**	99.0
Defined contribution superannuation expense		**78.1**	82.2
Research and development expense		**26.0**	28.3
Restructure provision expense (a)	32	**403.6**	1.7
Employee redundancy provision expense		**11.4**	9.2
Restoration and rehabilitation provision write-back		**-**	(4.7)

8 Expenses (continued)

(a) Restructuring costs

The current year restructuring costs includes $365.7M for incurred and estimated future costs arising from the closure of the No.6 Blast furnace at Port Kembla and other equipment to reflect the reduced ironmaking capacity, as announced to the market on 22 August 2011. The remaining current year restructuring costs relates to Coated & Buildings North America and Australia Distribution & Solutions segments.

(b) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is 6.97%, being the weighted average interest rate applicable to the entity's outstanding borrowings during the year (2011: 6.11%).

9 Income tax expense

(a) Income tax expense (benefit)

	Notes	Consolidated 2012 $M	2011 $M
Current tax		**105.0**	29.1
Deferred tax		**(19.1)**	(126.2)
Adjustments for current tax of prior periods		**4.8**	(4.1)
		90.7	(101.2)
Income tax expense (benefit) is attributable to:			
Profit (loss) from continuing operations		**50.2**	(103.9)
Profit (loss) from discontinued operations		**40.5**	2.7
Aggregate income tax expense		**90.7**	(101.2)
Deferred income tax (benefit) expense included in income tax expense comprises:			
Decrease (increase) in deferred tax assets	21	**2.6**	(65.5)
(Decrease) increase in deferred tax liabilities	31	**(22.4)**	(64.6)
Investments in subsidiaries	36	**0.7**	3.9
		(19.1)	(126.2)

9 Income tax expense (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Notes	Consolidated 2012 $M	2011 $M
Loss from continuing operations before income tax expense		**(976.1)**	(1,150.0)
Profit from discontinuing operations before income tax expense	10	**38.9**	8.4
		(937.2)	(1,141.6)
Tax at the Australian tax rate of 30.0% (2011 - 30.0%)		**(281.2)**	(342.5)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Depreciation and amortisation		**0.6**	0.6
Manufacturing credits		**(2.6)**	(1.4)
Research and development incentive		**(7.3)**	(9.3)
Withholding tax		**3.3**	2.5
Non-taxable (gains) losses		**(5.1)**	(5.7)
Disposal of subsidiary		**25.6**	-
Goodwill impairment		**52.3**	78.4
Share of net profits (losses) of associates		**3.5**	0.4
Entertainment		**1.1**	1.3
Share-based payments		**2.4**	2.0
Sundry items		**5.0**	5.5
		(202.4)	(268.2)
Difference in overseas tax rates		**(5.2)**	(12.4)
Adjustments for current tax of prior periods		**4.8**	(4.1)
Temporary differences and tax losses not recognised		**312.3**	220.4
Deferred tax restatement for New Zealand tax rate change		**-**	(0.2)
Previously unrecognised tax losses and temporary differences now recognised		**(15.3)**	(32.2)
Previously unrecognised tax losses now recouped to reduce current tax expense		**(4.7)**	(4.5)
Previously recognised tax losses now derecognised		**1.2**	-
Income tax expense (benefit)		**90.7**	(101.2)

(c) Amounts recognised directly in equity

	Notes	Consolidated 2012 $M	2011 $M
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited (credited) to equity			
Net deferred tax - credit recognised directly in equity	35	**-**	0.1
		-	0.1

(d) Tax expense (benefit) relating to items of other comprehensive income

	Notes	2012 $M	2011 $M
Cash flow hedges	36(a)	**-**	0.1
Actuarial gain/(loss) on defined benefit superannuation plans	36(b)	**(58.3)**	0.4
Net (gain) loss on investments in subsidiaries	36(a)	**(0.7)**	(3.9)
Total income tax expense (benefit) on items of other comprehensive income		**(59.0)**	(3.4)

(e) Tax losses

	2012 $M	2011 $M
Unused tax losses for which no deferred tax asset has been recognised	**1,013.5**	95.7
Potential tax benefit	**295.1**	18.8

9 Income tax expense (continued)

As at 30 June 2012, $296.0M of Australian deferred tax assets generated during the period, mainly in relation to export losses and restructure costs, have been impaired with $27.7M of this amount recognised directly against retained earnings due to actuarial losses from the Australian Defined Benefit Superannuation Plan. Australian Accounting Standards impose a stringent test for the recognition of a deferred tax asset arising from unused tax losses where there is a history of recent tax losses. The Company has deferred the recognition of any further tax asset for the Australian tax group until a return to taxable profits has been demonstrated. Australian tax losses are able to be carried forward indefinitely.

The Group also has unrecognised tax losses arising in Vietnam of $7.2M (2011: $19.6M) and China of $92.1M (2011: $57.5M) which are able to be offset against taxable profits within five years of being incurred. Other unrecognised tax losses can be carried forward indefinitely but can only be utilised in the same tax group in which they are generated.

Tax dispute
The Australian Taxation Office (ATO) has issued BSL with amended assessments in relation to a sale and leaseback transaction entered into by BSL in the 2007 income year (refer to note 40).

In accordance with ATO guidelines, BSL made a $21.2M part payment on 9 July 2012 pending determination of the dispute. Any amount paid will be fully refundable in the event that the matter is resolved in favour of BSL. As at 30 June 2012, this amount has been provided for in the income tax provision with a corresponding increase in non-current tax receivable.

(f) Unrecognised temporary differences

	Consolidated	
	2012	2011
	$M	$M
Temporary difference relating to investment in subsidiaries for which deferred tax liabilities have not been recognised	**88.3**	133.6
Unrecognised deferred tax liabilities relating to the above temporary differences	**13.3**	17.2

Overseas subsidiaries have undistributed earnings, which, if paid out as dividends, would be subject to withholding tax. An assessable temporary difference exists, however no deferred tax liability has been recognised as the parent entity is able to control the timing of distributions from their subsidiaries and is not expected to distribute these profits in the foreseeable future.

At 30 June 2012, the Group has $Nil (2011: $16.6M) of deferred tax assets which have not been recognised as they arose from the initial recognition of a liability in a transaction that:

- was not a business combination; and
- at the time of the transaction, affected neither accounting profit nor taxable profit (tax loss).

Unrecognised deferred tax assets for the Group totalling $159.2M (2011: $290.2M) have not been recognised as they are not probable of realisation.

At 30 June 2012, the Group has $Nil (2011: $1.5M) of deferred tax liabilities which have not been recognised as they arose from the initial recognition of an asset in a transaction that:

- was not a business combination; and
- at the time of the transaction, affected neither accounting profit nor taxable profit (tax loss).

10 Discontinued operations

(a) Description

On 22 June 2012, the Group sold Metl-Span, its North American insulated metal panels business, to NCI Group Inc. As at 30 June 2012 the results of Metl-Span have been included as part of discontinued operations, with a retrospective change made to the comparative period results.

In June 2007, the Group closed its loss making tinplate manufacturing operation, which was the major component of its Packaging Products cash generating unit.

Following a series of construction contract losses in the financial year 2006, the Group closed down and sold the assets of its Lysaght Taiwan business.

The financial information for these operations identified as discontinued operations is set out below and is reported in this financial report as discontinued operations (refer to note 1(p)).

(b) Financial performance of discontinued operations

The results of discontinued operations are presented below.

	Consolidated							
	2012				2011			
	Metl-Span $M	**Packaging Products $M**	**Lysaght Taiwan $M**	**Total $M**	**Metl-Span $M**	**Packaging Products $M**	**Lysaght Taiwan $M**	**Total $M**
Revenue	**149.1**	**-**	**-**	**149.1**	143.2	-	-	143.2
Other income	**29.4**	**-**	**-**	**29.4**	-	-	-	-
Depreciation and amortisation	**(7.6)**	**-**	**-**	**(7.6)**	(7.9)	-	-	(7.9)
Other expenses excluding finance costs	**(131.6)**	**-**	**(0.4)**	**(132.0)**	(128.7)	-	0.7	(128.0)
Unutilised provisions written back	**-**	**-**	**-**	**-**	-	0.1	-	0.1
Impairment reversal (i)	**-**	**-**	**-**	**-**	-	1.0	-	1.0
Finance costs	**-**	**-**	**-**	**-**	-	-	-	-
Profit (loss) before income tax (ii)	**39.3**	**-**	**(0.4)**	**38.9**	6.6	1.1	0.7	8.4
Income tax (expense) benefit (ii)	**(40.4)**	**-**	**(0.1)**	**(40.5)**	(2.4)	(0.3)	-	(2.7)
Profit (loss) after income tax from discontinued operations	**(1.1)**	**-**	**(0.5)**	**(1.6)**	4.2	0.8	0.7	5.7

The results and cash flows from discontinued operations are required to be presented on a consolidated basis. Therefore, the impact of intercompany sales, profit in stock eliminations, intercompany interest income and expense and intercompany funding have been excluded. The profit attributable to the discontinued segment is not affected by these adjustments. As a result of these adjustments the discontinued operations result and cash flows do not represent the operations as stand alone entities.

(i) *Reversal of impairment loss*
In the prior period, Packaging Products recognised an impairment reversal for $1M against property, plant and equipment after selling previously impaired assets.

10 Discontinued operations (continued)

(ii) Details on sale of Metl-Span
Included in the 2012 Metl-Span results is a $29.4M pre-tax disposal gain and a $37.2M tax disposal expense. Details of the sale are as follows:

	2012 $M
Cash consideration received	**146.2**
Consideration receivable	**0.4**
Selling expenses	**(6.2)**
Net disposal consideration	**140.4**
Carrying amount of net assets sold	**(99.9)**
Exchange loss transferred from foreign currency translation reserve	**(11.1)**
Gain on sale before income tax	**29.4**
Income tax expense	**37.2**
Loss on sale after income tax	**(7.8)**

(c) Cash flow information - discontinued operations

The net cash flows of discontinued operations held are as follows:

	Consolidated							
	2012				2011			
	Metl-Span $M	**Packaging $M**	**Lysaght Taiwan $M**	**Total $M**	**Metl-Span $M**	**Packaging $M**	**Lysaght Taiwan $M**	**Total $M**
Net cash inflow (outflow) from operating activities	**14.5**	**-**	**(0.6)**	**13.9**	10.6	(1.7)	0.4	9.3
Net cash inflow (outflow) from investing activities (i)	**137.0**	**-**	**-**	**137.0**	(1.8)	1.0	-	(0.8)
Net cash inflow (outflow) from financing activities	**-**	**-**	**-**	**-**	-	-	-	-
Net increase in cash generated by the operation	**151.5**	**-**	**(0.6)**	**150.9**	8.8	(0.7)	0.4	8.5

(i) The cash received from the sale of Metl-Span on 22 June 2012 is as follows:

	2012 $M
Cash consideration received	**146.2**
Selling expenses paid	**(1.5)**
Net cash received	**144.7**
Net cash disposed	**(4.7)**
Investing cash inflow	**140.0**

11 Current assets - Cash and cash equivalents

	Consolidated 2012 $M	2011 $M
Cash at bank and on hand	**212.1**	172.1
Deposits at call	**2.4**	0.1
	214.5	172.2

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Notes	Consolidated 2012 $M	2011 $M
Balances as above		**214.5**	172.2
Bank overdrafts	25	**(1.9)**	(1.0)
Balances per statement of cash flows		**212.6**	171.2

(b) Risk exposure

The Group’s exposure to interest rate and credit risk is discussed in note 3 . The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents.

12 Current assets - Receivables

	Notes	Consolidated 2012 $M	2011 $M
Trade receivables (a) (f)		**908.4**	964.0
Provision for impairment of receivables	12(d)	**(15.1)**	(21.0)
		893.3	943.0
Loans to related parties - associates (b)	42(e)	**1.1**	1.0
Loans to related parties - other (b)	42(e)	**-**	5.0
Tax receivables		**6.9**	-
Other receivables		**51.6**	77.8
		952.9	1,026.8

(a) Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 90 day terms.

(b) Related party trade receivables and loans to related parties

For terms and conditions relating to related party trade receivables and loans to related parties refer to note 42.

(c) Risk exposure

Information concerning fair values and credit risk of both current and non current receivables is set out in note 3 .

12 Current assets - Receivables (continued)

(d) Provision for impairment of receivables

Movements in the provision for impairment of trade receivables are as follows:

	Consolidated	
	2012	2011
	$M	$M
Opening balance	**21.0**	30.4
Additional provision recognised	**9.8**	4.7
Amounts used during the period	**(11.4)**	(7.7)
Unutilised provision written back	**(3.5)**	(2.1)
Disposal of subsidiary	**(0.1)**	-
Exchange fluctuations	**(0.7)**	(4.3)
	15.1	21.0

The creation and release of the provision for impaired receivables has been included in 'other expenses' in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(e) Past due but not impaired

The ageing analysis of trade receivables for amounts that were past due but not impaired for the Group is as follows:

	Consolidated	
	2012	2011
	$M	$M
Within 30 days	**158.8**	141.7
31 to 60 days	**29.2**	27.2
61 to 90 days	**7.1**	7.5
Over 90 days	**30.3**	13.6
	225.4	190.0

With respect to the trade receivables that are neither impaired nor past due, there are no indications as at reporting date that the debtors will not meet their obligations as they fall due. Refer to notes 12(d) and 17(a) for impairment losses recognised during the period.

The Group's exposure to credit risk is large but due to the diversification of customers and geography the risk of loss is considered minimal.

(f) Transferred financial assets which remain recognised

During the year, BlueScope Distribution entered into a sale of receivables securitisation program on a recourse basis. The Company acts as a servicer under the program and continues to collect cash from its customers and is able to repurchase a receivable by paying the outstanding amount of that receivable.

The receivables securitisation program does not qualify for derecognition as per AASB 139 *Financial Instruments: Recognition and measurement* as the Company has retained the credit risk associated with the trade receivables, by repurchase, and therefore the risks and rewards of the securitisation asset resides with the Group. As a result, the Group continues to recognise the trade receivables and has recognised a current borrowing for the consideration received for the transferred asset. The carrying amount of the trade receivables is $148.6M and the associated borrowing is $131.0M as at 30 June 2012.

13 Current assets - Inventories

	Consolidated	
	2012	2011
	$M	$M
Raw materials and stores		
- at cost	**146.2**	177.3
- at net realisable value	**111.9**	210.8
	258.1	388.1
Work in progress		
- at cost	**312.5**	373.8
- at net realisable value	**219.4**	375.9
	531.9	749.7
Finished goods		
- at cost	**369.3**	519.4
- at net realisable value	**96.9**	198.6
	466.2	718.0
Spares and other		
- at cost	**80.1**	89.1
	80.1	89.1
Emission unit permits - held for trading		
- at cost	**1.1**	2.5
	1.1	2.5
	1,337.4	1,947.4

(a) Inventory expense

Current and non-current inventories recognised as an expense during the year ended 30 June 2012 amounted to $5,527.1M (2011: $5,654.8M) for the Group.

Write-downs of inventories to net realisable value recognised as an expense at 30 June 2012 amounted to $45.3M (2011: $87.0M) for the Group. The expense has been included in ‘raw materials and consumables used’ in the profit or loss.

(b) Emission unit permits (EUs)

The Group is a participant in the New Zealand Government's uncapped emissions trading scheme which was first implemented with effect from 1 July 2010. In accordance with the Group's accounting policy on accounting for emission trading schemes (note 1(ad)) EUs held for trading in the ordinary course of business are classified as inventory and are held at the lower of cost and fair value less cost to sell.

14 Current assets - Intangible assets

	Consolidated	
	2012	2011
	$M	$M
Emission unit permits - not held for trading	**5.6**	18.2

In accordance with the Group's accounting policy on accounting for emission trading schemes (note 1(ad)) EUs that are not held for trading are recognised as current intangible assets and are carried at cost. Intangible EU assets are not amortised or subject to impairment as the economic benefits are realised from surrendering the rights to settle obligations arising from the ETS.

15 Derivative financial instruments

(a) Instruments used by the Group

(i) Forward foreign exchange contracts
As at 30 June 2012, a $1.7M derivative liability has been recorded in relation to the fair value of outstanding forward foreign exchange contracts relating to foreign currency sales and purchases (refer to note 3).

(ii) Forward exchange contracts - electricity cash flow hedges
The Group has been party to derivative financial instruments in accordance with the Group's financial risk management policy (note 3) as a means of hedging exposure to electricity price fluctuations within New Zealand's steel making business.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. Upon maturity, the cumulative loss deferred in equity is adjusted against the initial amount recognised for electricity, which forms a component of inventory cost recognised in the statement of financial position (refer to note 36).

(b) Risk exposures

The Group generally does not enter into significant derivative hedging or other transactions involving market sensitive instruments. Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 3.

(c) Other hedging activities hedge of net investments in foreign operations

The Group had net investments in New Zealand Steel Limited and North Star BlueScope Steel, whose functional currency is NZD and USD respectively. Movements in the AUD/NZD and AUD/USD exchange rates result in fluctuations in the AUD equivalent of these net investments. BlueScope Steel (Finance) Limited borrowed NZD and USD to hedge the net investments in New Zealand Steel Limited and North Star BlueScope Steel respectively. The NZD borrowing was fully repaid on 20 June 2012 (2011: AUD 849.3M) and the USD borrowing fully repaid on the 23 December 2011 (2011: USD 100.0M). On translation of the net investments from NZD and USD to AUD, foreign exchange gains and losses have been taken to the foreign currency translation reserve. Similarly, on translation of BlueScope Steel (Finance) Limited's NZD and USD borrowings to AUD, foreign exchange gains and losses have been taken to the foreign currency translation reserve to the extent that the hedge is effective. The North Star investment hedge was partially ineffective resulting in a $141K gain (2011: $274K gain) being recorded in the profit and loss. The effective hedge portion of these net investments are recorded in the foreign currency translation reserve net of tax (refer to note 36).

16 Current assets - Other

	Consolidated	
	2012	2011
	$M	$M
Deferred charges and prepayments	**56.7**	57.5

17 Non-current assets - Receivables

		Consolidated	
		2012	2011
	Notes	**$M**	$M
Tax receivable	9(e)	**21.2**	-
Other receivables		**21.0**	22.7
		42.2	22.7

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due.

17 Non-current assets - Receivables (continued)

(b) Fair values

Non-current other receivables relate to third party workers compensation recoveries which are actuarially determined at each reporting date. Given the revision of this actuarial calculation at each reporting date, including the selection of an appropriate discount rate, its carrying value is a reasonable approximation of fair value.

(c) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 3.

18 Non-current assets - Inventories

	Consolidated	
	2012	2011
	$M	$M
Spares and other		
- at cost	**71.6**	81.4

For detail of inventory expense recognised during the period refer to note 13.

19 Non-current assets - Investments accounted for using the equity method

		Consolidated	
		2012	2011
	Notes	**$M**	$M
Investments in associates	45	**13.1**	13.9
Interest in joint venture partnerships	46	**104.0**	128.1
		117.1	142.0

Investments in associates and interests in joint venture partnerships are accounted for in the consolidated financial statements using the equity method of accounting (refer to notes 1(d)(ii) and 1(d)(iii)).

20 Non-current assets - Property, plant and equipment

	Land and buildings $M	Plant, machinery and equipment $M	Total $M
At 1 July 2010			
Cost	1,255.8	8,678.8	9,934.6
Accumulated depreciation and impairment	(544.2)	(5,132.1)	(5,676.3)
Net book amount	711.6	3,546.7	4,258.3
Year ended 30 June 2011			
Opening net book amount	711.6	3,546.7	4,258.3
Additions	41.8	402.6	444.4
Depreciation charge	(30.3)	(294.7)	(325.0)
Disposals	(12.0)	(6.1)	(18.1)
Asset reclassifications within class	(1.6)	1.6	-
Asset reclassifications to computer software	-	(0.5)	(0.5)
Impairment (loss) write-back	(14.7)	(647.0)	(661.7)
Exchange variations/other	(63.4)	(133.4)	(196.8)
Closing net book amount	631.4	2,869.2	3,500.6
At 30 June 2011			
Cost	1,187.0	8,752.4	9,939.4
Accumulated depreciation and impairment	(555.6)	(5,883.2)	(6,438.8)
Net book amount	631.4	2,869.2	3,500.6

	Land and Buildings $M	Plant, machinery and equipment $M	Total $M
Year ended 30 June 2012			
Opening net book amount	631.4	2,869.2	3,500.6
Additions	17.7	229.3	247.0
Depreciation charge	(30.4)	(268.9)	(299.3)
Disposal of subsidiary	(10.2)	(27.1)	(37.3)
Disposals	(4.4)	(7.1)	(11.5)
Asset reclassifications within class	(26.7)	26.7	-
Asset reclassifications to computer software	-	(14.3)	(14.3)
Impairment (loss) write-back	(0.9)	(143.0)	(143.9)
Exchange variations/other	20.2	34.1	54.3
Closing net book amount	596.7	2,698.9	3,295.6
At 30 June 2012			
Cost	1,155.5	8,932.1	10,087.6
Accumulated depreciation and impairment	(558.8)	(6,233.2)	(6,792.0)
Net book amount	596.7	2,698.9	3,295.6

20 Non-current assets - Property, plant and equipment (continued)

(a) Assets in the course of construction

The carrying amounts of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction:

	Consolidated	
	2012	2011
	$M	$M
Land and buildings	**0.2**	2.0
Plant, machinery and equipment	**150.8**	314.1
Total assets in the course of construction	**151.0**	316.1

(b) Leased assets

Total property, plant and equipment includes the following amounts where the Group is a lessee under a finance lease:

	Consolidated	
	2012	2011
	$M	$M
Leasehold assets		
Cost	**144.8**	108.9
Accumulation depreciation	**(17.8)**	(9.6)
Net book amount	**127.0**	99.3

During the period the Group entered into a finance lease for the use of equipment associated with the transport of iron sands from New Zealand.

(c) Non-current assets pledged as security

Refer to note 30(a) for information on non-current assets pledged as security by the Group.

(d) Current period impairment losses and reversals

The Group tests for impairment and measures recoverable amount based on the testing methodology and assumptions outlined in note 4. Impairment losses are included in the line item ‘impairment of non-current assets’ in the profit or loss.

(ii) Coated and Industrial Products Australia (CIPA)
Property, plant and equipment totalling $136.0M has been impaired as a result of a slower than previously expected recovery in Australian domestic demand, and an increase in the discount rate being been applied to expected future cash flows due to increased volatility in equity markets.

(i) BlueScope Buildings North America
Property, plant and equipment totalling $3.5M has been impaired as a result of further plant restructuring to align BlueScope Buildings North America production capacity with market demand.

(iii) Australia Distribution & Solutions
Property, plant and equipment totalling $4.4M has been impaired as a result of business restructuring in BlueScope Distribution, Buildings Australia, and BlueScope Water.

Prior period impairment and reversal of impairment

(i) Coated and Industrial Products Australia (CIPA)
At 30 June 2011, a total of $728.7M of property, plant and equipment impairments were recorded against CIPA assets due to economic factors including the strength of the AUD:USD, low spread (selling price less raw material cost) and low domestic demand.

(ii) Impairment BlueScope Water
The BlueScope Water business, included in the Australia Distribution & Solutions segment, impaired $1.8M of property, plant and equipment due to restructuring of the business.

20 Non-current assets - Property, plant and equipment (continued)

(iii) Reversal China coating line and Packaging Products
The Coated & Building Products Asia segment has partially reversed impairments previously recognised for plant and equipment at the metallic coating and painting facility in Suzhou, China. Previously booked impairment losses have been reversed to the extent of $67.8M following the material improvement in financial performance and positive outlook of the business.

The discontinued Packaging Products division recognised an impairment reversal for $1.0M against property, plant and equipment after securing a contract for the sale of the previously impaired equipment.

21 Non-current assets - Deferred tax assets

		Consolidated	
		2012	2011
		$M	$M
The balance comprises temporary differences attributable to:			
Doubtful debts provision		**2.1**	2.0
Employee benefits provision		**145.0**	129.5
Other provisions		**55.3**	21.7
Depreciation		**(316.6)**	(310.1)
Foreign exchange (gains) losses		**(85.1)**	(50.7)
Investments		**(7.9)**	(7.3)
Share capital raising costs		**6.5**	8.1
Inventory		**(7.4)**	(12.9)
Tax losses		**402.0**	382.9
Other		**(4.9)**	(2.4)
		189.0	160.8
	Notes		
Movements:			
Opening balance at 1 July		**160.8**	84.9
Credited (charged) to profit or loss	9	**(2.6)**	65.5
Credited (charged) to other comprehensive income		**35.1**	15.0
Transfer to current receivables		**(6.9)**	-
Foreign exchange differences		**2.6**	(4.6)
Closing balance at 30 June		**189.0**	160.8

The Australian consolidated tax group has recognised a $84.6M deferred tax asset at 30 June 2012 (30 June 2011: $84.6M). The Australian consolidated tax group has incurred taxable losses in the current and preceding periods. The utilisation of this deferred tax asset amount depends upon future taxable amounts in excess of profits arising from the reversal of temporary differences. The Group believes this amount to be recoverable based on taxable income projections.

22 Non-current assets - Intangible assets

Consolidated	**Goodwill $M**	**Patents, trademarks and other rights $M**	**Computer software $M**	**Customer relationships $M**	**Other intangible assets $M**	**Total $M**
At 1 July 2010						
Cost	841.6	29.5	214.4	122.0	8.1	1,215.6
Accumulation amortisation and impairment	(10.8)	(15.3)	(112.0)	(34.8)	(1.6)	(174.5)
Net book amount	830.8	14.2	102.4	87.2	6.5	1,041.1
Year 30 June 2011						
Opening net book amount	830.8	14.2	102.4	87.2	6.5	1,041.1
Exchange differences	(78.6)	(2.9)	(6.4)	(14.6)	(1.2)	(103.7)
Additions	-	-	14.6	-	0.3	14.9
Impairment	(261.4)	-	-	-	(0.1)	(261.5)
Amortisation charge	-	(0.8)	(21.6)	(7.8)	(0.4)	(30.6)
Reclassifications from PP&E	-	-	0.5	-	-	0.5
Closing net book amount	490.8	10.5	89.5	64.8	5.1	660.7
At 30 June 2011						
Cost	751.9	24.0	210.7	101.2	6.7	1,094.5
Accumulation amortisation and impairment	(261.1)	(13.5)	(121.2)	(36.4)	(1.6)	(433.8)
Net book amount	490.8	10.5	89.5	64.8	5.1	660.7

Consolidated	**Goodwill $M**	**Patents, trademarks and other rights $M**	**Computer Software $M**	**Customer relationships $M**	**Other intangible assets $M**	**Total $M**
Year 30 June 2012						
Opening net book amount	490.8	10.5	89.5	64.8	5.1	660.7
Exchange differences	17.5	0.6	1.5	3.4	0.3	23.3
Controlled entity disposals	(49.8)	(2.1)	(0.5)	(5.1)	(0.3)	(57.8)
Additions	-	-	13.9	-	0.1	14.0
Impairment	(174.3)	-	(0.1)	-	(0.2)	(174.6)
Amortisation charge	-	(0.8)	(22.9)	(7.5)	(0.4)	(31.6)
Reclassifications from PP&E	-	-	14.3	-	-	14.3
Closing net book amount	284.2	8.2	95.7	55.6	4.6	448.3
At 30 June 2012						
Cost	720.0	23.2	240.8	84.8	6.3	1,075.1
Accumulated amortisation and impairment	(435.8)	(15.0)	(145.1)	(29.2)	(1.7)	(626.8)
Net book amount	284.2	8.2	95.7	55.6	4.6	448.3

22 Non-current assets - Intangible assets (continued)

(a) Allocation of goodwill and intangible assets with indefinite useful lives to cash generating units

Goodwill is allocated to the Group's cash generating units (CGUs) for impairment testing purposes as follows:

Cash generating unit	Business segment	2012 $M	2011 $M
BlueScope Distribution	Australia Distribution & Solutions	**-**	156.8
Lysaght Australia	Australia Distribution & Solutions	**20.8**	30.8
Buildings Australia	Australia Distribution & Solutions	**25.4**	25.4
BlueScope Water Australia	Australia Distribution & Solutions	**4.3**	11.8
ASC Profiles	Coated & Building Products North America	**2.8**	2.5
Building North America	Coated & Building Products North America	**218.1**	204.7
Metl-Span	Discontinued Operations	**-**	46.5
Buildings China	Coated & Building Products Asia	**8.8**	8.3
Other Asia	Coated & Building Products Asia	**4.0**	4.0
Total goodwill		**284.2**	490.8

In addition to goodwill, the Group has other intangible assets with indefinite useful lives of $2.9M (2011: $2.7M) allocated to the Buildings North America CGU which relates to trade names recognised as part of the IMSA Group business combination acquired in February 2008.

On 22 June 2012, the Group sold Metl-Span, it's North American insulated metal panels business, to NCI Group Inc. Goodwill of $46.5M and $2.1M of indefinite lived intangible assets, recognised on acquisition of the business in February 2008, have been disposed of as at 30 June 2012.

(b) Impairment charges

Current period
At 30 June 2012, a total of $174.3M of goodwill impairments were recognised. The goodwill impairments were recorded against BlueScope Distribution ($156.8M), Lysaght Australia ($10.0M) and BlueScope Water ($7.5M) due to a slower than previously expected recovery in Australian domestic demand.

Prior period
At 30 June 2011, a total of $184.4M of goodwill impairments were recognised. The goodwill impairments were recorded against Coated and Industrial Products ($68.6M) due to economic factors including the strength of the AUD:USD, low spread (selling price less raw material cost) and low domestic demand, BlueScope Distribution ($100.2M) due to the strength of the AUD:USD which improved the affordability of imports resulting in margin compression and Steelscape ($15.6M) due to a reduction in forecast margins.

At 31 December 2010, the Australia Distribution & Solutions segment impaired $77.0M of goodwill in relation to its Distribution business acquired from Smorgon Steel in August 2007. The impairment was due to a revised medium-term outlook influenced by reduced market demand and increased import competition driving margins lower.

(c) Key assumptions used for value-in-use calculations

The Group tests for impairment and measures recoverable amount of its CGUs containing goodwill based on the methodology and assumptions outlined in note 4.

Cash generating units with significant goodwill
The significant proportion of the Group's goodwill has been allocated to BlueScope Buildings North America (a business within the Coated & Building Products North America segment).

BlueScope Buildings North America
BlueScope Buildings North America has $218.1M of goodwill (76.7% of the Group's goodwill) and is tested for impairment on a VIU basis using five year cash flow projections, followed by a long-term growth rate of 2.5% for a further 25 years. Pre-tax VIU cash flows are discounted utilising a 14.5% pre-tax discount rate (2011: 15.0%).

22 Non-current assets - Intangible assets (continued)

At 30 June 2012 the recoverable value of this CGU is 1.5 times the carrying amount. This CGU is most sensitive to assumptions in relation to North American non-residential building and construction activity, in particular the magnitude and timing of a recovery to pre global financial crisis activity levels. Taking into account external forecasts, the Company expects non-residential building and construction activity to increase significantly (13% per annum from the current historically low base over the five-year projection period) when general market conditions improve in North America but remain 20% below the levels experienced prior to the 2008 global financial crisis.

However, the timing and extent of this recovery is uncertain and in the absence of mitigating factors, a permanent 18% reduction in non-residential construction activity below pre global financial crisis levels, or more than a three-year period to achieve the projected recovery, would be required for the recoverable amount to be equal to the carrying amount.

23 Non-current assets - Other

	Consolidated	
	2012 $M	2011 $M
Deferred charges and prepayments	**2.6**	2.7

24 Current liabilities - Payables

	Consolidated	
	2012 $M	2011 $M
Trade payables	**946.9**	1,055.0
Other payables	**102.2**	101.6
	1,049.1	1,156.6

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 3.

25 Current liabilities - Borrowings

		Consolidated	
	Notes	**2012 $M**	2011 $M
Secured			
Bank loans	12(f)	**131.0**	-
Other loans		**5.2**	55.5
Lease liabilities	41	**6.3**	4.6
		142.5	60.1
Unsecured			
Bank overdrafts	11	**1.9**	1.0
Bank loans		**-**	16.1
Other loans		**0.5**	93.5
Deferred borrowing costs		**-**	(5.0)
		2.4	105.6
Total current interest bearing liabilities		**144.9**	165.7

25 Current liabilities - Borrowings (continued)

(a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 30.

(b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 3.

26 Current liabilities - Current tax liabilities

	Consolidated	
	2012	2011
	$M	$M
Income tax	**72.7**	23.1

27 Current liabilities - Provisions

	Consolidated	
	2012	2011
	$M	$M
Employee benefits - annual leave	**71.9**	91.6
Employee benefits - long service leave	**137.5**	153.1
Employee benefits - redundancy (a)	**6.1**	11.3
Employee benefits - other	**66.7**	86.3
Restructure (b)	**82.3**	2.9
Product claims (c)	**20.1**	20.7
Workers compensation (d)	**14.2**	15.6
Restoration and rehabilitation (e)	**7.1**	1.1
Carbon emissions (f)	**2.8**	8.5
Other	**7.5**	8.2
	416.2	399.3

(a) Redundancy

The employee redundancy provision reflects a range of internal reorganisations. Uncertainty exists around exact levels of redundancy payments caused by staff movements between the reporting date and key redundancy dates, in addition to the unknown potential for re employment of a limited number of redundant personnel within other areas of the business which share similar skill prerequisites. All redundancies are expected to take effect within 12 months of the reporting date.

(b) Restructure

The total restructuring provision includes $84.8M (current $61.8M, $23.0M non-current) for incurred and estimated future costs arising from the closure of the No. 6 Blast furnace at Port Kembla and other equipment to reflect the reduced ironmaking capacity, as announced to the market on 22 August 2011.The remaining restructuring provisions relate to the Coated and Buildings North America and Australia Distribution & Solutions segments.

Other restructure provisions are held across the Group to cover estimated future costs of announced site closures. The majority of the provisions are expected to be utilised within the next two to three years.

27 Current liabilities - Provisions (continued)

(c) Product claims

A provision for product claims is recognised for all products at the reporting date and is measured based on modelled data combining sales volumes with past experiences of repair and replacement levels in conjunction with any specifically identified product faults. Due to the nature of this provision, uncertainty is inherent in the calculation of the extent and timing of predicted future claims costs.

(d) Workers compensation

In Australia and North America, BlueScope Steel Limited is a registered self-insurer for workers compensation. Provisions are recognised based on calculations performed by an external actuary. A contingent liability exists in relation to guarantees given to various state workers compensation authorities, due to self-insurance prerequisites (refer note 40).

For the Group, an actuarially determined asset of $21.0M (2011: $22.7M) has been recognised for expected future reimbursements associated with workers compensation recoveries from third parties. This amount is included in non-current other receivables (refer to note 17) as there is no legal right of offset against the workers compensation provision.

(e) Restoration and rehabilitation

Restoration and rehabilitation provisions include environmental liabilities based upon the assessment of BlueScope Distribution sites following the acquisition of Smorgon Steel Limited's Distribution business in August 2007. This provision had both $6.9M current (2011: $1.0M) and $Nil non current (2011: $2.3M) portions. Other restoration and rehabilitation non current provisions of $9.9M (2011: $4.3M) exist for New Zealand Steel in relation to their operation of two iron sand mines (refer to note 32). These provisions have been classified as non current as the timing of payments to remedy these sites will not be made until the distant future upon cessation of their operations. The extent of these future costs remains uncertain due to possibilities of changed site conditions.

Additionally, various businesses have recorded provisions of $0.2M current (2011: $0.1M) and $3.0M non-current (2011: $2.5M) in relation to leased sites that require rectification and restoration work at the end of their respective lease periods.

(f) Carbon emissions

The Group is a participant in the New Zealand Government’s uncapped Emissions Trading Scheme (ETS) which was implemented with effect from 1 July 2010. The emissions liability is recognised as a provision for carbon and is measured with reference to the carrying amount of emission units (EUs) held with any excess measured at the current market value of EUs. ETS costs passed through from suppliers are included as part of the underlying cost of the good or service rendered. The liability for this cost pass through is either included within trade creditors or recorded as an emissions liability within the carbon provision account when an agreement has been reached with the supplier to settle the ETS cost by transferring EUs. When EUs are delivered to the government or a third party, the EU asset along with the corresponding carbon provision is derecognised from the statement of financial position. The Australian carbon pricing mechanism is to come into effect from 1 July 2012.

(g) Movements in provisions

The reconciliation of movement in provisions is set out in note 32.

(h) Amounts not expected to be settled within 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service. The entire annual leave amount and current portion of long service leave are presented as current since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued annual leave and long service leave or require payment within the next 12 months. The following amounts reflect leave currently classified as current that is not expected to be taken or paid within the next 12 months.

	Consolidated	
	2012 **$M**	2011 $M
Current annual and long service leave obligation expected to be settled after 12 months	**143.8**	178.5

28 Current liabilities - Deferred income

	Consolidated	
	2012	2011
	$M	$M
Deferred income	**117.6**	133.5

The fair value of deferred income approximates carrying value.

29 Non-current liabilities - Payables

	Consolidated	
	2012	2011
	$M	$M
Other payables	**7.5**	6.9

(a) **Risk exposure**

Information about the Group's exposure to foreign exchange risk is provided in note 3.

30 Non-current liabilities - Borrowings

		Consolidated	
		2012	2011
	Notes	**$M**	$M
Secured			
Other loans		**6.2**	5.8
Lease liabilities	41	**128.1**	98.6
		134.3	104.4
Unsecured			
Bank Loans		**111.5**	490.3
Other loans		**219.6**	491.0
Deferred borrowing costs		**(11.9)**	(11.5)
		319.2	969.8
Total non-current borrowings		**453.5**	1,074.2

(a) Secured liabilities and assets pledged as security

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2012	2011
	$M	$M
Other loans	**137.2**	61.3
Lease liabilities	**134.4**	103.2
Total secured liabilities	**271.6**	164.5

30 Non-current liabilities - Borrowings (continued)

The carrying amounts of assets pledged as security for current and non current borrowings are:

	Notes	Consolidated **2012** **$M**	2011 $M
Other loans			
Property, plant and equipment		**-**	34.4
Receivables securitisation	12(f)	**131.0**	-
Lease liabilities			
Property, plant and equipment		**127.0**	99.3
Total assets pledged as security		**258.0**	133.7

The Group had a borrowing arrangement secured by various Western Port and Port Kembla plant, machinery and equipment which matured in August 2011.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. During the period, the Group entered into a finance lease for the use of equipment associated with the shipping of the iron sands from New Zealand.

(b) Set-off of assets and liabilities

New Zealand Steel Limited deposited surplus funds with a financial institution. The institution made advances up to an equivalent amount of the deposit to BlueScope Steel (Finance) Limited. These advances formed part of the hedge instrument, outlined in note 15(c), utilised to hedge the net investment in New Zealand Steel Limited. The Group had established a legal right of set-off with the financial institution. On 20 June 2012, the NZD borrowing was fully repaid (June 11: $849.3M).

(c) Financing arrangements

As at the end of the period, the Group had the following material financing arrangements:

Bank loan facilities
Australian
Bank loan facilities consist of the following facilities:

- $1,350M syndicated bank facility with a syndicate of banks. The facility is comprised of a $675M tranche maturing in December 2013 and a $675M tranche maturing in December 2015.

Non-Australian
Bank loan facilities are arranged for several non Australian businesses and are with a number of banks. Terms and conditions are agreed to on a periodic basis appropriate to the needs of the relevant businesses. Facilities for non Australian businesses include:

- Three long-term facilities totalling THB 2,500M (AUD 78M) are available for the BlueScope Steel (Thailand) Ltd cash requirements.

- Two short-term facilities totalling MYR 65M (AUD 20M) to support working capital and other short term cash requirements for BlueScope Steel (Malaysia) Sdn Bhd.

30 Non-current liabilities - Borrowings (continued)

Other facilities

- USD 220M of US Private Placement Loan Notes, with USD 150M due in 2014; USD 24M due in 2015 and USD 46M due in 2018. On 9 May 2012, the Company successfully closed a partial tender offer to repurchase USD 300.0M of its US Private Placement Notes at par plus accrued interest, and upon receipt of acceptances up-sized the repurchase to USD 305.4M. The repurchase was funded in US dollars using existing undrawn lines under the Company's syndicated bank facility. No early redemption or make-whole costs were incurred by BlueScope Steel in effecting the repurchase.

- In 2006, a sale and leaseback of various Western Port and Port Kembla plant and equipment was entered into raising approximately $270M net cash. The relevant assets were leased back over a five year period. This transaction was accounted for as a borrowing, with final settlement occurring in August 2011.

Working Capital Facility - Trade receivables securitisation

- On 22 August 2011, BlueScope Distribution entered into a receivables securitisation program with NAB. The facility limit is $150M which matures on 22 August 2013 (refer to note 12(f)).

Bank overdrafts

Bank overdraft facilities are arranged with a number of banks with the general terms and conditions agreed to on a periodic basis.

Unrestricted access was available at balance date to the following lines of credit:

	Consolidated	
	2012	2011
	$M	$M
Credit standby arrangements		
Total facilities		
Bank overdrafts	**34.9**	30.3
Bank loan facilities	**1,461.3**	1,524.9
	1,496.2	1,555.2
Used at balance date		
Bank overdrafts	**1.9**	1.0
Bank loan facilities	**111.5**	506.3
	113.4	507.3
Unused at balance date		
Bank overdrafts	**33.0**	29.3
Bank loan facilities	**1,349.8**	1,018.6
	1,382.8	1,047.9

(d) Risk exposures

Information about the Group's exposure to interest rate and foreign exchange risk is provided in note 3.

31 Non-current liabilities - Deferred tax liabilities

	Notes	Consolidated 2012 $M	Consolidated 2011 $M
The balance comprises temporary differences attributable to:			
Amounts recognised in profit or loss			
Doubtful debts provision		**(1.8)**	(2.3)
Employee benefits		**(43.0)**	(27.1)
Claims provision		**(2.7)**	(2.5)
Other provisions		**(5.9)**	(5.6)
Depreciation		**68.9**	84.5
Foreign exchange (gains) losses		**0.1**	(0.1)
Inventory		**(6.7)**	1.2
Investments		**(3.7)**	(0.2)
Intangible assets		**21.7**	25.8
Tax losses		**(10.8)**	(3.8)
Other		**2.6**	(0.8)
		18.7	69.1
Movements:			
Opening balance at 1 July		**69.1**	134.3
Charged (credited) to profit or loss	9	**(22.4)**	(64.6)
Charged (credited) to contributed equity		**-**	(0.1)
Charged (credited) to other comprehensive income		**(23.1)**	15.5
Disposal of subsidiary		**(9.2)**	-
Exchange fluctuation		**4.3**	(16.0)
Closing balance at 30 June		**18.7**	69.1

32 Non-current liabilities - Provisions

	Consolidated 2012 $M	Consolidated 2011 $M
Employee benefits - long service leave	**22.3**	21.7
Employee benefits - other	**4.2**	0.9
Restructure	**38.9**	4.9
Product claims	**44.7**	47.9
Workers compensation	**112.8**	107.7
Restoration and rehabilitation	**12.9**	9.1
Other	**0.9**	1.3
	236.7	193.5

For a description of each class of provision, refer to note 27.

(a) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

32 Non-current liabilities - Provisions (continued)

	Restructure $M	Product claims $M	Workers compensation $M	Restoration and rehabilitation $M	Carbon Emissions $M	Other $M	Total $M
Consolidated - 2012							
Current and non-current							
Carrying amount at start of the year	7.8	68.6	123.3	10.2	8.5	9.5	227.9
Additional provisions recognised (refer to note 8)	403.6	10.2	16.7	3.8	12.0	4.6	450.9
Unutilised provisions written back	-	-	-		-	(3.8)	(3.8)
Capitalised provision (i)	-	-	-	5.2	-	-	5.2
Amounts used during the period	(291.3)	(15.9)	(16.8)	(0.3)	(17.8)	(1.8)	(343.9)
Exchange fluctuations	0.1	0.8	0.5		0.1	0.2	1.7
Transfers	0.5	-	-	0.8	-	(0.2)	1.1
Unwinding of discount	0.5	1.9	3.7	0.3	-	-	6.4
Disposal of subsidiary	-	(0.8)	(0.4)	-	-	(0.1)	(1.3)
Other			-		-		-
Carrying amount end of year	121.2	64.8	127.0	20.0	2.8	8.4	344.2

(i) The $5.2M capitalised restoration and rehabilitation provision relates to adjustments made to the end of mine life site rehabilitation provision at New Zealand Steel arising primarily from a material decrease in Government bond rates. This amount has been capitalised as part of Land and Buildings and is to be amortised over the remaining mine lives, subject to further adjustments for future bond rate movements and changes in estimates of costs to rehabilitate.

33 Non-current liabilities - Retirement benefit obligations

(a) Superannuation benefits

All employees of the Group are entitled to benefits on resignation, retrenchment, retirement, death or disablement.

Australian employees are entitled to benefits from a superannuation plan they select under the Australian Government's choice of fund legislation. The Australian Group has two default superannuation plans under choice of fund. New employees become members of one of those default plans if they do not actively choose an alternative plan. One of the default plans, the BlueScope Steel Superannuation Fund, has a defined benefit section and a defined contribution section. The defined benefit plan is closed to new participants. The other default plan, Australian Super, and any other superannuation plans chosen by Australian employees, are defined contribution plans under which the Australian Group's legal or constructive obligation is limited to making fixed contributions.

New Zealand employees are members of either the New Zealand Steel Pension Fund, being a defined benefit plan, or the Retirement Savings Plan, a defined contribution master trust managed by Tower Employee Benefits Limited. The defined benefit plan is closed to new participants.

In North America, employees previously belonging to the Butler Manufacturing Company are members of the Butler Manufacturing Base Retirement Plan, a defined benefit fund which has been closed to new participants since 31 December 2004. Employees hired on or after 1 January 2004 receive a retirement contribution from the Butler Employee Savings Trust (BEST) which is a defined contribution plan. Employees previously sponsored by the VP Salaried, VP Hourly and IMSA Steel defined benefit plans were merged into the Butler Base Retirement Plan effective 31 December 2008.

The Group also makes superannuation contributions to defined contribution funds in respect of the entity’s employees located in other countries.

Defined benefit funds provide defined lump sum benefits based on years of service and final or average salary. The defined contribution plans receive fixed contributions from Group companies with the Group's legal obligation limited to these contributions.

Actuarial assessments of the defined benefit funds are made at no more than three yearly intervals, with summary assessments performed annually. The last formal actuarial investigations were made of the BlueScope Steel Superannuation Fund as at 30 June 2011, the New Zealand Steel Pension Fund as at 30 June 2009, and the Butler Base Retirement Plan as at 1 January 2012. Summary actuarial assessments were performed for all of these funds as at 30 June 2012, to provide information that is more up to date than that of the most recent formal actuarial investigation.

33 Non-current liabilities - Retirement benefit obligations (continued)

(b) Statement of financial position amounts

The following sets out details in respect of the defined benefit section only.

The amounts recognised in the statement of financial position are determined as follows:

	Consolidated	
	2012	2011
	$M	$M
Present value of the defined benefit obligation	**(1,249.1)**	(1,093.5)
Fair value of defined benefit plan assets	**817.1**	922.8
Net (liability) asset in the statement of financial position	**(432.0)**	(170.7)

(c) Defined benefit funds to which BlueScope Steel employees belong

2012	**BlueScope Steel Superannuation Fund**	**New Zealand Pension Fund**	**Coated & Building Products North America**	**Total**
	$M	**$M**	**$M**	**$M**
Present value of the defined benefit obligation	(412.0)	(433.2)	(403.9)	(1,249.1)
Fair value of defined benefit plan assets	287.7	236.4	293.0	817.1
Net (liability) asset in the statement of financial position	(124.3)	(196.8)	(110.9)	(432.0)
Defined benefit expense	7.7	8.2	0.1	16.0
Employer contribution	14.8	15.5	12.5	42.8
Principal actuarial assumption	%	%	%	
Discount rate (gross of tax)	3.0	3.5	4.0	
Expected return on plan assets (net of tax)	6.5	5.8	7.0	
Future salary increases	3.0	3.0	3.8	

2011	**BlueScope Steel Superannuation Fund**	**New Zealand Pension Fund**	**Coated & Building Products North America**	**Total**
	$M	**$M**	**$M**	**$M**
Present value of the defined benefit obligation	(484.3)	(307.4)	(301.8)	(1,093.5)
Fair value of defined benefit plan assets	445.0	234.2	243.6	922.8
Net (liability) asset in the statement of financial position	(39.3)	(73.2)	(58.2)	(170.7)
Defined benefit expense	10.0	8.8	1.4	20.2
Employer contribution	16.4	14.3	28.0	58.7
Principal actuarial assumption	%	%	%	
Discount rate (gross of tax)	5.3	5.1	5.5	
Expected return on plan assets (net of tax)	7.5	6.3	7.5	
Future salary increases	3.5	4.0	4.0	

The net liability is not immediately payable. Any plan surplus will be realised through reduced future Company contributions.

The expected rate of return on assets has been based on historical and future expectations of returns for each of the major categories of asset classes as well as the expected and actual allocation of plan assets to these major categories.

33 Non-current liabilities - Retirement benefit obligations (continued)

(d) Categories of plan assets

The major categories of plan assets are as follows:

	Consolidated	
	2012	2011
	$M	$M
Cash	**2.9**	3.3
Equity instruments	**361.7**	459.6
Debt instruments	**418.5**	415.7
Property	**34.0**	44.2
	817.1	922.8

(e) Reconciliations

	Consolidated	
	2012	2011
	$M	$M
Reconciliation of the present value of the defined benefit obligation, which is partly funded:		
Balance at the beginning of the year	**1,093.5**	1,126.8
Current service cost	**25.7**	26.3
Interest cost	**56.8**	53.7
Actuarial losses (gains)	**253.6**	38.3
Foreign currency exchange rate changes	**28.2**	(91.4)
Benefits paid	**(94.6)**	(54.2)
Settlements	**(107.8)**	-
Allowance for contributions tax on net liability	**(4.6)**	(4.0)
Loss (gains) on curtailments	**(0.7)**	(0.4)
Other	**(1.0)**	(1.6)
Balance at the end of the year	**1,249.1**	1,093.5
Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	**922.8**	896.7
Expected return on plan assets	**63.7**	57.0
Actuarial gains (losses)	**(25.1)**	33.4
Foreign currency exchange rate changes	**18.8**	(65.6)
Contributions by the Group	**42.8**	58.7
Tax on employer contributions	**(7.3)**	(6.5)
Contributions by plan participants	**4.9**	4.9
Benefits paid	**(94.6)**	(54.2)
Settlements	**(107.8)**	-
Other	**(1.1)**	(1.6)
Balance at the end of the year	**817.1**	922.8

33 Non-current liabilities - Retirement benefit obligations (continued)

(f) Amounts recognised in profit or loss

The amounts recognised in profit or loss in respect of defined benefit plans are as follows:

	Consolidated	
	2012	2011
	$M	$M
Current service cost	**25.7**	26.3
Contributions by plan participants	**(4.9)**	(4.9)
Interest cost	**56.8**	53.7
Expected return on plan assets	**(63.7)**	(57.0)
Allowance for contributions tax on net liability	**2.7**	2.5
Losses (gains) on curtailments and settlements	**(0.7)**	(0.4)
Total included in employee benefits expense	**16.0**	20.2
Actual return on plan assets	**40.0**	90.4

(g) Amounts recognised in other comprehensive income

	Consolidated	
	2012	2011
	$M	$M
Actuarial losses recognised in other comprehensive income during the year	**(278.7)**	(4.9)
Cumulative actuarial losses recognised in other comprehensive income	**(555.2)**	(276.5)

(h) Employer contributions

Employer contributions to the defined benefit section of the Group's plans are based on recommendations by the plan's actuaries. Actuarial assessments are made no less frequently than once every three years. The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable.

Total employer contributions expected to be paid by Group companies for the year ending 30 June 2012 are $58.2M.

Funding recommendations are made by the actuary based on their forecast of various matters, including future plan assets performance, interest rates and salary increases. A summary of the key economic assumptions for each of the Group's defined benefit plans is outlined in note 33(c) .

(i) Historic summary

	2012	2011	2010	2009	2008
	$M	$M	$M	$M	$M
Present value of defined benefit plan obligation	**(1,249.1)**	(1,093.5)	(1,126.8)	(1,052.0)	(1,112.4)
Fair value of defined benefit plan assets	**817.1**	922.8	896.7	791.4	908.0
Net (liability) asset in the statement of financial position	**(432.0)**	(170.7)	(230.1)	(260.6)	(204.4)
Experience adjustments arising on plan liabilities	**(253.6)**	(38.3)	(114.0)	135.6	13.7
Experience adjustments arising on plan assets	**(25.1)**	33.4	81.0	(239.2)	(156.4)

34 Non-current liabilities - Deferred income

	Consolidated	
	2012	2011
	$M	$M
Deferred income	**4.1**	4.3

35 Contributed equity

(a) Share capital

	Notes	Parent Entity		Parent Entity	
		2012 Shares	2011 Shares	**2012 $M**	2011 $M
Issued fully paid ordinary shares	(d)	**3,349,185,247**	1,842,207,385	**4,661.4**	4,073.8

(b) Other equity securities

Treasury Shares	(e)	**(6,935,600)**	-	**(11.3)**	-
Total Contributed equity				**4,650.1**	4,073.8

(c) Movements in ordinary share capital

Date	Details	Notes	Number of shares	Issue/ redemption price	$M
1 Jul 2010	**Opening balance**		**1,823,322,017**		**4,032.4**
	Long Term Incentive Plan - 2005	(g)	17,000	$3.89	-
20 Oct 2010	Dividends Reinvestment Plan - 2010 final	(f)	18,839,253	$2.19	41.3
1 Nov 2010	General Employee Share Plan - 2008	(h)	29,115	$10.34	0.3
	Less: Cost of capital issues		-		(0.3)
	Plus: Tax credit recognised directly in equity		-		0.1
30 June 2011	**Balance**		**1,842,207,385**		**4,073.8**
	General Employee Share Plan - 2009	(h)	27,371	$9.26	0.2
	Share Plan Retention awards	(i)	6,935,600	$1.62	11.3
	Capital raising	(j)	1,500,014,891	$0.40	600.0
	Less: Cost of capital issues		-		(23.9)
30 June 2012	**Balance**		**3,349,185,247**		**4,661.4**

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Group does not have a limited amount of authorised capital.

35 Contributed equity (continued)

(e) Treasury shares

Treasury shares are shares in BlueScope Steel Limited that are held by the BlueScope Employee Share Trust for the purpose of issuing shares under the Share Plan Retention Scheme (see note 50 for further information).

Date	Details	Number of shares	$M
30 Jun 2011	Opening balance	-	-
16 Sep 2011	Share Plan Retention Awards	(6,935,600)	(11.3)
30 June 2012	Balance	(6,935,600)	(11.3)

(f) Dividend Reinvestment Plan

The Dividend Reinvestment Plan enables shareholders to receive some or all of their future dividends as ordinary BlueScope Steel Limited shares instead of cash.

(g) Share rights

Information relating to the Long Term Incentive Plan, including details of share rights issued, vested and lapsed during the financial year and share rights outstanding at the end of the financial year, is set out in note 50(a).

(h) General Employee Share Plans

The aim of General Employee Share Plans is, in recognition of Company performance, to assist employees to build a stake in the Company by enabling each eligible employee to acquire a parcel of shares. Employees who become shareholders have the potential to benefit from dividends paid on the shares, growth in the market value of their shares and any bonus shares or rights issues the Board of Directors may approve from time to time. Information relating to employee share plans, including details of shares issued under plans, is set out in note 50(b).

(i) Retention share awards

Share-based retention schemes were put in place with shares issued and held on trust for three years and are subject to forfeiture should an employee leave.

(j) Capital raising

On 22 November 2011, BlueScope Steel Limited announced a fully underwritten four-for-five accelerated renounceable entitlement offer with rights trading of new BlueScope Steel shares at an offer price of $0.40 per new share, which raised $600.0M ($576.1M, net of transaction costs).

(k) Capital risk management

Management monitors its capital structure through various key financial ratios with emphasis on the gearing ratio (net debt/total capital). The Group's gearing ratio is managed in order to ensure an investment grade quality balance sheet through the steel price cycle, and to ensure access to finance at reasonable cost regardless of the point in the cycle. On occasions, the Group will take advantage of certain investment opportunities where an increased level of gearing will be tolerated, provided there is sufficient future cash flow strength and flexibility to be confident of credit strengthening rather than uncertainty and risk of credit weakening.

In order to achieve the objectives above, management actively manages debt and equity. In terms of managing equity, all methods of returning funds to shareholders outside of dividend payments or raising funds are considered within the context of its balance sheet objectives. In managing debt, the Group seeks a diversified range of funding sources and maturity profiles. Sufficient flexibility is maintained within committed facilities in order to provide the business with the desired liquidity support for operations and to pursue its strategic objectives.

35 Contributed equity (continued)

The Group's gearing ratio is as follows:

	Notes	Consolidated 2012 $M	2011 $M
Total borrowings	25, 30	**598.4**	1,239.9
Less: Cash and cash equivalents	11	**(214.5)**	(172.2)
Net debt		**383.9**	1,067.7
Total equity		**3,778.8**	4,396.1
Total capital		**4,162.7**	5,463.8
Gearing ratio		**9.2%**	19.5%

36 Reserves and retained profits

(a) Reserves

	Notes	Consolidated 2012 $M	2011 $M
Share-based payments		**29.5**	22.8
Foreign currency translation reserve		**(309.8)**	(361.0)
Non-distributable profits reserve		**13.3**	13.4
		(267.0)	(324.8)

Movements:

	Notes	2012 $M	2011 $M
Hedging reserve - cash flow hedges			
Opening balance		**-**	(0.3)
Net gain (loss)		**-**	(0.6)
Transfer to inventory		**-**	1.0
Deferred tax		**-**	(0.1)
Closing balance		**-**	-
Share-based payments			
Opening balance		**22.8**	16.6
Share-based payments expense		**7.0**	6.6
Transfer to share capital		**(0.2)**	(0.4)
Other		**(0.1)**	-
Closing balance		**29.5**	22.8
Foreign currency translation			
Opening balance		**(361.0)**	(147.8)
Net gain (loss) on hedges of subsidiaries		**(2.4)**	(13.0)
Deferred tax on investments in subsidiaries	9	**0.7**	3.9
Currency translation differences arising during the year		**41.6**	(204.1)
Transferred to profit or loss on disposal of subsidiaries		**11.6**	-
Other		**(0.3)**	-
Closing balance		**(309.8)**	(361.0)
Non-distributable profits reserve			
Opening balance		**13.4**	13.1
Exchange fluctuations		**(0.1)**	0.3
Closing balance		**13.3**	13.4

36 Reserves and retained profits (continued)

(b) Retained profits

Movements in retained profits were as follows:

	Notes	Consolidated 2012 $M	2011 $M
Opening balance		**559.8**	1,747.3
Profit (loss) for the year		**(1,043.5)**	(1,054.2)
Dividends paid	37	**-**	(128.0)
Actuarial gains (losses) on defined benefit plans recognised directly in retained profits	33	**(278.7)**	(4.9)
Deferred tax		**58.3**	(0.4)
Other		**0.3**	-
Closing balance		**(703.8)**	559.8

(c) Nature and purpose of reserves

(i) Hedging reserve - cash flow hedges
This reserve is used to record gains or losses on hedging instruments that are determined to be an effective hedge and therefore qualify for hedge accounting, as described in note 1(r). The Group manages a cash flow hedging program in relation to electricity purchases. Gains or losses from electricity hedging instruments are recognised within inventory in the statement of financial position when the hedged electricity cash flows are transacted.

(ii) Share-based payments reserve
The share-based payments reserve is used to recognise the fair value of unexercised share rights issued to employees that may or may not have meet vesting conditions. The share based payments reserve is also used to recognise the fair value of benefits awarded under General Employee Share Plans that have not vested at the reporting date. Once either share rights are exercised or shares are issued according to the conditions of General Employee Share Plans the fair value of the related benefit is transferred into ordinary issued share capital. Refer to note 50(a) for details of share rights exercised during the period.

(iii) Foreign currency translation reserve
Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(f) and accumulated in a separate reserve within equity. It is also used to recover the effect of hedging net investments in foreign operations. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(iv) Non-distributable profit reserve
In certain overseas operations local regulations require a set amount of retained profit to be set aside and not be distributed as a dividend.

37 Dividends

(a) Ordinary shares

	Parent entity	
	2012	2011
	$M	$M
In the comparative period, a final dividend of 5 cents per fully paid share was paid on 20 October 2010 in relation to the year ended 30 June 2010. There was no final dividend declared in relation to the year ended 30 June 2011.		
Final fully franked based on tax paid @ 30%	**-**	91.2
In the comparative period, an interim dividend of 2 cents per fully paid share was paid on 4 April 2011 in relation to the year ended 30 June 2011. There was no interim dividend declared for the year ended 30 June 2012.		
Final fully franked based on tax paid @ 30%	**-**	36.8
Total dividends provided for or paid	**-**	128.0

(b) Dividends not recognised at year-end

For the year ended 30 June 2012 the directors recommended that there will be no final dividend declared (June 2011: $Nil).

(c) Franked dividends

	Parent entity	
	2012	2011
	$M	$M
Actual franking account balance as at the reporting date	**72.1**	52.6
Franking credits available for subsequent financial years based on a tax rate of 30%	**72.1**	52.6

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits (debits) that will arise from the payment (receipt) of the amount of the provision for income tax;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

(d) Dividend cash flows

The total cash paid to shareholders in respect of dividends during the period is $Nil (2011: $86.7M) as presented in the statement of cash flows.

38 Key management personnel disclosures

(a) Directors

The following persons were directors of BlueScope Steel Limited during the financial year:

(i) *Chairman non-executive*
G J Kraehe, AO

(ii) *Executive director*
P F O'Malley, Managing Director

(iii) *Non-executive directors*
R J McNeilly
D J Grady, AM
H K McCann, AM
Y P Tan
D B Grollo
K A Dean
P Bingham Hall

(b) Other key management personnel

In addition to P F O'Malley, the following personnel formed part of the Executive Leadership Team and also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the entire financial year (except as noted):

Name	*Position*
N H Cornish	Chief Executive Australian & New Zealand Steel Manufacturing Businesses (resigned 31 July 2011)
I R Cummin	Executive General Manager People and Organisation Performance
M R Vassella	Chief Executive BlueScope Steel Australia and New Zealand
M G Barron	Chief Legal Officer and Company Secretary
P E O'Keefe	Chief Executive Australian Coated & Industrial Markets (redundant 27 January 2012)
S R Elias	Chief Financial Officer
S Dayal	Chief Executive Asia
K A Mitchelhill	Chief Executive North America
R J Moore	President China
P J Finan	Executive General Manager, Global Building & Construction Markets.

(c) Key management personnel compensation

	Consolidated	
	2012	2011
	$'000	$'000
Short-term employee benefits	**11,324.5**	12,009.6
Post-employment benefits	**346.7**	432.4
Other long-term benefits	**336.0**	231.9
Termination benefits	**-**	578.8
Share-based payments	**4,385.5**	2,452.2
	16,392.7	15,704.9

Detailed remuneration disclosures for directors and executives are provided in the 30 June 2012 Remuneration Report.

(d) Equity instrument disclosures relating to key management personnel

(i) Share rights provided as remuneration and shares issued on vesting of such share rights
Details of share rights provided as remuneration and shares issued on the exercise of such share rights, together with terms and conditions of the share rights, can be found in the 30 June 2012 Remuneration Report.

38 Key management personnel disclosures (continued)

(ii) Share rights holdings
The numbers of options over ordinary shares in the Company held during the financial year by each Director of BlueScope Steel Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2012 Name	Balance at start of the year	Granted as compen-sation	Exercised	Lapsed	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of BlueScope Steel Ltd								
P F O'Malley	2,677,731	-	-	(70,100)	-	2,607,631	-	2,607,631
Other key management personnel								
N H Cornish[1]	668,170	-	-	(446,977)	-	221,193	-	221,193
M R Vassella	584,568	1,932,370	-	-	-	2,516,938	-	2,516,938
P E O'Keefe[1]	454,429	-	-	(149,292)	-	305,137	-	305,137
I R Cummin	496,289	1,198,070	-	(53,900)	-	1,640,459	-	1,640,459
M G Barron	491,989	1,198,070	-	(49,600)	-	1,640,459	-	1,640,459
S R Elias	522,919	1,474,400	-	-	-	1,997,319	-	1,997,319
S Dayal	470,710	1,700,480	-	-	-	2,171,190	-	2,171,190
K A Mitchelhill	529,980	1,646,380	-	-	-	2,176,360	-	2,176,360
P J Finan	347,210	1,023,020	-	(28,000)	-	1,342,230	-	1,342,230
R J Moore	365,183	1,167,150	-	(24,000)	-	1,508,333	-	1,508,333

[1] N H Cornish retired from the Company on 31 July 2011 and P E O'Keefe was made redundant on 27 January 2012.

2011 Name	Balance at start of the year	Granted as compen-sation	Exercised	Lapsed	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of BlueScope Steel Ltd								
P F O'Malley	1,477,511	1,200,220	-	-	-	2,677,731	-	2,677,731
Other key management personnel								
N H Cornish	393,810	274,360	-	-	-	668,170	-	668,170
M R Vassella	314,758	269,810	-	-	-	584,568	-	584,568
P E O'Keefe	249,539	204,890	-	-	-	454,429	-	454,429
I R Cummin	293,429	202,860	-	-	-	496,289	-	496,289
M G Barron	289,129	202,860	-	-	-	491,989	-	491,989
S R Elias	277,469	245,450	-	-	-	522,919	-	522,919
S Dayal	225,400	245,310	-	-	-	470,710	-	470,710
K A Mitchelhill	263,820	266,160	-	-	-	529,980	-	529,980
P J Finan[2] (appointed 1 November 2010	-	175,210	-	-	172,000	347,210	-	347,210
R J Moore[2] (appointed 1 December 2010	-	183,420	-	-	181,763	365,183	-	365,183

[2] Start balance is taken at the date of appointment to the Executive Leadership Team. Mr Finan and Mr Moore's Share Rights holdings for 30 June 2011 includes share right awards from 2006, 2007, 2008, 2009 and 2010.

38 Key management personnel disclosures (continued)

(iii) Share holdings
The numbers of shares in the Company held during the financial year by each Director of BlueScope Steel Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2012 Name	Balance at the start of the year	Received during the year on the exercise of options	Shares granted as compensation	Other changes during the year	Balance at the end of the year
Directors of BlueScope Steel Ltd					
G J Kraehe	286,276	-	-	355,021	641,297
R J McNeilly	1,321,502	-	-	1,057,202	2,378,704
D J Grady	128,382	-	-	248,625	377,007
H K McCann	152,720	-	-	9,648	162,368
Y P Tan	157,116	-	-	125,693	282,809
D B Grollo	128,156	-	-	102,525	230,681
P F O'Malley	227,613	-	-	272,091	499,704
K A Dean	41,624	-	-	105,300	146,924
P Bingham Hall	-	-	-	122,000	122,000
Other key management personnel **Ordinary shares**					
N H Cornish[1]	67,199	-	-	-	67,199
I R Cummin	336,679	-	402,600	2,613	741,892
M R Vassella	57,303	-	649,400	1,000	707,703
M G Barron	191,924	-	402,600	1,000	595,524
S R Elias	10,000	-	495,500	55,980	561,480
P E O'Keefe[1]	15,303	-	-	100,000	115,303
S Dayal	20,000	-	-	-	20,000
K A Mitchelhill	77,666	-	553,300	43,133	674,099
P J Finan	63,695	-	306,400	123,756	493,851
R J Moore	335,315	-	392,300	619,093	1,346,708

[1] N H Cornish retired from the Company on 31 July 2011 and P E O'Keefe was made redundant on 27 January 2012.

2011 Name	Balance at the start of the year	Received during the year on the exercise of options	Shares granted as compensation	Other changes during the year	Balance at the end of the year
Directors of BlueScope Steel Ltd					
G J Kraehe	286,276	-	-	-	286,276
R J McNeilly	1,321,502	-	-	-	1,321,502
D J Grady	128,382	-	-	-	128,382
H K McCann	152,720	-	-	-	152,720
Y P Tan	157,116	-	-	-	157,116
D B Grollo	128,156	-	-	-	128,156
P F O'Malley	227,613	-	-	-	227,613
K A Dean	26,624	-	-	15,000	41,624
P Bingham Hall	-	-	-	-	-
Other key management personnel **Ordinary shares**					
N H Cornish	68,584	-	-	(1,385)	67,199
I R Cummin	338,292	-	-	(1,613)	336,679
M R Vassella	57,303	-	-	-	57,303
M G Barron	191,924	-	-	-	191,924
S R Elias	-	-	-	10,000	10,000
P E O'Keefe	15,303	-	-	-	15,303
S Dayal	20,000	-	-	-	20,000
K A Mitchelhill	77,666	-	-	-	77,666
P J Finan[2] (appointed 1 November 2010	-	-	-	63,695	63,695
R J Moore[2] (appointed 1 December 2010	-	-	-	355,315	355,315

[2] Start balance is taken at the date of appointment to the Executive Leadership Team.

38 Key management personnel disclosures (continued)

(e) Loans to key management personnel

There have been no loans granted to directors and executives or their related entities.

(f) Other transactions with key management personnel

Mr Daniel Grollo is a director of Grocon Pty Ltd, a privately owned company. Grocon occasionally purchases Lysaght building products from the BlueScope Steel Group on normal terms and conditions. Total amounts purchased from the BlueScope Steel Group by Grocon for the 12 months ended 30 June 2012 was $96,350 (2011: $105,369).

In the normal course of business the Company occasionally enters into transactions with various entities that have directors in common with BlueScope Steel. Transactions with these entities are made on commercial arm's length terms and conditions. The relevant directors do not participate in any decisions regarding these transactions.

Mr Cornish retired from the Company on 31 July 2011. No payments other than statutory entitlements were paid. The Company entered into an agreement with Mr Cornish for the provision of consultancy services for the period of up to two years. As part of this arrangement Mr Cornish is a member of the Boards of North Star BlueScope Steel and Tata BlueScope Steel. He also represents Bluescope on the Executive of AI Group and provides safety leadership across our operations, particularly in Asia. In addition, Mr Cornish provided project management leadership during the commissioning of MCL2 in Indonesia. He was paid $540,000 for the period ending 30 June 2012.

39 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company, and its related practices:

(a) Audit services

	Consolidated	
	2012	2011
	$	$
Audit and review of financial statements and other audit work under the Corporations Act 2001:		
Ernst & Young (including overseas Ernst & Young firms)	**4,735,471**	3,512,084

(b) Other services

	Consolidated	
	2012	2011
	$	$
(i) Audit-related assurance services		
Ernst & Young Australian firm:		
Greenhouse gas emissions related assurance	**44,800**	-
Equity raising related assurance	**178,333**	-
Debt funding related assurance	**164,403**	-
Restructuring activity related assurance	**175,000**	-
Acquisition-related investigating accountant services	**-**	742,111
(ii) Other non-audit services		
Ernst & Young Australian firm		
Tax compliance services	**74,208**	55,994
Other advisory services	**-**	160,004
Related practices of Ernst & Young Australian firm (including overseas Ernst & Young firms)		
Tax compliance services	**110,187**	180,488
	746,931	1,138,597

40 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2012 in respect of:

(i) Outstanding legal matters

Outstanding legal matters	**Consolidated**	
	2012 **$M**	2011 $M
Contingencies for various legal disputes	**10.5**	1.0
	10.5	1.0

A range of outstanding legal matters exist that are contingent on court decisions, arbitration rulings and private negotiations to determine amounts required for settlement. It is not practical to provide disclosure requirements relating to each and every case.

In addition to the above contingencies, a supplier commenced legal proceedings seeking damages for alleged breaches of contract totalling approximately $16.5M, plus interest. The court held BlueScope Steel not liable for the damages claimed. The supplier has appealed the court's decision with the hearing set for October 2012.

Guarantees
In Australia, BlueScope Steel Limited has provided $139.6M (2011: $140.3M) in guarantees to various state workers compensation authorities as a prerequisite for self-insurance. An amount, net of recoveries, of $99.1M (2011: $92.8M) has been recorded in the consolidated financial statements as recommended by independent actuarial advice.

Bank guarantees have been provided to customers in respect of the performance of goods and services supplied. Bank guarantees outstanding at 30 June 2012 totalled $46.1M (2011: $42.1M).

Associates and joint ventures
For contingent liabilities relating to associates and joint ventures refer to notes 45 and 46 respectively.

Taxation
The Australian Taxation Office (ATO) has issued BSL with amended assessments in relation to a sale and leaseback transaction entered into by BSL in the 2007 income year for the purpose of raising funding of approximately $270M in connection with its general business operations. The assessments are in respect of the 2007 and 2008 income tax years for a total amount of $174.2M, including penalties and interest of approximately $65M. These assessments are based on two alternative determinations by the ATO relating, firstly, to the assessment of the gain made on the sale of the equipment and, secondly, to the denial of the deduction for lease rentals paid to the new owner of the equipment.

If BSL is unsuccessful, BSL’s maximum liability in relation to the first assessment would be approximately $140M (including penalties and interest of $53M) and BSL’s maximum liability in relation to the second assessment (after appropriate compensatory adjustments) would be approximately $51M to $63M (including penalties and interest of $18M to $22M). BSL considers that these assessments involve mutually exclusive outcomes and that the real amount of tax in dispute relates to the second assessment.

BSL believes that its treatment of the transaction is correct and is supported by both the existing case law and the ATO’s published ruling on sale and leaseback transactions. BSL will defend the assessments and pursue all necessary avenues of objection. However, resolution of this matter is likely to take some time. In accordance with ATO guidelines, BSL made a $21.2M part payment on 9 July 2012 pending determination of the dispute. Any amount paid will be fully refundable in the event that the matter is resolved in favour of BSL. As at 30 June 2012, this amount has been provided for in the income tax provision with a corresponding increase in non-current tax receivable.

40 Contingencies (continued)

In addition to this matter, the Group operates in many countries across the world, each with separate taxation authorities, which results in significant complexity. At any point in time there are tax computations which have been submitted but not agreed by those tax authorities and matters which are under discussion between Group companies and the tax authorities. The Group provides for the amount of tax it expects to pay taking into account those discussions and professional advice it has received. While conclusion of such matters may result in amendments to the original computations, the Group does not believe that such adjustments will have a material adverse effect on its financial position, although such adjustments may be significant to any individual year's income statement.

(b) Contingent assets

No assets have been booked in relation to the recovery of any of the following claims due to the inherent uncertainty surrounding these amounts:

- The Group has lodged a claim for the cumulation of workers compensation insurance recoveries on old pre-demerger policies. The insurance company's position is unclear and therefore recoveries remain uncertain.

41 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated	
	2012	2011
	$M	$M
Property, plant and equipment		
Payable:		
Within one year	**47.3**	61.3
Later than one year but not later than five years	**13.6**	6.3
	60.9	67.6

Joint ventures
For commitments relating to joint ventures refer to note 46 .

(b) Lease commitments: Group as lessee

(i) Non-cancellable operating leases
The Group leases various property, plant and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. There are no restrictions placed upon the lessee by entering into these leases.

	Consolidated	
	2012	2011
	$M	$M
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**99.4**	100.0
Later than one year but not later than five years	**263.8**	298.4
Later than five years	**344.2**	260.6
	707.4	659.0

41 Commitments (continued)

(ii) Finance leases
The Group leases various property, plant and equipment with a carrying amount of $127.0M (2011: $99.3M).

During the period, the Group entered into a finance lease of USD 34.2M for the use of equipment associated with the transport of iron sands from New Zealand.

The terms and conditions of other leases include varying terms, purchase options and escalation clauses. On renewal, the terms of these are renegotiated.

There are no restrictions of use placed upon the lessee by entering into any of these leases.

		Consolidated	
	Notes	**2012 $M**	2011 $M
Commitments in relation to finance leases are payable as follows:			
Within one year		**18.8**	15.6
Later than one year but not later than five years		**86.0**	59.3
Later than five years		**143.1**	130.9
Minimum lease payments		**247.9**	205.8
Future finance charges		**(113.5)**	(102.6)
Recognised as a liability		**134.4**	103.2
Representing lease liabilities:			
Current	25	**6.3**	4.6
Non-current	30	**128.1**	98.6
		134.4	103.2

42 Related party transactions

(a) Parent entities

The ultimate parent entity within the Group is BlueScope Steel Limited, which is incorporated in Australia.

(b) Subsidiaries

Interests in subsidiaries are set out in note 43.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 38.

42 Related party transactions (continued)

(d) Transactions with other related parties

The following transactions occurred with related parties other than key management personnel or entities related to them:

	Consolidated	
	2012	2011
	$M	$M
Sales of goods and services		
Sales of goods to associates	**6.6**	10.6
Sales of goods to joint venture partnerships	**12.4**	16.5
Interest revenue		
Associates	**0.1**	0.1
Other related parties	**0.1**	1.1
Superannuation contributions		
Contributions to superannuation funds on behalf of employees	**121.3**	141.8

(e) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties other than key management personnel:

	Consolidated	
	2012	2011
	$	$
Current receivables (sales of goods and services)		
Joint venture partnerships	**1.6**	5.6
Current receivables (loans)		
Associates	**1.1**	1.0
Other related parties	**-**	5.0
Current payable (purchase of goods and services)		
Associates	**2.7**	2.2

(f) Loans to/from related parties

	Consolidated	
	2012	2011
	$	$
Loans to other related parties		
Repayments	**1.0**	5.7

42 Related party transactions (continued)

(g) Terms and conditions

Sales of finished goods and purchases of raw materials from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

The terms and conditions of the tax funding agreement are set out in note 51.

With the exception that there are no fixed terms for the repayment of loans between the parties, all other transactions were made on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and are repayable in cash.

Other director transactions with group entities

Transactions with related parties of directors of wholly owned subsidiaries within the BlueScope Steel Group total $1.7M (2011: $2.3M). These transactions have been made on commercial arm's length terms and conditions.

43 Subsidiaries

(a) Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(d):

Name of entity	Note	Country of incorporation	Equity holding 2012	Equity holding 2011
Amari Wolff Steel Pty Ltd	(a)	Australia	**100**	100
Australian Iron & Steel Pty Ltd		Australia	**100**	100
BlueScope Building Solutions Pty Ltd	(a)	Australia	**100**	100
BlueScope Distribution Pty Ltd	(a)	Australia	**100**	100
BlueScope Steel Asia Holdings Pty Ltd		Australia	**100**	100
BlueScope Steel (AIS) Pty Ltd		Australia	**100**	100
BlueScope Steel Employee Share Plan Pty Ltd		Australia	**100**	100
BlueScope Steel (Finance) Ltd		Australia	**100**	100
BlueScope Steel Logistics Co Pty Ltd	(a)	Australia	**100**	100
BlueScope Steel Americas Holdings Pty Ltd		Australia	**100**	100
BlueScope Pty Ltd		Australia	**100**	100
BlueScope Solutions Holdings Pty Ltd	(a) (e)	Australia	**100**	100
Glenbrook Holdings Pty Ltd		Australia	**100**	100
BlueScope Construction Ltd	(a) (e)	Australia	**100**	100
John Lysaght (Australia) Pty Ltd		Australia	**100**	100
Laser Dynamics Australia Pty Ltd	(a)	Australia	**100**	100
Lysaght Building Solutions Pty Ltd	(a)	Australia	**100**	100
Lysaght Design and Construction Pty Ltd	(a)	Australia	**100**	100
Metalcorp Manufacturing Pty Ltd	(a)	Australia	**100**	100
Metalcorp Steel Pty Ltd	(a)	Australia	**100**	100
New Zealand Steel (Aust) Pty Ltd	(a)	Australia	**100**	100
BlueScope Water Australia Pty Ltd	(a) (e)	Australia	**100**	100
Smorgon Steel Distribution Superannuation Fund Pty Ltd	(h)	Australia	**100**	100
The Roofing Centre (Tasmania) Pty Ltd	(a)	Australia	**100**	100
Butler do Brasil Limitada	(h)	Brazil	**100**	100
BlueScope Lysaght (Brunei) Sdn Bhd		Brunei	**60**	60
BlueScope Lysaght (Guangzhou) Ltd	(h)	China	**100**	100
BlueScope Buildings (Guangzhou) Ltd		China	**100**	100
BlueScope Lysaght (Shanghai) Ltd		China	**100**	100
BlueScope Steel (Shanghai) Co Ltd		China	**100**	100
BlueScope Steel International Trading (Shanghai) Co Ltd	(i)	China	**-**	100
BlueScope Steel Investment Management (Shanghai) Co Ltd		China	**100**	100
BlueScope Lysaght (Langfang) Ltd		China	**100**	100
BlueScope Lysaght (Chengdu) Ltd		China	**100**	100
BlueScope Steel (Suzhou) Ltd		China	**100**	100
BlueScope Building Systems (Xi'an) Co Ltd	(g)	China	**100**	-
BlueScope Building Engineering and Design (Xi'an) Co.Ltd	(g)	China	**100**	-
Butler (Shanghai) Inc		China	**100**	100
Butler (Tianjin) Inc		China	**100**	100
Shanghai BlueScope Butler Construction Engineering Co. Ltd		China	**100**	100
BlueScope Lysaght Fiji Ltd		Fiji	**64**	64
BlueScope Steel North Asia Ltd		Hong Kong	**100**	100
BlueScope Steel India (Private) Ltd		India	**100**	100
PT BlueScope Steel Indonesia		Indonesia	**100**	100
PT BlueScope Lysaght Indonesia		Indonesia	**100**	100
PT BRC Lysaght Distribution		Indonesia	**80**	80
BlueScope Steel Transport (Malaysia) Sdn Bhd		Malaysia	**100**	100
BlueScope Engineering Systems Sdn Bhd	(e)	Malaysia	**100**	100
BlueScope Steel (Malaysia) Sdn Bhd		Malaysia	**60**	60
BlueScope Lysaght (Malaysia) Sdn Bhd		Malaysia	**60**	60
BlueScope Lysaght (Sabah) Sdn Bhd	(b)	Malaysia	**49**	49
BlueScope Steel Asia Sdn Bhd		Malaysia	**100**	100
Global BMC (Mauritius) Holdings Ltd		Mauritius	**100**	100

43 Subsidiaries (continued)

Name of entity	Note	Country of incorporation	Equity holding 2012	Equity holding 2011
Butler Manufacturas S de R.L. de C.V.		Mexico	**100**	100
Butler de Mexico S. de R.L. de C.V.		Mexico	**100**	100
BlueScope Acier Nouvelle Caledonie SA	(c)	New Caledonia	**65**	65
BlueScope Steel Finance NZ Ltd		New Zealand	**100**	100
Tasman Steel Holdings Ltd		New Zealand	**100**	100
New Zealand Steel Holdings Ltd		New Zealand	**100**	100
New Zealand Steel Ltd		New Zealand	**100**	100
Glenbrook Representatives Ltd		New Zealand	**100**	100
New Zealand Steel Development Ltd		New Zealand	**100**	100
Toward Industries Ltd		New Zealand	**100**	100
Steltech Structural Ltd		New Zealand	**100**	100
BlueScope Steel Trading NZ Ltd		New Zealand	**100**	100
New Zealand Steel Mining Ltd		New Zealand	**100**	100
Waikato North Head Mining Limited		New Zealand	**100**	100
BlueScope Steel International Holdings SA		Panama	**100**	100
BlueScope Steel Philippines Inc		Philippines	**100**	100
BlueScope Lysaght (Singapore) Pte Ltd		Singapore	**100**	100
BlueScope Steel Asia Pte Ltd		Singapore	**100**	100
Steelcap Insurance Pte Ltd		Singapore	**100**	100
BlueScope Steel Southern Africa (Pty) Ltd		South Africa	**100**	100
BlueScope Lysaght Taiwan Ltd		Taiwan	**80**	80
BlueScope Steel (Thailand) Ltd		Thailand	**75**	75
Steel Holdings Co Ltd		Thailand	**100**	100
BlueScope Lysaght (Thailand) Ltd		Thailand	**75**	75
BlueScope Steel International Ltd		UK	**100**	100
ASC Profiles Inc		USA	**100**	100
BlueScope Water Solutions Inc	(e)	USA	**100**	100
BlueScope Steel Finance (USA) LLC		USA	**100**	100
BlueScope Steel Holdings (USA) Partnership		USA	**100**	100
BlueScope Steel North America Corporation		USA	**100**	100
BlueScope Steel Technology Inc		USA	**100**	100
BlueScope Steel Americas LLC		USA	**100**	100
BlueScope Steel Investments Inc		USA	**100**	100
VSMA Inc		USA	**100**	100
BIEC International Inc		USA	**100**	100
BMC Real Estate Inc		USA	**100**	100
Butler Holdings Inc		USA	**100**	100
BlueScope Construction Inc		USA	**100**	100
Metl-Span LLC	(f)	USA	**100**	100
Butler Pacific Inc		USA	**100**	100
Steelscape Inc		USA	**100**	100
Steelscape Washington LLC		USA	**100**	100
BlueScope Buildings North America Inc		USA	**100**	100
BlueScope Lysaght (Vanuatu) Ltd	(c) (d)	Vanuatu	**39**	39
BlueScope Buildings (Vietnam) Ltd		Vietnam	**100**	100
BlueScope Steel Vietnam Ltd		Vietnam	**100**	100

43 Subsidiaries (continued)

All subsidiaries incorporated in Australia are members of the BlueScope Steel Ltd tax consolidated group. Refer to note 1(i).

(a) These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission. For further information refer to note 44.

(b) The Group holds an ownership interest of 49% in BlueScope Steel Lysaght (Sabah) Sdn Bhd, which is classified as a controlled entity pursuant to AASB 127 Consolidated and Separate Financial Statements because the BlueScope Steel Group can exercise voting control.

(c) These controlled entities are audited by firms other than Ernst & Young and affiliates.

(d) The Group's ownership of the ordinary share capital in this entity represents a beneficial interest of 39% represented by its 65% ownership in BlueScope Acier Nouvelle Caledonie SA, which in turn has 60% ownership of the entity.

(e) The following entities changed their name during the year:

New Name	**Old Name**
BlueScope Solutions Holdings Pty Ltd	BlueScope Water Pty Ltd
BlueScope Construction Ltd	Highline Ltd
BlueScope Water Australia Pty Ltd	Pioneer Water Tanks (Australia 94) Pty Ltd
BlueScope Engineering Systems Sdn Bhd	BlueScope Steel Logistics (Malaysia) Sdn Bhd
BlueScope Water Solutions Inc	B H Tank Works Inc.

(f) Entity sold on 22 June 2012 to NCI Group Inc.

(g) New entities established during the year.

(h) These entities are in the process of being liquidated and deregistered.

(i) Entity liquidated and deregistered during the period.

44 Deed of cross - guarantee

BlueScope Steel Limited and certain Australian wholly owned subsidiaries are parties to a deed of cross guarantee under which each company guarantees the debts of the others. The companies in the deed are as follows:

BlueScope Steel Limited
New Zealand Steel (Aust) Pty Ltd
Lysaght Building Solutions Pty Ltd
BlueScope Steel Logistics Co Pty Ltd
The Roofing Centre (Tasmania) Pty Ltd
Glenbrook Holdings Pty Ltd
Lysaght Design and Construction Pty Ltd
Amari Wolff Steel Pty Ltd
BlueScope Building Solutions Pty Ltd
BlueScope Distribution Pty Ltd
Metalcorp Steel Pty Ltd
Metalcorp Manufacturing Pty Ltd
BlueScope Construction Ltd (former name Highline Ltd)
BlueScope Solutions Holdings Pty Ltd (former name BlueScope Water Pty Ltd)
BlueScope Water Australia (former name Pioneer Water Tanks (Australia 94) Pty Ltd)
Laser Dynamics Australia Pty Ltd

By entering into the deed, with the exception of Glenbrook Holdings Pty Ltd, the wholly owned subsidiaries have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission. Glenbrook Holdings Pty Ltd continues to form part of the deed of cross-guarantee and closed group, however is denied Class Order 98/1418 relief due to direct ownership being held from outside of the closed group.

44 Deed of cross - guarantee (continued)

(a) Consolidated income statement and a summary of movements in consolidated retained profits

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross-guarantee that are controlled by BlueScope Steel Limited, they also represent the 'extended closed group'.

Set out below is a consolidated income statement and a summary of movements in consolidated retained earnings for the year ended 30 June 2012 of the closed group.

	2012 $M	2011 $M
Statement of comprehensive income		
Revenue	**4,420.6**	4,227.8
Other income	**25.3**	-
Changes in inventories of finished goods and work in progress	**(164.2)**	59.9
Raw materials and consumables used	**(2,248.7)**	(2,686.6)
Employee benefits expense	**(523.8)**	(569.3)
Depreciation and amortisation expense	**(81.7)**	(88.3)
Impairment of non-current assets	**(221.9)**	(591.0)
Freight on external despatches	**(215.0)**	(249.1)
External services	**(278.8)**	(301.8)
Finance costs	**(167.0)**	(189.1)
Other expenses	**(152.1)**	(61.6)
Share of net profits of associate	**0.1**	-
Profit (loss) before income tax	**392.8**	(449.1)
Income tax (expense) benefit	**(490.9)**	69.6
Net profit (loss) for the period	**(98.1)**	(379.5)
Other comprehensive income		
Actuarial gain (loss) on defined benefit superannuation plans	**(50.8)**	(0.4)
Income tax on items of other comprehensive income	**-**	0.1
Other comprehensive income for the year, net of tax	**(50.8)**	(0.3)
Total comprehensive income for the period	**(148.9)**	(379.8)
Summary of movements in consolidated retained profits		
Retained profits at the beginning of the financial year	**(337.4)**	170.4
Net profit (loss) for the year	**(98.1)**	(379.5)
Dividends provided for or paid	**(886.2)**	(128.0)
Actuarial gains (losses) on defined benefit plans recognised directly in retained profits	**(50.8)**	(0.4)
Deferred tax on items taken directly to or transferred from equity	**-**	0.1
Retained profits at the end of the financial year	**(1,372.5)**	(337.4)

44 Deed of cross - guarantee (continued)

(b) Statement of financial position

Set out below is a consolidated statement of financial position as at 30 June 2012 of the closed group.

	2012 $M	2011 $M
Current assets		
Cash and cash equivalents	**28.6**	0.5
Trade and other receivables	**3,541.4**	3,342.8
Inventories	**444.1**	636.9
Other	**10.1**	5.7
Total current assets	**4,024.2**	3,985.9
Non-current assets		
Inventories	**17.2**	26.7
Other financial assets	**1,686.0**	1,679.0
Property, plant and equipment	**679.8**	782.7
Deferred tax assets	**84.6**	380.4
Tax receivable	**18.3**	-
Intangible assets	**113.6**	280.8
Total non-current assets	**2,599.5**	3,149.6
Total assets	**6,623.7**	7,135.5
Current liabilities		
Payables	**860.6**	903.0
Borrowings	**2,093.1**	2,192.9
Tax liabilities	**18.3**	-
Provisions	**173.6**	163.2
Deferred income	**6.4**	10.3
Total current liabilities	**3,152.0**	3,269.4
Non-current liabilities		
Borrowings	**20.4**	21.0
Provisions	**73.1**	63.2
Retirement benefit obligations	**67.1**	18.4
Deferred income	**4.0**	4.3
Total non-current liabilities	**164.6**	106.9
Total liabilities	**3,316.6**	3,376.3
Net assets	**3,307.1**	3,759.2
Equity		
Contributed equity	**4,650.1**	4,073.8
Reserves	**29.5**	22.8
Retained profits	**(1,372.5)**	(337.4)
Total equity	**3,307.1**	3,759.2

45 Investments in associates

Name of company

	Ownership interest	
	2012	2011
	%	%
Saudi Steel Building Manufacturing Company	**30**	30
Saudi Building Systems Ltd	**30**	30
BlueScope Lysaght (Sarawak) Sdn Bhd	**49**	49
SteelServ Limited	**50**	50
McDonald's Lime Ltd	**28**	28
BlueScope Bartlett Liners Pty Ltd	**50**	50
Beacon Pathway Ltd	**20**	20

(a) Movements in carrying amounts

	Consolidated	
	2012	2011
	$M	$M
Carrying amount at the beginning of the financial year	**13.9**	15.0
Share of profits after income tax	**3.9**	3.3
Dividends received/receivable	**(4.9)**	(3.3)
Currency fluctuation	**0.3**	(1.2)
Reserve movements	**(0.1)**	0.1
Carrying amount at the end of the financial year	**13.1**	13.9

(b) Contingent liabilities relating to associates

There were no contingent liabilities relating to investments in associates.

46 Interests in joint ventures

(a) Joint venture partnership

The Group has a 50% interest in North Star BlueScope Steel LLC, a USA resident, the principal activity of which is to manufacture hot rolled steel products. The Group also has a 50% interest in Tata BlueScope Steel Ltd, an Indian resident, the principal activity of which is to manufacture steel products and pre-engineered steel building systems. The joint venture is also constructing a metal coating and painting facility.

The interest in North Star BlueScope Steel and Tata BlueScope Steel is accounted for in the consolidated financial statements using the equity method of accounting (refer to note 19). Information relating to the joint venture partnerships is set out below.

	North Star BlueScope Steel		Tata BlueScope Steel		Consolidated	
	2012 $M	2011 $M	**2012 $M**	2011 $M	**2012 $M**	2011 $M
Share of partnership's assets and liabilities						
Current assets						
Cash and cash equivalents	**6.2**	13.5	**5.6**	1.9	**11.8**	15.4
Receivables	**59.6**	65.1	**19.7**	24.9	**79.3**	90.0
Inventories	**42.3**	41.0	**20.9**	14.2	**63.2**	55.2
Other	**0.5**	0.5	**-**	-	**0.5**	0.5
Non-current assets						
Property, plant and equipment	**59.7**	64.3	**105.3**	115.7	**165.0**	180.0
Intangible assets	**-**	-	**0.1**	0.2	**0.1**	0.2
Other	**0.1**	0.1	**-**	-	**0.1**	0.1
Total assets	**168.4**	184.5	**151.6**	156.9	**320.0**	341.4
Current liabilities						
Payables	**43.0**	48.5	**31.3**	32.8	**74.3**	81.3
Borrowings	**-**	-	**87.6**	75.3	**87.6**	75.3
Provisions	**12.8**	12.7	**1.3**	1.8	**14.1**	14.5
Non-current liabilities						
Payables	**0.1**	0.1	**-**	-	**0.1**	0.1
Borrowings	**39.9**	42.1	**-**	-	**39.9**	42.1
Total liabilities	**95.8**	103.4	**120.2**	109.9	**216.0**	213.3
Net assets	**72.6**	81.1	**31.4**	47.0	**104.0**	128.1
Share of partnership's revenue, expenses and results						
Revenues	**683.2**	697.0	**81.5**	67.3	**764.7**	764.3
Expenses	**619.3**	622.6	**96.1**	71.5	**715.4**	694.1
Profit (loss) before income tax	**63.9**	74.4	**(14.6)**	(4.2)	**49.3**	70.2
Income tax (expense) benefit	**-**	-	**-**	(0.2)	**-**	(0.2)
Profit (loss) after income tax	**63.9**	74.4	**(14.6)**	(4.4)	**49.3**	70.0
Share of partnership's capital commitments	**4.3**	0.9	**10.3**	12.3	**14.6**	13.2

(b) Contingent liabilities relating to joint ventures

There were no contingent liabilities relating to investments in joint ventures.

46 Interests in joint ventures (continued)

(c) Secured liabilities and assets pledged as security

The Tata BlueScope Steel borrowings are secured against property, plant and equipment.

(d) Impairment losses

Impairment losses of $1.4M (2011: $1.7M) were recognised in relation to the Group's investment in Castrip LLC (refer to note 8). The Group's 47.5% interest in Castrip resides within the Hot Rolled Products North America segment and has a carrying value of $Nil (2011: $Nil).

47 Reconciliation of loss after income tax to net cash inflow from operating activities

	Consolidated	
	2012	2011
	$M	$M
Loss for the year	**(1,027.9)**	(1,040.4)
Depreciation and amortisation	**330.8**	355.6
Impairment on non-current assets	**319.9**	993.7
Reversal of impairment	**-**	(68.8)
Exchange reserve transferred to P&L	**0.5**	-
Non-cash employee benefits expense - share-based payments	**7.0**	6.6
Net (gain) loss on sale of subsidiaries	**(29.4)**	-
Net (gain) loss on sale of non-current assets	**(0.3)**	1.1
Share of (profits) losses of associates and joint venture partnership	**(53.2)**	(73.3)
Associate and joint venture partnership dividends received	**83.4**	135.2
Change in operating assets and liabilities:		
Decrease (increase) in trade debtors	**55.9**	77.8
Decrease (increase) in other debtors	**20.4**	(11.3)
Decrease (increase) in other operating assets	**18.9**	(18.8)
Decrease (increase) in inventories	**634.9**	(306.6)
Increase (decrease) in trade creditors	**(97.1)**	114.2
Increase (decrease) in other creditors	**(3.8)**	(7.5)
Increase (decrease) in borrowing costs payable	**4.8**	(9.4)
Increase (decrease) in income taxes payable	**28.9**	12.7
Increase (decrease) in deferred tax balances	**(19.7)**	(126.5)
Increase (decrease) in other provisions and liabilities	**5.5**	(25.0)
Other variations	**(12.1)**	19.0
Net cash inflow (outflow) from operating activities	**267.4**	28.3

48 Non-cash investing and financing activities

	Consolidated	
	2012	2011
	$M	$M
Acquisition of plant and equipment by means of finance leases (i)	**34.8**	56.0
Dividend Reinvestment Plan (ii)	**-**	41.3
	34.8	97.3

(i) New Zealand entered into a finance lease agreement of USD 34.2M for the use of equipment associated with the transport of iron sands.

(ii) There were no dividends paid in the current period. In the comparative period, the Company had a formal Dividend Reinvestment Plan (DRP) in relation to the June 2010 final dividend, enabling participating shareholders to receive dividends as ordinary BlueScope Steel Limited shares instead of cash. A total of 18,839,253 shares were issued under the DRP connected to the June 2010 final dividend. There was no DRP attached to the December 2010 interim dividend. Refer to note 35(b) for a reconciliation of movements in ordinary share capital.

(iii) Details of share-based payments are shown in note 50.

49 Earnings per share

(a) Basic earnings (loss) per share

	Consolidated	
	2012	2011
	Cents	Cents
From continuing operations attributable to the ordinary equity holders of the Company	**(39.0)**	(48.8)
From discontinued operations	**(0.1)**	0.2
Total basic earnings (loss) per share attributable to the ordinary equity holders of the Company	**(39.1)**	(48.6)

(b) Diluted earnings per share

	Consolidated	
	2012	2011
	Cents	Cents
From continuing operations attributable to the ordinary equity holders of the Company	**(39.0)**	(48.8)
From discontinued operations	**(0.1)**	0.2
Total diluted earnings (loss) per share attributable to the ordinary equity holders of the Company	**(39.1)**	(48.6)

(c) Reconciliation of earnings used in calculating earnings (loss) per share

	Consolidated	
	2012	2011
	$M	$M
Basic and diluted earnings per share		
Profit (loss) attributable to the ordinary equity holders of the Group used in calculating basic earnings per share:		
From continuing operations	**(1,041.9)**	(1,059.9)
From discontinued operation	**(1.6)**	5.7
	(1,043.5)	(1,054.2)

49 Earnings per share (continued)

(d) Weighted average number of shares used as denominator

	Consolidated	
	2012 Number	2011 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**2,668,690,595**	2,171,250,627
Adjustments for calculation of diluted earnings per share:		
Weighted average number of share rights	**-**	8,294
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**2,668,690,595**	2,171,258,921

(e) Earnings per share restated

In accordance with AASB 133 *Earnings per Share*, the comparative earnings per share calculations have been restated for the bonus element of the four-for-five share rights issue undertaken in December 2011. The previously reported June 2011 weighted average number of shares has been adjusted by a factor of 1.1823, being the market price of one ordinary share at the close of the last day at which the shares traded together with the rights $0.61, divided by the theoretical ex-rights value per share of $0.52.

(f) Information on the classification of securities

(i) *Basic earnings per share*
Basic earnings per share is calculated by dividing net profit (loss) attributable to the ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

(ii) *Diluted earnings per share*
Diluted earnings per share is calculated by dividing the net profit (loss) attributable to the ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued upon the conversion of all dilutive potential ordinary shares into ordinary shares.

Share rights granted to eligible senior managers under the Long Term Incentive Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are expected to vest based on current TSR (Total Shareholder Return) ranking as per the 30 June 2012 Remuneration Report. Details relating to the share rights are set out in note 50.

There are 61,631,740 share rights relating to the 2007, 2008, 2009, 2010 and 2012 LTIPs that are not included in the calculation of diluted earnings per share because they are not dilutive for the year ended 30 June 2012. These share rights could potentially dilute basic earnings per share in the future.

50 Share-based payments

The Group provides benefits in the form of share-based payment transactions to employees. There are currently three plans in place providing share based payment benefits: (a) The Long Term Incentive Plan, (b) General Employee Share Plans; and (c) Special Share Grants and Rights.

Information relating to these schemes is set out below. Further information is provided in the 30 June 2012 Remuneration Report. Refer to note 1(y)(iv) for the share-based payments accounting policy.

(a) The Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) is a program determined annually by the Board, which awards share rights to eligible senior management of BlueScope Steel. LTIPs are designed to reward senior management for long term value creation, and is part of the Company's overall recognition and retention strategy. The share rights give the right to receive an ordinary share in BlueScope Steel Limited at a later date subject to the satisfaction of certain performance criteria and continued employment with the Group.

The share rights available for exercise are contingent on the Company's Total Shareholder Return (TSR) percentile ranking relative to the TSR of companies in the S&P/ASX 100 index at the reward grant date. Share rights that fail to meet performance vesting conditions will lapse upon the LTIP's expiry date, or sooner upon employee resignation or termination.

Plans have been granted to senior management as outlined below. Further details of each award is provided in the 30 June 2012 Remuneration Report.

Movement of LTIP share and cash rights during the year

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
2012								
18 Nov 2006	31 Oct 2011	-	1,180,774	-	-	(1,180,774)	-	-
5 Nov 2007	31 Oct 2012	-	1,186,391	-	-	(342,672)	843,719	-
14 Nov 2007	31 Oct 2012	-	231,053	-	-	-	231,053	-
28 Nov 2008	31 Oct 2013	-	1,938,151	-	-	(424,755)	1,513,396	-
30 Nov 2009	31 Oct 2014	-	7,750,270	-	-	(668,839)	7,081,431	-
30 Nov 2010	31 Oct 2015	-	10,474,550	-	-	(1,418,369)	9,056,181	-
16 Apr 2012	31 Jan 2015	-	-	46,313,440	-	-	46,313,440	-
			22,761,189	46,313,440	-	(4,035,409)	65,039,220	-

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
2011								
18 Nov 2005	31 Oct 2010	-	25,000	-	(17,000)	(8,000)	-	-
18 Nov 2006	31 Oct 2011	-	1,261,381	-	-	(80,607)	1,180,774	-
5 Nov 2007	31 Oct 2012	-	1,396,004	-	-	(209,613)	1,186,391	-
14 Nov 2007	31 Oct 2012	-	231,053	-	-	-	231,053	-
28 Nov 2008	31 Oct 2013	-	2,025,318	-	-	(87,167)	1,938,151	-
30 Nov 2009	31 Oct 2014	-	8,170,131	-	-	(419,861)	7,750,270	-
30 Nov 2010	31 Oct 2015	-	-	10,702,550	-	(228,000)	10,474,550	-
			13,108,887	10,702,550	(17,000)	(1,033,248)	22,761,189	-

50 Share-based payments (continued)

The average share price during the period for the year ended 30 June 2012 was $0.53 (30 June 2011 2010: $2.02).

The weighted average remaining contractual life of share rights outstanding at the end of the period was 2.6 years (30 June 2011: 3.5 years).

The April 2012 LTIP includes 3,122,480 cash rights. The November 2009 LTIP includes 158,000 cash rights, of which 13,000 have been forfeited year to date while the November 2010 LTIP includes 166,000, of which 26,000 have been forfeited year to date. The cash rights have been issued to eligible employees in Asia who are entitled to receive cash bonuses three years from grant date, in place of shares. The fair value of the cash rights is calculated as the sum of the market value of shares and dividends that would have otherwise been received.

Fair value of share rights granted

The assessed fair value at grant date of share rights granted during the year ended 30 June 2012 is detailed below. The fair value at grant date is independently determined for each award using Black Scholes option pricing model that includes a Monte Carlo simulation analysis. Standard option pricing inputs include underlying share price, exercise price, expected dividends, expected risk free interest rates and expected share price volatility. In addition, specific factors in relation to the likely achievement of performance hurdles and employment tenure have been taken into account.

The fair value inputs for share rights granted during the years ended 30 June 2012 and 30 June 2011 included:

Plan Details	**April 2012**	**Nov 2010**
Exercise price ($)	Nil	Nil
Grant date	16 April 2012	30 November 2010
Latest expiry date	31 January 2015	31 October 2015
Share rights granted	43,190,960	10,536,550
Cash rights granted	3,122,480	166,000
Fair value estimate at grant date	0.21	1.20
Vesting conditions (i)	TSR ranking	TSR ranking
Fair value inputs		
Expected life of share rights (yrs)	Minimum vesting period	Minimum vesting period
Expected dividend yield (%)	3.00	5.00
Expected risk-free interest rate (%)	3.25	5.19
Expected share price volatility (%)	45.00	35.00
Grant date share price ($)	0.40	1.93

(i) The number of rights that vest under each plan are contingent on BlueScope Steel's TSR percentile ranking. The TSR ranking requirements differ for each plan. For further details of vesting conditions refer to the 30 June 2012 Remuneration Report.

The expected price volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

There have been no significant modifications to any LTIP arrangement since grant date.

(b) General Employee Share Plans

General Employee Share Plans (GESPs) are share award plans which, at the determination of the Board, issue eligible employees with a grant of ordinary BlueScope Steel shares (or a cash equivalent in countries where the issue of shares is not practicable).

The objective of GESPs is to recognise and reward employees for their contribution to BlueScope Steel's financial results and workplace safety performance and provide them with the opportunity to benefit from dividends paid on the shares and growth in the market value of shares. Employees may elect not to participate in the plan.

50 Share-based payments (continued)

The allocation of GESPs is considered on a year by year basis. At 30 June 2012 the following share plan was outstanding:

(i) *April 2012 General Employee Share Plan (GESP)*
Under the April GESP 2012 an immediate grant of 1,000 BlueScope Steel shares, at no cost to the employee, were made to 10,010 employees. These shares were purchased on market equivalent price, at a total cost of $4.1M (average $0.41 per share). In those countries where it is either not possible or practical to grant shares, 3,170 employees will receive a future cash payment approximately equivalent to the value of 1,000 BlueScope Steel shares ($0.9M). The Company also offered a total of 2,280,000 ($1.6M) deferred GESP shares to New Zealand, Malaysia and Thailand employees, to be issued in three years from the date of grant and subject to forfeiture.

The form of GESPs depends on local regulations and tax laws. Due to this, GESPs comprise of three components as follows:

Regular share grants
The majority of the Group's eligible employees, including those in Australia are offered shares with a restriction on trading of three years or as elected by the employee, dependent on the tax deferral period. Once the shares are granted, employees can fully participate in all dividends paid. Fair value is measured as grant date for shares issued. For regular share grants to overseas employees, it is a condition that shares are forfeited and sold on market if employees leave before the expiration of the three-year restriction period.

Cash plan
Eligible employees in certain Asian and Pacific regions are entitled to receive cash bonuses three years from grant date, in place of shares, the fair value of which is calculated as the sum of the market value of shares and dividends that would have otherwise been received

Deferred share grants
In some Asian countries shares vest three years from the grant date and cash rewards are received for dividends forgone during this period. Fair value is calculated as the market value of shares to be received as at grant date in addition to the dividends forgone during the three-year vesting period.

Shares issued under GESPs rank equally with other fully paid ordinary shares on issue (refer to note 35 for number of shares issued and fair value of at grant date).

(c) Other share grants and rights

On 27 February 2009, 25,000 BlueScope Steel Limited shares were granted to Mr Keith Mitchelhill upon his appointment to the Executive Leadership Team and Chief Executive Australia Distribution & Solutions. Share grants awarded vested in February 2012, entitled to participate in dividends and rank equally with other fully paid ordinary shares on issue.

On 10 March 2009, 20,000 BlueScope Steel Limited shares were granted to Mr Sanjay Dayal upon his appointment to the Executive Leadership Team and Chief Executive Asia. Share grants awarded vested in January 2012.

On 6 August 2007, 50,000 BlueScope Steel Limited shares were granted to Mr Paul O'Malley upon his appointment as an Executive Director. Share grants have been split between three tranches, each with specific vesting conditions requiring the fulfilment of an underlying service period. The service periods range from August 2010 to August 2012. Share granted are entitled to participate in dividends and rank equally with other fully paid ordinary shares on issue.

During the year ended 30 June 2011 the Board approved an award of shares, share rights and cash rights in a share-based retention plan. Invitations to participate in this plan were determined on the basis of rewarding, recognising and retaining key individuals, whose contributions are crucial to delivery of BlueScope Steel's strategy for the next three years including restructuring the Australian business, changes to operating assets to drive improved earnings associated with a significant reduction in steel production, improving the performance of the North American business and expanding the Asian businesses. A total of 6,935,600 shares was issued to both ELT and non-ELT members on 14 September 2011, in addition to 858,000 share rights and 403,500 cash rights granted in March 2011.

50 Share-based payments (continued)

Shares awarded under the retention plan are subject to the following conditions:

- Shares awarded will be forfeited in the event of cessation of employment for any reason in the restricted period other than where employment ceases due to death or disability;
- Shares cannot be sold, mortgaged, transferred, or otherwise encumbered at any time in the restriction period; and
- The restriction period generally applies for a period of three years. In the event of a change in control during this time the shares will vest.

(d) The Employee Share Purchase Plan

The Employee Share Purchase Plan (ESPP) provides facilities for Australian employees to purchase shares at market prices through salary sacrifice of STI bonus payments. The Company has had an ESPP in place since 2003. Under the plan, shares can be provided on a tax deferred basis and therefore sale or transfer is restricted. Shares provided under the plan are entitled to participate in dividends and rank equally with other fully paid ordinary shares on issue (refer to note 35(c)). No employee benefit expense is recognised in respect of the ESPP other than the administrative costs of the plan, which are met by the Company.

(e) Expense arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	2012 **$'000**	2011 $'000
Employee share rights expense	**7.0**	6.6
Employee share awards expense	**0.1**	0.1
Total expense arising from share-based payments	**7.1**	6.7

The carrying amount of the liability relating to share-based payment plans at 30 June 2012 is $0.3M (30 June 2011: $0.2M). This liability represents the deferred cash amounts payable under LTIPs and GESPs.

51 Parent entity financial information

(a) Summary financial information

The financial statements for the parent entity, BlueScope Steel Ltd, show the following aggregate amounts:

Statement of financial position

	2012 $M	2011 $M
Current assets		
Cash and cash equivalents	**0.7**	0.3
Trade and other receivables	**3,108.9**	3,029.7
Inventories	**254.8**	439.2
Other	**8.8**	4.0
Total current assets	**3,373.2**	3,473.2
Non-current assets		
Inventories	**17.2**	26.7
Other financial assets	**1,671.0**	1,851.6
Deferred tax assets	**84.6**	380.1
Tax receivable	**18.3**	-
Property, plant and equipment	**615.8**	707.7
Intangible assets	**42.1**	29.2
Total non-current assets	**2,449.0**	2,995.3
Total assets	**5,822.2**	6,468.5
Current liabilities		
Payables	**433.8**	489.7
Borrowings	**1,849.8**	2,098.3
Tax Liabilities	**18.3**	-
Provisions	**128.1**	133.6
Deferred income	**1.4**	4.4
Total current liabilities	**2,431.4**	2,726.0
Non-current liabilities		
Borrowings	**12.4**	12.6
Provisions	**57.4**	56.0
Retirement benefit obligations	**66.7**	18.2
Other	**4.0**	4.3
Total non-current liabilities	**140.5**	91.1
Total liabilities	**2,571.9**	2,817.1
Net assets	**3,250.3**	3,651.4
Equity		
Contributed equity	**4,650.1**	4,073.8
Reserves	**29.5**	22.7
Retained profits	**(1,429.3)**	(445.1)
Total equity	**3,250.3**	3,651.4

51 Parent entity financial information (continued)

Statement of comprehensive income

	2012 $M	2011 $M
Revenue	**2,468.4**	3,183.0
Other income	**25.4**	-
Changes in inventories of finished goods and work in progress	**(156.0)**	81.3
Raw materials and consumables used	**(1,436.8)**	(1,909.9)
Employee benefits expense	**(393.3)**	(425.7)
Depreciation and amortisation expense	**(66.4)**	(71.6)
Impairment of non-current assets	**(230.6)**	(561.4)
Freight on external despatches	**(190.2)**	(226.2)
External services	**(207.5)**	(232.3)
Restructuring costs	**(82.9)**	-
Finance costs	**(151.0)**	(181.4)
Other expenses	**(10.1)**	(37.8)
Profit (loss) before income tax	**(431.0)**	(382.0)
Income tax (expense) benefit	**(502.7)**	46.7
Net profit (loss) for the period	**(933.7)**	(335.3)
Other comprehensive income		
Actuarial gain (loss) on defined benefit superannuation plans	**(50.5)**	(0.4)
Income tax on items of other comprehensive income	**-**	0.1
Other comprehensive income for the year, net of tax	**(50.5)**	(0.3)
Total comprehensive income for the year	**(984.2)**	(335.6)

Summary of movements in retained profits

	2012 $M	2011 $M
Retained earnings at the beginning of the financial year	**(445.1)**	18.5
Net profit (loss) for the year	**(933.7)**	(335.3)
Dividends paid	**-**	(128.0)
Actuarial gains (losses) on defined benefit plans recognised directly in retained profits	**(50.5)**	(0.4)
Deferred tax	**-**	0.1
Retained profits at the end of the financial year	**(1,429.3)**	(445.1)

(b) Guarantees entered into by the parent entity

In Australia, the parent entity has given $139.6M (2011: $140.3M) in guarantees to various state workers compensation authorities as a prerequisite for self insurance and has entered into a deed of cross-guarantee with certain Australian wholly-owned subsidiaries (note 44). Additionally, the parent entity has provided financial guarantees in respect to subsidiaries amounting to:

	Parent entity	
	2012 $M	2011 $M
Bank overdrafts and loans of subsidiaries (unsecured)	**1,355.0**	2,663.5
Other loans (unsecured)	**218.9**	584.5
Trade finance facilities	**259.1**	234.3
	1,833.0	3,482.3

(c) Capital commitments

As at 30 June 2012, the parent entity had capital commitments of $11.7M (June 2011: $8.7M). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

51 Parent entity financial information (continued)

(d) Tax consolidation legislation

BlueScope Steel Limited and its wholly owned Australian controlled entities have entered into a tax sharing and funding agreement in relation to their participation in the tax consolidation regime. Under the terms of this agreement, the wholly owned entities reimburse BlueScope Steel Limited for any current tax payable assumed and are compensated by BlueScope Steel for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to BlueScope Steel Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from BlueScope Steel Limited, which is issued as soon as practicable after the end of each financial year. BlueScope Steel Limited may require payment of interim funding amounts to assist with its obligations to pay tax instalments.

The tax sharing agreement limits the joint and several liability of the wholly owned entities in the case of a default by BlueScope Steel Limited. At balance date, the possibility of default is considered remote.

The accounting policy in relation to tax consolidation is set out in note 1(c)(ii) .

The tax consolidated group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. Intercompany receivables of $1.9M (2011: $30.3M) and intercompany payables of $210.4M (2011: $190.1M) of BlueScope Steel Limited have been recognised as a tax consolidated adjustment.

52 Events occurring after balance date

(i) New segments
BlueScope Steel Limited has announced a reorganisation to establish two businesses to focus on growth in the global pre-engineered building market and building products market to take effect on 1 July 2012. As a result of these changes, on 26 July 2012, the Company announced changes to its external reporting segments.

- BlueScope Global Building Solutions comprises the Company's North American pre-engineered buildings (PEB) businesses, the entire China business and all PEB businesses in ASEAN.

- BlueScope Building Products comprises the Company's metal coating, painting and roll-forming businesses in ASEAN and North America.

Mr Bob Moore, BlueScope's President, China and a member of the Executive Leadership Team (ELT), will become Chief Executive Global Building Solutions leading more than 5,000 employees across 21 manufacturing plants in eight countries.
Mr Sanjay Dayal, Chief Executive BlueScope Asia and a member of the ELT will take on a new role as Chief Executive Building Products with additional responsibility for the North American Steelscape and ASC Profiles businesses, leading 3,300 employees at 29 manufacturing plants in seven countries.

These reporting segement changes will be applied in respect of the half-year ending 31 December 2012 and thereafter.

(ii) BlueScope Steel and Nippon Steel Joint Venture
As announced to the market on 13 August 2012, BlueScope and Nippon Steel Corporation (NSC) have agreed to form a new joint venture encompassing BlueScope’s ASEAN and North American building products businesses.

The new 50:50 joint venture, called NS BlueScope Coated Products, provides a strong platform to capture expected growth in the $40 billion per annum building and construction sector in ASEAN and North America. The JV will facilitate entry into new markets not currently accessible to BlueScope. For example, the JV will supply whitegoods manufacturers offering products to Asia’s fast growing middle class. The JV will also speed up entry into emerging markets in the ASEAN region.

NSC’s investment recognises an agreed enterprise valuation for the JV of US$1.36 billion. BlueScope will receive approximately US$540 million in net proceeds through NSC’s 50% acquisition of BlueScope’s interest in the businesses after allowing for taxes, minority interests and transaction costs. BlueScope will continue to control and consolidate the business for financial reporting purposes. The cash consideration received from NSC will be recognised within equity, therefore no gain or loss on this transaction will be recorded in the income statement.

52 Events occurring after balance date (continued)

The joint venture will comprise BlueScope's current building products businesses in ASEAN (Indonesia, Malaysia, Thailand, Vietnam, Singapore and Brunei) and North America (Steelscape and ASC Profiles). The footprint of this business also covers Myanmar, Cambodia, Laos and the Philippines.

NSC and BlueScope will each hold 50 per cent of a new joint venture company, headquartered in Singapore. BlueScope will appoint the Chief Executive of NS BlueScope Coated Products. NSC will appoint the Chairman and a number of key executives to assist with business development and the introduction of new technology and products. The transaction is expected to complete in the March 2013 quarter, once regulatory approvals have been obtained.

The JV does not include BlueScope's building products businesses in Australia, China and India, or its Global Building Solutions business that operates across the world (including in ASEAN countries).

(iii) US private placement repurchase
On 7 August 2012, the Company repurchased a further US$88.2M of its US Private Placement Notes (subsequent to the repurchase of US$305.4M in May 2012) at par, plus accrued interest. The repurchase has been funded in US dollars using existing undrawn lines under the Company's syndicated bank facility. No early redemption or make-whole costs were incurred by BlueScope in effecting the repurchase, and based on the Company's drawn debt balance at 30 June 2012, the US$88.2M repurchase is expected to realise a pro-forma reduction in the Company's annual interest expense of approximately A$6M per annum.

(iv) Changes to Malaysia minority interests
On 16 August 2012, the Company acquired the 40% interest of Bluescope Steel Malaysia that it did not own.

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 1 to 99 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 44 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross-guarantee described in note 44.

(d) The financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the Directors.

G J Kraehe, AO
Chairman

P F O'Malley
Managing Director & CEO

Melbourne
20 August 2012

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Independent auditor's report to the members of BlueScope Steel Limited

Report on the financial report

We have audited the accompanying financial report of BlueScope Steel Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of BlueScope Steel Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of BlueScope Steel Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

RC Piltz

Rodney Piltz
Partner
Melbourne
20 August 2012