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BLUESCOPE ANNOUNCES MAJOR RESTRUCTURE TO AUSTRALIAN OPERATIONS AND REINFORCES COMMITMENT TO STEEL PRODUCTION IN AUSTRALIA

BlueScope Steel Chairman, Mr Graham Kraehe, today announced the Board has approved a major restructure of Australian operations to reposition the Company for improved profit and growth.

"We are experiencing significant economic challenges and structural change in the global steel industry. The restructure, which includes shutting down the No.6 Blast Furnace at Port Kembla and closing the Western Port Hot Strip Mill, will better align Australian steelmaking production with Australian domestic demand and see BlueScope exit the Australian export business.

"The restructure announced today will produce a more viable and sustainable Australian steel business and allow us to focus clearly on domestic markets and international growth opportunities. It will also lower fixed costs at our major facilities at Port Kembla (NSW) and Western Port (Victoria).

"We are committed to making steel in Australia and can now prioritise our resources and efforts towards even better service for our domestic customers," Mr Kraehe said.

BlueScope Managing Director and CEO, Mr Paul O'Malley said: "There is a compelling business case underpinning this decision. It will deliver a material improvement in future earnings and cashflow. It materially reduces export losses, reduces earnings volatility through the economic cycle and reduces long-term capital investment requirements at Port Kembla.

"For the Coated and Industrial Products Australia (CIPA) reporting segment, if the restructure had been in place for the full year, the Earnings Before Interest and Tax (EBIT) improvement would have been around $225 million (management estimate on a pro forma FY2011 basis).

"It's the right decision for the long-term viability of our business. The Company has the support of its lenders to undertake the restructure. We will now enter a consultation process with our employees and affected stakeholders, including customers, unions, contractors, suppliers, governments and local communities," said Mr O'Malley.

Economic Conditions Drive Restructure

Mr O'Malley said the Company is experiencing an unprecedented combination of economic challenges in the form of a record high Australian dollar, low steel prices and high raw material costs and these challenges are compounded by low domestic steel demand in the wake of the GFC.

"This is evidenced by the $487 million underlying EBIT loss experienced in FY2011 on our export sales. The economic conditions for export steelmaking from Australia appear unlikely to become favourable in the foreseeable future and our continued exposure to this market is clearly unsustainable. Our decision is a direct response to the economic factors affecting our business and is not related to the Federal Government's proposed carbon tax."

When fully implemented, the restructure plan will result in:

- Shut-down of No.6 Blast Furnace at Port Kembla, with production reduced to 2.6 mtpa. The shut down process will be completed in a manner that facilitates re-start of the furnace in the future should that be desirable.
- Closure of No. 4 cokemaking battery, No. 3 BOS steelmaking furnace and No. 1 slab caster. The PKSW hot strip and cold rolling mills, metal coating and paint lines will continue to operate.
- Closure of the Western Port Hot Strip Mill and mothballing of a metal coating line (MCL5).

Commitment to Australia and to Growth

“The restructure will better position us for profit and growth in Australia and allow us to grow our presence in building construction markets, in particular Pre-Engineered Buildings, where we are a world leader. We will also focus on growth opportunities, particularly in Asia.

“The Company has a strong competitive advantage in coated steel with its world class ZINCALUME® and COLORBOND® steel products. In collaboration with Nippon Steel Corporation, we will develop the next generation of coated products for our customers. We expect these products to be launched initially in Australia and then rolled out across the Company’s global footprint,” said Mr O’Malley.

Consultation Before Implementation

Mr O’Malley said: “In managing the transition out of exports we will take a careful and considered approach. Regrettably, these changes will see a workforce reduction of around 1,000 people, with approximately 800 at Port Kembla and 200 at Western Port. There will be flow-on impacts for contractors and suppliers.

“The actual size of the workforce reduction will be the subject of discussions with employees and unions and we will examine alternatives, including flexible work patterns, retraining, voluntary redundancies and job substitution. There will be programs and local job centres to assist employees to transition into the next phase of their careers either within or external to BlueScope, or to early retirement,” Mr O’Malley said.

The FY2011 Result – Performance In Line with Previous Guidance

The Company reported a Net Loss After Tax (NLAT) of A$1,054 million for FY2011 (underlying NLAT of A$118 million, in line with previous guidance). The reported NLAT includes the previously announced one-off impairment cost of A$922 million, mainly relating to write-downs of the carrying value of two businesses; Coated and Industrial Products Australia and BlueScope Distribution.

The Board has decided there will be no final ordinary dividend. This follows the 2 cent per share interim dividend (fully franked) announced in February 2011.

Reflecting on the FY2011 Company performance, Mr O’Malley said, “The underlying result is in line with expectations and results from the tough economic challenges and structural changes our business faces.

Asia

“Following the successful transformation of our Coated and Building Products Asia division in FY2010, the segment delivered another excellent result, contributing $108 million in underlying EBIT, a record result in constant currency. Highlights included another impressive contribution from our businesses in China and Malaysia.

New Zealand

“New Zealand and Pacific Products again provided a profitable contribution, with $82 million underlying EBIT in FY2011, and over recent years has been a consistent performer. This business continues to benefit strongly from the sale of iron sands from Taharoa.

North America

"Our North American businesses have delivered an overall positive contribution of $52 million in underlying EBIT in FY2011. This result was largely driven by an excellent second half performance by the North Star joint venture, leading to a $72 million underlying EBIT result for Hot Rolled Products North America, which more than offset the $20 million underlying EBIT loss for Coated and Building Products North America. More broadly, the US building business continues to remain subdued, given the state of the US economy.

Australia

"The Australian businesses delivered a poor result in FY2011, with the Coated and Industrial Products Australia business, which includes sales to the loss-making export market, accounting for $258 million underlying EBIT loss and Australian Distribution and Solutions continuing to underperform with a $34 million underlying EBIT loss," Mr O'Malley said.

Significant Initiatives

Mr O'Malley said: "BlueScope has undertaken several significant initiatives over the last 12 months that will help underpin the Company's future, these include:

1) Carbon Tax – Steel Transformation Plan

"The announcement of the Government's *Steel Transformation Plan* (STP) on 10 July 2011, effectively shields BlueScope from any material cost of the Carbon Tax for the first four years of the scheme.

2) BlueScope Australia & New Zealand (BANZ) Restructure

"Following the announcement to restructure the Australian and New Zealand businesses on 10 March 2011 from three businesses into one consolidated business (BANZ), the design and implementation of the restructure is now well advanced and will deliver a more efficient and effective customer interface.

3) Further Fixed Cost Reductions

"In FY2011, the Company has been able to achieve a further $38 million in fixed cost reductions, whilst successfully maintaining the cumulative savings of $696 million ($340 million in permanent savings and $356 million in temporary savings), based on FY2008 base levels.

"Cost reductions remain an ongoing focus for the business and we expect further improvements, once the BANZ restructure and the implementation of today's announcement are completed," said Mr O'Malley.

BlueScope's Outlook

Turning to the first half Outlook, Mr O'Malley said: "Three key drivers will continue to have a material influence on 1HFY2012 financial performance:

- A$/US$;
- Steel spread (function of HRC and raw material prices); and
- Demand.

"Restructure costs will have a material impact on financial performance in this half. We expect continued good performance from Asia, New Zealand and our 50% interest in North Star.

"Currently we expect:

- A significant reported Net Loss After Tax (NLAT) including restructuring costs (excluding NRV's and/or impairments); and
- A small underlying NLAT (excluding restructure costs, NRV's and/or impairments).

"We will update the market at the AGM in November."

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