ASX RELEASE

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"GAME-CHANGING" COST-OUTS ALLOW STEELMAKING TO CONTINUE AT PORT KEMBLA

1H FY2016 OUTLOOK – NOW EXPECTING 40% EBIT GROWTH ON 2H FY2015

BlueScope today announced the decision to continue to make steel at Port Kembla subject to ratification of the new Enterprise Agreements. The Board's announcement follows 'game-changing cost-out' commitments by employees, unions and the NSW Government.

The Company has upgraded its earnings outlook and now expects approximately 40 per cent growth in underlying EBIT in 1H FY2016 compared to 2H FY2015. This is about $50 million greater than its previous outlook. The upgrade is due to earlier than planned delivery of company-initiated cost reductions in the Australian Steel Products segment, strength in domestic demand, and benefits from the weaker A$:US$.

Steelmaking to Continue

BlueScope Chairman Graham Kraehe AO said the Board has made the decision to continue steelmaking at Port Kembla subject to formal ratification of the new enterprise agreements.

Mr Kraehe said the Board is confident that the cost-out commitments would deliver more than $200 million in operational savings in Australia by FY2017.

"We applaud the contribution by our employees, site management and the combined unions in helping to secure $60 million per annum in labour cost savings. This was an essential step in creating a more flexible and productive steelworks.

"We also thank the NSW Government for deferring $60 million of payroll tax payments over the next three years, as well as reductions in other charges. The arrangement we have struck demonstrates the Government's clear support for our employees, our business and the Illawarra and it has been a key component in the Board's decision to keep the Steelworks open.

BlueScope Managing Director and CEO Paul O'Malley said more than $100 million in raw materials, operational and services costs would be eliminated.

"We have made progress more quickly than expected on the cost reductions within our control and may in fact outperform in this area – a necessary requirement given steel prices continue to fall.

"Positive progress has also been made on workplace reform under the Enterprise Agreements, and on NSW government fees, charges and taxes.

"In New Zealand, at Glenbrook Steelworks, good progress is being made on the delivery of the targeted NZ$50M savings, but there is more work to do.

Mr O'Malley said Hot Rolled Coil prices are now at their lowest levels since 2003, lower even than during the GFC. China is exporting the equivalent production of 45 Port Kembla Steelworks – causing a global steel glut.

"The ongoing lesson is that to continue to make steel in Port Kembla and also at Glenbrook in New Zealand, we must remain cost competitive and continue to deliver value. To be truly sustainable, the cost-out benefits must be delivered and permanent.

"We recognise this has been an especially tough time in the Illawarra and in Glenbrook in New Zealand, and we are grateful for the support from all our employees, customers and communities.

"Today's decision also means the Company is now leveraged to the upside of a future return to improved steel market spreads. It's a cyclical business and at some point we expect the cycle to turn back in our favour.

Profit Upgrade and Trading Update

Turning to the financials, Mr O'Malley commented that the Company now expects approximately 40 per cent growth in underlying EBIT in 1H FY2016 compared to 2H FY2015.

"The lift in our expectations over our previous outlook of 1H FY2016 underlying EBIT similar to 2H FY2015 is due to:

- earlier delivery of cost reductions, growth in domestic demand particularly from residential construction and benefit from the lower A$:US$ in our Australian Steel Products segment
- incremental changes in other segments, and
- excludes the impact of the acquisition of the remaining 50 per cent of North Star.

"We expect 1H FY2016 underlying net finance costs similar to 2H FY2015, profit attributable to non-controlling interests greater than 2H FY2015 and underlying tax charge to reflect the higher underlying performance.

"Looking further forward however, 2H FY2016 will see margin pressure given spot spreads are lower than lagged spreads.

"Expectations are subject to spreads, FX and market conditions," said Mr O'Malley.

For further information about BlueScope: www.bluescope.com

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