

BlueScope Steel Limited ABN 16 000 011 058
Annual Financial Report - 30 June 2010

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BlueScope Steel Limited
Statement of comprehensive income
For the year ended 30 June 2010

		Consolidated	
	Notes	2010 \$M	2009 \$M
Revenue from continuing operations	6	8,623.1	10,328.7
Other income	7	11.4	60.5
Changes in inventories of finished goods and work in progress		100.5	25.0
Raw materials and consumables used		(4,963.2)	(6,236.9)
Employee benefits expense		(1,526.0)	(1,695.4)
Depreciation and amortisation expense	8	(349.8)	(364.7)
Impairment of non-current assets	8	(0.1)	(69.8)
Freight on external despatches		(544.5)	(565.8)
External services		(917.3)	(1,068.9)
Finance costs	8	(112.1)	(134.4)
Other expenses		(254.6)	(349.3)
Share of net profits (losses) of associates and joint venture partnerships accounted for using the equity method	44, 45	62.9	(56.3)
Profit (loss) before income tax		130.3	(127.3)
Income tax (expense) benefit	9	3.5	48.2
Profit (loss) from continuing operations		133.8	(79.1)
Profit from discontinued operations after income tax	10	5.7	12.3
Net profit (loss) for the year		139.5	(66.8)
Other comprehensive income			
Gain (loss) on cash flow hedges taken to equity	35(a)	(0.5)	(3.8)
(Gain) loss on cash flow hedges transferred to inventory	35(a)	-	(1.3)
Net gain (loss) on hedges of subsidiaries	35(a)	(11.1)	(46.0)
Exchange differences on translation of foreign operations		(17.5)	224.3
Actuarial gain (loss) on defined benefit superannuation plans	35(b)	(33.0)	(103.6)
Income tax on items of other comprehensive income	9	14.7	91.9
Other comprehensive income for the year		(47.4)	161.5
Total comprehensive income for the year		92.1	94.7
Profit (loss) is attributable to:			
Owners of BlueScope Steel Limited		126.0	(66.4)
Non-controlling interests		13.5	(0.4)
		139.5	(66.8)
Total comprehensive income is attributable to:			
Owners of BlueScope Steel Limited		77.7	84.2
Non-controlling interests		14.4	10.5
		92.1	94.7
		Cents	Cents
Earnings per share for profit (loss) from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share	48	6.6	(8.5)
Diluted earnings per share	48	6.6	(8.5)
		Cents	Cents
Earnings per share for profit (loss) attributable to the ordinary equity holders of the Company			
Basic earnings per share	48	6.9	(7.1)
Diluted earnings per share	48	6.9	(7.1)

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 2010

		Consolidated	
	Notes	2010 \$M	2009 \$M
ASSETS			
Current assets			
Cash and cash equivalents	11	251.4	369.2
Receivables	12	1,169.5	976.8
Inventories	13	1,762.5	1,628.9
Other	15	<u>66.9</u>	<u>54.4</u>
		3,250.3	3,029.3
Non-current assets classified as held for sale	19(a)	<u>14.9</u>	<u>28.8</u>
Total current assets		<u>3,265.2</u>	<u>3,058.1</u>
Non-current assets			
Receivables	16	29.1	36.4
Inventories	17	66.8	72.9
Investments accounted for using the equity method	18	248.4	262.4
Property, plant and equipment	19	4,258.3	4,261.6
Deferred tax assets	20	84.9	79.5
Intangible assets	21	1,041.1	1,089.4
Other	22	<u>3.8</u>	<u>4.3</u>
Total non-current assets		<u>5,732.4</u>	<u>5,806.5</u>
Total assets		<u>8,997.6</u>	<u>8,864.6</u>
LIABILITIES			
Current liabilities			
Payables	23	1,111.6	939.8
Interest bearing liabilities	24	140.9	236.7
Current tax liabilities	25	7.4	2.7
Provisions	26	408.8	392.3
Deferred income	27	132.1	108.6
Derivative financial instruments	14	<u>0.5</u>	<u>-</u>
Total current liabilities		<u>1,801.3</u>	<u>1,680.1</u>
Non-current liabilities			
Payables	28	8.5	19.9
Interest bearing liabilities	29	853.0	888.2
Deferred tax liabilities	30	134.3	143.2
Provisions	31	210.2	209.3
Retirement benefit obligations	32	230.1	260.6
Deferred income	33	<u>4.5</u>	<u>-</u>
Total non-current liabilities		<u>1,440.6</u>	<u>1,521.2</u>
Total liabilities		<u>3,241.9</u>	<u>3,201.3</u>
Net assets		<u>5,755.7</u>	<u>5,663.3</u>
EQUITY			
Contributed equity	34	4,032.4	4,032.6
Reserves	35(a)	(118.4)	(104.8)
Retained profits	35(b)	<u>1,747.3</u>	<u>1,651.7</u>
Parent entity interest		<u>5,661.3</u>	<u>5,579.5</u>
Non-controlling interest		<u>94.4</u>	<u>83.8</u>
Total equity		<u>5,755.7</u>	<u>5,663.3</u>

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

BlueScope Steel Limited
Statement of changes in equity
For the year ended 30 June 2010

Consolidated - 30 June 2010		Contributed equity	Reserves	Retained earnings	Non-controlling interest	Total
	Notes	\$M	\$M	\$M	\$M	\$M
Balance at 1 July 2009		4,032.6	(104.8)	1,651.7	83.8	5,663.3
Profit (loss) for the period		-	-	126.0	13.5	139.5
Other comprehensive income		-	(26.5)	(21.8)	0.9	(47.4)
Total comprehensive income for the year		-	(26.5)	104.2	14.4	92.1
Transactions with owners in their capacity as owners:						
Shares issued						
- transaction costs on share issues	34	(0.9)	-	-	-	(0.9)
- General Employee Share Plan	34, 35(a)	0.2	(0.4)	-	-	(0.2)
- exercise of share rights	34, 35(a)	-	-	-	-	-
Share-based payment expense	35(a)	-	4.7	-	-	4.7
Dividends declared		-	-	-	(3.8)	(3.8)
Tax credits recognised directly in equity	34	0.5	-	-	-	0.5
Transfer to undistributable profits reserve		-	8.6	(8.6)	-	-
		<u>(0.2)</u>	<u>12.9</u>	<u>(8.6)</u>	<u>(3.8)</u>	<u>0.3</u>
Balance at 30 June 2010		<u>4,032.4</u>	<u>(118.4)</u>	<u>1,747.3</u>	<u>94.4</u>	<u>5,755.7</u>
Consolidated - 30 June 2009		Contributed equity	Reserves	Retained earnings	Non-controlling interest	Total equity
	Notes	\$M	\$M	\$M	\$M	\$M
Balance at 1 July 2008		2,151.2	(281.6)	1,997.5	74.7	3,941.8
Profit (loss) for the period		-	-	(66.4)	(0.4)	(66.8)
Other comprehensive income		-	178.2	(27.6)	10.9	161.5
Total comprehensive income for the year		-	178.2	(94.0)	10.5	94.7
Transactions with owners in their capacity as owners:						
Shares issued						
- capital raising	34	1,826.1	-	-	-	1,826.1
- transaction costs on share issues	34	(66.4)	-	-	-	(66.4)
- General Employee Share Plan	34, 35(a)	20.2	(0.7)	-	-	19.5
- exercise of share rights	34, 35(a)	9.3	(9.3)	-	-	-
Share-based payment expense	35(a)	-	8.6	-	-	8.6
Dividends declared	35(b)	-	-	(251.6)	(1.6)	(253.2)
Dividend reinvestment plan	34	69.8	-	-	-	69.8
Tax credits recognised directly in equity	34	22.4	-	-	-	22.4
Transfer to minority interest		-	-	(0.2)	0.2	-
		<u>1,881.4</u>	<u>(1.4)</u>	<u>(251.8)</u>	<u>(1.4)</u>	<u>1,626.8</u>
Balance at 30 June 2009		<u>4,032.6</u>	<u>(104.8)</u>	<u>1,651.7</u>	<u>83.8</u>	<u>5,663.3</u>

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

BlueScope Steel Limited
Statement of cash flows
For the year ended 30 June 2010

		Consolidated	
	Notes	2010 \$M	2009 \$M
Cash flows from operating activities			
Receipts from customers		8,873.4	11,420.9
Payments to suppliers and employees		<u>(8,503.8)</u>	<u>(10,669.2)</u>
		369.6	751.7
Dividends received		6.5	7.1
Joint venture partnership distributions received		64.4	-
Interest received		9.5	5.9
Other revenue		21.8	24.7
Finance costs paid		(102.1)	(160.4)
Income taxes (paid) received		<u>7.2</u>	<u>(204.5)</u>
Net cash (outflow) inflow from operating activities	46	<u>376.9</u>	<u>424.5</u>
Cash flows from investing activities			
Payment for subsidiaries, net of cash acquired		-	(2.7)
Payments for property, plant and equipment		(366.3)	(733.0)
Payments for intangibles		(8.0)	(12.2)
Payments for investment in joint venture partnership		(1.3)	(11.9)
Payments for investment in business assets		(0.4)	(2.0)
Proceeds from sale of property, plant and equipment		43.4	29.7
Repayment of loans by related parties		<u>5.0</u>	<u>4.4</u>
Net cash (outflow) inflow from investing activities		<u>(328.6)</u>	<u>(727.7)</u>
Cash flows from financing activities			
Proceeds from issues of shares		-	1,832.2
Capital share raising costs		(0.9)	(66.4)
Proceeds from borrowings		2,157.1	19,117.9
Repayment of borrowings		(2,312.3)	(20,061.1)
Dividends paid to Company's shareholders	36(d)	-	(182.0)
Dividends paid to minority interests in subsidiaries		<u>(3.7)</u>	<u>(1.7)</u>
Net cash inflow (outflow) from financing activities		<u>(159.8)</u>	<u>638.9</u>
Net increase (decrease) in cash and cash equivalents		(109.5)	335.7
Cash and cash equivalents at the beginning of the financial year		363.8	19.6
Effects of exchange rate changes on cash and cash equivalents		<u>(5.0)</u>	<u>8.5</u>
Cash and cash equivalents at end of financial year	11	<u>249.3</u>	<u>363.8</u>
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The above statement of cash flows should be read in conjunction with the accompanying notes.

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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

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Compliance with IFRS

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

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.

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.

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.

Financial statement presentation

The group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2010 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions [AASB 2] (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving services in a group share-based payment arrangement must recognise an expense for services regardless of which entity in the Group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity or a cash-settled transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the Group's financial statements.

(ii) AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132] (effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group will apply the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's financial statements.

(iii) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and may impact the Group's accounting for its financial assets in the future. The standard is not applicable until 1 January 2013 but is available for early adoption. The amendments have no current impact on the Group's financial statements.

1 Summary of significant accounting policies (continued)

(iv) AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group's financial statements since the Group has not currently entered into any debt or equity swaps.

(v) AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement* (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. As the Group does not make such prepayments, the amendment is not expected to have any impact on the Group's financial statements. The Group intends to apply the amendment from 1 July 2011.

(vi) The following list of standards were amended by AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Projects*; and AASB 2009-5 and 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*. These changes have no current impact for the Group and are not effective as at 30 June 2010.

- AASB 3 *Business Combinations*;
- AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- AASB 7 *Financial Instruments: Disclosures*;
- AASB 8 *Operating Segments*;
- AASB 101 *Presentation of Financial Statements*;
- AASB 107 *Statement of Cash Flows*;
- AASB 117 *Leases*;
- AASB 118 *Revenues*;
- AASB 121 *The Effects of Changes in Foreign Exchange Rates*;
- AASB 128 *Investments in Associates*;
- AASB 131 *Interest in Joint Ventures*;
- AASB 132 *Financial Instruments: Presentation*;
- AASB 134 *Interim Financial Reporting*;
- AASB 136 *Impairment of Assets*; and
- AASB 139 *Financial Instruments: Recognition and Measurement*

(c) Parent entity financial information

The financial information for the parent entity, BlueScope Steel Limited, disclosed in note 50 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 50.

1 Summary of significant accounting policies (continued)

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.

(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 2010 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(j)).

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 44).

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 joint venture partnerships are set out in note 45.

Profits or losses on transactions establishing joint venture partnerships and transactions with joint ventures 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.

(v) Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously when the Group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 July 2009 (refer note 1(d)(iv)). As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

(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 the 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.

1 Summary of significant accounting policies (continued)

(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.

(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 the specific criteria described below 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 note 1(k).

Change in accounting policy

The Group has changed its accounting policy for dividends paid out of pre-acquisition profits from 1 July 2009 when the revised AASB 127 *Consolidated and Separate Financial Statements* became operative. Previously, dividends paid out of pre-acquisition profits were deducted from the cost of the investment. In accordance with the transitional provisions, the new accounting policy is applied prospectively. It was therefore not necessary to make any adjustments to any of the amounts previously recognised in the financial statements.

1 Summary of significant accounting policies (continued)

(h) 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 Group'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.

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, the deferred income tax is 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 reporting date 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 controlled entities where the parent entity 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.

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.

(i) Leases

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 current and non-current interest bearing liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement 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 the profit or loss on a straight-line basis over the period of the lease.

(j) 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 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 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 fair value of consideration transferred, over the fair value of the Group's share of net identifiable assets of the subsidiary acquired is recorded as goodwill. If those amounts are less than the fair value of 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(ab).

Change in accounting policy

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of the acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

These changes were implemented prospectively from 1 July 2009 and, since there were no business combinations during the period, there has been no impact to the financial statements in the current reporting period.

1 Summary of significant accounting policies (continued)

(k) 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 notes 19 and 21 for detail of impairment losses and reversals recognised in the current period.

Refer to note 21 for impairment testing methodology and a detailed allocation of goodwill and intangible assets with indefinite useful lives to cash-generating units (CGUs).

(l) 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 interest bearing liabilities in current liabilities in the statement of financial position.

(m) 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.

Collectibility 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.

(n) 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.

1 Summary of significant accounting policies (continued)

(o) 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 is recognised at the date of derecognition.

Non-current assets (or disposal groups) classified as held for sale are presented separately from the other assets 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 coordinated 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.

(p) 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 period.

(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.

(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 date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position (notes 12 and 16).

(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. Assets in this category are classified as 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, which are classified as current assets.

1 Summary of significant accounting policies (continued)

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 values 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 available-for-sale financial assets.

Subsequent measurement

Loans and receivables and held-to-maturity investments are 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.

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 group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities 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 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 asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in profit or loss.

1 Summary of significant accounting policies (continued)

(q) 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 derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in foreign operations (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 14. Movements in the hedging reserve in shareholders' equity are shown in note 35. 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 hedges

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 equity in the hedging reserve. 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.

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 equity in the foreign currency translation reserve. 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 included in 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 do not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

1 Summary of significant accounting policies (continued)

(r) 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(k)).

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).

(s) 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.

Goodwill is allocated to a cash-generating unit or group of cash-generating units, for the purpose of impairment testing (note 21).

(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.

1 Summary of significant accounting policies (continued)

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(j)). This is on the basis that expenditure on these items cannot be distinguished from the cost of developing the business as a whole. Subsequent expenditure on these items is expensed.

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.

(t) Trade and other payables

These amounts 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.

(u) 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.

(v) 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.

(w) 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.

1 Summary of significant accounting policies (continued)

(x) 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.

(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 49 and the 30 June 2010 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 allocation of GESP is considered on a year-by-year basis.
- **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 criteria. 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.

1 Summary of significant accounting policies (continued)

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.

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 Company 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.

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 (refer note 1(ab)).

(y) 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)

(z) 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.

(aa) 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 any 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.

(ab) 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.

(iii) 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(ab)(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(x)(vii)).

(ac) Emissions Trading Scheme

The Group is a participant in the New Zealand Government's Emissions Trading Scheme (ETS), being a cap and trade scheme, which is to be implemented with effect from 1 July 2010. There are currently no other countries in which the Group operates that have an emissions trading scheme which would require the Group to be a participant.

Under the ETS, permits (emission allowance rights) are to be issued enabling participants to emit a certain amount of CO₂ equivalents (greenhouse gases) over the compliance period. Permits are able to be sold however, to avoid a penalty, a participant is required to deliver emission rights at the end of the compliance period equal to its emissions incurred.

Permits received are accounted for at fair value at the date of grant with a corresponding entry to deferred income. Income is recognised as the corresponding tonnes of CO₂ equivalents are emitted. Permits that are acquired are initially recognised at cost. Permits that are held for trading in the ordinary course of business are classified as inventory and subsequently held at fair value less cost to sell with any changes in fair value less cost to sell recognised in profit or loss. Non held for trading permits are classified as intangible assets and are carried at cost. Intangible permit assets are not depreciated or subject to impairment as the economic benefits are realised from surrendering the rights to settle obligations under the ETS.

1 Summary of significant accounting policies (continued)

The CO2 equivalent direct emission liability (scope 1 emissions) is recognised as a provision for carbon based on actual emissions and is measured with reference to the carrying amount of permits held with any excess emissions measured at the current market value of permits. A corresponding carbon emissions expense is recognised in the profit or loss. ETS costs passed through from suppliers (scope 2 and scope 3 emissions) are included as part of the underlying cost of the good or service rendered. The liability for this cost pass through is included within either trade creditors or, where an agreement has been reached with the supplier to settle the ETS cost by transferring permits held, the provision for carbon account.

When permits for CO2 equivalent tonnes emitted are delivered to the Government or a third party, the intangible permit asset, as well as the corresponding carbon provision, are derecognised from the statement of financial position without any effect on the statement of comprehensive income.

(ad) 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 hundred thousand dollars, or in certain cases, the nearest thousand or the nearest dollar.

2 Corporate information

The financial report of BlueScope Steel Limited for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 13 August 2010.

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, interest bearing liabilities and derivatives. The accounting classification of each category of financial instruments as defined in note 1(p), 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 2010	Notes	\$M	\$M	\$M	\$M	\$M
Financial assets						
Receivables (current)	12	1,169.5	-	-	-	1,169.5
Receivables (non-current)	16	29.1	-	-	-	29.1
Financial liabilities						
Payables (current)	23	-	-	-	(1,111.6)	(1,111.6)
Payables (non-current)	28	-	-	-	(8.5)	(8.5)
Derivative financial instruments (current)	14	-	(0.5)	-	-	(0.5)
Interest bearing liabilities (current)	24	-	-	-	(140.9)	(140.9)
Interest bearing liabilities (non-current)	29	-	-	-	(853.0)	(853.0)
		<u>1,198.6</u>	<u>(0.5)</u>	<u>-</u>	<u>(2,114.0)</u>	<u>(915.9)</u>

		Loans and receivables	Derivative instruments Designated as hedges	Held for trading	Financial liabilities at amortised cost	Total carrying amount
30 June 2009	Notes	\$M	\$M	\$M	\$M	\$M
Financial assets						
Receivables (current)	12	976.8	-	-	-	976.8
Receivables (non-current)	16	36.4	-	-	-	36.4
Financial liabilities						
Payables (current)	23	-	-	-	(939.8)	(939.8)
Payables (non-current)	28	-	-	-	(19.9)	(19.9)
Interest bearing liabilities (current)	24	-	-	-	(236.7)	(236.7)
Interest bearing liabilities (non-current)	29	-	-	-	(888.2)	(888.2)
		<u>1,013.2</u>	<u>-</u>	<u>-</u>	<u>(2,084.6)</u>	<u>(1,071.4)</u>

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.

3 Financial risk management (continued)

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 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	
	2010	2009
	\$M	\$M
Financial assets		
Cash and cash equivalents	251.4	369.2
Financial liabilities		
Interest bearing liabilities - external	101.9	174.5
Net exposure	149.5	194.7

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 had changed by +/- 50 basis points from the year-end rates with all other variables including foreign exchange rates held constant.

Judgement of reasonably possible movements:	Post-tax profit higher (lower)		Equity higher (lower)	
	2010 \$M	2009 \$M	2010 \$M	2009 \$M
+ 50 basis points	0.6	0.7	0.6	0.7
- 50 basis points	(0.6)	(0.7)	(0.6)	(0.7)

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 that are not designated as net investment hedges are as follows:

	Consolidated	
	2010 \$M	2009 \$M
Financial assets		
Cash and cash equivalents	40.5	5.1
Trade and other receivables	<u>171.5</u>	<u>90.8</u>
	<u>212.0</u>	<u>95.9</u>
Financial liabilities		
Trade and other payables	73.2	13.5
Interest bearing liabilities	<u>747.1</u>	<u>870.7</u>
	<u>820.3</u>	<u>884.2</u>
Net exposure	<u>(608.3)</u>	<u>(788.3)</u>

This exposure for the Group does not reflect the natural hedge of USD assets against USD interest bearing liabilities of AUD 735.3M (2009: AUD 805.0M).

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% (2009: +/- 15%) 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 an historical basis.

Judgement of reasonably possible movements:	Post-tax profit higher (lower)		Equity higher (lower)	
	2010 \$M	2009 \$M	2010 \$M	2009 \$M
AUD/USD +10% (2009: +15%)	38.7	71.8	38.7	71.8
AUD/USD -10% (2009: -15%)	(47.3)	(97.2)	(47.3)	(97.2)

(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 has entered into a hedge to manage exposure to fluctuations in electricity prices (New Zealand operations) in accordance with the Group's financial risk management policies. This hedge has been designated as a cash flow hedge. In June 2010, New Zealand operations re-established its electricity hedging program having previously discontinued the program in April 2009.

The value of electricity hedges is influenced by the price of electricity and is considered a derivative financial instrument, exposing the Group to commodity price risk as defined under the accounting standards.

The sensitivity of their fair value to an immediate increase/decrease in the commodity price of electricity is set out in the following table (with all other variables, in particular foreign exchange rates, held constant). The analysis is based on the volatility observed both on an historical basis and market expectations for future movement.

Judgement of reasonably possible movements:	Post-tax profit higher (lower)	
	2010 \$M	2009 \$M
Electricity price +50%	1.1	N/A
Electricity price -50%	(2.1)	N/A

3 Financial risk management (continued)

(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 annually. Group Treasury monitors liquidity risk through the development of future rolling cash flow forecasts.

The Group's exposure to liquidity risk is not significant based on available funding facilities and cash flow forecasts. Refer to note 29(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 2010 and 30 June 2009. 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.

30 June 2010

	Contractually maturing in:						Total
	less than 1 year \$M	1 - 2 years \$M	2 - 3 years \$M	3 - 4 years \$M	4 - 5 years \$M	>5 years \$M	\$M
Payables (current & non-current)	1,111.6	-	-	-	-	8.5	1,120.1
Interest bearing liabilities (current & non-current)	212.9	237.0	47.1	46.7	377.9	433.7	1,355.3
Derivative financial instruments	0.5	-	-	-	-	-	0.5
	<u>1,325.0</u>	<u>237.0</u>	<u>47.1</u>	<u>46.7</u>	<u>377.9</u>	<u>442.2</u>	<u>2,475.9</u>

30 June 2009

Payables (current & non-current)	939.8	11.3	-	-	-	8.6	959.7
Interest bearing liabilities (current & non-current)	315.2	123.5	221.4	41.0	41.0	751.4	1,493.5
	<u>1,255.0</u>	<u>134.8</u>	<u>221.4</u>	<u>41.0</u>	<u>41.0</u>	<u>760.0</u>	<u>2,453.2</u>

(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 2010 and 30 June 2009, 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.

3 Financial risk management (continued)

(i) Concentrations of risk

The Group's credit risks are categorised under the following concentrations of risk: counterparty type and geographical region.

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 OneSteel Limited and Fletcher Building. 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 2010 (30 June 2009: 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 bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators or 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 16 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.

3 Financial risk management (continued)

(d) Fair value

The fair value of financial assets and financial liabilities is estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, the Group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which 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 (ie. derived from prices); and
- (iii) Level 3 - inputs for the asset or liability that are not based on observable market data (ie. unobservable inputs).

The table below presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

30 June 2010	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Liabilities				
Derivatives used for hedging	-	0.5	-	0.5
Total liabilities	-	0.5	-	0.5

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. Dealer quotes for similar forward electricity contracts with comparable terms to maturity have been used to estimate fair value at the end of the reporting period. These instruments are included in level 2.

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.

	30 June 2010		30 June 2009	
	Carrying amount \$M	Fair value \$M	Carrying amount \$M	Fair value \$M
Non-traded financial assets				
Loans to related parties	10.7	11.4	15.7	17.7
Non-traded financial liabilities				
Other loans	853.9	1,002.9	953.5	1,103.1
Net asset (liability)	<u>(843.2)</u>	<u>(991.5)</u>	<u>(937.8)</u>	<u>(1,085.4)</u>

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 Group 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, including goodwill

The Group tests at least annually whether goodwill, other intangible assets with indefinite useful lives and other assets have suffered any impairment in accordance with the accounting policy stated in note 1(s). All cash-generating units (CGUs) were tested for impairment at the reporting date. The recoverable amounts of CGUs have been determined based on value-in-use (VIU) calculations under the assumptions contained in note 21(b).

(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 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 26 and 31 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 26 and 31 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(x)(iv) and illustrated in note 49.

(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 32.

(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 26 and 31 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.

(ix) Restoration and rehabilitation provisions

Provisions have been made for the present value of anticipated costs for future restoration of leased premises and iron-sand mine operations in New Zealand. Recognising restoration 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 (refer notes 26 and 31).

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(w)). 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 39).

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 5.2 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; Metl-Span, manufacturer of insulated steel panels for commercial, industrial and cold-storage buildings; 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)

(a) Reportable segments

The segment information provided to the Managing Director and Chief Executive Officer for operating segments for the year ended 30 June 2010 is as follows:

30 June 2010	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	4,744.5	1,761.6	618.1	1,348.6	-	1,306.8	0.7	9,780.3
Intersegment revenue	(1,072.5)	(3.0)	(89.6)	(8.9)	-	(8.3)	-	(1,182.3)
Total sales revenue	<u>3,672.0</u>	<u>1,758.6</u>	<u>528.5</u>	<u>1,339.7</u>	-	<u>1,298.5</u>	<u>0.7</u>	<u>8,598.0</u>
Revenue from external customers	<u>3,672.0</u>	<u>1,758.6</u>	<u>528.5</u>	<u>1,339.7</u>	-	<u>1,298.5</u>	<u>0.7</u>	<u>8,598.0</u>
Segment EBIT	<u>84.3</u>	<u>11.9</u>	<u>72.9</u>	<u>115.6</u>	<u>60.7</u>	<u>(21.3)</u>	<u>7.0</u>	<u>331.1</u>
Depreciation and amortisation	197.2	30.7	34.1	41.4	-	44.9	-	348.3
Impairment (write-back) of non-current assets	-	(0.2)	(1.0)	-	1.3	-	-	0.1
Share of profit (loss) from associates and joint venture partnerships	-	0.1	3.0	(3.2)	62.5	0.5	-	62.9
Total segment assets	<u>4,423.4</u>	<u>1,241.9</u>	<u>607.4</u>	<u>1,220.2</u>	<u>172.3</u>	<u>1,183.4</u>	<u>0.3</u>	<u>8,848.9</u>
Total assets includes: Investments in associates and joint venture partnerships	-	3.0	6.7	64.6	171.0	3.1	-	248.4
Additions to non-current assets (other than financial assets and deferred tax)	228.2	23.2	37.3	48.0	-	25.0	-	361.7
Total segment liabilities	<u>959.0</u>	<u>360.4</u>	<u>209.2</u>	<u>321.0</u>	-	<u>377.3</u>	<u>13.2</u>	<u>2,240.1</u>
30 June 2009	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	5,290.7	2,120.7	694.9	1,542.8	-	2,188.8	0.2	11,838.1
Intersegment revenue	(1,375.7)	(6.2)	(96.3)	(54.8)	-	(2.8)	-	(1,535.8)
Revenue from external customers	<u>3,915.0</u>	<u>2,114.5</u>	<u>598.6</u>	<u>1,488.0</u>	-	<u>2,186.0</u>	<u>0.2</u>	<u>10,302.3</u>
Segment EBIT	<u>206.3</u>	<u>(23.3)</u>	<u>65.1</u>	<u>(94.1)</u>	<u>(58.0)</u>	<u>(93.2)</u>	<u>14.2</u>	<u>17.0</u>
Depreciation and amortisation	195.9	31.2	30.2	49.5	-	57.3	-	364.1
Impairment (write-back) of non-current assets	3.1	8.1	19.8	36.4	2.3	-	(5.6)	64.1
Share of profit (loss) from associates and joint venture partnerships	-	-	2.8	(6.8)	(56.4)	4.1	-	(56.3)
Total segment assets	<u>4,187.3</u>	<u>1,238.5</u>	<u>534.0</u>	<u>1,074.0</u>	<u>182.6</u>	<u>1,272.5</u>	<u>4.5</u>	<u>8,493.4</u>
Total assets includes: Investments in associates and joint venture partnerships	-	3.0	5.9	69.2	180.0	4.3	-	262.4
Additions to non-current assets (other than financial assets and deferred tax)	576.4	24.8	31.7	63.7	-	62.6	-	759.2
Total segment liabilities	<u>865.5</u>	<u>312.6</u>	<u>187.7</u>	<u>241.1</u>	-	<u>353.9</u>	<u>18.9</u>	<u>1,979.7</u>

5 Segment information (continued)

(b) Geographical information

	Segment revenues from sales to external customers		Non-current assets	
	2010	2009	2010	2009
	\$M	\$M	\$M	\$M
Australia	4,515.3	5,130.2	3,601.8	3,556.9
New Zealand	331.1	390.0	324.6	317.5
Asia	1,858.7	1,878.7	688.8	698.6
North America	1,431.6	2,374.7	1,027.7	1,112.9
Other	481.3	528.7	4.6	4.7
	<u>8,598.0</u>	<u>10,302.3</u>	<u>5,647.5</u>	<u>5,690.6</u>

Segment revenues are allocated based on the country in which the customer is located.

Segment non-current assets excludes deferred tax assets and are allocated based on where the assets are located.

(c) 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	
	2010	2009
	\$M	\$M
Total segment revenue	9,780.3	11,838.1
Intersegment eliminations	(1,182.3)	(1,535.8)
Revenue attributable to discontinued operations	(0.7)	(0.2)
Other revenue (note 6)	25.8	26.6
Total revenue from continuing operations	<u>8,623.1</u>	<u>10,328.7</u>

(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 central 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	
	2010	2009
	\$M	\$M
Total segment EBIT	331.1	17.0
Intersegment eliminations	(19.8)	126.4
Interest income	9.4	6.2
Finance costs	(112.1)	(134.4)
EBIT (gain) loss attributable to discontinued operations	(7.0)	(14.2)
Corporate operations	(71.3)	(128.3)
Profit (loss) before income tax from continuing operations	<u>130.3</u>	<u>(127.3)</u>

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, deferred 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	
	2010	2009
	\$M	\$M
Segment assets	8,848.9	8,493.4
Intersegment eliminations	(220.4)	(109.5)
Unallocated:		
Deferred tax assets	84.9	79.5
Cash	251.4	369.2
Corporate operations	32.8	32.0
Total assets as per the statement of financial position	<u>8,997.6</u>	<u>8,864.6</u>

(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	
	2010	2009
	\$M	\$M
Segment liabilities	2,240.1	1,979.7
Intersegment eliminations	(192.5)	(101.4)
Unallocated:		
Current interest bearing liabilities	140.9	236.7
Non-current interest bearing liabilities	853.0	888.1
Current tax liabilities	7.4	2.7
Deferred tax liabilities	134.3	143.2
Accrued borrowing costs payable	16.9	12.8
Corporate operations	41.8	39.5
Total liabilities as per the statement of financial position	<u>3,241.9</u>	<u>3,201.3</u>

6 Revenue

	Consolidated	
	2010	2009
	\$M	\$M
From continuing operations		
<i>Sales revenue</i>		
Sale of goods	8,575.6	10,283.0
Services	21.7	19.1
	<u>8,597.3</u>	<u>10,302.1</u>
<i>Other revenue</i>		
Interest external	7.6	3.7
Interest related parties	1.8	2.5
Royalties external	1.6	1.8
Rental external	6.8	6.8
Other revenue	8.0	11.8
	<u>25.8</u>	<u>26.6</u>
<i>Total revenue from continuing operations</i>	<u>8,623.1</u>	<u>10,328.7</u>
From discontinued operations		
Sales revenue	0.7	0.2
<i>Total revenue from discontinuing operations</i>	<u>0.7</u>	<u>0.2</u>

7 Other income

	Consolidated	
	2010	2009
	\$M	\$M
Net gain on disposal of property, plant and equipment (2009 net loss - note 8)	5.5	-
Net foreign exchange gains (2010 net loss - note 8)	-	25.3
Defined benefit superannuation curtailment	-	8.6
Net gain on foreign currency derivatives not qualifying as hedges	-	24.8
Insurance recoveries	1.4	1.6
Litigation settlement	4.5	0.2
	<u>11.4</u>	<u>60.5</u>

8 Expenses

	Consolidated	
	2010	2009
	\$M	\$M
Profit before income tax includes the following specific expenses for continuing operations:		
<i>Depreciation and amortisation</i>		
Depreciation (note 19)	317.5	325.3
Amortisation (note 21)	32.3	39.4
Total depreciation and amortisation	<u>349.8</u>	<u>364.7</u>
<i>Impairment losses - financial assets</i>		
Loans and receivables		
- trade receivables (note 12(d))	9.3	14.7
- reversal of impairment loss	(4.6)	(1.0)
Total impairment of financial assets	<u>4.7</u>	<u>13.7</u>
<i>Impairment of non-current assets</i>		
BlueScope Water rollformer	0.1	-
Western Port fire	-	9.0
China plant and equipment	-	11.1
New Zealand Steel capital project cancellations	-	20.8
China coating line	-	24.9
Lysaght Vietnam	-	0.4
Australian Distribution & Solutions	-	8.1
Castrip joint venture (note 45(c))	1.3	2.3
Reversal of impairment loss (note 19(e), 21(c))	(1.3)	(6.8)
Total impairment of non-current assets	<u>0.1</u>	<u>69.8</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss	74.4	132.5
Ancillary finance charges	39.1	12.4
Provisions: unwinding of discount (note 31)	7.4	7.9
	<u>120.9</u>	<u>152.8</u>
Amount capitalised	(8.8)	(18.4)
Finance costs expensed	<u>112.1</u>	<u>134.4</u>
Net loss on disposal of property, plant and equipment (2010 net gain - note 7)	-	4.6
Net foreign exchange losses (2009 net gain - note 7)	1.6	-
Rental expense relating to operating leases	102.2	101.9
Defined contribution superannuation expense	87.5	95.3
Research and development expense	28.8	41.5
Restructure provision (writeback) (note 31)	(8.4)	27.0
Employee redundancy provision expense	19.4	44.9

(a) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is 5.86%, being the weighted average interest rate applicable to the entity's outstanding borrowings during the year (2009: 5.06%).

9 Income tax expense

	Consolidated	
	2010	2009
	\$M	\$M
(a) Income tax expense (benefit)		
Current tax	(9.4)	23.3
Deferred tax	2.7	(60.5)
Adjustments for current tax of prior periods	4.1	(9.4)
	<u>(2.6)</u>	<u>(46.6)</u>
Income tax expense (benefit) is attributable to:		
Profit (loss) from continuing operations	(3.5)	(48.2)
Profit (loss) from discontinued operations	0.9	1.6
Aggregate income tax expense	<u>(2.6)</u>	<u>(46.6)</u>
Deferred income tax (benefit) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 20)	(2.0)	47.3
(Decrease) increase in deferred tax liabilities (note 30)	1.4	(122.2)
Investments in subsidiaries (note 35)	3.3	14.4
	<u>2.7</u>	<u>(60.5)</u>
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit (loss) from continuing operations before income tax expense	130.3	(127.3)
Profit (loss) from discontinuing operations before income tax expense (note 10)	6.6	13.9
	<u>136.9</u>	<u>(113.4)</u>
Tax at the Australian tax rate of 30% (2009: 30%)	41.1	(34.0)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Depreciation and amortisation	0.7	0.8
Manufacturing credits	(0.6)	(0.1)
Research and development incentive	(7.0)	(6.8)
Withholding tax	7.1	1.7
Non taxable (gains) losses	(8.1)	3.9
Share of net profits (losses) of associates	0.1	1.2
Entertainment	1.2	1.3
Share-based payments	1.8	2.5
Sundry items	3.8	3.3
	<u>40.1</u>	<u>(26.2)</u>
Difference in overseas tax rates	(8.8)	(6.4)
Adjustments for current tax of prior periods	4.1	(9.4)
Temporary differences and tax losses not recognised	11.6	12.3
Deferred tax restatement for New Zealand tax rate change	2.5	-
Previously unrecognised tax losses and temporary differences now recognised	(49.6)	(14.7)
Previously unrecognised tax losses now recouped to reduce current tax expense	(2.5)	(2.2)
Income tax expense (benefit)	<u>(2.6)</u>	<u>(46.6)</u>

9 Income tax expense (continued)

	Consolidated	
	2010	2009
	\$M	\$M
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in profit or loss or other comprehensive income but directly debited (credited) to contributed equity		
Current tax - credit recognised directly in equity (note 34)	0.2	(2.5)
Net deferred tax - credit recognised directly in equity (note 34)	<u>0.3</u>	<u>(19.9)</u>
	<u>0.5</u>	<u>(22.4)</u>
(d) Tax expense (income) relating to items of other comprehensive income		
Cash flow hedges (note 35(a))	(0.2)	(1.5)
Actuarial (gain) loss on defined benefit superannuation plans (note 35(b))	(11.2)	(76.0)
Net (gain) loss on investments in subsidiaries (note 35(a))	<u>(3.3)</u>	<u>(14.4)</u>
Total income tax on items of other comprehensive income	<u>(14.7)</u>	<u>(91.9)</u>
(e) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	<u>128.1</u>	<u>122.3</u>
Potential tax benefit	<u>26.6</u>	<u>19.3</u>

The Group has tax losses arising in Vietnam of \$32.7M (2009: \$31.1M) and China of \$73.9M (2009: \$71.5M) 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.

	Consolidated	
	2010	2009
	\$M	\$M
(f) Unrecognised temporary differences		
Temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised	<u>70.5</u>	<u>778.0</u>
Unrecognised deferred tax liabilities relating to the above temporary differences	<u>11.1</u>	<u>126.0</u>

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. The significant movement in unrecognised temporary differences from the previous year is due to a change in the tax treaty between Australia and New Zealand which has had the effect of exempting withholding tax on dividends paid from our New Zealand steel operations to Australia.

At 30 June 2010, the Group has \$35.6M (2009: \$52.2M) 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 \$99.9M (2009: \$128.0M) have not been recognised as they are not probable of realisation.

At 30 June 2010, the Group has \$3.2M (2009: \$4.7M) 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

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(o)).

(b) Financial performance of discontinued operations

The results of discontinued operations for the year are presented below.

	2010			Consolidated			2009		
	Packaging \$M	Lysaght Taiwan \$M	Total \$M	Packaging \$M	Lysaght Taiwan \$M	Total \$M	Packaging \$M	Lysaght Taiwan \$M	Total \$M
Revenue	-	0.7	0.7	-	0.2	0.2	-	0.2	0.2
Other income - insurance recovery	-	4.0	4.0	-	3.1	3.1	-	3.1	3.1
Expenses other than finance costs	-	(0.7)	(0.7)	(0.3)	-	(0.3)	-	-	(0.3)
Unutilised provisions written back	3.1	-	3.1	-	5.6	5.6	-	-	5.6
Impairment reversal (i)	-	-	-	5.6	-	5.6	-	-	5.6
Finance costs	-	(0.5)	(0.5)	-	(0.3)	(0.3)	-	-	(0.3)
Profit (loss) before income tax	3.1	3.5	6.6	5.3	8.6	13.9	-	-	-
Income tax (expense) benefit	(0.9)	-	(0.9)	(1.6)	-	(1.6)	-	-	(1.6)
Profit (loss) after income tax from discontinued operations	2.2	3.5	5.7	3.7	8.6	12.3	-	-	-

(i) Reversal of impairment loss

In March 2009, Packaging Products recognised an impairment reversal for \$5.6M against property, plant and equipment after securing a contract for the sale of the previously impaired No.2 Temper Mill.

(c) Cash flow information - discontinued operations

The net cash flows of discontinued operations held are as follows:

	2010			Consolidated			2009		
	Packaging \$M	Lysaght Taiwan \$M	Total \$M	Packaging \$M	Lysaght Taiwan \$M	Total \$M	Packaging \$M	Lysaght Taiwan \$M	Total \$M
Net cash inflow (outflow) from operating activities	(2.8)	3.0	0.2	(10.3)	(11.3)	(21.6)	-	-	-
Net cash inflow (outflow) from investing activities	4.0	-	4.0	1.6	-	1.6	-	-	-
Net cash inflow (outflow) from financing activities	(1.2)	(3.0)	(4.2)	8.7	11.3	20.0	-	-	-
Net increase in cash generated by the operation	-	-	-	-	-	-	-	-	-

11 Current assets - Cash and cash equivalents

	Consolidated	
	2010	2009
	\$M	\$M
Cash at bank and on hand	251.2	347.3
Deposits at call	<u>0.2</u>	<u>21.9</u>
	<u>251.4</u>	<u>369.2</u>

(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:

	Consolidated	
	2010	2009
	\$M	\$M
Balances as above	251.4	369.2
Bank overdrafts (note 24)	<u>(2.1)</u>	<u>(5.4)</u>
Balances per statement of cash flows	<u>249.3</u>	<u>363.8</u>

(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

	Consolidated	
	2010	2009
	\$M	\$M
Trade receivables	1,123.3	938.3
Provision for impairment of receivables (note 12(d))	<u>(30.4)</u>	<u>(34.8)</u>
	<u>1,092.9</u>	<u>903.5</u>
Loans to related parties	5.7	5.0
Other receivables	<u>70.9</u>	<u>68.3</u>
	<u>1,169.5</u>	<u>976.8</u>

(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 41.

(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	
	2010	2009
	\$M	\$M
Opening balance	34.8	24.0
Additional provision recognised	9.3	14.7
Amounts used during the period	(7.9)	(6.1)
Unutilised provision written back	(4.6)	(1.0)
Exchange fluctuations	(1.2)	3.2
	<u>30.4</u>	<u>34.8</u>

(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	
	2010	2009
	\$M	\$M
Within 30 days	172.8	131.0
31 to 60 days	26.7	42.8
61 to 90 days	8.8	13.6
Over 90 days	13.0	14.7
	<u>221.3</u>	<u>202.1</u>

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 16(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.

13 Current assets - Inventories

	Consolidated	
	2010	2009
	\$M	\$M
<i>Raw materials and stores</i>		
- at cost	384.9	343.3
- at net realisable value	<u>12.4</u>	<u>17.2</u>
	<u>397.3</u>	<u>360.5</u>
<i>Work in progress</i>		
- at cost	612.1	481.0
- at net realisable value	<u>27.3</u>	<u>184.0</u>
	<u>639.4</u>	<u>665.0</u>
<i>Finished goods</i>		
- at cost	555.9	427.5
- at net realisable value	<u>62.1</u>	<u>64.7</u>
	<u>618.0</u>	<u>492.2</u>
<i>Spares and other</i>		
- at cost	107.8	109.9
- at net realisable value	<u>-</u>	<u>1.3</u>
	<u>107.8</u>	<u>111.2</u>
	<u>1,762.5</u>	<u>1,628.9</u>

(a) Inventory expense

Current and non-current inventories recognised as an expense during the year ended 30 June 2010 amounted to \$4,862.7M (2009: \$6,211.9M) for the Group.

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2010 amounted to \$12.7M (2009: \$191.6M) for the Group. The expense has been included in 'raw materials and consumables used' in the profit or loss.

14 Derivative financial instruments

	Consolidated	
	2010	2009
	\$M	\$M
Current liabilities		
Forward electricity contracts - cash flow hedges (a)(i)	<u>0.5</u>	<u>-</u>
	<u>0.5</u>	<u>-</u>

(a) Instruments used by the Company

(i) Forward electricity contracts - cash flow hedges

The Group was 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 derivative contract representing a financial liability at fair value of \$0.5M, was undertaken in June 2010.

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 35). There was no material hedge ineffectiveness in the current or prior year.

(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 investment in foreign operations

At 30 June 2010, the Group has a net investment in New Zealand Steel Limited whose functional currency is New Zealand dollars. Movements in the AUD/NZD result in fluctuations in the AUD equivalent of this investment. BlueScope Steel (Finance) Limited has borrowed NZD 973M (June 2009: NZD 1,356M) to hedge the net investment in New Zealand Steel Limited. On translation of the net investment from NZD to AUD, foreign exchange gains and losses are taken to the foreign currency translation reserve. Similarly, on translation of BlueScope Steel (Finance) Limited's NZD borrowings, foreign exchange gains and losses are also taken to the foreign currency translation reserve on consolidation to the extent that the hedge is effective. The hedge of this net investment is recorded in the foreign currency translation reserve net of tax (refer to note 35).

15 Current assets - Other

	Consolidated	
	2010	2009
	\$M	\$M
Deferred charges and prepayments	<u>66.9</u>	<u>54.4</u>

16 Non-current assets - Receivables

	Consolidated	
	2010	2009
	\$M	\$M
Loans to related parties	5.0	10.7
Other receivables	<u>24.1</u>	<u>25.7</u>
	<u>29.1</u>	<u>36.4</u>

Further information relating to loans to key management personnel and related parties is set out in notes 37 and 41.

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due.

(b) Fair values

The current and non-current loan to a related party accrues interest at a fixed interest rate. The fair value of this receivable using current interest rates is \$11.4M (2009: \$17.7M). Refer note 3(d).

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.

17 Non-current assets - Inventories

	Consolidated	
	2010	2009
	\$M	\$M
Spares and other - at cost	<u>66.8</u>	<u>72.9</u>

For detail of inventory expense and net realisable value write-downs recognised during the period refer to note 13.

18 Non-current assets - Investments accounted for using the equity method

	Consolidated	
	2010	2009
	\$M	\$M
Shares in associates (note 44)	15.0	15.4
Interests in joint venture partnerships (note 45)	<u>233.4</u>	<u>247.0</u>
	<u>248.4</u>	<u>262.4</u>

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)).

19 Non-current assets - Property, plant and equipment

	Land and buildings \$M	Plant, machinery and equipment \$M	Total \$M
At 1 July 2008			
Cost	1,181.3	7,744.9	8,926.2
Accumulated depreciation and impairment	<u>(480.7)</u>	<u>(4,638.2)</u>	<u>(5,118.9)</u>
Net book amount	<u>700.6</u>	<u>3,106.7</u>	<u>3,807.3</u>
Year 30 June 2009			
Opening net book amount	700.6	3,106.7	3,807.3
Additions	28.8	710.6	739.4
Acquisition of subsidiaries / businesses	-	0.3	0.3
Acquisition fair value adjustments	-	(1.2)	(1.2)
Depreciation charge	(34.1)	(291.2)	(325.3)
Disposals	(15.9)	(13.8)	(29.7)
Asset reclassifications	5.5	(17.7)	(12.2)
Transfers to non-current assets classified as held for sale	(28.8)	-	(28.8)
Impairment loss	(8.5)	(48.6)	(57.1)
Exchange variations/other	<u>64.5</u>	<u>104.4</u>	<u>168.9</u>
Closing net book amount	<u>712.1</u>	<u>3,549.5</u>	<u>4,261.6</u>
At 30 June 2009			
Cost	1,252.0	8,504.7	9,756.7
Accumulated depreciation and impairment	<u>(539.9)</u>	<u>(4,955.2)</u>	<u>(5,495.1)</u>
Net book amount	<u>712.1</u>	<u>3,549.5</u>	<u>4,261.6</u>
	Land and buildings \$M	Plant, machinery and equipment \$M	Total \$M
Year 30 June 2010			
Opening net book amount	712.1	3,549.5	4,261.6
Additions	38.4	325.5	363.9
Depreciation charge	(31.5)	(286.0)	(317.5)
Disposals	(4.3)	(15.1)	(19.4)
Asset reclassifications	8.4	(9.4)	(1.0)
Impairment (loss) write-back	0.3	0.5	0.8
Exchange variations/other	<u>(11.8)</u>	<u>(18.3)</u>	<u>(30.1)</u>
Closing net book amount	<u>711.6</u>	<u>3,546.7</u>	<u>4,258.3</u>
At 30 June 2010			
Cost	1,255.8	8,678.8	9,934.6
Accumulated depreciation and impairment	<u>(544.2)</u>	<u>(5,132.1)</u>	<u>(5,676.3)</u>
Net book amount	<u>711.6</u>	<u>3,546.7</u>	<u>4,258.3</u>

(a) Assets held for resale

The Company is in the process of selling and leasing back the remaining freehold land and buildings residing within the Australian Distribution & Solutions segment that were initially designated as held for sale at 30 June 2009. The total written-down value of land to be sold and leased back by the Group at 30 June 2010 is \$14.9M (June 2009: \$26.2M).

19 Non-current assets - Property, plant and equipment (continued)

(b) 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	
	2010	2009
	\$M	\$M
Land and buildings	0.8	9.5
Plant, machinery and equipment	<u>378.1</u>	<u>876.1</u>
Total assets in the course of construction	<u>378.9</u>	<u>885.6</u>

(c) Leased assets

Total property, plant and equipment includes the following amounts where the Group is a lessee under a finance lease:

	Consolidated	
	2010	2009
	\$M	\$M
Leased assets		
Cost	52.3	4.5
Accumulated depreciation	<u>(4.1)</u>	<u>(2.2)</u>
Net book amount	<u>48.2</u>	<u>2.3</u>

During the period the Group entered into a finance lease for the use of plant and equipment situated at the Port Kembla steelworks. Additional finance leases were also established from several property sale and leaseback transactions entered into throughout the period.

(d) Non-current assets pledged as security

Refer to note 29(a) for information on non-current assets pledged as security by the Group.

(e) Impairment losses and reversals

The Group tests for impairment and measures recoverable amount based on value-in-use based on the discounted future cash flows derived from continued use of assets. Refer to note 21(b) for testing methodology including discount rates used. Impairment losses are included in the line item 'impairment of non-current assets' in the profit or loss.

(i) Reversal of impairment loss

Lysaght Pacific (Fiji) recognised an impairment reversal for \$0.6M against property, plant and equipment following improved economic conditions in the region. This reversal resides within the New Zealand & Pacific Steel Products segment.

Australian Distribution & Solutions' 'Trustek' business recognised an impairment reversal for \$0.3M against property, plant and equipment following revised estimates from its closure in June 2009.

20 Non-current assets - Deferred tax assets

	Consolidated	
	2010	2009
	\$M	\$M
The balance comprises temporary differences attributable to:		
Doubtful debts provision	1.0	0.6
Employee benefits provision	24.1	30.0
Other provisions	6.1	3.0
Depreciation	39.1	27.4
Inventory	12.4	7.1
Tax losses	1.3	11.3
Electricity cashflow hedge	0.2	-
Other	0.7	0.1
	<u>84.9</u>	<u>79.5</u>
Movements:		
Opening balance at 1 July	79.5	99.4
Credited (charged) to profit or loss (note 9)	2.0	(47.3)
Credited (charged) to other comprehensive income	2.4	28.2
Foreign exchange differences	1.0	(0.8)
Closing balance at 30 June (refer also to note 9)	<u>84.9</u>	<u>79.5</u>

21 Non-current assets - Intangible assets

	Goodwill \$M	Patents, trademarks and other rights \$M	Computer software \$M	Customer relationships \$M	Other intangible assets \$M	Total \$M
Consolidated						
At 1 July 2008						
Cost	792.4	18.7	198.1	105.4	7.4	1,122.0
Accumulated amortisation and impairment	(10.8)	(9.7)	(84.6)	(17.9)	(0.4)	(123.4)
Net book amount	<u>781.6</u>	<u>9.0</u>	<u>113.5</u>	<u>87.5</u>	<u>7.0</u>	<u>998.6</u>
Year 30 June 2009						
Opening net book amount	781.6	9.0	113.5	87.5	7.0	998.6
Exchange differences	65.9	0.4	6.1	12.2	1.1	85.7
Additions	-	-	12.2	-	-	12.2
Acquisition of business/subsidiary	1.9	-	-	-	-	1.9
Acquisition fair value adjustments	4.2	7.6	-	10.7	-	22.5
Impairment charge (c)	(3.7)	-	(0.6)	-	-	(4.3)
Amortisation charge	-	(1.1)	(27.3)	(10.3)	(0.7)	(39.4)
Reclassifications	-	-	12.3	-	(0.1)	12.2
Closing net book amount	<u>849.9</u>	<u>15.9</u>	<u>116.2</u>	<u>100.1</u>	<u>7.3</u>	<u>1,089.4</u>
At 30 June 2009						
Cost	860.7	30.8	230.3	127.0	8.4	1,257.2
Accumulated amortisation and impairment	(10.8)	(14.9)	(114.1)	(26.9)	(1.1)	(167.8)
Net book amount	<u>849.9</u>	<u>15.9</u>	<u>116.2</u>	<u>100.1</u>	<u>7.3</u>	<u>1,089.4</u>
	Goodwill \$M	Patents, trademarks and other rights \$M	Computer software \$M	Customer relationships \$M	Other intangible assets \$M	Total \$M
Consolidated						
Year 30 June 2010						
Opening net book amount	849.9	15.9	116.2	100.1	7.3	1,089.4
Exchange differences	(19.1)	(0.8)	(1.5)	(4.3)	(0.3)	(26.0)
Additions	-	-	8.0	-	-	8.0
Impairment write-back	-	-	0.4	-	-	0.4
Amortisation charge	-	(0.9)	(22.3)	(8.6)	(0.5)	(32.3)
Reclassifications	-	-	1.6	-	-	1.6
Closing net book amount	<u>830.8</u>	<u>14.2</u>	<u>102.4</u>	<u>87.2</u>	<u>6.5</u>	<u>1,041.1</u>
At 30 June 2010						
Cost	841.6	29.5	214.4	122.0	8.1	1,215.6
Accumulated amortisation and impairment	(10.8)	(15.3)	(112.0)	(34.8)	(1.6)	(174.5)
Net book amount	<u>830.8</u>	<u>14.2</u>	<u>102.4</u>	<u>87.2</u>	<u>6.5</u>	<u>1,041.1</u>

21 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	2010 \$M	2009 \$M
Coated & Industrial Products Australia	Coated & Industrial Products Australia	75.7	77.5
BlueScope Distribution	Australia Distribution & Solutions	334.0	334.0
Lysaght Australia	Australia Distribution & Solutions	56.2	56.2
BlueScope Water	Australia Distribution & Solutions	15.1	15.3
Buildings North America	Coated & Building Products North America	257.5	267.7
Steelscape	Coated & Building Products North America	19.5	20.4
Metl-Span	Coated & Building Products North America	58.4	63.9
Buildings China	Coated & Building Products Asia	10.4	10.9
Other Asia	Coated & Building Products Asia	4.0	4.0
Total goodwill		830.8	849.9

Intangible assets with indefinite useful lives (other than goodwill) of \$3.4M and \$2.5M (2009: \$3.6M and \$2.6M) have been allocated to the Buildings North America and Metl-Span CGUs respectively. These assets relate to trade names recognised as part of the IMSA Group business combination acquired in February 2008.

(b) Key assumptions used for value-in-use calculations

The recoverable amount of each CGU is determined on the basis of value-in-use (VIU). The following describes assumptions on which management has based its cash flow projections when determining VIU.

Cash flows

VIU calculations use cash flow projections based on financial projections approved by management covering a three-year period, being the basis of the Group's forecasting and planning processes. Cash flows beyond three years 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.

Growth rate

The growth rate used to extrapolate the cash flows beyond the three-year period is typically 2.5% (2009: 2.5%). The growth rate represents a steady indexation rate which does not exceed management's expectations of the long-term average growth rate for the business in which each CGU operates.

Discount rate

The base discount rate applied to the cash flow projections is 10.5% post-tax (2009: 10.5%). The discount rate is a post-tax rate that reflects the current assessment of the time value of money, and the overall perceived risk profile of the Company.

Given the differing characteristics, currencies and geographical locations of the Group's CGUs, where appropriate the 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 combination of external sources including observed bond market spreads, market commentator surveys and analysis, and Standard & Poor's foreign currency ratings. This adjusted discount rate is then translated to a pre-tax rate for each CGU based on the specific tax rate applicable to where the CGU operates.

Foreign currency cash flows are discounted using CGUs in functional currency and then translated to the Group's presentation currency using the closing exchange rate.

Raw material and selling prices

Raw material and selling price assumptions used for cash flow projections are based on global commodity prices, taking into account forecast and past actual pricing.

21 Non-current assets - Intangible assets (continued)

Emissions trading scheme

In determining cash flow projections, the estimated impact of the New Zealand Emissions Trading Scheme, which came into effect on 1 July 2010, has been included based on our expectation of how the Scheme will impact the Group. The New Zealand Government will review the Scheme in 2011 and no assumptions in regard to the outcome of this review have been made.

The potential impact of the Australian Government's proposed Carbon Pollution Reduction Scheme has not been included as the design, timing and financial cost of this Scheme is uncertain.

(c) Impairment charge

Lysaght Pacific (Fiji) recognised an impairment reversal for \$0.4M against computer software intangibles following improved economic conditions in the region. This reversal falls within the New Zealand & Pacific Steel Products segment.

22 Non-current assets - Other

	Consolidated	
	2010	2009
	\$M	\$M
Deferred charges and prepayments	3.3	4.3

23 Current liabilities - Payables

	Consolidated	
	2010	2009
	\$M	\$M
Trade payables	990.5	824.1
Other payables	121.1	115.7
	<u>1,111.6</u>	<u>939.8</u>

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 3.

24 Current liabilities - Interest bearing liabilities

	Consolidated	
	2010	2009
	\$M	\$M
Secured		
Other loans	63.3	55.4
Lease liabilities (note 40)	<u>1.6</u>	<u>1.3</u>
	64.9	56.7
Unsecured		
Bank overdrafts (note 11)	2.1	5.4
Bills of exchange	-	124.3
Bank loans	80.7	28.5
Loans from related parties	-	8.6
Other loans	-	20.9
Deferred borrowing costs	<u>(6.8)</u>	<u>(7.7)</u>
	76.0	180.0
Total current interest bearing liabilities	<u>140.9</u>	<u>236.7</u>

(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 29.

(b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 3.

25 Current liabilities - Current tax liabilities

	Consolidated	
	2010	2009
	\$M	\$M
Income tax	<u>7.4</u>	<u>2.7</u>

26 Current liabilities - Provisions

	Consolidated	
	2010	2009
	\$M	\$M
Employee benefits - annual leave	94.6	93.8
Employee benefits - long service leave	142.2	153.5
Employee benefits - redundancy (a)	12.6	33.4
Employee benefits - other	86.1	21.6
Restructure (b)	8.7	23.8
Product claims (c)	32.5	29.0
Workers compensation (d)	18.5	19.5
Restoration and rehabilitation (e)	2.8	4.7
Other	<u>10.8</u>	<u>13.0</u>
	408.8	392.3

26 Current liabilities - Provisions (continued)

(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 restructure provision relates to the announced closures of Port Kembla's CRM paintline, Illawarra's Flat Products division, Australia Distribution & Solutions' Landsdale, Tullamarine, Padstow and Chullora sites, the Packaging Products division; and BlueScope Buildings North America. The majority of the provisions are expected to be utilised within the next year.

(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 39).

For the Group, an actuarially determined asset of \$24.1M (2009: \$25.7M) 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 16) 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 has both \$2.3M current (2009: \$2.3M) and \$4.1M non-current (2009: \$4.2M) portions. While an environmental study to quantify the liability was completed during the period, uncertainty remains over the full extent of future costs. Other restoration and rehabilitation non-current provisions of \$4.3M exist for New Zealand Steel in relation to their operation of two iron-sand mines (refer to note 31). 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 \$0.5M current (2009: \$2.4M) and \$5.2M non-current (2009: \$8.2M) in relation to leased sites that require rectification and restoration work at the end of their respective lease periods.

Movement in provisions

The reconciliation of movement in provisions is set out in note 31.

Amounts not expected to be settled within the next 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	
	2010	2009
	\$M	\$M
Current annual and long service leave obligation expected to be settled after 12 months	<u>140.3</u>	<u>138.0</u>

27 Current liabilities - Deferred income

	Consolidated	
	2010	2009
	\$M	\$M
Deferred income	<u>132.1</u>	<u>108.6</u>

The fair value of deferred income approximates carrying value.

28 Non-current liabilities - Payables

	Consolidated	
	2010	2009
	\$M	\$M
Other payables	<u>8.5</u>	<u>19.9</u>

(a) Risk exposure

Information about the Group's and the parent entity's exposure to foreign exchange risk is provided in note 3.

29 Non-current liabilities - Interest bearing liabilities

	Consolidated	
	2010	2009
	\$M	\$M
Secured		
Other loans	55.4	118.9
Lease liabilities (note 40)	<u>48.4</u>	<u>1.5</u>
	<u>103.8</u>	<u>120.4</u>
Unsecured		
Bank loans	12.8	1.4
Other loans	742.6	779.4
Deferred borrowing costs	<u>(6.2)</u>	<u>(13.0)</u>
	<u>749.2</u>	<u>767.8</u>
Total non-current interest bearing liabilities	<u>853.0</u>	<u>888.2</u>

(a) Secured liabilities and assets pledged as security

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2010	2009
	\$M	\$M
Other loans	118.7	174.3
Lease liabilities	<u>50.0</u>	<u>2.8</u>
Total secured liabilities	<u>168.7</u>	<u>177.1</u>

29 Non-current liabilities - Interest bearing liabilities (continued)

The Company has a borrowing arrangement secured by various Western Port and Port Kembla plant, machinery and equipment.

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 plant and equipment situated at the Port Kembla steelworks. Additional finance leases were also established for several property sale & leaseback transactions entered into during the period.

The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities are:

	Consolidated	
	2010	2009
	\$M	\$M
<i>Other loans</i>		
Property, plant and equipment	42.8	51.8
<i>Lease liabilities</i>		
Property, plant and equipment	<u>48.2</u>	<u>2.3</u>
Total assets pledged as security	<u>91.0</u>	<u>54.1</u>

(b) Set-off of assets and liabilities

New Zealand Steel Limited deposits surplus funds with a financial institution. The institution makes advances up to an equivalent amount of the deposit to BlueScope Steel (Finance) Limited. These advances form part of the hedge instrument, outlined in note 14(c), utilised to hedge the net investment in New Zealand Steel Limited. The Company has established a legal right of set-off with the financial institution. The amount of the particular borrowings and offsetting cash deposits at the end of the period was \$792M (2009: \$1,092M).

(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:

- \$1,275M syndicated bank facility with a syndicate of banks. The facility is comprised of a \$200M tranche maturing in July 2011 and a \$1,075M tranche maturing in July 2012.

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:

- Two long-term facilities totalling THB 3,000M (AUD 108.8M) are available for the BlueScope Steel (Thailand) Ltd cash requirements.
- Three short-term facilities totalling MYR 169M (AUD 60.9M) to support working capital and other short-term cash requirements for BlueScope Steel (Malaysia) Sdn Bhd.

Other facilities

- USD 625M of US Private Placement Loan Notes, USD 100M of which are due for repayment in 2011; USD 200M due in 2014; USD 81M due in 2015; USD 204M due in 2018; and USD 40M due in 2020.
- 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 have been leased back over a five-year period. This transaction has been accounted for as a borrowing.

29 Non-current liabilities - Interest bearing liabilities (continued)

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	
	2010	2009
	\$M	\$M
Credit standby arrangements		
Total facilities		
Bank overdrafts	34.0	34.6
Bank loan facilities	1,512.0	1,926.9
Bills of exchange	58.8	123.5
	<u>1,604.8</u>	<u>2,085.0</u>
 Used at balance date		
Bank overdrafts	2.1	5.4
Bank loan facilities	93.6	29.9
Bills of exchange	-	124.3
	<u>95.7</u>	<u>159.6</u>
 Unused at balance date		
Bank overdrafts	31.9	29.2
Bank loan facilities	1,418.4	1,896.2
Bills of exchange	58.8	-
	<u>1,509.1</u>	<u>1,925.4</u>

(d) Risk exposures

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 3.

30 Non-current liabilities - Deferred tax liabilities

Consolidated
2010 2009
\$M \$M

The balance comprises temporary differences attributable to:

Amounts recognised in profit or loss

Doubtful debts provision	(6.7)	(7.1)
Employee benefits	(151.4)	(149.6)
Claims provision	(21.5)	(20.9)
Other provisions	(9.3)	(33.6)
Depreciation	428.7	419.3
Foreign exchange gains (losses)	39.3	56.6
Inventory	21.2	(7.2)
Investments	9.1	9.3
Intangible assets	39.6	47.5
Tax losses	(206.7)	(146.7)
Share capital raising costs	(12.1)	(19.8)
Other	4.1	(4.6)
	<u>134.3</u>	<u>143.2</u>

Movements:

Opening balance at 1 July	143.2	308.4
Charged (credited) to profit or loss (note 9)	1.4	(122.2)
Charged (credited) to contributed equity	(0.3)	(19.9)
Charged (credited) to other comprehensive income	(8.9)	(49.3)
Acquisitions (disposals)	-	7.6
Exchange fluctuation	(1.1)	18.6
Closing balance at 30 June	<u>134.3</u>	<u>143.2</u>

31 Non-current liabilities - Provisions

	Consolidated	
	2010	2009
	\$M	\$M
Employee benefits - long service leave	19.1	17.5
Employee benefits - other	2.8	3.0
Restructure	3.0	7.4
Product claims	57.7	57.9
Workers compensation	112.1	109.3
Restoration and rehabilitation	13.6	12.4
Other	1.9	1.8
	<u>210.2</u>	<u>209.3</u>

For a description of each class of provision, refer to note 26.

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below.

	Restructure	Product	Workers	Restoration	Other	Total
	\$M	claims	compensation	and	\$M	\$M
		\$M	\$M	rehabilitation		
				\$M		
Consolidated - 2010						
Current and non-current						
Carrying amount at start of year	31.2	86.9	128.8	17.1	14.8	278.8
Additional provision recognised	2.0	15.8	21.0	-	3.0	41.8
Unutilised provisions written back	(10.4)	-	-	(0.2)	-	(10.6)
Amounts used during the period	(10.3)	(16.5)	(22.4)	(0.8)	-	(50.0)
Exchange fluctuations	(0.4)	(0.6)	(0.8)	-	(4.6)	(6.4)
Transfers	(0.4)	1.7	-	(0.2)	(0.5)	0.6
Unwinding and discount rate adjustment	-	2.9	4.0	0.5	-	7.4
Carrying amount at end of year	<u>11.7</u>	<u>90.2</u>	<u>130.6</u>	<u>16.4</u>	<u>12.7</u>	<u>261.6</u>

32 Non-current liabilities - Retirement benefit obligations

(a) Superannuation benefits

All employees of the consolidated entity 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.

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 2008, the New Zealand Steel Pension Fund as at 30 June 2009, and the Butler Base Retirement Plan as at 1 January 2009. Summary actuarial assessments were performed for all of these funds as at 30 June 2010, to provide information that is more up-to-date than that of the most recent formal actuarial investigation.

The following sets out details in respect of the defined benefit section only.

(b) Statement of financial position amounts

The amounts recognised in the statement of financial position are determined as follows:

	Consolidated	
	2010	2009
	\$M	\$M
Present value of the defined benefit obligation	(1,126.8)	(1,052.0)
Fair value of defined benefit plan assets	<u>896.7</u>	<u>791.4</u>
Net (liability) asset in the statement of financial position	<u>(230.1)</u>	<u>(260.6)</u>

32 Non-current liabilities - Retirement benefit obligations (continued)

(c) Defined benefit funds to which BlueScope Steel employees belong

2010	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	(464.3)	(288.4)	(374.1)	(1,126.7)
Fair value of defined benefit plan assets	423.9	224.4	248.4	896.7
Net (liability) asset in the statement of financial position	(40.4)	(64.0)	(125.7)	(230.1)
Defined benefit expense	15.0	2.3	5.5	22.8
Employer contributions	16.6	30.3	32.8	79.7
<i>Principal actuarial assumptions</i>	%	%	%	
Discount rate (gross of tax)	5.1	5.4	5.5	
Expected return on plan assets (net of tax)	7.0	6.0	8.0	
Future salary increases	3.5	4.0	4.0	

2009	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	(473.3)	(254.1)	(321.6)	(1,052.0)
Fair value of defined benefit plan assets	413.9	175.5	202.0	791.4
Net (liability) asset in the statement of financial position	(62.4)	(78.6)	(119.6)	(260.6)
Defined benefit expense	8.3	9.4	1.6	19.3
Employer contributions	22.1	16.6	28.5	67.2
<i>Principal actuarial assumptions</i>	%	%	%	
Discount rate (net of tax)	5.5	6.1	6.7	
Expected return on plan assets (net of tax)	7.0	6.0	8.0	
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.

32 Non-current liabilities - Retirement benefit obligations (continued)

(d) Categories of plan assets

The major categories of plan assets are as follows:

	Consolidated	
	2010	2009
	\$M	\$M
Cash	6.5	3.3
Equity instruments	454.9	414.9
Debt instruments	366.7	287.3
Property	46.4	33.1
Other assets	22.2	52.8
	<u>896.7</u>	<u>791.4</u>

(e) Reconciliations

	Consolidated	
	2010	2009
	\$M	\$M
<i>Reconciliation of the present value of the defined benefit obligation, which is partly funded:</i>		
Balance at the beginning of the year	1,052.0	1,069.9
Current service cost	27.6	29.5
Interest cost	58.8	71.4
Actuarial losses (gains)	114.0	(135.6)
Foreign currency exchange rate changes	(12.7)	52.8
Benefits paid	(100.0)	(72.5)
Allowance for contributions tax on net liability	(11.1)	46.8
Loss (gains) on curtailments	-	(8.6)
Other	(1.8)	(1.7)
Balance at the end of the year	<u>1,126.8</u>	<u>1,052.0</u>

	Consolidated	
	2010	2009
	\$M	\$M
<i>Reconciliation of the fair value of plan assets:</i>		
Balance at the beginning of the year	791.4	908.0
Expected return on plan assets	57.9	71.6
Actuarial gains (losses)	81.0	(239.2)
Foreign currency exchange rate changes	(6.2)	61.0
Contributions by the Group	79.7	67.2
Tax on employer contributions	(11.0)	(8.8)
Contributions by plan participants	5.6	5.8
Benefits paid	(100.0)	(72.5)
Other	(1.7)	(1.7)
Balance at the end of the year	<u>896.7</u>	<u>791.4</u>

32 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	
	2010	2009
	\$M	\$M
Current service cost	27.6	29.5
Contributions by plan participants	(5.6)	(5.8)
Interest cost	58.8	71.4
Expected return on plan assets	(57.9)	(71.6)
Allowance for contributions tax on net liability	(0.1)	4.4
Losses (gains) on curtailments and settlements	-	(8.6)
Total included in employee benefits expense	<u>22.8</u>	<u>19.3</u>
Actual return on plan assets	<u>140.1</u>	<u>(166.3)</u>

(g) Amounts recognised in other comprehensive income

	Consolidated	
	2010	2009
	\$M	\$M
Actuarial (loss) gain recognised in other comprehensive income during the year	<u>(33.0)</u>	<u>(103.6)</u>
Cumulative actuarial (losses) gains recognised in other comprehensive income	<u>(271.9)</u>	<u>(238.6)</u>

(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 2011 are \$71.4M.

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 32(c).

(i) Historic summary

	2010	2009	2008	2007	2006
	\$M	\$M	\$M	\$M	\$M
Present value of defined benefit plan obligation	(1,126.8)	(1,052.0)	(1,112.4)	(1,087.8)	(1,112.3)
Fair value of defined benefit plan assets	<u>896.7</u>	<u>791.4</u>	<u>908.0</u>	<u>1,020.4</u>	<u>947.8</u>
Net (liability) asset in the statement of financial position	<u>(230.1)</u>	<u>(260.6)</u>	<u>(204.4)</u>	<u>(67.4)</u>	<u>(164.5)</u>
Experience adjustments arising on plan liabilities	(114.0)	135.6	13.7	(4.0)	(72.8)
Experience adjustments arising on plan assets	81.0	(239.2)	(156.4)	55.1	88.6

33 Non-current liabilities - Deferred income

	Consolidated
	2010 \$M
Deferred income	4.5

34 Contributed equity

	Notes	Parent entity 2010 Shares	Parent entity 2009 Shares	Parent entity 2010 \$M	Parent entity 2009 \$M
(a) Share capital					
Issued and fully paid ordinary shares	(c)	<u>1,823,322,017</u>	<u>1,823,297,662</u>	<u>4,032.4</u>	<u>4,032.6</u>
(b) Movements in ordinary share capital:					

Date	Details	Notes	Number of shares	Issue/ redemption price	\$M
1 July 2008	Opening balance		759,943,380		2,151.2
Various	Long term incentive plan - 2003	(e)	66,677	\$3.23	0.2
Various	Long term incentive plan - 2004	(e)	655,964	\$5.14	3.4
Various	Long term incentive plan - 2005	(e)	1,467,031	\$3.89	5.7
1 September 2008	Employee share plan - 2009	(f)	1,370,368	\$9.28	12.7
19 September 2008	Employee share plan - 2009	(f)	662,548	\$7.96	5.3
25 September 2008	Employee share plan - 2009	(f)	15,453	\$7.96	0.1
29 September 2008	Employee share plan - 2005	(f)	71,460	\$9.90	0.7
22 October 2008	Dividend reinvestment plan - 2008 final	(d)	8,511,145	\$6.79	57.8
16 December 2008	Employee share plan - 2009	(f)	360,570	\$3.95	1.4
19 December 2008	Institutional capital raising	(g)	96,774,194	\$3.10	300.0
13 February 2009	Retail share purchase plan	(h)	36,442,921	\$3.10	113.0
31 March 2009	Dividend reinvestment plan - 2009 interim	(d)	5,322,235	\$2.26	12.0
15 May 2009	Institutional capital raising - share rights issue	(i)	515,134,567	\$1.55	798.5
5 June 2009	Retail capital raising - share rights issue	(i)	396,499,149	\$1.55	614.6
	Less: Cost of capital issues				(66.4)
	Plus: Tax credit recognised directly in equity				22.4
30 June 2009	Balance		1,823,297,662		4,032.6
Various	Long term incentive plan - 2005	(e)	8,889	\$3.89	-
11 March 2010	Employee share plan - 2007	(f)	15,466	\$9.42	0.2
	Less: Cost of capital issues				(0.9)
	Plus: Tax credit recognised directly in equity				0.5
30 June 2010	Balance		1,823,322,017		4,032.4

34 Contributed equity (continued)

(c) Ordinary shares

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(d) 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.

(e) 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 49(a).

(f) Employee share plans

Information relating to employee share plans, including details of shares issued under plans, is set out in note 49(b).

(g) Institutional capital raising

During December 2008, the Company successfully completed a \$300M institutional placement of ordinary shares at \$3.10 per share. The issue of 96,774,194 shares took place on 19 December 2008.

(h) Retail share purchase plan

In February 2009, the Company offered eligible shareholders in Australia and New Zealand to participate in its Share Purchase Plan. The plan offered participants the opportunity to acquire up to \$5,000 of new shares at a discount and free of brokerage fees. A total of \$113M was raised with 36,442,921 shares issued on 13 February 2009.

(i) Share rights issue

In May 2009, the Company invited shareholders to participate in a non-renounceable share issue entitling eligible shareholders to subscribe for 1 new share for every 1 share held at \$1.55 per share. The offer was fully underwritten and raised \$1,413M with 911,633,716 shares issued. The offer was not fully subscribed to the extent of 59 million shares with subscriptions for these shares obtained under the terms of the underwriting agreement.

34 Contributed equity (continued)

(j) 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 going forward, 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.

The Group and parent's gearing ratios are as follows:

	Consolidated	
	2010	2009
	\$M	\$M
Total interest bearing liabilities (notes 24 & 29)	993.9	1,124.9
Less: Cash and cash equivalents (note 11)	(251.4)	(369.2)
Net debt	742.5	755.7
Total equity	5,755.7	5,663.3
Total capital	6,498.2	6,419.0
Gearing ratio	11.4 %	11.8 %

35 Reserves and retained profits

	Consolidated	
	2010 \$M	2009 \$M
(a) Reserves		
Hedging reserve - cash flow hedges	(0.3)	-
Share-based payments reserve	16.6	12.3
Foreign currency translation reserve	(147.8)	(121.6)
Non-distributable profits reserve	13.1	4.5
	<u>(118.4)</u>	<u>(104.8)</u>
<i>Hedging reserve - cash flow hedges</i>		
Opening balance	-	3.4
Net gain (loss)	(0.5)	(3.8)
Transfers to inventory	-	(1.3)
Deferred tax	0.2	1.5
Exchange fluctuation	-	0.2
Closing balance	<u>(0.3)</u>	<u>-</u>
<i>Share-based payments reserve</i>		
Opening balance	12.3	13.7
Share-based payments expense	4.7	8.6
Transfer to share capital	(0.4)	(10.0)
Closing balance	<u>16.6</u>	<u>12.3</u>
<i>Foreign currency translation reserve</i>		
Opening balance	(121.6)	(303.4)
Transfers to net profit	-	-
Net gain (loss) on hedges of subsidiaries	(11.1)	(46.0)
Deferred tax on investments in subsidiaries (note 9)	3.3	14.4
Currency translation differences arising during the year	(18.4)	213.4
Closing balance	<u>(147.8)</u>	<u>(121.6)</u>
<i>Non-distributable profits reserve</i>		
Opening balance	4.5	4.7
Transfers from retained profits (b)	8.6	-
Exchange fluctuations	-	(0.2)
Closing balance	<u>13.1</u>	<u>4.5</u>

35 Reserves and retained profits (continued)

(b) Retained profits

Movements in retained profits were as follows:

	Consolidated	
	2010	2009
	\$M	\$M
Opening balance	1,651.7	1,997.5
Profit (loss) for the year	126.0	(66.4)
Dividends paid (note 36)	-	(251.6)
Transfers to reserves (a)	(8.6)	-
Transfer to minority interest	-	(0.2)
Actuarial gains (losses) on defined benefit plans recognised directly in retained profits (note 32)	(33.0)	(103.6)
Deferred tax	11.2	76.0
Closing balance	<u>1,747.3</u>	<u>1,651.7</u>

(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(q). The Group manages a cash flow hedging program in relation to electricity purchases. This program was re-established in June 2010 having been previously discontinued in April 2009. Gains or losses from 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 met 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 49(a) for details of share rights exercised during the period.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign operations are taken to the foreign currency translation reserve, as described in note 1(f). It is also used to record the effect of hedging net investments in foreign operations. The reserve is recognised in profit and loss when a foreign controlled entity 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.

36 Dividends

Parent entity	
2010	2009
\$M	\$M

(a) Ordinary shares

No final dividend was declared for the year ended 30 June 2009. In the comparative period, a final dividend for the year ended 30 June 2008 of 27 cents per fully paid share was paid on 22 October 2008

Final fully franked based on tax paid @ 30%	-	206.3
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No interim dividend was declared for the year ended 30 June 2010. In the comparative period, an interim dividend for the year ended 30 June 2009 of 5 cents per fully paid was paid on 31 March 2009

Fully franked based on tax paid @ 30%	-	45.3
Total dividends provided for or paid	-	<u>251.6</u>

(b) Dividends not recognised at year end

For the year ended 30 June 2010 the directors recommended the payment of a final dividend of 5 cents per fully paid ordinary share, fully franked based on tax paid at 30%. No dividends were declared at 30 June 2009. The amount not recognised at 30 June 2010 in relation to this dividend was:

	<u>91.2</u>	-
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(c) Franked dividends

Parent entity	
2010	2009
\$M	\$M

Actual franking account balance as at the reporting date	124.7	145.0
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Franking credits that will arise from the payment (receipt) of income tax payable as at the reporting date

	<u>(17.3)</u>	<u>(20.3)</u>
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>107.4</u>	<u>124.7</u>

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 (2009: \$182.0M) as presented in the statement of cash flows. In the comparative period, dividend amounts of \$57.8M and \$12.0M were reinvested through the Company's dividend reinvestment plan for the respective 2008 final and 2009 interim dividends (refer note 34(b)).

37 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

(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:

<i>Name</i>	<i>Position</i>
N H Cornish	Chief Executive - Australian & New Zealand Steel Manufacturing Businesses
I R Cummin	Executive General Manager - People and Organisation Performance
M R Vassella	President - BlueScope North America
M G Barron	Chief Legal Officer and Company Secretary
P E O'Keefe	Chief Executive - Australian Coated & Industrial Markets
S R Elias	Chief Financial Officer
S Dayal	Chief Executive - Asia
K A Mitchelhill	Chief Executive - Australia Distribution & Solutions

(c) Key management personnel compensation

	Consolidated	
	2010	2009
	\$'000	\$'000
Short-term employee benefits	12,562.6	9,917.1
Post-employment benefits	513.6	614.8
Other long-term benefits	72.4	243.3
Share-based payments	<u>2,253.1</u>	<u>2,002.4</u>
	<u>15,401.7</u>	<u>12,777.6</u>

Detailed remuneration disclosures for directors and executives are provided in the 30 June 2010 Remuneration Report.

37 Key management personnel disclosures (continued)

(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 2010 Remuneration Report.

(ii) *Share rights holdings*

The numbers of share rights 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.

2010	Balance at start of the year	Granted as compensation	Exercised	Lapsed	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Name								
Directors of BlueScope Steel Limited								
P F O'Malley	547,511	930,000	-	-	-	1,477,511	-	1,477,511
Other key management personnel								
N H Cornish	178,810	215,000	-	-	-	393,810	-	393,810
I R Cummin	134,459	158,970	-	-	-	293,429	-	293,429
M R Vassella	103,328	211,430	-	-	-	314,758	-	314,758
M G Barron	130,159	158,970	-	-	-	289,129	-	289,129
P E O'Keefe	92,039	157,500	-	-	-	249,539	-	249,539
S R Elias	93,179	184,290	-	-	-	277,469	-	277,469
S Dayal	45,400	180,000	-	-	-	225,400	-	225,400
K A Mitchelhill	55,250	208,570	-	-	-	263,820	-	263,820

2009	Balance at start of the year	Granted as compensation	Exercised	Lapsed	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Name								
Directors of BlueScope Steel Limited								
P F O'Malley	352,153	246,358	(51,000)	-	-	547,511	-	547,511
Other key management personnel								
N H Cornish	190,900	56,954	(69,044)	-	-	178,810	-	178,810
B G Kruger ¹ (resigned 19 September 2008)	182,949	-	(68,341)	(114,608)	-	-	-	-
I R Cummin	144,952	42,112	(52,605)	-	-	134,459	-	134,459
M R Vassella	47,320	56,008	-	-	-	103,328	-	103,328
M G Barron	139,966	42,112	(51,919)	-	-	130,159	-	130,159
P E O'Keefe	50,317	41,722	-	-	-	92,039	-	92,039
S R Elias	44,362	48,817	-	-	-	93,179	-	93,179
S Dayal (appointed 5 January 2009)	-	45,400	-	-	-	45,400	-	45,400
K A Mitchelhill (appointed 2 February 2009)	-	55,250	-	-	-	55,250	-	55,250

All vested share rights are exercisable at the end of the year.

¹End balance for this key management personnel is taken as at cessation of employment.

37 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 each of the other key management personnel of the Group, including their personally related parties, are set out below.

2010					
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	11,624	-	-	15,000	26,624
Other key management personnel					
Ordinary shares					
N H Cornish	68,584	-	-	-	68,584
I R Cummin	338,292	-	-	-	338,292
M R Vassella	57,303	-	-	-	57,303
M G Barron	191,924	-	-	-	191,924
P E O'Keefe	15,303	-	-	-	15,303
S R Elias	-	-	-	-	-
S Dayal	20,000	-	-	-	20,000
K A Mitchelhill	77,666	-	-	-	77,666

37 Key management personnel disclosures (continued)

2009					
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 Limited					
G J Kraehe	135,330	-	-	150,946	286,276
R J McNeilly	548,425	-	-	773,077	1,321,502
D J Grady	53,942	-	-	74,440	128,382
H K McCann	51,340	-	-	101,380	152,720
P J Rizzo ¹ (resigned 4 December 2008)	35,497	-	-	1,230	36,727
Y P Tan	47,922	-	-	109,194	157,116
D B Grollo	17,150	-	-	111,006	128,156
P F O'Malley	80,000	51,000	-	96,613	227,613
D K Jukes (appointed 20 October 2008) (deceased 3 January 2009)	-	-	-	-	-
K A Dean ² (appointed 21 April 2009)	763	-	-	10,861	11,624
Other key management personnel					
Ordinary shares					
N H Cornish	114,415	69,044	-	(114,875)	68,584
B G Kruger ¹ (resigned 19 September 2008)	110,547	68,341	-	159	179,047
I R Cummin	233,287	52,605	-	52,400	338,292
M R Vassella	57,144	-	-	159	57,303
M G Barron	196,584	51,919	-	(56,579)	191,924
P E O'Keefe	10,144	-	-	5,159	15,303
S R Elias	-	-	-	-	-
S Dayal ² (appointed 5 January 2009)	-	-	20,000	-	20,000
K A Mitchell ² (appointed 2 February 2009)	1,900	-	25,000	50,766	77,666

¹End balance for these key management personnel is taken as at cessation of employment.

²Start balance for these key management personnel is taken at the date of appointment.

(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 2010 was \$978,880 (2009: \$404,184).

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.

38 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:

	Consolidated	
	2010	2009
	\$	\$
(a) Audit services		
Audit and review of financial statements and other audit work under the <i>Corporations Act 2001</i> :		
Ernst & Young Australian firm	1,565,950	2,215,200
Related practices of Ernst & Young Australia firm (including overseas Ernst & Young firms)	<u>1,874,958</u>	<u>2,558,110</u>
	<u>3,440,908</u>	<u>4,773,310</u>
(b) Other services		
(i) Audit related assurance services		
Ernst & Young Australian firm:		
Greenhouse gas emissions related assurance	63,749	289,000
Acquisition related investigating accountant assurance	724,124	-
Equity raising related assurance	-	380,000
(ii) Other non-audit services		
Ernst & Young Australia firm		
Tax compliance services	20,000	-
Other advisory services	53,906	-
Related practices of Ernst & Young Australian firm (including overseas Ernst & Young firms)	<u>113,681</u>	<u>438,331</u>
Tax compliance services	<u>975,460</u>	<u>1,107,331</u>

39 Contingencies

(a) Contingent liabilities

The Company had contingent liabilities at 30 June 2010 in respect of:

Outstanding legal matters

	Consolidated	
	2010	2009
	\$M	\$M
Contingencies for various minor legal disputes	<u>2.1</u>	<u>2.5</u>
	<u>2.1</u>	<u>2.5</u>

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 minor contingencies, the following material litigation cases are outstanding:

- Two suppliers have commenced legal proceedings seeking damages for alleged breaches of contract totalling approximately USD 137M (approximately AUD 160M). As the Group believes there has been no breach of contract in either case, no provision has been raised in the accounts.

39 Contingencies (continued)

Guarantees

In Australia, BlueScope Steel Limited has given \$138.8M (2009: \$139.1M) in guarantees to various state workers' compensation authorities as a prerequisite for self-insurance. An amount, net of recoveries, of \$90.6M (2009: \$88.3M) 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 2010 totalled \$25.2M (2009: \$17.5M).

Associates and joint ventures

For contingent liabilities relating to associates and joint ventures refer to notes 44 and 45 respectively.

Taxation

The BlueScope Steel 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, though 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 in insurance recoveries on old 'pre-merger' policies. The insurance company's position is unclear and therefore recoveries remain uncertain.

40 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated	
	2010	2009
	\$M	\$M
<i>Property, plant and equipment</i>		
Payable:		
Within one year	86.1	61.3
Later than one year but not later than five years	0.9	4.4
Later than five years	-	-
	<u>87.0</u>	<u>65.7</u>

Joint ventures

For commitments relating to joint ventures refer to note 45.

40 Commitments (continued)

(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	
	2010	2009
	\$M	\$M
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	104.5	103.2
Later than one year but not later than five years	261.5	263.7
Later than five years	<u>268.1</u>	<u>234.9</u>
	<u>634.1</u>	<u>601.8</u>

(ii) Finance leases

The Group leases various property, plant and equipment with a carrying amount of \$48.2M (2009: \$2.3M).

During the period the Group established a \$35.6M, 15 year plant and equipment finance lease at Port Kembla steelworks. The Group has reserved the option to either purchase the asset at the end of the lease period or renegotiate new lease terms.

Additionally, the Group entered into several property sale and finance leaseback transactions within Australia during the period for \$12.9M. The lease periods range from 15 to 25 years, with the Group reserving the right to purchase the properties at the expiration date or renegotiate new lease terms.

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	
	2010	2009
	\$M	\$M
Commitments in relation to finance leases are payable as follows:		
Within one year	7.3	1.3
Later than one year but not later than five years	32.7	1.7
Later than five years	<u>81.1</u>	<u>-</u>
Minimum lease payments	<u>121.1</u>	<u>3.0</u>
Future finance charges	<u>(71.1)</u>	<u>(0.2)</u>
Recognised as a liability	<u>50.0</u>	<u>2.8</u>
Representing lease liabilities:		
Current (note 24)	1.6	1.3
Non-current (note 29)	<u>48.4</u>	<u>1.5</u>
	<u>50.0</u>	<u>2.8</u>

41 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 42.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 37.

(d) Transactions with other related parties

The following transactions occurred with related parties other than key management personnel or entities related to them:

	Consolidated	
	2010	2009
	\$M	\$M
<i>Sales of goods and services</i>		
Sales of goods to associates	9.2	5.0
Sales of goods to joint venture partnerships	26.7	29.0
<i>Interest revenue</i>		
Associates	0.1	0.1
Other related parties	1.7	2.4
<i>Interest expense</i>		
Joint venture partnerships	0.1	0.4
<i>Superannuation contributions</i>		
Contributions to superannuation funds on behalf of employees	166.6	149.3

(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	
	2010	2009
	\$M	\$M
<i>Current receivables (sales of goods and services)</i>		
Joint venture partnerships	11.1	3.4
<i>Current receivables (loans)</i>		
Associates	1.1	1.1
Other related parties	5.7	5.0
<i>Non-current receivables (loans)</i>		
Other related parties	5.0	10.7

41 Related party transactions (continued)

(f) Loans to/from related parties

	Consolidated	
	2010	2009
	\$M	\$M
<i>Loans from joint venture partnerships</i>		
Proceeds	-	35.9
Repayments	(7.6)	(38.1)
<i>Loans to other related parties</i>		
Repayments	5.0	4.4

(g) Terms and conditions of transactions with related parties other than key management personnel or entities related to them

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 50.

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 \$2.2M (June 2009: \$2.3M). These transactions have been made on commercial arm's-length terms and conditions.

42 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(d):

Name of entity	Country of incorporation	Equity holding	
		2010	2009
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 Middle East Investments Pty Ltd	Australia	100	100
BlueScope Pty Ltd	Australia	100	100
BlueScope Water Pty Ltd (a)	Australia	100	100
Glenbrook Holdings Pty Ltd	Australia	100	100
Highline Ltd (a)	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
Pioneer Water Tanks (Australia 94) Pty Ltd (a)	Australia	100	100
The Roofing Centre (Tasmania) Pty Ltd (a)	Australia	100	100
Butler do Brasil Limitada (e)	Brazil	100	100
BlueScope Lysaght (Brunei) Sdn Bhd	Brunei	60	60
BlueScope Lysaght (Guangzhou) Ltd	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	China	100	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
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 Steel Logistics (Malaysia) Sdn Bhd	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
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 Calédonie SA (c)	New Caledonia	65	65
BlueScope Steel Finance NZ Ltd	New Zealand	100	100

42 Subsidiaries (continued)

Name of entity	Country of incorporation	Equity holding	
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
B H Tank Works Inc	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
LB Real Properties 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	USA	100	100
Butler Pacific Inc	USA	100	100
Steelscape Inc	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

42 Subsidiaries (continued)

All subsidiaries incorporated in Australia are members of the BlueScope Steel Ltd tax consolidated group. Refer to notes 1(g) and 9(f).

- (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 43.
- (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 Calédonie SA, which in turn has 60% ownership of the entity.
- (e) These controlled entities are in the process of being liquidated and deregistered.

43 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
Highline Ltd
BlueScope Water Pty Ltd
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.

(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 statement of comprehensive income and a summary of movements in consolidated retained profits for the year ended 30 June 2010 of the Closed Group.

43 Deed of cross-guarantee (continued)

	2010 \$M	2009 \$M
Statement of comprehensive income		
Revenue	3,945.2	4,410.6
Other income	13.5	18.6
Changes in inventories of finished goods and work in progress	45.4	(134.7)
Raw materials and consumables used	(2,580.7)	(3,093.3)
Employee benefits expense	(555.1)	(599.3)
Depreciation and amortisation expense	(91.0)	(105.7)
Impairment of non-current assets	(25.9)	(159.0)
Freight on external despatches	(230.8)	(234.4)
External services	(247.3)	(264.6)
Finance costs	(199.9)	(178.0)
Other expenses	(163.5)	(145.7)
Share of net profits of associates and joint venture partnership accounted for using the equity method	0.1	-
Profit (loss) before income tax	(90.0)	(485.5)
Income tax (expense) benefit	27.3	108.2
Net profit (loss) for the period	(62.7)	(377.3)
Other comprehensive income		
Actuarial gain (loss) on defined benefit superannuation plans	11.0	(34.0)
Income tax on items of other comprehensive income	(3.3)	10.2
Other comprehensive income for the year, net of tax	7.7	(23.8)
Total comprehensive income for the period	(55.0)	(401.1)
Summary of movements in consolidated retained profits		
Retained profits at the beginning of the financial year	225.4	878.1
Net profit (loss) for the year	(62.7)	(377.3)
Dividends provided or paid	-	(251.6)
Actuarial gains (losses) on defined benefit plans recognised directly in retained profits	11.0	(34.0)
Deferred tax on items taken directly to or transferred from equity	(3.3)	10.2
Retained profits at the end of the financial year	170.4	225.4

43 Deed of cross-guarantee (continued)

(b) Statement of financial position

Set out below is a consolidated statement of financial position as at 30 June 2010 of the Closed Group.

	2010 \$M	2009 \$M
Current assets		
Cash and cash equivalents	0.4	1.7
Trade and other receivables	3,326.6	3,534.1
Inventories	562.8	536.2
Non-current assets classified as held for sale	14.9	6.8
Other	6.0	6.9
Total current assets	<u>3,910.7</u>	<u>4,085.7</u>
Non-current assets		
Inventories	29.4	30.3
Other financial assets	1,942.7	2,572.7
Deferred tax assets	180.6	130.8
Property, plant and equipment	876.7	929.9
Intangible assets	501.3	507.0
Other	0.1	0.3
Total non-current assets	<u>3,530.8</u>	<u>4,171.0</u>
Total assets	<u>7,441.5</u>	<u>8,256.7</u>
Current liabilities		
Payables	829.2	405.1
Interest bearing liabilities	2,053.8	3,200.1
Provisions	163.9	160.1
Deferred income	14.2	15.3
Total current liabilities	<u>3,061.1</u>	<u>3,780.6</u>
Non-current liabilities		
Interest bearing liabilities	60.9	103.1
Provisions	76.1	71.8
Retirement benefit obligations	19.8	30.9
Other	4.5	-
Total non-current liabilities	<u>161.1</u>	<u>205.8</u>
Total liabilities	<u>3,222.2</u>	<u>3,986.4</u>
Net assets	<u>4,219.3</u>	<u>4,270.3</u>
Equity		
Contributed equity	4,032.4	4,032.6
Reserves	16.5	12.3
Retained profits	170.4	225.4
Total equity	<u>4,219.3</u>	<u>4,270.3</u>

44 Investments in associates

Name of company

Ownership interest

	2010	2009
	%	%
Saudi Steel Building Manufacturing Company	30	30
Saudi Building Systems Ltd	30	30
BlueScope Lysaght (Sarawak) Sdn Bhd	49	49
SteelServ Limited	50	50
McDonalds Lime Limited	28	28
BlueScope Bartlett Liners Pty Ltd	50	50
Beacon Pathway Ltd	20	20

Consolidated

2010	2009
\$M	\$M

(a) Movements in carrying amounts

Carrying amount at the beginning of the financial year	15.4	13.8
Share of profits after income tax	3.7	6.9
Reclassification	2.5	-
Dividends received/receivable	(6.5)	(7.1)
Currency fluctuation	(0.1)	1.8
Carrying amount at the end of the financial year	<u>15.0</u>	<u>15.4</u>

(b) Contingent liabilities relating to associates

There were no contingent liabilities relating to investments in associates.

45 Interests in joint ventures

(a) Joint venture partnerships

The Group has a 50% interest in North Star BlueScope Steel LLC, a USA resident, the principal activity of which is the manufacturing of hot rolled steel products. The Group also has 50% interest in Tata BlueScope Steel Ltd, a Indian resident, the principal activity of which is the manufacture of 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 18). Information relating to the joint venture partnerships is set out below.

The above mentioned joint venture partnerships are accounted for in the consolidated financial statements using the equity method of accounting (refer to note 1(d)(iii)). Aggregated information relating to the joint venture partnerships is set out below.

	North Star BlueScope Steel		Tata BlueScope Steel		Consolidated	
	2010 \$M	2009 \$M	2010 \$M	2009 \$M	2010 \$M	2009 \$M
Share of partnership's assets and liabilities						
Current assets						
Cash and cash equivalents	3.1	3.1	1.8	2.1	4.7	5.2
Receivables	74.2	43.0	24.0	21.2	98.2	64.2
Inventories	53.6	50.3	13.7	8.6	67.3	58.9
Other	0.5	1.0	-	0.1	0.5	1.1
Non-current assets						
Property, plant and equipment	99.2	125.3	115.9	73.4	215.1	198.7
Intangible assets	-	-	0.2	0.3	0.2	0.3
Other	1.2	0.1	-	-	1.2	0.1
Total assets	231.8	222.8	155.4	105.7	387.2	328.5
Current liabilities						
Payables	60.7	42.6	27.9	20.1	88.6	62.7
Borrowings	-	-	63.0	17.2	63.0	17.2
Provisions	-	-	2.1	1.5	2.1	1.5
Non-current liabilities						
Payables	0.1	0.1	-	-	0.1	0.1
Total liabilities	60.8	42.7	93.0	38.8	153.8	81.5
Net assets	171.0	180.1	62.4	66.9	233.4	247.0
Share of partnership's revenue, expenses and results						
Revenues	626.4	669.1	55.3	60.7	681.7	729.8
Expenses	563.9	725.5	58.6	67.5	622.5	793.0
Profit (loss) before income tax	62.5	(56.4)	(3.3)	(6.8)	59.2	(63.2)
Income tax (expense) benefit	-	-	-	-	-	-
Profit (loss) after income tax	62.5	(56.4)	(3.3)	(6.8)	59.2	(63.2)
Share of partnership's capital commitments	7.3	13.2	24.9	56.3	32.2	69.5

(b) Contingent liabilities relating to joint ventures

There were no contingent liabilities relating to investments in joint ventures.

45 Interests in joint ventures (continued)

(c) Impairment losses

Impairment losses of \$1.3M (June 2009: \$2.3M) were recognised in relation to the Group's investment in Castrip LLC (refer to note 8). The carrying value of the Group's 47.5% interest in Castrip LLC is \$Nil (June 2009: \$Nil).

46 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	2010 \$M	2009 \$M
Profit (loss) for the year	139.5	(66.8)
Depreciation and amortisation	349.8	364.7
Impairment of non-current assets	0.1	64.2
Actuarial gains (losses) on defined benefit superannuation recorded in other comprehensive income	(33.0)	(103.6)
Tax on items recorded in other comprehensive income	14.7	91.9
Tax on items recorded directly in equity	0.3	20.9
Non-cash employee benefits expense - share-based payments	4.4	22.0
Capitalised borrowing costs	(8.8)	(18.4)
Net (gain) loss on sale of non-current assets	(5.5)	4.6
Share of (profits) losses of associates and joint venture partnership	(62.9)	56.3
Associate dividends received	70.9	7.1
Change in operating assets and liabilities		
Decrease (increase) in trade debtors	(196.5)	640.3
Decrease (increase) in other debtors	(3.2)	9.8
Decrease (increase) in other operating assets	(12.4)	19.9
Decrease (increase) in inventories	(128.1)	189.0
Increase (decrease) in trade creditors	220.8	(364.9)
Increase (decrease) in other creditors	2.6	(34.6)
Increase (decrease) in borrowing costs payable	11.8	(15.2)
Increase (decrease) in income taxes payable	1.7	(213.1)
Increase (decrease) in deferred tax balances	(12.1)	(150.9)
Increase (decrease) in other provisions and liabilities	24.6	(70.3)
Other variations	(1.8)	(28.4)
Net cash (outflow) inflow from operating activities	<u>376.9</u>	<u>424.5</u>

47 Non-cash investing and financing activities

	Consolidated	
	2010 \$M	2009 \$M
Acquisition of property, plant and equipment by means of finance leases (i)	49.0	-
Dividend reinvestment plan (ii)	<u>-</u>	<u>69.8</u>
	<u>49.0</u>	<u>69.8</u>

(i) Port Kembla entered into a finance lease agreement for \$35.6M in relation to plant and machinery during the period. Additionally, the Group entered into several property sale and finance leaseback transactions within Australia during the period for \$12.9M. The lease periods range from 15 to 25 years, with the Group reserving the right to purchase the properties at the expiration date or renegotiate new lease terms.

(ii) The Company has a formal dividend reinvestment plan that enables participating shareholders to receive dividends as ordinary BlueScope Steel Limited shares instead of cash. No dividends were paid during the year ending 30 June 2010. In the comparative period a total of 13,833,380 shares were issued under the dividend reinvestment plan instead of cash. Refer to note 34(b) for a reconciliation of movements in ordinary share capital.

(iii) Details of share-based payments are shown in note 49.

48 Earnings per share

	Consolidated	
	2010	2009
	Cents	Cents
(a) Basic earnings (loss) per share		
From continuing operations attributable to the ordinary equity holders of the Company	6.6	(8.5)
From discontinued operations	<u>0.3</u>	<u>1.4</u>
Total basic earnings (loss) per share attributable to the ordinary equity holders of the Company	<u>6.9</u>	<u>(7.1)</u>

(b) Diluted earnings (loss) per share		
From continuing operations attributable to the ordinary equity holders of the Company	6.6	(8.5)
From discontinued operations	<u>0.3</u>	<u>1.4</u>
Total diluted earnings (loss) per share attributable to the ordinary equity holders of the Company	<u>6.9</u>	<u>(7.1)</u>

(c) Reconciliation of earnings used in calculating earnings (loss) per share		
	Consolidated	
	2010	2009
	\$M	\$M
<i>Basic and diluted earnings per share</i>		
Profit (loss) attributable to the ordinary equity holders of the Group used in calculating earnings per share:		
From continuing operations	120.3	(78.7)
From discontinued operations	<u>5.7</u>	<u>12.3</u>
	<u>126.0</u>	<u>(66.4)</u>

(d) Weighted average number of shares used as the denominator		
	Consolidated	
	2010	2009
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	1,823,309,479	930,570,633
Adjustments for calculation of diluted earnings per share:		
Weighted average number of share rights	<u>36,926</u>	<u>570,909</u>
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	<u>1,823,346,405</u>	<u>931,141,542</u>

(e) Information concerning the calculation of earnings per share

(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 2010 Remuneration Report. Details relating to the share rights are set out in note 49.

There are 13,083,887 share rights relating to the 2006, 2007, 2008 & 2009 LTIPs that are not included in the calculation of diluted earnings per share because they are not dilutive for the year ended 30 June 2010. These share rights could potentially dilute basic earnings per share in the future.

49 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 2010 Remuneration Report. Refer to note 1(x)(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 2010 Remuneration Report.

Movement of share 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
2010								
31 Aug 2004	31 Oct 2009	Nil	11,514	-	-	(11,514)	-	-
18 Nov 2005	31 Oct 2010	Nil	35,889	-	(8,889)	(2,000)	25,000	25,000
18 Nov 2006	31 Oct 2011	Nil	1,840,312	-	-	(578,931)	1,261,381	-
5 Nov 2007	31 Oct 2012	Nil	1,497,336	-	-	(101,332)	1,396,004	-
14 Nov 2007	31 Oct 2012	Nil	231,053	-	-	-	231,053	-
28 Nov 2008	27 Oct 2013	Nil	2,176,631	-	-	(151,313)	2,025,318	-
30 Nov 2009	31 Oct 2014	Nil	-	8,248,480	-	(78,349)	8,170,131	-
Total			5,792,735	8,248,480	(8,889)	(923,439)	13,108,887	25,000

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
2009								
24 Oct 2003	31 Oct 2008	Nil	66,677	-	(66,677)	-	-	-
31 Aug 2004	31 Oct 2009	Nil	707,001	-	(655,964)	(39,523)	11,514	11,514
18 Nov 2005	31 Oct 2010	Nil	1,528,029	-	(1,467,031)	(25,109)	35,889	35,889
18 Nov 2006	31 Oct 2011	Nil	2,001,370	-	-	(161,058)	1,840,312	-
5 Nov 2007	31 Oct 2012	Nil	1,636,482	-	-	(139,146)	1,497,336	-
14 Nov 2007	31 Oct 2012	Nil	231,053	-	-	-	231,053	-
28 Nov 2008	31 Oct 2013	Nil	-	2,248,246	-	(71,615)	2,176,631	-
Total			6,170,612	2,248,246	(2,189,672)	(436,451)	5,792,735	47,403

The average share price during the period for the year ended 30 June 2010 was \$2.80 (June 2009: \$4.93).

The weighted average remaining contractual life of share rights outstanding at the end of the period was 3.5 years (June 2009: 3.3 years).

49 Share-based payments (continued)

Fair value of share rights granted

The assessed fair value at grant date of share rights granted during the year ended 30 June 2010 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 2010 and 30 June 2009 included:

	Nov 2009	Nov 2008
Plan details		
Exercise price (\$)	Nil	Nil
Grant date	30 Nov 2009	28 Nov 2008
Latest expiry date	31 Oct 2014	31 Oct 2013
Share rights granted	8,248,480	2,248,246
Fair value estimate at grant date (\$)	1.70	1.64
Vesting conditions ^(a)	TSR ranking	TSR ranking

Fair value inputs

Expected life of share rights (yrs)	Minimum vesting period	Minimum vesting period
Expected dividend yield (%)	5.0	5.0
Expected risk-free interest rate (%)	4.90	3.77
Expected share price volatility (%)	35.0	35.0
Grant date share price (\$)	2.71	4.00

^(a) 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 2010 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 (GESP)s are share award plans which, at the determination of the Board, issues 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.

The allocation of GESPs is considered on a year-by-year basis. To date, six GESPs have been offered to employees. At 30 June 2010 the following share plans were outstanding:

(i) September 2008 'General Employee Share Plan (GESP)'

The September 2008 GESP granted the option of receiving two nil-priced ordinary shares for each one share purchased at market equivalent price, up to a maximum of \$1,000 per employee (or a cash reward equal in value to 45 shares in countries where the grant of shares is not practicable). The Company also offered an alternative option to receive shares to the equivalent of \$500 per employee for zero cash outlay. A total of 18,722 employees participated in the plan.

(ii) November 2007 'General Employee Share Plan (GESP)'

The 2008 GESP granted two nil-priced ordinary shares to 14,821 eligible employees for each one share purchased at market equivalent price, up to a maximum of \$1,000 per employee (or a cash reward equal in value to 45 shares in countries where the grant of shares is not practicable).

49 Share-based payments (continued)

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 34 for number of shares issued and fair value of at grant date).

(c) Special 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 vest in February 2012 and are 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 vest in January 2012 and are entitled to participate in dividends and rank equally with other fully paid ordinary shares on issue.

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.

On 3 August 2007, 25,000 BlueScope Steel Limited shares were granted to Mr Mark Vassella upon his appointment to the Executive Leadership Team and Chief Executive - Australian Distribution & Solutions. Share grants awarded vest in August 2010 and are entitled to participate in dividends and rank equally with other fully paid ordinary shares on issue.

(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 34(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.

49 Share-based payments (continued)

(e) Expenses 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	
	2010	2009
	\$'000	\$'000
Employee share rights expense	5.3	9.5
Employee share awards expense (writeback)	(0.2)	13.1
Total expense arising from share-based payments	5.1	22.6

The carrying amount of the liability relating to share-based payment plans at 30 June 2010 is \$0.4M (June 2009: \$0.6M). This liability represents the deferred cash amounts payable under GESPs.

50 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity, BlueScope Steel Ltd, shows the following aggregate amounts:

Statement of financial position

	2010 \$M	2009 \$M
Current assets		
Cash and cash equivalents	0.1	1.5
Trade and other receivables	3,019.8	3,224.4
Inventories	341.3	329.9
Non-current assets classified as held for sale	-	6.8
Other	4.0	5.3
Total current assets	<u>3,365.2</u>	<u>3,567.9</u>
Non-current assets		
Inventories	29.4	30.3
Other financial assets	2,304.7	2,446.1
Deferred tax assets	189.0	143.9
Property, plant and equipment	795.1	825.8
Intangible assets	27.6	25.6
Other	0.1	0.3
Total non-current assets	<u>3,345.9</u>	<u>3,472.0</u>
Total assets	<u>6,711.1</u>	<u>7,039.9</u>
Current liabilities		
Payables	379.9	280.9
Interest bearing liabilities	1,977.1	2,342.8
Provisions	130.7	122.9
Deferred income	6.7	9.6
Total current liabilities	<u>2,494.4</u>	<u>2,756.2</u>
Non-current liabilities		
Interest bearing liabilities	60.5	102.3
Provisions	64.8	60.8
Retirement benefit obligations	19.5	31.6
Other	4.5	-
Total non-current liabilities	<u>149.3</u>	<u>194.7</u>
Total liabilities	<u>2,643.7</u>	<u>2,950.9</u>
Net assets	<u>4,067.4</u>	<u>4,089.0</u>
Equity		
Contributed equity	4,032.4	4,032.6
Reserves	16.5	12.3
Retained profits	18.5	44.1
Total equity	<u>4,067.4</u>	<u>4,089.0</u>

50 Parent entity financial information (continued)

Statement of comprehensive income

	2010 \$M	2009 \$M
Revenue	2,854.5	2,974.9
Other income	12.2	18.6
Changes in inventories of finished goods and work in progress	46.6	(65.0)
Raw materials and consumables used	(1,769.3)	(2,058.3)
Employee benefits expense	(414.8)	(418.5)
Depreciation and amortisation expense	(73.3)	(88.0)
Impairment of non-current assets	(28.2)	(144.7)
Freight on external despatches	(209.2)	(210.5)
External services	(179.2)	(191.9)
Finance costs	(193.8)	(173.0)
Other expenses	(96.6)	(134.1)
Profit (loss) before income tax	(48.1)	(490.5)
Income tax (expense) benefit	14.8	112.9
Net profit (loss) for the period	(33.3)	(377.6)
Other comprehensive income		
Actuarial gain (loss) on defined benefit superannuation plans	11.0	(33.8)
Income tax on items of other comprehensive income	(3.3)	10.1
Other comprehensive income for the year, net of tax	7.7	(23.7)
Total comprehensive income for the year	(25.6)	(401.3)

Summary of movements in retained profits

Retained earnings at the beginning of the financial year	44.1	696.9
Net profit (loss) for the year	(33.3)	(377.6)
Dividends paid	-	(251.6)
Actuarial gains (losses) on defined benefit plans recognised directly in retained profits	11.0	(33.8)
Deferred tax	(3.3)	10.2
Retained earnings at the end of the financial year	18.5	44.1

(b) Guarantees entered into by the parent entity

In Australia, the parent entity has given \$138.8M (June 2009: \$139.1M) in guarantees to various state workers compensation authorities as a prerequisite for self-insurance. Additionally, the parent entity has provided financial guarantees in respect to subsidiaries amounting to:

	2010 \$M	2009 \$M
Bank overdrafts and loans of subsidiaries (unsecured)	2,598.5	2,036.2
Other loans (unsecured)	735.3	771.7
Trade finance facilities	342.6	322.7
	3,676.4	3,130.6

50 Parent entity financial information (continued)

(c) Capital commitments

As at 30 June 2010, the parent entity had capital commitments of \$15.4M (June 2009: \$19.9M). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

(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).

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 \$66.8M (2009: \$48.2M) and intercompany payables of \$104.9M (2009: \$47.0M) of BlueScope Steel Limited have been recognised as a tax consolidated adjustment.

(e) Events occurring after balance date

In July 2010, the parent entity received a \$300M dividend from BlueScope Steel (AIS) Pty Ltd.

51 Events occurring after the balance date

There were no significant events occurring between the end of the financial year 30 June 2010 and the date this report was authorised for issue.

Directors' declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 1 to 94 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 Company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the financial 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 43 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 43.
- (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
13 August 2010

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 statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our 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, we consider 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 met 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. 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 at 30 June 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. 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.

Auditor's Opinion

In our opinion the Remuneration Report of BlueScope Steel Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



B R Meehan

Partner

Melbourne

13 August 2010