ASX RELEASE

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BlueScope delivers $531M 1H FY2021 underlying EBIT and sharpens focus on climate change

BlueScope today reported a 1H FY2021 net profit after tax (NPAT) of $330.3 million, up 78 per cent on 1H FY2020, and an underlying NPAT of $332.8 million[1].

Managing Director and CEO, Mark Vassella said, "Underlying EBIT for the half was $530.6 million, up 75 per cent on 1H FY2020 and double that of 2H FY2020. All operating segments have performed well across the half. We have seen strong volumes and improving steel spreads in our largest steelmaking business in Australia and the US. Australian Steel Products' domestic despatches were the highest in a decade, driven by a resurgent residential construction sector. Across the portfolio from India, ASEAN, China, the US and NZ & Pacific Islands, our businesses recorded strong earnings improvements.

"Total group operating cash flow for the half, after capital expenditure, was $265.1 million[2], or $433.3 million excluding investment in the North Star expansion. The balance sheet finished the half in a strong position at $305.2 million net cash. This gives us real confidence to pursue our strategy of transformation and growth.

"The Board has approved the payment of a 6 cents per share interim dividend – in line with last year. With our near-term focus on the completion of the North Star expansion, the buy-back remains on hold.

"The results demonstrate our strategy at work with the strength and quality of our diverse portfolio. This performance, and the healthy condition of the Group at the start of 2H FY2021, are a tribute to the efforts of our 14,000 people across all 18 countries.

"Importantly, our people continue to respond diligently to the COVID-19 pandemic, maintaining their personal health, safety and wellbeing – and that of the business, our customers and our communities," Mr Vassella said.

Segment Results

Australian Steel Products:

- Delivered underlying EBIT of $259.1 million, up 103 per cent on 1H FY2020 and 46 per cent on 2H FY2020.
- Domestic construction and distribution segment demand has been strong, particularly for coated and painted products – leading to the strongest domestic volumes since 2H FY2010. Realised spreads improved, outperforming benchmark movements which were broadly consistent with 2H FY2020. The contribution from export coke remained elevated and exceeded 2H FY2020.

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[1] Underlying financial results for 1H FY2021 reflect the Company's assessment of financial performance after excluding (post-tax): restructuring and business development costs ($14.3M) and US Federal tax payable on the internal transfer of a subsidiary from a North American holding company to an Australian holding company ($9.6M), write-back of carried forward tax losses ($6.2M) and contribution from discontinued operations ($6.0M). A full reconciliation of underlying adjustments, including 1H FY2020, is available in the 1H FY2021 Earnings Report on BlueScope's website.

[2] Cash flow before investment expenditure and financing.

North Star:

- Delivered underlying EBIT of $69.6 million, down 39 per cent on 1H FY2020 and 7 per cent on 2H FY2020.
- Despatch volumes ran at capacity and end-use mix normalised towards the end of the half as auto production ramped up. Spreads were similar to 2H FY2020, however the stronger A$:US$ impacted on translation of earnings.

Building Products Asia and North America:

- Delivered underlying EBIT of $150.3 million, up 87 per cent on 1H FY2020 and 100 per cent on 2H FY2020.
- Performance in ASEAN improved significantly on better volumes and cyclical margin expansion driven by relatively lower steel feed costs in a rising price environment.
- The North America business also improved significantly, due to improved manufacturing performance and cyclical margin expansion driven by relatively lower steel feed costs in a rising price environment.
- China and India also both delivered stronger results.

Buildings North America:

- Delivered underlying EBIT of $70.5 million, up 189 per cent on 1H FY2020 and over 400 per cent on 2H FY2020.
- The core engineered buildings business delivered a result that was broadly in line with 1H FY2020 and better than 2H FY2020.
- BlueScope Properties Group's contribution was higher than last half including the approximately $40 million additional contribution from the November property sale. This magnitude of contribution is not expected to be repeated in 2H FY2021.

New Zealand & Pacific Islands:

- Delivered underlying EBIT of $57.4 million, up over 300 per cent on 1H FY2020 and $76.1 million on the loss in 2H FY2020 of $18.7 million.
- Performance improved substantially, primarily due to a return to normal operations post-COVID-19 government mandated closure during 2H FY2020, very strong domestic demand particularly for coated and painted products and reduced depreciation charge.

North Star Expansion Update

On the cornerstone project to expand the North Star mini-mill in Delta, Ohio, by around 850,000 tonnes per annum Mr Vassella commented, "We are very pleased with progress. Over the last six months work commenced on installing the Melt Shop, Caster and Shuttle Furnace. Equipment continues to be delivered to site, with ancillary equipment such as cranes, water and electricity infrastructure, also being installed.

"All this progress has been done in the face of the widespread COVID-19 pandemic in the US. So, it's a great credit to the team at Delta but we continue to be mindful of the ongoing health and safety risks."

Appointment of Chief Executive Climate Change

BlueScope today announced the establishment of a new Executive Leadership Team position, appointing Gretta Stephens as Chief Executive Climate Change.

Managing Director and CEO, Mark Vassella said, "In recent years we have built climate change into our corporate strategy, recognising that addressing climate change is essential to our long-term success and have publicly stated our commitment to taking action on carbon emissions. We are now formalising that approach. Gretta will lead our new Climate Change function. With her technical background in engineering and materials science, and her track record of working with government and wider industry to solve macro problems, Gretta is ideally placed to lead this new global function.

“Gretta will now drive the work already underway, including our decarbonisation pathway and our long-term carbon reduction aspirations. Gretta’s new team will explore a range of technologies to understand the scale of emissions reduction they might deliver, potential costs and timeframes, and the barriers and enablers to implementation.

“We recognise that the future of iron and steelmaking will need to be centred around breakthrough technologies – once proven and scalable. Exciting work is being undertaken around the globe to explore breakthrough ‘green steel’ ironmaking technologies – including using hydrogen and electrolysis. These technologies are currently in early stages of technology readiness with significant advances expected to occur over the next decade. For success, such initiatives will need international collaboration across the industry value chain, supportive public policy, and affordable, renewable and reliable energy.

“In the shorter term, the steel sector will need to rely on technology performance improvements within conventional routes, increased use of renewable energy and other abatement measures.

“We are currently considering a diverse portfolio of projects including optimising raw material mixes, capturing and reusing a greater proportion of waste heat and gases, and potentially replacing a proportion of the coal currently used in the process with alternative reductants such as biomass or hydrogen-containing gas such as coke ovens gas. Increased rates of scrap usage, and greater use of renewable energy to cut Scope 2 emissions, are also being considered. BlueScope expects to make further announcements about these plans during this calendar year – together with updated climate scenario analysis and a long-term carbon emission reduction plan.”

Port Kembla Steelworks Blast Furnace Reline

BlueScope is considering options for the future configuration of the Port Kembla Steelworks, once the No.5 Blast Furnace comes to the end of its current operating campaign, which is now expected to occur in the late 2020s, with an indicative range of 2026 to 2030. The furnace is operating well, and the business is planning to continue to operate it for as long as it is efficient, reliable and safe to do so. However, given the critical nature of iron making to the Port Kembla operations, to safe-guard supply, an alternate source of iron may need to be available from 2026.

Understanding our decarbonisation pathway and technology plan from our scenario analysis are central to our approach. Emerging ‘green steel’ technologies, whilst promising, are not yet ready for large scale implementation in the timeframes required. In addition, alternative established lower carbon technologies such as EAF steelmaking are not economically viable for large scale flat steel production in Australia at this time given Australia’s high cost of energy and due to insufficient availability of cost effective, quality scrap steel to support three million tonnes of flat steel production at Port Kembla.

At this point, a reline is likely to be the most technically feasible and economically attractive option for Australian steelmaking while longer-term breakthrough low-emission technologies are developed. Evaluation of measures to reduce carbon emissions intensity of iron and steelmaking are a key part of the process, as evidenced by the establishment of the role, and the appointment, of a new Chief Executive for Climate Change. Given the strong earnings and cash flow capability of ASP there is significant flexibility and optionality to adopt new technologies and iron making configurations in the medium to longer term, as and when they are technically and commercially ready.

Our initial focus is on the option to reline the currently mothballed No.6 Blast Furnace. The scope, cost and timing are being developed. This option may enable the project to be conducted over a longer period to minimise operational disruption, optimise the asset and spread the capital expenditure.

We have commenced a pre-feasibility assessment (with an expected cost of around $10M) in accordance with BlueScope’s rigorous multi-stage capital investment evaluation process; the highly indicative capital cost is around $700 million to $800 million.

Capital Management

The Board has today approved the payment of a 6 cents per share interim unfranked dividend.

"A key element of BlueScope's strategy is to maintain strong financial capacity. As it is highly value accretive project, our capital allocation focus is on the North Star expansion, supported by our robust balance sheet. Given this large capex program and ongoing uncertainty in market conditions, BlueScope's buy-back program will remain on hold," Mr Vassella said

Outlook for 2H FY2021

At the beginning of 2H FY2021, order and despatch rates in key markets remain robust. Spot steel spreads in North America are materially higher than both 1H FY2021 and longer-term averages. However, it is uncertain whether these conditions will be sustained throughout the half due to volatile macroeconomic and market factors – including potential impacts from COVID-19 which could disrupt demand, supply chains and operations.

Accordingly, the Company expects underlying EBIT in 2H FY2021 to be in the range of $750 million to $830 million. Expectations are subject to spread, foreign exchange and market conditions – including potential impacts from COVID-19[3].

Authorised for release by: The Board of BlueScope Steel Limited

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[3] Refer to BlueScope's 1H FY2021 Investor Presentation for 2H FY2021 outlook assumptions and sensitivities.