ASX RELEASE

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BLUESCOPE DELIVERS $564M FY2020 UNDERLYING EBIT AND MAINTAINS A STRONG BALANCE SHEET

BlueScope today reported FY2020 net profit after tax (NPAT) of $96.5 million, including a $197.0 million non-cash write-down of the New Zealand and Pacific Islands segment. Underlying NPAT was $353.0 million[1].

The Company's underlying EBIT was $564.0 million which Managing Director and CEO, Mark Vassella said was a strong result in the context of the COVID-19 pandemic and the decline in steel spreads.

"In the second half, we delivered underlying EBIT of $261.6 million. The entire BlueScope team has rallied together to deliver this solid outcome.

FY2020 Financial Headlines	
Reported NPAT:	**$96.5M**
Underlying NPAT:	**$353.0M**
Underlying EBIT:	**$564.0M**
Underlying pre-tax ROIC:	**7.6%**
Capital Management	
Final dividend (unfranked):	**8 cps**

"While no one knows how this pandemic will play out, BlueScope has shown once again the resilience in its earnings, the quality of its cash flow and the strength of the balance sheet," he said.

RESILIENT BUSINESS MODEL

"The Company maintained high levels of business activity throughout the June half. The Australian Steel Products segment saw domestic despatch volume[2] increase 3 per cent in FY2020, and 2H FY2020 domestic despatches were resilient even with the emergence of the pandemic. In the US, despite closures of major automaker customers from mid-March to mid-May, North Star maintained capacity utilisation of over 90 per cent during 2H FY2020," Mr Vassella said.

"Total group operating cash flow for the year, after capital expenditure, was $238 million, or $412 million excluding investment in the North Star expansion. At 30 June 2020, BlueScope held $79 million[3] net cash on the balance sheet – an improvement from the previous half.

Mr Vassella said the Company had strong financial liquidity of $3.1Bn at 30 June 2020, having increased and extended its core syndicated bank facilities in May 2020.

"With all these metrics combined, BlueScope is a company capable of withstanding some of the toughest conditions that the economy has thrown at us. Accordingly, the Board has approved the payment of an 8 cents per share final dividend – in line with last year," he said.

[1] Underlying financial results for FY2020 reflect the Company's assessment of financial performance after excluding (post-tax): write-down of New Zealand and Pacific Islands segment assets ($197.0M), impairment of current period tax losses ($13.9M), provision for the cost of curtailing the Buildings North America defined benefit pension fund ($23.5M), restructuring and business development costs ($15.5M), discontinued operations ($6.4M) and BlueScope's share of the one-time tax accounting adjustment relating to a tax rate change in India ($6.0M); partly offset by a gain on asset sales ($5.8M). A full reconciliation of underlying adjustments, including FY2019, is available in the FY2020 Earnings Report on BlueScope's website.

[2] Normalised despatches exclude third party sourced products, in particular, long products.

[3] Under AASB16, a new lease accounting standard which took effect from 1 July 2019, most leasing arrangements formerly classified as operating leases were brought onto the balance sheet as an asset and a form of debt. The impact of this change to net debt at 30 June 2020 was $430M. Net cash excluding these operating leases was therefore $509 million.

SAFETY AND COVID-19 RESPONSE

"Our people have responded to the impact of the COVID-19 pandemic, maintaining their personal health and safety – and that of the business, our customers and our communities. Comprehensive measures and protocols have been adopted in all operating locations, leveraging our strong safety culture and capabilities. We have had no closures due to COVID-19 infection outbreaks at operating sites, to date.

"However, very sadly, a contractor was fatally injured while working at the berth at the Port Kembla Steelworks. The Company will learn from the findings of the investigation into this tragic accident.

"Our safety performance needs more work to reduce the lost time injury frequency rate of 1.14 and medically treated injury frequency rate of 6.7 per million hours worked, in FY2020."

SEGMENT RESULTS

Australian Steel Products:

- Delivered underlying EBIT of $305.1 million, down 43 per cent on FY2019. Steel spreads were compressed, driven by weaker regional steel prices and higher raw material costs, and coke margins weakened.
- Domestic sales increased to 2.17Mt, up 3 per cent over FY2019 from stronger underlying demand. Domestic volumes in 2H FY2020 remained resilient.

North Star:

- Delivered underlying EBIT of $189.6 million, down 71 per cent on FY2019. Realised steel spreads were weaker after the strong levels seen in FY2019.
- Despite two-month automaker shutdowns, capacity utilisation of over 90 per cent was maintained during 2H FY2020, demonstrating the quality of the North Star business.

Building Products Asia and North America:

- Segment underlying EBIT was $155.3 million, up 16 per cent on FY2019.
- Performance in ASEAN improved driven by better margins and continued benefits from the cost reduction and manufacturing improvement program, and notwithstanding the government-mandated closure of Malaysian operations from mid-March to early May.
- The North America operations delivered a better result than FY2019, with a particularly strong performance in 2H FY2020 driven by improved manufacturing performance and contribution margins.
- Despite mandated government closures during 2H FY2020 due to COVID-19, India and China both delivered stronger results.

Buildings North America:

- Delivered underlying EBIT of $37.9 million, down 29 per cent on FY2019. After a good first half, the second half saw lower volumes from the unfavourable effects of seasonality, combined with COVID-19 impacts including project delays and softer end market demand.

New Zealand and Pacific Islands:

- Delivered an underlying loss before interest and tax of $5.8 million, down $86.4 million on FY2019, driven by lower steel prices, lower vanadium contribution, high costs and the impact of the government enforced shutdown during April 2020.

EVOLVING OUR STRATEGY TO CONTRIBUTE DURING COVID-19 AND BEYOND

"BlueScope's purpose is to create and inspire smart solutions in steel, to strengthen its communities for the future. We continue to evolve our strategy to drive performance. We believe we are well positioned to address likely post-COVID emerging societal trends, such as; a shift in preferences towards lower density suburban and regional/rural residential housing demand, a rise in home improvements and extensions activity, enhanced focus on e-commerce and logistics growth and the onshoring or localisation of supply chains.

"In FY2021, we are also focussed on further transforming our business and portfolio of assets through:

- development of our major initiative to expand North Star's capacity – with the US$700 million project progressing well and now expected to be commissioned during the June 2022 half year;

- restructuring our New Zealand and Pacific Islands (NZPI) segment. This business exists in a challenging operating environment, made more uncertain by public policy settings; and
- digital technology, to deliver the next wave of customer, growth and productivity improvements.

"Being resilient and building a sustainable future remains key. Significant work continues in reviewing our supply chain sustainability and in our pursuit of emission reduction projects. We continued to make progress on diversity and continue to seek to build our diversity pipeline through targeted initiatives, and the promotion of careers in science, technology, engineering and mathematics," Mr Vassella said.

NORTH STAR EXPANSION UPDATE

A year ago, BlueScope confirmed it would proceed with the cornerstone project to expand the North Star mini-mill in Delta, Ohio, by around 850,000 tonnes per annum. Mr Vassella commented, "Despite slowing development to preserve cash flow during COVID-19, the project is progressing well and is on track for commissioning during 2H FY2022.

"We have been encouraged by North Star's performance during the past six months and by the rate of capacity rationalisation in North Star's region and the broader US, further reinforcing our belief in the investment case. The project remains a key capital allocation priority given the long-term value we expect it will create."

NEW ZEALAND AND PACIFIC ISLANDS – WRITE-DOWN AND RESTRUCTURE

As foreshadowed on 17 July 2020, a $197.0 million write-down is being recognised in the New Zealand and Pacific Islands segment based on updated expectations of lower sustainable earnings in the longer-term from the current business model.

"The Company has now substantially progressed a strategic review of current operations and is proposing to reconfigure the business by delivering a change in product mix, cost and productivity improvements. The intention is to deliver an appropriate level of profitability and sustainability by making the business more fit for purpose and fit for market.

"The proposed reconfiguration could see a substantial number of roles being made redundant. The indicative cash cost to achieve is in the indicative range of $30 million to $50 million and would include make-good, capital and redundancies.

"While we are confident we can deliver on this plan, in the event that the improvements are not achieved, the business may shift to external supply of products and primary steelmaking operations at Glenbrook may cease," Mr Vassella said.

CAPITAL MANAGEMENT

"During FY2020, BlueScope bought back $229 million of shares on-market. A 6 cents per share interim dividend was paid, and the Board has today approved the payment of an 8 cents per share final dividend.

"A key element of BlueScope's strategy is to maintain strong financial capacity in order to be able to robustly weather industry and economic cycles and deliver on value creating investment opportunities. To this end, our priority focus is the North Star expansion – on which we expect to spend between US$375 million to US$450 million during FY2021. Accordingly, BlueScope's buy-back program will remain on hold until there is a demonstrable improvement in business conditions," Mr Vassella said.

OUTLOOK FOR 1H FY2021

At the beginning of 1H FY2021, lagged steel spreads in North America and Asia are lower than 2H FY2020 averages; orders and despatches in Australia remain stable and North Star is despatching near full capacity. There is a high level of uncertainty in the current environment given the risks of COVID-19 events which could disrupt demand, supply chains and operations, combined with broader macroeconomic weakness dampening demand.

In light of this, BlueScope is not providing specific underlying EBIT guidance for 1H FY2021. An update on trading conditions will be provided at BlueScope's Annual General Meeting on 19 November 2020.

Authorised for release by: The Board of BlueScope Steel Limited.

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