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BlueScope delivers record underlying EBIT of \$2.20Bn; increases on-market buy-back; commences feasibility analysis on blast furnace reline at Port Kembla

BlueScope today reported 1H FY2022 net profit after tax (NPAT) of \$1.64 billion, a \$1.31 billion increase over 1H FY2021.

Confirming the record financial result, Managing Director and CEO, Mark Vassella said, “Underlying EBIT for the half year was \$2.20 billion², clearly the best half-year performance BlueScope has produced in its 20-year history as a listed company.

“Demand in key segments, especially in building and construction, has been strong, coupled with particularly robust margins driven by increased steel prices in Asia and the US.”

“The compelling force behind this performance though, has been the outstanding commitment and efforts of our 14,000 team members, and of our supply chain partners, who’ve had to deal with unprecedented challenges in maintaining safe and reliable operations, delivering to our customers and supporting our local communities.”

“Operating cash flow for the half year, after capital expenditure, was \$688 million³ including \$165 million expenditure on the North Star expansion, and a significant investment in working capital due to the higher prices and activity levels the Group is seeing,” Mr Vassella said.

“The balance sheet remains strong with \$696 million net cash, which combined with our strong cash flow, gives us confidence to invest for the long-term growth and resilience of the Group. BlueScope is well positioned for a low carbon future where it can continue to deliver strong returns to shareholders.”

“The Board has approved an interim unfranked dividend of 25 cents per share. Additionally, with \$285 million bought since August 2021, our buy-back program is being increased to allow up to a further \$700 million to be bought over the next 12 months.”

1H FY2022 Headlines

Reported NPAT:	\$1.64Bn
Underlying NPAT:	\$1.57Bn
Underlying EBIT:	\$2.20Bn
Underlying pre-tax ROIC:	43.7%

Capital Management

Interim dividend (unfranked):	25 cps
On market buy-back:	up to \$700M¹

¹ With \$285M of stock bought since August 2021, the Board has approved an increase in the scale of the buy-back program to allow up to a further \$700 million to be bought over the next 12 months.

² Underlying financial results for 1H FY2022 reflect the Company’s assessment of financial performance after excluding (pre-tax): settlement gains related to defined benefit pension funds (\$54.8M), gain on termination of a lease (\$5.1M), business development costs (\$8.2M) and a gain on discontinued operations (\$1.6M). A full reconciliation of underlying adjustments, including for 1H FY2021, is available in the 1H FY2022 Earnings Report on BlueScope’s website.

³ Cash flow before investment expenditure and financing.

ResponsibleSteel™ certification for Port Kembla Steelworks

Today, we are also very pleased to confirm that BlueScope's Port Kembla Steelworks and our steel processing sites have been awarded ResponsibleSteel™ site certification.

ResponsibleSteel™ is the global steel industry's first sustainability standard and certification program. It has been designed by business, civil society, suppliers and consumers so they can be confident that the steel they use has been produced and sourced responsibly.

ResponsibleSteel™ site certification creates a valuable point of difference for the Port Kembla Steelworks, the first site in the Asia Pacific region, and the fourth steelmaker in the world to obtain certification.

The independent, third-party site certification process has taken almost two years, involving multiple teams across our business. A rigorous audit of the 12 sustainability principles, which cover environmental, social and governance issues, has ensured that BlueScope is a world leader in steel sector sustainability.

Collaborating towards Net Zero Goal

During 1H FY2022, BlueScope commenced two important collaboration initiatives, signing memoranda of understanding with Rio Tinto to explore technological and process options for low emissions steelmaking, and with Shell Energy Operations (Shell) to explore and develop renewable hydrogen projects at Port Kembla. The projects will focus on piloting an industrial scale 10MW hydrogen electrolyser, hydrogen direct iron reduction furnace and iron melter, all powered by renewable electricity. Working with Shell, BlueScope will also seek to collaborate further with governments, private enterprise and research institutions to develop a hydrogen hub in the Illawarra.

Blast Furnace Reline Project Enters Feasibility Assessment

BlueScope expects that breakthrough steelmaking technology will continue to develop over the current and following decade, with significant take-up across the steel industry predicted into the 2040s. Given this timeframe, BlueScope is now transitioning to a full feasibility assessment of a reline and upgrade of the currently mothballed No. 6 Blast Furnace (6BF) at Port Kembla.

A relined 6BF will secure BlueScope's domestic ironmaking needs from 2026. The blast furnace campaign life of up to 20 years aligns with BlueScope's decarbonisation strategy and 2050 net zero goal, and provides a challenging but credible timeframe for the development, scaling and commercialisation of new low emissions technologies. The reline does not lock BlueScope in to blast furnace steelmaking for the full 20 years if technology is ready earlier. However, achieving this will be dependent on several enablers including access to low cost green hydrogen, firm and affordable renewable energy, the development of suitable raw material supply chains and appropriate policy settings.

The 6BF reline project scope is broader than a typical reline and the feasibility study will examine a comprehensive upgrade of the blast furnace facility and related infrastructure, including comprehensive technical and environmental upgrades. This includes improved environmental controls for water and air quality management and technologies that will be key enablers of medium to longer-term opportunities to reduce Port Kembla Steelworks' greenhouse gas intensity. These opportunities are part of a broader suite of climate-related projects at Port Kembla that have the potential to reduce GHG emissions intensity by up to 20 per cent¹. Partnerships and collaborations with governments, technology vendors and industry bodies will be crucial to making sure we are ready to implement the best available technologies.

BlueScope now estimates the preliminary indicative cost for the reline and upgrade project at around \$1 billion, up from the initial indicative range of \$700-800 million. The increase is due to both a broadening of the scope,

¹ Percentage intensity reduction on 2018 emissions base.

including environmental upgrades, and more refined costing of the required works. The estimate includes over \$100 million of measures directed at environmental efficiency improvements.

Detailed design and execution will be progressed across the next 12 months at a cost of approximately \$50 million. Capital expenditure is expected to peak in FY2024 and FY2025 with around 50 per cent of total spend during that period. BlueScope will also proceed to commit during FY2022 to around \$120 million of spending on long lead-time items, which are critical for the availability of 6BF ironmaking capability from 2026.

With the intention that 6BF replace the No. 5 Blast Furnace (5BF) as the source of iron from 2026, the non-cash accounting depreciation of existing 5BF assets will be stepped up by around \$40-60 million per annum. There will be a \$15 million impact in 2H FY2022.

North Star Expansion Update

Construction of the cornerstone project to expand the North Star mini-mill in Delta, Ohio, by around 850,000 tonnes per annum is well progressed. The first major component of the expansion, the new EAF, was commissioned during 1H FY2022 and reached its 100 heat milestone in January 2022. Commissioning of the ladle metallurgy furnaces is currently underway, and installation of the caster and shuttle furnace are nearing completion, with commissioning anticipated in the coming months. Production of the first coil is expected around the middle of CY2022, with an 18 month ramp up to full run rate expected.

Nearly all of the roles required to support operations of the expanded mill have been filled. The team continues to focus on maintaining operations and managing pandemic risks in project supply chains and on-site works. Total cost is expected to be around 10 per cent above the US\$700 million initial estimate, reflecting inflationary pressure and the revised commissioning schedule.

BlueScope Recycling

To enhance our position in the US, in December 2021 BlueScope acquired the ferrous scrap steel recycling business of MetalX for approximately US\$220 million¹, comprised of two operating sites in Indiana and in Ohio, immediately adjacent to North Star in Delta. MetalX is the largest of North Star's diverse scrap steel suppliers, currently supplying around 20 per cent of the scrap used.

The business now operates as BlueScope Recycling and brings us a crucial presence and expertise in scrap processing to further secure our prime and obsolete scrap needs, and helps drive our ambition to participate in the circular economy. The acquisition will enable North Star to improve the quality and quantity of obsolete scrap it uses and reduce the mix of prime scrap.

Executive Changes

Changes to BlueScope's Executive Leadership Team, which took effect from 1 January, reinforce the Company's important sustainability credentials.

Gretta Stephens has taken on an expanded role as Chief Executive Climate Change & Sustainability. The merged Climate Change & Sustainability team will continue to work with our businesses to drive our decarbonisation pathway and ensure we deliver on BlueScope's broader sustainability focus areas, in alignment with Our Purpose.

Robin Davies has been appointed Chief Executive New Zealand & Pacific Islands, replacing Gretta Stephens. Robin has a depth of international and operational experience, having worked for Tata Steel Europe prior to joining BlueScope in 2008. He held a number of roles in New Zealand and was President North Star BlueScope Steel from 2017 to 2020. Most recently he was Chief Operating Officer of New Zealand Steel.

¹ Net of working capital and transaction adjustments.

Segment Results

North Star:

- Delivered underlying EBIT of \$1,228.5 million, up 1,665 per cent on 1H FY2021 and 102 per cent on 2H FY2021.
- Realised steel spreads were significantly stronger and mill operation remained at 100 per cent of available capacity.

Australian Steel Products:

- Delivered underlying EBIT of \$687.8 million, up 165 per cent on 1H FY2021 and 66 per cent on 2H FY2021.
- The domestic construction, distribution and manufacturing segments' demand continued to strengthen, particularly for coated and painted products, leading to domestic mill sales volumes of 1.3 million tonnes.
- Realised steel spreads improved over 2H FY2021 driven by stronger achieved prices in domestic and export markets, strong performance from our downstream businesses, partly offset by higher raw material costs. Sales of export coke delivered a higher contribution compared to 2H FY2021.
- Higher conversion costs, particularly labour on higher remuneration expense linked to financial performance¹.

Building Products Asia and North America:

- Delivered underlying EBIT of \$265.6 million, up 77 per cent on 1H FY2021 and 45 per cent on 2H FY2021.
- The North America business improved substantially, primarily due to the greater rise in North American flat steel pricing than cost of steel feed given the business' supply chain structure.
- In ASEAN, Thailand delivered a strong performance, and Indonesia remained robust, despite some impacts from the pandemic. The pandemic impacted Malaysia's performance given the government mandated shut; Vietnam was impacted by weak demand on COVID-19 movement restrictions and higher cost inventory.
- China and India both delivered similar results to 1H FY2021.

New Zealand & Pacific Islands:

- Delivered underlying EBIT of \$86.2 million, up 50 per cent on 1H FY2021 and 19 per cent on 2H FY2021.
- Robust demand and pricing environment across construction and infrastructure sectors drove a stronger result, notwithstanding supply-chain pandemic related disruptions during the half.

Buildings North America:

- Delivered underlying EBIT of \$18.0 million, down 74 per cent on 1H FY2021 and up 6 per cent on 2H FY2021.
- The core EBS business saw solid demand, however margins were compressed on higher steel feed costs.
- There was a lower contribution compared to 1H FY2021 (higher compared to 2H FY2021) from the BlueScope Properties Group on project timing.

Corporate and Eliminations

- Corporate costs and profit in stock eliminations of \$(82.0) million, 7 per cent unfavourable to 1H FY2021 and 20 per cent favourable to 2H FY2021.
- Intercompany profit in stock elimination was \$35 million lower in 1H FY2022 compared to 2H FY2021 due to the rapid rise in margins in 2H FY2021 not being repeated in 1H FY2022, relating to intercompany sales to the North America coated business.

¹ Relates to increased employee profit share plan expenses which naturally wind up and down in direct proportion to varying levels of profitability.

Outlook for 2H FY2022

Underlying EBIT in 2H FY2022 is expected to be in the range of \$1.20 billion to \$1.35 billion – which would be second only to last half when looking back over BlueScope's 20-year listed history.

Expectations are subject to spread, foreign exchange and market conditions¹. It is flagged that there are elevated risks – particularly from pandemic-related impacts on operations, supply chains and demand, volatility in steel prices and spreads, and the current geopolitical environment.

¹ Refer to BlueScope's 1H FY2022 Investor Presentation for 2H FY2022 outlook assumptions and sensitivities.

Authorised for release by: The Board of BlueScope Steel Limited

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