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BLUESCOPE DELIVERS \$1,015.8M NPAT IN FY2019 APPROVES US\$700M EXPANSION OF NORTH STAR MILL

BlueScope today reported a FY2019 net profit after tax (NPAT) of \$1,015.8 million, and an underlying NPAT of \$966.3 million, up 17 per cent on FY2018¹.

BlueScope Managing Director and CEO, Mark Vassella said "Underlying EBIT for the year was \$1,348.3 million, up 6 per cent or \$79 million over FY2018. This was our third successive full year underlying EBIT above \$1.1 billion.

"Despite some softening in commodity steel spreads and domestic volumes in the second half, in FY2019 BlueScope delivered another very good result," he said.

RETURNS FOCUS

"BlueScope is very focused on generating returns above its cost of capital, in order to create value for shareholders. The Company delivered another strong performance in FY2019 with underlying pre-tax ROIC of 19.5 per cent, down marginally on FY2018 of 20.0 per cent. Operating cash flow, after capital and investment expenditure, was very strong at \$1.3 billion. The successful combination of underlying earnings growth, and our on-market share buy-back saw underlying earnings per share lift by 22 per cent," Mr Vassella said.

STRONG FOCUS ON CAPITAL DISCIPLINE

"That performance is underpinned by a strong balance sheet and very disciplined capital investment ethos – one that balances annual shareholder returns and long-term profitable growth. BlueScope finished FY2019 with net cash of \$692.7 million, of which approximately \$150 million related to timing benefits in working capital. Given the transformation of the business in recent years, with strong earnings and cash flows we have reassessed our optimal capital structure. We will now target a revised capital structure of group net debt around zero, in contrast to our previously stated target of net cash in the range of \$200 million to \$400 million.

"We will be both proactive and prudent in managing the balance sheet towards that net debt target. In the short term, we will continue with our previously announced 1H FY2020 buy-back of up to \$250 million², and the Board has also approved the payment of a final unfranked dividend of 8 cents per share," Mr Vassella said.

FY2019 Financial Headlines

Reported NPAT:	\$1,015.8M
Underlying NPAT:	\$966.3M
Underlying EBIT:	\$1,348.3M
Underlying pre-tax ROIC:	19.5%

Capital Management

1H FY2020 buy-back:	up to \$250M²
Final dividend (unfranked):	8 cps

¹ Underlying financial results for FY2019 reflect the Company's assessment of financial performance after excluding (post-tax): non-current assets impairments (\$33M), asset sales and acquisitions (\$74M), recognition of unbooked tax losses (\$24M), restructure and redundancy costs (\$9M), discontinued businesses (\$4M) and business development costs (\$2M). A full reconciliation of underlying adjustments, including FY2018, is available in the FY2019 Earnings Report on BlueScope's website.

² Increase of buy-back by up to \$250M announced on 18 June 2019, as part of 1H FY2020 capital management program; \$10M bought prior to 30 June 2019 and a further \$29M bought prior to 19 August 2019.

PROCEEDING WITH NORTH STAR EXPANSION – GROWTH STRATEGY

On the key strategic focus area of investing for long term profitable growth – Mr Vassella said, “After careful due diligence, today we advise that the Board has approved the expansion of our successful North Star business at Delta, Ohio – subject to anticipated receipt of necessary air permits and local and state incentives. BlueScope will add around an additional 850,000 metric tonnes per annum of domestic steelmaking capacity in the US. With an estimated cost of US\$700 million, commissioning of the expansion is targeted for mid FY2022, with full ramp-up approximately 18 months later.

“North Star is recognised as a best-in-class asset. Based on long-term historical spreads, this project is expected to deliver compelling ROIC of 15 per cent or more, once fully ramped-up. Moreover, the project has future potential growth, through possible debottlenecking to add a further 500,000 metric tonnes per annum of steelmaking capacity.

“This project fits our strategy perfectly. It offers long-term sustainable earnings growth from a high-quality asset. It is a significant tribute to the 400 employees at Delta who work hard to make it such a strong performing asset,” he said.

“The BlueScope investment proposition now comprises a strong suite of assets and options, capability and discipline – all focused on growing long-term shareholder value and returns.

“As well as North Star, the portfolio includes:

- A reinvigorated and resilient integrated Australian business, which includes the iconic COLORBOND® steel brand, delivering returns throughout the cycle;
- global leadership and footprint in coating and painting for building and construction markets; and
- operations in the world’s two largest construction markets, China and the US, and in high growth markets in ASEAN and India.”

EXECUTIVE CHANGES IN NORTH AMERICA TO SUPPORT EXPANSION PROJECT

“To ensure appropriate management and governance of the North Star expansion, we have made some changes to our Executive Leadership Team,” said Mr Vassella.

“Mr Pat Finan will take the new role of Chief Executive Hot Rolled Products North America, responsible for both the North Star operations and the expansion project. Mr Finan is well placed to oversee this important investment, having held executive responsibility for the North Star operations in his current role, and been closely involved in the due diligence phase.

“Mr Alec Highnam, President BlueScope North America, will take on the expanded role of Chief Executive BlueScope Buildings leading the Group’s engineered steel building business in North America and taking on executive responsibility for BlueScope’s other corporate interests there, including Innovation and the BlueScope Properties Group.”

SUSTAINABILITY

Throughout the year, BlueScope maintained focus on embedding sustainability, with progress across five identified areas:

- Safety – we are evolving to the next level of safety improvement, with our new five-year health, safety and environment strategy launched in mid-2019. LTIFR and MTIFR of 1.16 and 5.6 respectively per million hours worked in FY2019, and 64 per cent of employees involved in Health, Safety and Environment Improvement Projects through the year.
- Climate change – we continued to improve disclosures on our climate change strategy, under the Task Force on Climate-related Financial Disclosures (TCFD) framework. We also detailed our approach to shadow carbon pricing in our Capital Investment Framework, climate risk scenarios and GHG emissions intensity reduction targets.

- Supply chain sustainability – significant work has been undertaken, with the rollout of our Supplier Code of Conduct and related assessment programs, and we are well advanced for the reporting requirements of the Modern Slavery Act.
- Diversity and inclusion – we continued to improve our female workforce participation which has increased to 21 per cent in FY2019, with 40 per cent of new recruits to operator roles being women. In FY2020, we will retain our focus on gender diversity with greater focus on inclusion, supported by regional focus on local talent succession and cultural diversity of leadership teams.
- Governance and business conduct – we continued to work on strengthening BlueScope's culture to support ethical and responsible work practices across every part of our business. In FY2019 we launched the new 'Speak Up' policy, and focussed on increasing our employees' understanding of how they can report misconduct concerns, including via our externally managed conduct hotline.

SEGMENT RESULTS

North Star:

- Delivered underlying EBIT of \$654.7 million, up 52 per cent on FY2018, driven by strong steel spreads combined with favourable foreign exchange translation.
- The business continues to operate at full capacity.

Australian Steel Products:

- Delivered underlying EBIT of \$535.4 million, down 9 per cent on FY2018. Realised steel spreads were stronger, particularly due to pricing lags, however domestic volumes weakened due to some slowing in construction activity and distribution channel destocking. Costs were also higher due to short term operational instability (within normal operating range) and higher depreciation following the write-back of previously impaired assets in June 2018.
- More positively, demand for premium branded coated and painted products remained broadly resilient, down approximately 7 per cent in 2H FY2019.

Building Products Asia and North America:

- Segment underlying EBIT was \$134.2 million, down 27 per cent on FY2018.
- In ASEAN and North America, margins were lower due to higher steel feed costs combined with weaker despatch volumes. The businesses are focused on 'getting fit', through a cost reduction and manufacturing improvement program which delivered improvements of around \$20 million in FY2019 and are targeted to deliver a full-year run-rate of \$40 million during FY2020. Notwithstanding turnaround plans and a recent improvement in business performance, the Group recognised a \$64 million non-current asset impairment in its Thailand operations.
- The China and India businesses continued to perform very well.

New Zealand and Pacific Steel:

- Delivered underlying EBIT of \$80.6 million, down 28 per cent on FY2018, primarily due to higher raw material and electricity costs. Overall, domestic demand remained robust.
- Following a very strong first half, the second half was impacted significantly by a softening of steel and export vanadium selling prices.

Buildings North America:

- Delivered underlying EBIT of \$53.4 million, down 28 per cent on FY2018, due to lower despatch volumes and an unusually high contribution from BlueScope Properties Group in FY2018.
- More positively, sales of buildings for end-use applications in the industrial, manufacturing, aviation and energy sectors remain strong.

OUTLOOK FOR 1H FY2020

In the current half, the Company expects weaker commodity steel spreads in North Star and ASP, leading to an underlying EBIT around 45 per cent lower than 2H FY2019 (which was \$499 million). Expectations are subject to spread, FX and market conditions.

This is the short term outlook. BlueScope is now a very resilient, global company with a strong balance sheet and high quality assets which provide the capacity to withstand and potentially take advantage of tough cyclical conditions.

For further information about BlueScope: www.bluescope.com

BLUESCOPE CONTACTS:

Media

Michael Reay
Manager Corporate Affairs

P +61 2 4240 1100

M +61 (0) 437 862 472

E Michael.Reay@bluescope.com

Investors

Don Watters
Treasurer & Head of Investor Relations

P +61 3 9666 4206

M +61 (0) 409 806 691

E Don.Watters@bluescope.com