



Voting Intentions – Bluescope Ltd 2021 AGM

ASX Code	BSL
Meeting Time/Date	10am, Thursday 18 November 2021
Type of Meeting	Virtual
Monitor	Mike Muntisov
Pre-AGM Meeting?	Yes, with Chair John Bevan, Investor Relations Don Watters and Sustainability Manager Tim Rodstedt

Proposed Voting Summary

2	Adoption of Remuneration Report	For
3	Re-election of Mark Hutchinson as a Director	For
4	Approval of STI grant to CEO/Managing Director Mark Vassella	For
5	Approval of LTI grant to CEO/Managing Director Mark Vassella	For
6	Approval of potential termination benefits	For
7	Increase the number of directors that can be appointed	For

Key Financials

	2021	2020	2019	2018	2017
Statutory NPAT (\$m)	1,193	97	1,016	1,569	716
Underlying NPAT (\$m)	1,166	353	966	826	652
Statutory EPS (cents)	237	19	190	282	125
Dividend per Share (cents)	50*	14	14	14	9
Share Price at End of FY (\$)	21.96	11.69	12.32	17.26	13.21
Statutory CEO Remuneration (\$)	\$5.5m	\$4.6m	\$3.7m	\$5.9m	\$6.9m
Total Shareholder Return (%)	92%	-4%	-29%	32%	109%

*Statutory NPAT and EPS are the audited figure from the financial accounts. Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company. * includes 19c special dividend*

Summary of Historical ASA Issues with the Company

None of significance.

Review of Board on Governance, Transparency, Fairness to Retail Shareholders

Positives

- The Board has an independent Non-Executive Chair and majority of independent directors.

- The Board has at least 30% female (actual 50%) and at least 30% male directors (actual 50%:50%) with diversity of age, and skills.
- Non-Executive directors are expected to own the equivalent of 100% of base fee in equity, the Managing Director 200% of fixed pay and other KMPs 100% within a ‘reasonable’ time. The existing directors and management easily meet this expectation
- The company meaningfully discloses ESG issues or risks facing business and the processes to manage them.
- The company discloses a meaningful skills matrix of the board accessible by shareholders in the company’s governance statement.
- The company has a policy limiting directors to a maximum tenure of nine years (from the date of first election by shareholders).

Areas for Improvement

- All directors of the board are domiciled in Australia, a weakness that the board has just overcome with the recent appointments of two overseas-based directors.

Summary

The company is generally well governed.

Items for Voting

Item 2	Adoption of Remuneration Report
ASA Vote	For

CEO rem. framework	Target (\$m)	% of Total	Max. Opportunity (\$m)	% of Total
Fixed Remuneration	1.8	41%	1.8	37%
STI – Cash*	0	0%	0	0%
STI – Equity*	0.792	18%	1.206	25%
LTI	1.8	41%	1.8	37%
Total	4.392	100%	4.806	100%

**KMP may elect (at the beginning of the year) to take none, 50 per cent or 100 per cent of their potential STI payment in equity, with the remainder in cash. The equity, if selected, is in the form of rights. In FY21 the MD & CEO elected for 100 per cent of his STI payment to be delivered in equity.*

Positives

- CEO’s actual take-home remuneration, as well as the target and maximum opportunity of each component is clearly disclosed.
- The total quantum of the CEO remuneration package is within the Godfrey Remuneration Group report benchmarks.
- The quantum of Board fees is within the Godfrey Remuneration Group report benchmarks.
- At least 50% (59% at target) of CEO’s pay is genuinely at risk, with STIs less than fixed remuneration.
- The majority of STIs are based on quantifiable and disclosed performance metrics (50% on financial parameters, ROIC and cash flow)
- At least 50% of STIs is paid in equity. This year the CEO has elected to receive 100% of STI in equity.

- Clear disclosure is provided for all KMP performance hurdles and the weightings applied for each incentive.
- No retesting of performance hurdles is allowed.
- LTI (Alignment Rights) hurdles are based on two hurdles, ROIC and leverage ratio

Bluescope’s LTI hurdles and criteria are as follows (both criteria have to be met for any LTI to be awarded):

LTI Performance Criteria	Contribution % of total LTI award	Threshold performance	Vesting at threshold performance	Target performance for 100% vesting
Leverage (Debt/EBITDA)	*	<1.3	100%*	<1.3*
ROIC (3-year ave)	*	>10%	100%*	10%*

* both criteria must be met for any vesting to occur and then 100% of award vests. There is no sliding scale.

- All share grants are allocated at face value not fair value.
- Share grants are satisfied by equity purchased on-market.
- No retention payment on any awards are subject only to continuing service.
- No termination payments exceed 12 months fixed pay.
- Board discretion on vesting in a takeover or “change of control” events.
- Overall, the Remuneration report is readable, transparent, and understandable with a logical relationship between rewards and financial performance and corporate governance.

Areas for Improvement

- There is no minimum 12 month holding lock on STI share grants. The company justifies this because of “the conservative STI opportunity relative to market peers (67% of fixed vs 100%+ for peers)”. This is because when the current plan was implemented in 2018, some of the STI reward was shifted to the LTI (3-year).
- KMPs can elect to receive all of their STI in cash. Nevertheless, recent practice of the MD and most KMPs is to receive all of their STI in equity.
- LTI (Alignment Rights) hurdles are measured over three years rather than a minimum of four years after issue.
- TSR is not used as a LTI hurdle. The Chair has previously explained that total shareholder return (TSR) is not used because for a cyclical industry stock such as BlueScope which can experience 10% price changes in a day they feel TSR is an unreliable incentive for management. He also pointed out that as BlueScope would probably outperform all other listed steel companies, a relative TSR measure against peers would always be met. BlueScope believes that in such a market this is all handled better by their KMP shareholding policy (minimum holding value of 200% of fixed pay for CEO, 100% of fixed pay for other KMP)
- The leverage performance measure acts more as a ‘gateway’ as it is generally easily achieved. The company’s remuneration philosophy is to set relatively low threshold targets to account for the cyclical nature of the industry but with a low opportunity relative to peers, recognising the increased likelihood that the LTI will be awarded.

- The all-or-none nature of the LTI award is not aligned with the shareholder experience and makes the underlying ROIC performance measure potentially susceptible to manipulation if it is close to the measure threshold.
- Underlying earnings are used for both STIs and LTIs share grants. However the adjustments seem highly transparent and reasonable given the cyclical nature of the business and the significant one-off gains from accounting adjustments which are excluded from incentive calculations.

Conclusion on Remuneration

The remuneration structure has many features which ASA supports. However there are areas which do not meet ASA guidance, and we have discussed these with the company and received reasonable explanations as above. We have also reviewed the rationale of BSL's current remuneration structure when it was first implemented in 2017/18, and ASA's previous voting which consistently supported it. Our conclusion is that the remuneration plan has achieved the objectives set at the time of implementation. Now that the company has stabilised and diversified, and KMPs have accumulated the target skin-in-the-game, it is time to refresh the plan to address some of the issues we have raised. We shared this view with the company at our pre-AGM meeting. Therefore, although we have reservations, the ASA proposes to support the remuneration report on this occasion, and we will review this position more carefully next year.

Item 3	Re-election of Mark Hutchinson as a Director
ASA Vote	For

Mr Hutchinson, B. Com, was appointed to the board in October 2018. He has adequate skin in the game (a shareholding equivalent to 160% of his total remuneration) and is independent. His experience, a 25-year career at GE including CEO of Europe and China, is appropriate for the board and his director workload is not excessive.

For these reasons, the ASA proposes to support his election.

Item 4	Approval of STI grant to CEO/Managing Director Mark Vassella
ASA Vote	For

Refer to assessment under Item 2.

Item 5	Approval of LTI (Alignment Rights) grant to CEO/Managing Director Mark Vassella
ASA Vote	For

Refer to assessment under Item 2.

Item 6	Approval of potential termination benefits
ASA Vote	For

This resolution has previously been supported by the ASA at AGMs in 2010, 2015 and 2018. The company seeks to renew the approval for a further three years.

ASA generally opposes pre-approval of termination benefits which exceed 12 months fixed pay except where payment of vested STI or LTI awards are likely to push a termination payment in excess of the 12-month limit. As these criteria apply in this case we will support the resolution.

Item 7	Increase the number of directors that can be appointed
ASA Vote	For

The current constitution limits the maximum number of directors on the Board to ten. This resolution seeks to temporarily increase the maximum to twelve until the 2025 AGM.

The current board consists of eight directors. Two new directors have recently been appointed and one will retire at the AGM, making nine directors.

At the pre-AGM meeting the chair made the case that one additional USA-based director was desirable, then a director with a legal background to overlap the retirement of director Ewen Crouch, then three directors are due to retire in 2024. The board believe appointing directors to overlap ahead of these retirements would be in the best interest of the company.

The aggregate maximum of board fees would not be exceeded with this change.

Therefore ASA propose to vote for this resolution.

Monitor Shareholding

The individual (or their associates) involved in the preparation of this voting intention has no shareholding in this company.

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