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"Blue"Scope Steel has had a three year "Purple" Patch

Company/ASX Code	BlueScope Steel/BSL
AGM date	Thursday 21 November 2019
Time and location	10am, Stamford Plaza, 39 Edwards Street, Brisbane
Registry	LINK
Webcast	Real time?
Poll or show of hands	Poll on all items
Monitor	Barbara Crook assisted by John Whittington
Pre AGM Meeting?	Yes, with Chair - John Bevan, Treasurer and Head of Investor Relations - Don Watters, Sustainability Manager - Tim Rodsted

Item 1	**Annual Report**
ASA Vote	No vote required

Summary of ASA Position

Financial performance

In Financial Year 2019 (FY19), BlueScope's revenue increased 9% from FY18 (a year-on-year rise of 9% since FY17) to $12,533m. This was principally due to higher steel prices across all segments combined with favourable translation impacts from a weaker Australian dollar exchange rate (A$:US$). 34% of revenues came from Australia, 38% from North America, 20% from Asia and the remaining 8% from New Zealand/Other.

Reported net profit after tax (NPAT) for the year was $1,016m. This was down 35% as a result of the previous year's favourable one-off impacts of tax asset and plant and equipment impairment reversals. The recognition of un-booked tax losses and U.S. tax reform in FY18 together with the impairment of Building Products Thailand plant and equipment and higher restructuring costs in FY19 also contributed. The profit was partly offset by higher asset sales and higher underlying NPAT. Underlying NPAT of $966m increased 17% on higher underlying Earnings Before Interest and Taxes combined with lower financing costs and outside equity interest.

Cash flow from operations was significantly up at $1,682m and net cash flow jumped up 989% (!) from $63.6m in FY18 to $693m in FY19.

Dividends remained steady at 14 cents per share and total shareholder return for the year was minus 29.4%. The FY19 interim dividend was 6 cents and the final dividend of 8 cents were both unfranked. Return on equity was 14.4% (down from 15.3% last year; it was below 2.1% in all the years between 2009 and 2014).

The predicted Group short term outlook is that in the current half, the Company expects weaker commodity steel spreads in North Star and ASP, leading to an underlying EBIT around 45% lower than 2H FY19 (which was $499m). Relative to 2H FY19, BlueScope expects lower underlying net finance costs; a similar underlying tax rate; and higher profit attributable to non-controlling interests. Expectations are subject to spread, FX and market conditions.

Key events

An on-market share buy-back of $510m commenced in FY19 and the Company has announced that 1H FY20 buy-back of up to $250m will continue.

The Board has approved the expansion of the successful North Star business at Delta, Ohio – subject to the anticipated receipt of necessary air permits and local and state incentives. BlueScope will add an additional ~850,000 metric tonnes per annum of steelmaking capacity in the U.S. This is a key long-term growth initiative for the Company.

Key Board or senior management changes

BlueScope announced on 17 October 2019 that Mr Lloyd Jones who was appointed to the board in 2013 has advised his intention to retire from the Board at the Company's Annual General Meeting which is being held on 21 November 2019.

ASA focus issue

A remuneration table sets out clearly remuneration for Executive KMP in FY19, along with comparative information from FY18 in accordance with statutory reporting requirements. Given that the majority of the Executive KMP were appointed to new roles in FY18, comparisons between FY18 and FY19 are not considered like-for-like. Remuneration disclosure is fairly good. Director and senior executive equity holdings are good and shareholder participation seems satisfactory. Of the seven board directors, three are female.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	1,016	1,569	716	354	136
UPAT ($m)	966	826	652	307	161
Share price ($)	12.32	17.26	13.21	6.37	3.00
Dividend (cents)	14	14	9	6	6
TSR (%)	-29%	32%	109%	114%	-44%
EPS (cents)	190	282	125	62	24
CEO total remuneration, actual ($m)	3.734	3.849	6.863	7.529	4.371

For FY19, the CEO's total actual remuneration was **42 times** (was 45 last year) the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2	**Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

CEO rem. framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.858	41%	1.858	37.5%
STI - Cash†	0	0%	0	0%
STI - Equity†	0.817	18%	1.24	25%
LTI	1.858	41%	1.858	37.5%
Total	4.534	100%	4.956	100%

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

†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 FY19 the MD & CEO elected for 100 per cent of his STI payment to be delivered in equity.

Comprehension of the report – the remuneration report was not an easy read.

The STI can range from 0% of fixed remuneration to 44% at target and 67% at maximum for the CEO (0-35-52.5% for other executives), provided a payment based 50% on company financial metrics (underlying return on invested capital and free cash flow from operations), 5% on safety, and the remaining 45% on personal achievement of “strategic objectives”.

Long term incentives (LTI) can range from 0% of fixed remuneration to 100% of fixed remuneration for the CEO (65% for other executives) will be paid based on achievement of at least 10% rolling three year average underlying Return on Invested Capital (RoIC) and leverage (average net debt to EBITDA) ration of less than 1 over three years.

We note that BlueScope use underlying metrics for both STIs and LTIs 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.

Note: Binary nature of LTI, by comparison with other businesses = Fixed was 75th percentile and target is also around the 75th percentile however actual total was around 50th percentile. They (the Board) are hard markers when it comes to metrics and results!

Item 3	Re-election of Ewen Crouch as a Director
ASA Vote	For

Summary of ASA Position

Mr Crouch, a lawyer, was appointed to the board in March 2013. He already has a shareholding equivalent to about 150% of his total remuneration and is independent.

Mr Crouch is Chair of one listed company (Corporate Travel Management) and a director of one listed companies (Westpac). We do not consider his workload excessive.

We believe that Mr Crouch is well qualified, is likely to contribute to the board, and we support his election.

Item 4	Approval of grant of Share Rights to Mark Vassella under the Company's Short-Term Incentive Plan
ASA Vote	For

Summary of ASA Position

This is for the issue of a maximum of 100,309 share rights worth about $1.2m. This is equivalent to 67% of base salary and has been calculated based on face value.

The specific measures have not been disclosed yet, but the FY19 measures were safety, cash flow, underlying RoIC, and personal achievement of strategic objectives. Disclosure of actual achievement was good.

If performance is below the threshold then no rights will vest, if performance is between the threshold and the maximum then a linear scale will apply from 33% vesting at the threshold to 100% vesting at the maximum. If performance is above the maximum, then all rights will vest.

There is no holding lock on these shares, so they can be sold at any time once vested. The Board has discretion to determine that rights lapse for misconduct (clawback is also possible) and rights will lapse on termination for cause or resignation.

On balance we believe the awards are not excessive, are aligned with shareholder value and are highly transparent and well explained, so we intend to support the resolution.

Item 5	**Approval of grant of Alignment Rights to Mark Vassella under the Company's Long-Term Incentive Plan**
ASA Vote	**For**

Summary of ASA Position

This is for the issue of a maximum of 150,463 alignment rights worth about $1.8m. This is equivalent to 100% of base salary and has been calculated based on face value.

The rights will vest fully if two criteria are achieved. These criteria are underlying earnings before interest and tax RoIC over the period 1 July 2019 to 30 June 2022 to be greater than 10%, and the ratio of the average annual leverage calculated at six monthly intervals over the period 1 July 2019 to 30 June 2022 to be less than one.

If one or both of the performance criteria is not satisfied, then all the alignment rights will lapse. The Board has discretion to determine that rights lapse for misconduct (clawback is also possible) and rights will lapse on termination for cause or resignation.

We have some concerns that total shareholder return (TSR) is no longer used for LTIs however in discussion with the Chair we understand that 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 requirements (100-200% of fixed pay for CEO, 50-100% of fixed pay for other KMP).

On balance we believe the awards are not excessive, are aligned with shareholder value and are highly transparent and well explained, so we intend to support the resolution.

Item 6	**Approval to undertake possible further on-market share buy-backs**
ASA Vote	**For**

Summary of ASA Position

BlueScope is currently generating substantial amounts of cash annually as it is at the top of the cycle. Having considered various alternatives the board holds the view that on-market share buy-back are the most effective method for the company to return capital to shareholders given the company's lack of franking credits.

The company has returned over $1b to shareholders through buybacks since FY17 but this has not required shareholder approval as it has been less than 10% of shares in any 12 month period.

The company is now seeking approval for the buy-back of 70m shares representing 13.7% of shares in the company.

We support this initiative although we want some reassurance that the shares will not be bought back if they are trading above BlueScope's intrinsic value.

The individuals or their associates involved in the preparation of this voting intention have no shareholding in this company.