Australian Shareholders' Association Limited
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Approaching the bottom of the cycle?

Company/ASX Code	BlueScope Ltd/BSL
Meeting Time/Date	10am AEDT Tuesday, 19 November 2024
Location	Novotel Northbeach Hotel, North Wollongong, NSW
Registry	Link Market Services
Type of Meeting	Hybrid
Monitor	Mike Muntisov
Pre AGM Meeting?	Yes, with Chair Jane McAloon, Investor Relations Chris Gibbs and Sustainability Manager Tim Rodsted

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

1. How we intend to vote

No.	Resolution description	
2a	Re-election of Ms Jane McAloon as a Director	For
2b	Election of Mr Alastair Field as a Director	For
3	Adoption of Remuneration Report	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 for an increase in the number of directors	Against
7	Approval for an increase to the Non-Executive Director Fee Pool	Against
8	Approval for renewal of potential termination benefits	For

2. Summary of Issues and Voting Intentions for AGM

- Reduced steel spreads have impacted profitability.
- The North Star expansion project in the USA has been successfully completed and a further debottlenecking project approved.
- The Port Kembla Blast Furnace relining and upgrade project is underway.

3. Matters Considered

Key Financials

The results in FY24 saw Net Profit after Tax (NPAT) drop from $1.0B to $0.8B even though revenue was down by only 7%, reflecting the reduced steel spreads and volatile market through the year. The underlying Earnings before Interest and Tax (EBIT) result was $1.36B, down around 17%.

Nevertheless, the company maintained a strong balance sheet with a net cash position of $360M and it continues to invest in growth initiatives.

The company's updated guidance for the first half FY25 foresees continued challenging market conditions, and it estimates an EBIT result around 40% lower than the FY24 annual rate.

	2024	2023	2022	2021	2020
Statutory NPAT ($m)	806	1,009	2,810	1,193	97
Underlying NPAT ($m)	861	1,098	2,701	1,166	353
Statutory EPS (cents)	180	217	571	237	19
Dividend per Share (cents)	50	50	50	50*	14
Share Price at End of FY ($)	20.43	20.55	15.90	21.96	11.69
Statutory CEO Remuneration ($)	$4.8m	$5.4m	$4.9m	$5.5m	$4.6m
Actual CEO Remuneration ($)	$4.6m	$6.6m	$5.0m	$6.2m	$3.9m
Total Shareholder Return (%)	2%	32%	-25%	92%	-4%

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*

Key Events

Work on the Port Kembla blast furnace No 6 reline and upgrade project commenced and is expected to be completed in 2026.

Environmental, Social and Corporate Governance (ESG)

BlueScope's Sustainability Report is comprehensive and informative and appears to be well integrated into the overall company strategy.

The company announced that it met its 2030 target for steel-making emissions in FY24 although it warns that emissions levels can fluctuate.

The company embarked on an Electric Arc Furnace (EAF) project at its New Zealand business which will reduce those operation's emissions by 45%. It is expected to be operational in FY26.

Its major pilot project includes a joint effort with BHP and Rio on the feasibility of Direct Reduced Iron (DRI) – Electric Smelter Furnace (ESF) technology using Pilbara ore.

Key Board and management changes

Long-time chairman John Bevan retired at the 2023 AGM and was replaced by Ms Jane McAloon.

New director Mr Alastair Field, former CEO of recycled metals business Sims Ltd, joined the board in January 2024.

David Fallu started as CFO in September 2023.

Governance, Transparency, and Fairness to Retail Shareholders

Positives

- The Board has an independent Non-Executive Chair and majority of independent directors.
- The Board (of ten directors) has at least 40% female and at least 40% male directors (actual 50%:50%) with diversity of age, skills and geography.
- 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. Except for recent appointees, the existing directors and management meet this expectation.
- The company meaningfully discloses ESG issues or risks facing business and the processes to manage them.
- 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

- The company does not publish a meaningful director skills matrix in the company's annual report. The matrix shown in the Corporate Governance Statement does not attribute skill levels to individual directors.
- The company made political donations to the value of $115,000 in FY24. This was not disclosed in the Annual Report but rather in the Sustainability Report. The ASA advocates for no political donations, but in the event they are made, that they be disclosed in the Annual Report.

Summary

The company is generally well governed.

4. Rationale for Voting Intentions

Resolution 2a: Re-election of Ms Jane McAloon as a Director (For)

Ms McAloon has legal and economics qualifications and was appointed to the board in September 2022. She was appointed Chair in November 2023. She is standing for re-election out of sequence in order to balance up the number of directors seeking re-election each year. The ASA supports this approach.

Her previous corporate experience was at BHP and AGL. Her director workload is acceptable and she has adequate 'skin-in-the-game' shareholding taking into account the recency of her Chair appointment. She is considered independent.

At our pre-AGM meeting we were impressed with the time Ms McAloon has invested over the last year in researching the history of the company, understanding the critical early 2010s period and visiting company key assets.

The ASA proposes to support her re-election.

Resolution 2b: Election of Mr Alastair Field as a Director (For)

Mr Field has engineering and business qualifications. He was appointed to the board in January 2024. His only other directorship is of Alcoa Ltd, so his workload is acceptable. His most recent corporate experience was as a CEO of metals recycling company Sims Ltd. He is considered independent. It is premature to assess his shareholding.

Given his experience is directly relevant to Bluescope's business, the ASA proposes to support his election.

Resolutions 3, 4 and 5: Adoption of Remuneration Report and approval of equity grants to Managing Director (MD)/CEO (For)

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 acceptable explanations as described in Appendix 1.

Our conclusion is that the remuneration plan is well thought out and tailored to the nature of the unique Bluescope business. The quantum of remuneration falls within benchmarks. However, we continue to question whether some of the hurdles need to be revisited.

On balance, we believe the remuneration plan continues to drive long-term decision-making by the Executive team and so the ASA proposes to support the remuneration report. We will continue to challenge the company to ensure the remuneration plan remains fit-for-purpose as the company evolves.

Resolution 6: Approval for an increase in the number of directors (Against)

This resolution calls for a permanent increase in the number of directors that can be appointed to the Board from ten to twelve. It currently has ten directors.

The company argues that this change is needed to enable knowledge transfer between incoming and outgoing directors, and to ensure appropriate experience, skills and diversity of directors.

In 2021, the board sought and received shareholder approval for a temporary increase in director numbers from ten to twelve which is still in place and expires at the 2025 AGM. Its purpose was to ensure an orderly transition of directors. Since 2021, the board has not fully taken advantage of the new cap to enable the transition it sought.

Further, two sitting directors (Crouch and Dee-Bradbury) are currently serving beyond the company's own policy on maximum director tenure of three terms (nine years). At the AGMs of their re-elections (in 2022 and 2023 respectively) the company and the directors stated that they would not serve out their full terms. ASA's vote in favour of both director's re-election at the time was predicated on their early retirement. BlueScope's 2023 Governance Statement confirmed the plan for early retirement.

The company has now retreated from this position and advises that both directors will serve out their full terms. The company argues that their knowledge of corporate history needs to be passed on to new directors. We note that the several directors appointed since 2021 have already had the opportunity to overlap with these directors.

We question the real value that an individual director brings to a governance board. The director skills matrix indicates that at least nine of the ten directors have advanced capability in the main board skills required.

This history smacks of poor succession planning over recent years despite the temporary capacity to appoint up to twelve directors. Indeed, there is still a year to run on this temporary cap which the company could take advantage of.

Further we are concerned that having a higher permanent cap could promote a lack of discipline and rigour in succession planning.

For these reasons the ASA proposes to vote undirected proxies against this resolution.

Resolution 7: Approval for an increase to the Non-Executive Director Fee Pool (Against)

This resolution is related to the previous one on increasing the number of directors to twelve by commensurately increasing the aggregate director fee pool by $550,000 to a cap of $3.8m.

In 2022, the board received approval to raise the then aggregate fee pool by around 10% to its current level of $3.25m. At that time, it was argued that this was necessary to accommodate the additional directors under the temporary number cap of twelve as discussed under the previous resolution.

As a reference, the aggregate of actual directors' fees paid in FY24 was $2.57m.

For the reasons set out in the discussion under Resolution 6, ASA proposes to vote undirected proxies against this resolution.

Resolution 8: Approval for renewal of potential termination benefits (For)

This is a non-controversial 3-year recurring resolution, last approved in 2021, which relates to a restriction in Australian Corporate law which mainly affects companies operating international businesses.

ASA proposes to vote undirected proxies in favour of this resolution.

Appendix 1
Remuneration framework detail

The table below represents the FY24 framework

CEO rem. framework	Target ($m)	% of Total	Max. Opportunity ($m)	% of Total
Fixed Remuneration	2.015	41%	2.015	37%
STI – Cash*	0	0%	0	0%
STI – Equity*	0.896	18%	1.343	25%
LTI	2.015	41%	2.015	37%
Total	4.93	100%	5.37	100%

**Key Management Personnel (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 FY24 the MD & CEO elected for 100 per cent of his STI payment to be delivered in equity.*

FY24 Outcome

The CEO actual remuneration was $4.6m. This represented achieving 66% of maximum opportunity for the Short-Term Incentive (STI), and 100% vesting of the Long Term Incentive Plan (LTI).

Remuneration Framework 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 typical benchmarks.
- The quantum of Board fees are within typical 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, Return on Invested capital (ROIC) and free cash flow)
- At least 50% of STIs was 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

The 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).
- Key Management Personnel (KMP) can elect to receive all of their STI in cash. Nevertheless, recent practice of at least the MD is to receive all of his STI in equity.
- LTI (Alignment Rights) hurdles are measured over three years rather than ASA’s preferred four years after issue.
- Total Shareholder Return (TSR) is not used as a LTI hurdle. It was previously explained that TSR is not used because for a cyclical industry stock such as BlueScope which can experience large price changes in a day they feel TSR is an unreliable incentive for management. It was 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 debt 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 cyclicality of the industry but with a low opportunity relative to peers, recognising the increased likelihood that the LTI will be awarded. Nevertheless, we question whether the low threshold is relevant to management action given that the board has ultimate say on expansion of debt.

- 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.
- The LTI ROIC hurdle is set at 10% which was above the 10-year performance average when it was first introduced. However, the current 10-year average ROIC is more than 17%, so one could argue the hurdle is not sufficiently challenging.
- Underlying earnings are used for both STIs and LTIs share grants. However, the adjustments seem transparent and reasonable given the cyclical nature of the business and the significant one-offs from accounting adjustments.