Laying the groundwork

Company/ASX Code	CSL Ltd/CSL
AGM Time/Date	10am AEDT, Tuesday, 29 October 2024
Location	RACV Club, Bourke Street, Melbourne
Registry	Computershare
Type of Meeting	Hybrid. https://web.lumiconnect.com/350717200
Monitor	Mike Muntisov assisted by Mike Robey
Pre AGM Meeting?	Yes, with Director Megan Clark, Company Secretary Fiona Mead and Investor Relations Micaela Costello.

1. How we intend to vote

2a	Re-election of Brian McNamara as a Director	For
2b	Re-election of Andrew Cuthbertson as a Director	For
2c	Re-election of Alison Watkins as a Director	For
2d	Election of Samantha Lewis as a Director	For
2e	Election of Elaine Sorg as a Director	For
3	Adoption of Remuneration Report	For
4	Approval of grant of Performance Share Units to CEO/Managing Director Dr Paul McKenzie	For
5	Re-insertion of proportional takeover approval provisions in Constitution	For
6	Approval of potential leaving entitlements for directors of CSL Subsidiary Entities	For
7	Approval of increase to Non-executive Director fee cap	Against

2. Summary of Issues and Voting Intentions for AGM

The key issues for CSL going forward are:

- further integration and optimisation of the Vifor acquisition
- obtaining a solid return and efficiency gains on CSL's recent investments in plant and research capacity
- bringing new products to market.

3. Matters Considered

CSL had a strong financial performance in FY24 with an increase in Net Profit After Tax of 20% to a record US$2,642m. The increase was partly due to the full year contribution from the Vifor acquisition. CSL 'underlying' profit was up 12% and the dividend was up 12% in US$.

The key CSL Behring division (plasma) was the main driver of performance with a profit increase of 18% on the back of increased plasma collection and removal of previous bottlenecks.

The Seqirus vaccine division recorded an increase in profit contribution of 4%.

The new Vifor division contribution was pro-rata flat or down. From the annual report: *"The (Vifor) business has experienced several near term challenges…we were prepared for some of these but others were unexpected"*. The unexpected challenge was the imposition in the USA of 'step edits' which requires prescribing lesser interventions than the Vifor product as a first step in treatment.

CEO Dr Paul McKenzie has stated a key focus is on extracting efficiencies from the business which will be aided by new manufacturing facilities coming on line.

Key Financials

	2024	**2023**	**2022**	**2021**	**2020**
Statutory NPAT (US$m)	2,642	2,194	2,255	2,375	2,103
Underlying NPAT (US$m)	2,907	2,610	2,381		
Statutory EPS (US$)	5.47	4.55	4.81	5.22	4.63
Dividend per Share	US$2.64*	US$2.36*	US$2.22*	A$2.95	A$2.93
Share Price at End of FY (A$)	293	277	269	285	287
Total Shareholder Return	7%	4%	-4%	0%	35%
Realised CEO Remuneration (US$)	5.9m	6m**	12.7m	45.4m	28.2m

*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. * quoted in annual report – not comparable with previous years due to different currency and periods for calculation ** of previous CEO Paul Perrault for just his term prior to retirement on 5th March 2023 (roughly three quarters of the financial year).*

Key Events

CSL spends around 10% of revenue on Research and Development.

A positive outcome this year was a world-first registration of their self-amplifying mRNA vaccine. CSL's KOSTAIVE^{TM} is a COVID vaccine which provides increased duration of protection with lower amounts of mRNA.

On the negative side, the potential blockbuster drug known as CSL112 failed to achieve the primary endpoints in Phase 3 clinical trials.

CSL was awarded ASA's Most Effective Shareholder Communications Award in May 2024.

Key board or senior management changes

Samantha Lewis and Elaine Sorg joined the board as new directors. They are up for election at the upcoming AGM. See below for more details.

The CEO made a number of new appointments to the Executive Leadership team. Most notable among them is Andrew Schmeltz ex-Pfizer to run the important CSL Behring business.

ESG

CSL covers ESG comprehensively in its annual report consistent with its broad 2030 Strategy.

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 40% female (actual 56%) and at least 40% male directors.
- Directors and other key management personnel (KMP) hold, or are on target to hold, at least one year's worth of base cash fees in company shares, within 5 years (three times base for the CEO).
- The company meaningfully discloses ESG issues or risks facing the business and the processes to manage them.

Areas for Improvement

- The company does not publish a skills matrix in the Annual Report.
- CSL discloses a skills 'table' in the Governance Statement rather than a skills 'matrix'.

Summary

Overall CSL is generally well governed.

4. Rationale for Voting Intentions

Resolution 2a: Re-election of Brian McNamara as a Director

Mr McNamara has been an independent director of CSL since February 2018 and Chair since October 2018. He was formerly CEO of CSL from its original listing in 1990 through to 2013. He obviously has an intimate understanding of CSL's business and the market. His workload is within ASA guidelines, and he has a significant "skin-in-the-game" (shareholding). He is considered independent.

Therefore ASA proposes to support his election.

Resolution 2b: Re-election of Andrew Cuthbertson as a Director

Professor Cuthbertson has been a director of CSL since 2018. His experience is in medical research and biotech development. He holds no other ASX-listed board roles. He has adequate "skin-in-the-game". He is considered independent.

Therefore ASA proposes to support his election.

Resolution 2c: Re-election of Alison Watkins as a Director

Ms Watkins has been a director of CSL since 2021. She is a Chartered Accountant by training. Her previous corporate roles included stints as CEO of Coca-Cola Amatil and before that, Graincorp. She is currently a member of the Reserve Bank board and a director of Wesfarmers. Her workload is within ASA guidelines. She has adequate “skin-in-the-game” and she is considered independent.

Therefore ASA proposes to support her election.

Resolution 2d: Election of Samantha Lewis as a Director

Ms Lewis was appointed to board of CSL in January 2024. She is a qualified Chartered Accountant. Her corporate experience includes 24 years at Deloitte including as an audit partner. She was previously a director at Orora Ltd and Aurizon Holdings. She is currently a director at Nine Entertainment and the owner of Melbourne Airport. Therefore her workload is within ASA guidelines. She is considered independent.

ASA proposes to support her election.

Resolution 2e: Election of Elaine Sorg as a Director

Ms Sorg was appointed to board of CSL in September 2024. She holds science and business degrees and is based in the USA. Her corporate experience includes 35 years in the pharmaceutical sector including at AbbVie and Eli Lilly. She is currently a senior advisor to health care clients at Boston Consulting Group. She is considered independent.

Based on the CSL director skills matrix in the Corporate Governance Statement, Ms Sorg strengthens the board’s skills in biopharmaceutical experience and product development.

Therefore ASA proposes to support her election.

Resolution 3: Adoption of Remuneration Report

See Appendix 1 for details of the remuneration framework.

In FY24 the CEO achieved 108% of his target level of performance for his Short Term Incentive (STI) award.

For the Long Term Incentive (LTI) performance measurement to 30 June 2024, an average of 46% vesting was achieved over three measures. The Board chose to use discretion and reduce this by 20% in recognition of Vifor’s performance since the acquisition. This reduction was applied to other Key Management Personnel’s LTI awards as well as the CEO.

Because of the high against vote against remuneration at last year’s AGM (but not a first strike i.e. below 25% against) a number of changes have been made to remuneration framework. These include:

- Enhanced transparency on STI financial hurdles as well as individual KPIs.
- Greater stretch for LTI targets
- Adding a one year lock on LTI vested shares after the three year performance period

An increase of between 3% and 4.5% for fixed remuneration of key executives and directors in FY25 is proposed, which follows a similar increase last year.

Conclusion on Remuneration

CSL operates in the global biopharmaceutical sphere, so Australian practices aren't always applicable. There are many attributes of the CSL remuneration plan that we favour. On the other hand, the performance period for the LTI is shorter than we like, even with the one year holding lock period, and we prefer that at least half the STI be awarded as shares rather than cash. Some areas not meeting ASA guidelines are explained by CSL better matching global standards.

On balance we propose to support the remuneration report.

Resolution 4: Approval of grant of Performance Share Units to CEO/Managing Director Dr Paul McKenzie

Please refer to assessment under Resolution 3. We propose to support this resolution.

Resolution 5: Re-insertion of proportional takeover approval provisions in Constitution

This is a standard provision that needs to be renewed every three years. It serves to protect shareholder rights in the event of a proportional takeover bid.

We propose to support this resolution.

Resolution 6: Approval of potential leaving entitlements for directors of CSL Subsidiary Entities

This is a technical resolution which will apply for three years if passed by shareholders.

It relates to a restriction in Australian Corporations law which potentially affects CSL's ability to source quality directors for its subsidiary companies in different jurisdictions and is relevant given that only 8% of CSL's revenue is sourced from Australia.

This resolution specifically excludes current CSL directors and global leadership group members even if they are directors of subsidiary boards. For further detail read the explanatory notes in the Notice of Meeting.

We propose to support this resolution.

Resolution 7: Approval of increase to Non-executive Director fee cap

The proposal is to increase the maximum aggregate amount paid to non-executive directors from the current A$4 million to A$4.5 million. For reference, the aggregate amount paid to directors in the last two financial years was of the order of A$3.3 million (US$2.1 million)

The reasons offered to support this increase include the need for competitive director fees and possibly appointing further NEDs.

We do not believe the case supporting this resolution is convincing as board fees are already competitive and the current aggregate has headroom to accommodate at least ten directors (not including the Managing Director).

Beyond ten directors, boards can become unwieldy. Keeping a tight rein on the number of directors also encourages regular refreshing of board members rather than just allowing them to routinely see out their terms. It also encourages a more conscious effort to diversify the age and tenure profile of the board.

For these reasons the ASA proposes to vote against this resolution

Monitor Shareholding

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

Appendix 1
Remuneration framework detail

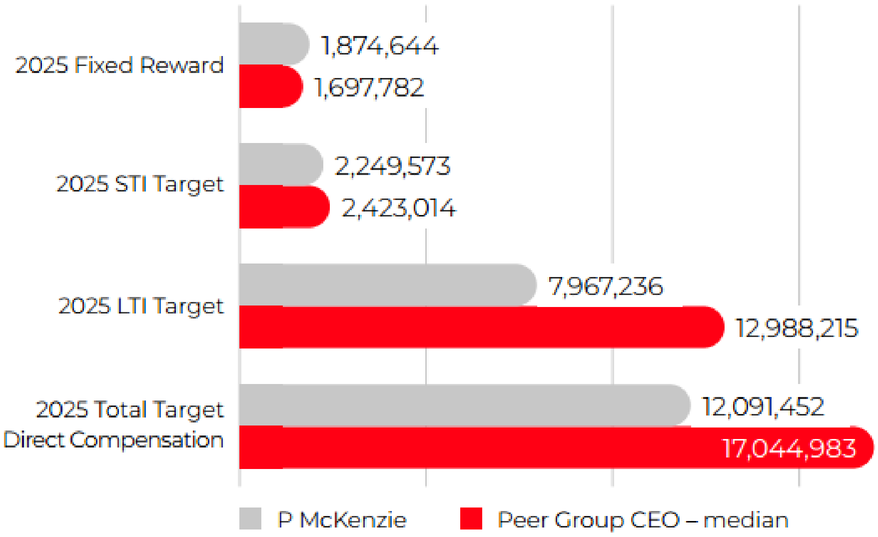
CEO Remuneration Framework (FY25)	Target* (US$m)	% of Total	Max. Opportunity (US$m)	% of Total
Fixed Remuneration (FR)	1.87	23%	1.87	13%
STI - Cash	2.25 (120% of FR)	28%	4.5 (240% of FR)	31%
STI - Equity	0	0%	0	0%
LTI	3.99†	49%	7.97 (425% of FR)	56%
Total	US$8.11m	100%	US$14.34m	100%

*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. †Threshold award level. CSL refer to the LTI max opportunity as 'target'.*

The remuneration structure is assessed below.

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 compatible with Australian benchmarks. CSL provided the following comparison of FY25 CEO remuneration with its global peer group. [CSL has indicated that it will seek to transition the LTI reward to match the global median over the next four years.]



Source: CSL Annual Report 2024

- The quantum of Board fees are within Australian benchmarks.
- More than 50% of CEO's pay is genuinely at risk [Actual 77% at target].
- Majority of short-term incentives (STI) are based on quantifiable and disclosed performance metrics. For 2024 the CEO's STI weightings were Net Profit after Tax and

NPATA[1] (35%), Cash Flow from Operations (25%), sustainability (5%), individual measures (35%)

- Clear disclosure is provided for all Key Management Personnel (KMP) performance hurdles and the weightings applied for each incentive.
- There is no retesting of performance hurdles.
- Long-term incentive (LTI) hurdles for FY25 Performance Share grants are based on at least two hurdles, one is return on invested capital (ROIC) averaged over a 3-year period (FYs 25,26,27) and the other is earnings per share (EPS) growth (based on NPAT) measured over the same three-year period.
- Actual LTI hurdles and criteria for FY25 awards, for which LTI grants are being sought at this AGM, are:

Performance Criteria	Contribution % of total LTI award	Threshold performance	Vesting at threshold performance	Target performance for 100% vesting
ROIC (3-year average)	70%	11.1%[a]	50%	12.3%[a]
EPS growth (3-year)	30%	12.4% pa[b]	50%	13.8% pa[b]

[a] In FY24 the ROIC targets were 10.2% for 50 % vesting and 12.8% for 100% vesting

[b] In FY24 the EPSg targets were 15.6% for 50% vesting and 17.3% for 100% vesting

- All share grants are allocated at face value not fair value.
- Share grants for non-executive directors (NEDs) are satisfied by equity purchased on-market.
- LTI Hurdles are based on earnings are based on statutory earnings.
- No retention payment on any awards are subject only to continuing service.
- No termination payments exceed 12 months fixed pay.
- There is no full 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

- ASA prefers LTI hurdles be measured over a minimum of four years after issue, not the three years in CSL’s plan. This is particularly relevant given CSL’s stated long term outlook and long lead times for their products. This year CSL has introduced a one year holding lock on vested shares as a compromise.
- ASA prefers total shareholder return (TSR) as one of the performance measures for the LTI award, with no payment if absolute TSR is negative.
- The STI is paid in cash. (CSL argue that this is better aligned with global especially US standards)
- ASA prefers the STI target award be less than fixed remuneration, but CSL argue that their approach is aligned with global industry standards.
- Share grants for KMPs are issued rather than satisfied by equity purchased on-market.

[1] NPATA is defined as the statutory net profit after tax before impairment and amortisation of acquired intellectual property, business acquisition and integration costs and the unwind of the inventory fair value uplift.