

BlueScope Annual General Meeting 2020

19 November 2020

Address by Penny Bingham-Hall, Chair Remuneration & Organisation Committee

CHECK AGAINST DELIVERY

Good morning ladies and gentlemen

Thank you, Chairman, and good morning ladies and gentlemen.

Company performance and reward outcomes in FY20

Over a number of years, BlueScope has positioned its business portfolio to better withstand the highly cyclical markets in which it operates by reducing loss-making market exposures, increasing cost competitiveness and investing in successful businesses.

Very strong returns on invested capital of around 20% were generated in recent years with FY2019 fueled by the highest steel spreads since the GFC. Steel spreads are cyclical in nature and by June, spot steel spreads in both Asia (which heavily influence Australian profitability) and the US had fallen by between US\$100-\$150/t and ultimately reduced FY2020 underlying earnings before interest and tax (EBIT) by \$674 million compared to the previous year.

Nonetheless, despite the onset of COVID-19 and the progressively weaker spreads, the team still produced underlying EBIT of \$564 million and return on invested capital (ROIC) of 7.6%. And a strong balance sheet was maintained, with net cash of \$500 million before the new lease accounting impact.

This result was well received by the market with analysts commenting on the strength and resilience of the Company's performance. This was consistent with the views of your Board particularly given management's efforts during this challenging period. Following consultation with investors in June, remuneration awards were made without the Board applying upward or downward discretion.

The Short Term Incentive (STI) outcomes in FY2020 reflect our performance against the Group financial measures, and the range of individual performance and business unit results. ROIC of 7.6% was slightly below the target of 8.3% set by the Board. Performance for the Group free cash flow measure exceeded both target and stretch levels – a result of \$412 million against a target of \$310 million and stretch hurdle of \$372 million.

The actual STI awarded to the MD & CEO Mark Vassella was 75% of the maximum opportunity, and for other executive Key Management Personnel (KMP), outcomes ranged between 50% and 86% of the maximum, slightly lower than the outcomes in the previous year, as expected based on business performance.

Again this year, no payment was awarded with respect to the Safety component of the STI. As the Chairman noted earlier, our Lost Time Injury Frequency Rate fell short of the level required to meet the gateway condition, and we also failed to meet the threshold level for Medically Treated Injury Frequency Rate.

The FY2018 Long Term Incentive, or Alignment Rights, vested in full in September. For the 3-year performance period, we achieved average ROIC of 15.7% exceeding the threshold of 10%, and an average net debt to EBITDA ratio of negative 0.6 times over the period, again exceeding the threshold of less than one times.

It should be noted that no increase has been made to the fixed pay for our CEO, Mark Vassella, since his appointment in January 2018.

Voting outcomes and proxy commentary

When we present the details of proxy voting to adopt the Remuneration Report, you will see that this year, a meaningful number of votes have been cast against the resolution. This has been driven by the recommendation of one proxy adviser who commented on the omission from this year's report of STI financial target details, on the step-down in FY2020 earnings compared to the previous year, and on safety performance.

We consider this recommendation to be harsh under the circumstances. The omission of targets was unintentional, and we have since provided additional disclosure of the range of financial hurdles for the FY2020 STI. We will ensure financial target information is included in future remuneration reports, consistent with our approach in the FY2019 Remuneration Report. In relation to the weighting of safety in the STI scorecard, we have taken the feedback onboard and will give it careful consideration.

Remuneration framework overview & changes due to COVID-19

In 2018, BlueScope introduced a new remuneration framework, designed to better align executive remuneration outcomes with value delivered to shareholders across the cycle. The framework drives executives to focus on the financial fundamentals and is intended to deliver more value to executives at less cost to shareholders. It is characterized by fixed remuneration slightly above the market median, and relatively conservative variable reward that combines challenging annual targets in the STI and reward for the delivery of sustainable long-term returns in the Alignment Rights.

This framework was specifically designed to deliver outcomes to executives that are aligned with shareholders regardless of where we are in the cycle – and clearly, 2020 has been a good test of this. While the Board has reviewed the framework to ensure that it remains fit-for-purpose in the current environment, we have determined that no significant changes are required.

For FY2021, we have temporarily changed our approach to setting STI targets, reflecting the current uncertainty. The Board has set financial targets for the first half of the year, with targets for the second half of the year to be agreed in February 2021. Safety and individual strategic objectives have been set for the full year. The overall outcome of the STI scorecard will still be assessed at the end of the financial year and we will continue to be as clear and transparent as possible about our approach, our targets and the application of any discretion.

The only other change to the STI relates to our safety objectives. From FY2021, we will maintain the gateway of no fatalities, but replace the lag indicators of Lost Time Injury Frequency Rate and Medically Treated Injury Frequency Rate with a Total Recordable Injury Frequency Rate. In order to achieve target or above on this measure, additional leading indicators must also be achieved. This approach aligns us to emerging industry standards and will focus our leaders on reducing the severity of incidents while managing controls for material risks.

FY2020 Equity Award

I would now like to refer you to Items 4 and 5 in the Notice of Meeting, which deal with the approval for a grant of share rights to the MD & CEO for his Short Term Incentive and Alignment Rights.

Item 4 relates to share rights under the FY2021 STI plan. Executives can elect to take their STI in shares or cash, or a combination of both. Mark Vassella has again elected to take all of his FY2021 STI in shares. The shares (or a proportion of the shares) will vest at the end of the financial year based on performance against the objectives set by the Board. These include threshold, target and stretch objectives for financial and safety performance, as well as delivery of strategic initiatives. The specific measures and performance against them will be disclosed in next year's Remuneration Report.

The Notice of Meeting outlines the terms and conditions of this award and together with my fellow non-executive directors, I recommend that you approve this item.

Item 5 in the Notice of Meeting relates to approval of Alignment Rights to Mark Vassella for FY2021. Consistent with the plan that has been in operation since 2018, the FY2021 Alignment Rights have a threshold return on capital measure, a maximum debt hurdle and an individual behaviour gateway of adherence to our company values. The return on capital measure is set at a level which achieves our weighted average cost of capital, top quartile performance compared to major steel companies and median performance compared with the ASX100. If each of the performance conditions is met, all the Alignment Rights will vest, and conversely, if they are not achieved, none of the rights will vest. There are no re-testing provisions under the plan and as always, the Board retains overarching discretion to protect against unintended outcomes.

Again, the Notice of Meeting outlines the terms and conditions of this award and I recommend that you approve this item.

Inclusion & Diversity

I would like to comment briefly on our progress in inclusion and diversity. It remains important to us that our business reflects the communities in which we operate. We have made good progress this year towards our gender diversity objectives - 50% of our Board and 40% of our executive leadership team are now female - while also working to improve our overall diversity across a range of measures designed to make our workplaces more inclusive.

Committee Chair handover

Finally, I would like to thank you for your support during the period that I have been Chair of the Remuneration and Organisation Committee. At the end of this calendar year, I will hand over the role of Committee Chair to Rebecca Dee-Bradbury, who has been a member of the Board – and the Remuneration Committee - since 2014. I know Rebecca will do a great job in this role as she has a deep understanding of cultural transformation and people issues including remuneration.

Together with my fellow non-executive directors, I thank you for your ongoing support, and recommend that shareholders vote in favour of the Remuneration Report.

Thank you