BlueScope Steel Limited
ABN 16 000 011 058

BlueScope Annual General Meeting 2021
18 November 2021
Address by Rebecca Dee-Bradbury, Chair Remuneration & Organisation Committee

CHECK AGAINST DELIVERY

Thank you Chairman, and good morning ladies and gentlemen.

In 2018, BlueScope introduced a remuneration framework designed to 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 Short Term Incentive, or STI, and reward for the delivery of sustainable long-term returns in the Alignment Rights. The threshold level hurdles under the Alignment Rights mean that the plan is expected to vest more often than other more common LTI designs in the market, and accordingly, the quantum of the award is set much lower than the peer group median. When the remuneration framework was introduced, total remuneration for maximum performance was reduced by 41% on the previous framework.

This design is intended to deliver outcomes to executives that are aligned with shareholders regardless of where we are in the cycle – and both 2020 and 2021 have been good ‘stress-tests’ of this. As flagged to you at the AGM last year, in 2021 we temporarily changed our approach to setting STI targets, reflecting the uncertainty prevalent at the beginning of the year. Accordingly, financial targets were set early in the year for the first half and targets for the second half of the year were adjusted upwards to reflect the updated annual outlook in February 2021. Safety and individual strategic objectives were set for the full year.

At the end of the year, the Board took a holistic view of individual, business and group performance to ensure that the awards were reflective of business performance for the year. The actual STI awarded to the MD & CEO Mark Vassella and other executive Key Management Personnel, or KMP, was 96.7% of the maximum opportunity, or 145% of the 150% target. While there was some individual variation between KMP in performance against individual objectives, consistent strong financial performance across all business units resulted in no individual differentiation in the final awards. As the Chairman noted earlier, our Total Recordable Injury Frequency Rate, or TRIFR, fell short of the level required to meet the threshold level and the Board applied their discretion to reduce STI awards down from 100% of the maximum to reflect the safety component that was not achieved. This represented a reduction from 150% to 145% of the target opportunity.

The FY2019 Long Term Incentive, or Alignment Rights, vested in full in September. For the 3-year performance period, we achieved average ROIC of 18%, excluding capital spend relating to the North Star expansion, exceeding the threshold of 10%, and an average net debt to EBITDA ratio of negative 0.18 times over the period, again exceeding the threshold of less than one times.

Effective 1 September, the Board approved a 5% increase in fixed pay for our CEO, Mark Vassella, the only increase since his appointment in January 2018.

My fellow non-executive directors and I believe that the reward outcomes for KMP, across the fixed and variable elements of our remuneration structure, appropriately reflect the exceptional performance of our management team in capitalizing on the strong market conditions to deliver significant value to the business and shareholders during FY2021.

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 FY2022 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 FY2022 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, ESG 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 FY2022. Consistent with the plan that has been in operation since 2018, the FY2022 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.

In response to shareholder feedback and to reinforce our focus on safety we have made some changes to the weighting of measures in the STI scorecard in FY2022.

We have increased the total weighting allocated to safety from 5% to 10%. As the Chairman has already highlighted, our Health, Safety and Environment evolution continues, with a focus on adopting and embedding a human-centered approach. Under the STI, safety will continue to be measured through a combination of a lagging indicator – TRIFR - and two leading indicators - safety leadership and delivery of HSE risk control projects. The gateway of no fatalities continues to apply to the safety component of the scorecard, with the Board retaining the discretion to adjust overall STI outcomes in the event of a serious incident. This combination of objectives focuses management on risk and building capability in our people – to ensure we never lose focus on the health, safety and wellbeing of employees, customers and communities.

Sustainability remains a key area for the business, and from FY2022, all executive KMP will have 15% allocated to the key ESG priorities, in addition to the 10% on safety. All executive KMP will have reduction in Steelmaking scope 1&2 GHG emissions intensity; a climate change objective specific to their business or functional area and an increase in gender diversity in recruitment for all roles included in their objectives. Finally, in FY22 the strategic, or individual objectives, for each of the executive KMP have been set to drive our focus on key enterprise objectives, and encourage collective leadership across our growth areas, particularly cybersecurity, digital transformation, organizational capability, talent and succession.

In FY2022 we have reverted to our usual approach of setting financial targets for the full year. The Board will continue to review STI outcomes at the end of the year in the context of a range of internal and external considerations to ensure that the awards for executives appropriately reflect performance.

Finally, I would like to comment on our progress towards our inclusion and diversity objectives.

This year we have continued to build a workforce which reflects the diversity of the communities in which we operate. BlueScope is now a signatory to the HESTA 40:40 Vision and is committed to achieving and maintaining 40:40:20 gender balance in executive leadership by 2030. We are proud that we have already reached the 40:40 Vision target of 40 per cent women in our Executive Leadership Team and Board of Directors and our female workforce participation is growing each year. Women currently represent 22 per cent of our workforce, up from 16.5 per cent in FY2016. While we are proud of our inclusive culture today, we know that there is always more we can do. We will continue to extend our diversity focus beyond gender – including disability, race, sexuality, first nations and diversity of experience, thought and opinion.

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.