BlueScope Annual General Meeting 2022

22 November 2022

Address by Rebecca Dee-Bradbury, Chair Remuneration & Organisation Committee

CHECK AGAINST DELIVERY

Thank you Chairman, and good morning shareholders.

Remuneration framework overview

Since the introduction of BlueScope's remuneration framework in 2018, our approach to Remuneration has been based on five key principles:

1. We need to **attract and retain the right talent** in the markets we operate in
2. We encourage our executives to **behave like shareholders** through equity ownership
3. Our remuneration framework enables the delivery of our strategy
4. The remuneration outcomes feel **fair over the cycle** for all our stakeholders, and finally
5. Our remuneration framework is **simple and easily explained**, both internally and externally

In short, BlueScope's remuneration framework maintains a deliberate and continued focus on financial fundamentals and provides more value to executives at less cost to shareholders.

We received several questions prior to the AGM that relate to the level of executive remuneration payouts, and whether they are appropriate. Our framework is characterised by fixed remuneration set slightly above the median of our competitors, and is offset by a lower variable reward – set below the median of the same peer group. Variable reward payouts require the achievement of challenging annual targets in the Short-Term Incentive, or STI, and the delivery of sustainable long-term returns in the Long Term Incentive, LTI or Alignment Rights.

I'd like to emphasise that whilst 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, the quantum of the award is set much lower than the peer group median. This design is intended to deliver outcomes to executives that are aligned with shareholders, regardless of where we are in the cycle.

A significant part of the remuneration package is at risk and is only available to executives if they meet the performance hurdles. Outcomes for executives under the variable incentive programs reflect the company performance, are aligned to shareholder returns delivered during the year and the payouts made to employees below ELT who participate in the various business unit profit share plans. Further, I'd note that BlueScope's at-risk executive pay is in fact at the lower end of peer group companies.

Environmental, Social and Governance, or ESG metrics are increasingly used as a measure of BlueScope's long-term sustainable success. We have listened to the feedback received from you in 2021 and have accordingly increased the weighting of measures in the STI scorecard relating to safety and other ESG objectives. In FY2022, the total weighting allocated to safety was increased from 5% to 10%. A further 15% was allocated to ESG measures specifically relating to addressing climate change and enhancing diversity across the group

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Your directors have carefully selected Safety and ESG measures which are both quantifiable and measurable – the safety measures include both leading and lagging indicators to drive our HSE evolution through a human-centred approach; and the ESG measures include a reduction in BlueScope's year on year emissions, business-specific climate change objectives and progress towards BlueScope's diversity and inclusion objectives.

The alignment rights are specifically designed for the cyclic nature of our operating environment, and have a threshold ROIC hurdle of 10% and a net debt to EBITDA ratio of less than 1.3x averaged over the three-year performance period. Delivering the ROIC hurdle would achieve a Weighted Average Cost of Capital over three years at or above the median compared to major steel companies and our remuneration peer group.

We are pleased that the Alignment Rights, along with the rest of the remuneration framework, continue to operate as intended even with the market volatility experienced in recent years.

Company performance and reward outcomes

Let me now move to the topic of company performance and executive reward.

Whilst supported by macroeconomic tailwinds, this year's result reflects the commitment and hard work of all our people. BlueScope has performed strongly against a wide range of business objectives in FY2022.

As highlighted by the Chairman, the company has delivered strong financial performance in FY2022 - a record full-year result of $3.79 billion underlying EBIT and 41.6 per cent ROIC, both the highest in our 20-year listed history.

As mentioned by the Chairman and the MD&CEO, in FY2022 we saw a stable result in our lag indicators against a challenging operating environment during the year.

The lagging injury metric TRIFR marginally exceeded the target range of 5-7. As a result, the threshold for safety under the STI was not achieved.

We aim to strike the right balance between lag indicators, to measure performance, and lead indicators, for risk management. Over 243 team based HSE risk control improvement projects were completed across the business, and HSE risk management workshops were attended by 1372 leaders, including the Board, the Executive Leadership Team, and many of our supply chain and industry partners.

We continued to embed sustainability at the heart of what we do. With strong performance in FY2022 steelmaking emissions intensity is tracking close to target with a 3.6 per cent reduction since FY2018. Midstream emissions intensity has decreased 3.7 per cent overall since FY2018, however increased in FY2022 on lower despatch volumes due to supply chain constraints and disruptions.

Management responded well to external conditions and demonstrated strong leadership to deliver significant value.

As is our usual practice, at the end of the year, the Board took a holistic view of individual, business and group performance to ensure that actual STI awards were reflective of business performance for the year.

To reflect the below threshold TRIFR result, the Board used its discretion to reduce the maximum STI payable from 150 to 145 per cent of target for both the MD&CEO and CFO.

The actual STI awarded to the MD&CEO was 82% of the maximum, while awards for other executive KMP were between 73% to 97% of the maximum opportunity.

Since FY19, we have been introducing Profit Share Plans across all our Business Units, and in FY22 over 60 per cent of our employees participated in a profit share plan. The plan rewards employees based on the achievement of ROIC targets and HSE objectives. It is designed to materially reduce the cost of paying incentives when business performance makes this unaffordable, and provide significant upside in the event of strong financial performance.

The FY20 alignment rights vested in full in September this year. For the 3-year performance period, we achieved average ROIC of 27%, excluding capital spend relating to the North Star expansion, exceeding the threshold of 10%, and an average net debt to EBITDA ratio of negative 0.15 times over the period, again exceeding the threshold of less than one times.

The MD&CEO received a 5% increase to his fixed remuneration in FY2022 – the first since his appointment in January 2018. Certain Executive KMP also received a 5% increase to their fixed pay after a robust remuneration benchmarking exercise in local markets.

The Board reviews fixed remuneration for the MD&CEO and other executive KMP each year. Typically, we have not passed on increases every year, however effective 1 September the Board approved an increase of 3% for the MD&CEO in recognition of the significant inflationary pressures in our operating markets.

Non-executive Directors get paid a base fee, and an additional fee for membership of, or for chairing a committee. In FY2022 the base fees for the Chairman and other Non-Executive Directors were increased by 3 per cent – the first increase to base fees in several years. Non-executive Director base fees have increased by less than 7% over 10 years, including the legislated increase to the Superannuation Guarantee over this time.

FY23 Equity awards for the MD&CEO

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 FY2023 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 FY2023 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 FY2023. Consistent with the plan that has been in operation since 2018, the FY2023 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, to reiterate – the intent of the Alignment Rights structure is to align management's experience with that of shareholders, with hurdle rates set at thresholds that result in increased likelihood of vesting – but at a quantum below that of our remuneration peers.

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

Conclusion

This year we have continued to build a workforce which reflects the diversity of the communities in which we operate. Female representation has continued to grow from 22% in FY21 to 24% in FY2022, the Board achieved 50% representation, and Executive Leadership team achieved 40%. Beyond gender strategies are emerging across the business to suit local community needs – such as a focus on ethnicity in the US, while in Australia we launched our First Nations Framework.

In the year ahead, we continue to focus on our ability to attract and retain executive talent globally, which is more challenging than ever with increasing inflation and tight talent markets in most geographies.

Lastly, I would like to thank very much all our team members globally. I am impressed by our teams' commitment, the pride they take in their business, and the strong performance of the Group in the last year reflects their efforts and dedication.

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.