

Laying the Groundwork

Company Name/ASX Code	CSL Limited/CSL
Meeting Time/Date	10am, Wednesday 11 October 2023
Location	Melbourne Convention and Exhibition Centre – Clarendon Auditorium, Level 1 and online
Registry	Computershare
Type of Meeting	Hybrid
Monitor	Mike Muntisov assisted by Mike Middleton
Pre AGM Meeting?	Yes, with Director Megan Clark and Company Secretary Fiona Mead.

1. How we intend to vote

2	Appointment of auditor of CSL Ltd	For
3	Re-election of Carolyn Hewson as a Director	For
4	Adoption of Remuneration Report	For
5	Approval of grant of Performance Share Units to CEO/Managing Director Dr Paul McKenzie	For

2. Summary of Issues and Voting Intentions for AGM

The key issues for CSL going forward are:

- the integration and optimisation of the Vifor acquisition
- obtaining a solid return on their recent investments in plant and research capacity
- bringing new products to market

3. Matters Considered

CSL's headline revenue was up but net profit after tax (NPAT) was down, resulting in a fall of 5% in Earnings per Share (EPS). For the first time, CSL reported 'underlying' profit by adding back impairments and amortisation, and acquisition and integration costs. This has some relevance given the recent Vifor acquisition. On this underlying measure, underlying EPS was up 6.5% on the year.

Although the key CSL Behring division (plasma) generated a 12% increase in revenue, it recorded a reduction in profit contribution, possibly due to the increased costs of plasma collection.

The Seqirus vaccine division recorded an increase in profit contribution of 12%.

The result included 11 months of contribution from the new Vifor division, with its revenue up 14% compared to the same period last year.

Key Financials

	2023	2022	2021	2020	2019
Statutory NPAT (US\$m)	\$2,194	\$2,255	\$2,375	\$2,103	\$1,919
Underlying NPAT (US\$m)	\$2,610	\$2,381			
Statutory EPS (US\$)	\$4.55	\$4.81	\$5.22	\$4.63	\$4.24
Dividend per Share (\$)	US\$2.36*	US\$2.22*	A\$2.95	A\$2.93	A\$2.65
Share Price at End of FY (A\$)	A\$277	A\$269	A\$285	A\$287	A\$215
Realised CEO Remuneration (US\$)	\$6m**	\$12.7m	\$45.4m	\$28.2m	\$23.3m
Total Shareholder Return (%)	4%	-4%	0%	35%	12%

*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 (does not account for equity raise). 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 **Realised remuneration is that of previous CEO Paul Perrault for just his term prior to retirement on 5 March 2023 (roughly three quarters of the financial year).*

Key Events

Long-time CEO Paul Perreault retired in March 2023, and Dr Paul McKenzie was appointed as the new CEO. Dr McKenzie has been CSL's Chief Operating Officer since 2019 and prior to that held executive positions at Biogen and other pharmaceutical companies. He is a chemical engineer by training.

The Vifor business, focusing on iron deficiency and kidney disorders, was acquired in August 2022, and the integration of the business into the CSL fold is continuing.

This year also marked the completion of the US\$600m Plasma Fractionation Facility at Broadmeadows, increasing the site's capacity nine-fold. At Marburg, Germany a new US\$160M R&D facility was opened, making it CSL's largest R&D hub. Further, the company moved into its new global headquarters in the heart of the Melbourne's biomedical precinct.

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 44%) and at least 40% male directors.
- Directors and other key management personnel (KMP) hold (or 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 business and the processes to manage them.

Areas for Improvement

- The board lacks a diversity in age. Six of the nine directors are aged 65 to 68, and all over 57.
- The company does not publish a skills matrix in the Annual Report.
- They disclose a skills ‘table’ in the Governance Statement rather than a skills ‘matrix’.

Summary

Overall CSL is well governed.

4. Rationale for Voting Intentions

Resolution 2: Appointment of auditor of CSL Ltd

CSL tendered out audit services in 2021 and selected Deloitte to take over from EY. Subject to shareholder approval, Deloitte will provide audit services from FY24 onwards.

The ASA advocates for regular tendering of audit services and limiting audit tenure. Therefore the ASA proposes to support this resolution.

Resolution 3: Re-election of Carolyn Hewson as a Director

Ms Hewson has been a director of CSL since 2019. She has an economics background and is a former investment banker. She is currently a member of the Reserve Bank board and has held many board directorships in the past including BHP. She has adequate “skin-in-the-game” (shareholding). Her workload is within ASA guidelines.

Therefore the ASA proposes to support her election.

Resolution 4: Adoption of Remuneration Report

See Appendix 1 for details of the remuneration framework.

The new CEO remuneration package value is of the order of 10% less than the previous CEO’s. In FY23 the CEO achieved the target level of performance for his STI award. However, the most recent tranche of the LTI award did not vest because performance failed to achieve the ROIC hurdle.

Remuneration changes flagged for FY24 include:

- A proposal to use ‘underlying’ profit for the calculation of Earnings per Share in the LTI assessment (See Appendix). Subsequently the CSL Board decided to revert to the use of NPAT after feedback from shareholders and stakeholders.
- An increase of between 3% and 3.95% for fixed remuneration of key executives and directors

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. Other areas not meeting ASA

guidelines are explained by CSL better matching global standards. On balance we propose to support the remuneration report.

Resolution 5: Approval of grant of Performance Share Units to CEO/Managing Director Dr Paul McKenzie

Please refer to assessment under Resolution 4. We propose to support this resolution.

Monitor Shareholding

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

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Appendix 1 Remuneration framework detail

CEO Remuneration Framework (2023)	Target* (US\$m)	% of Total	Max. Opportunity (US\$m)	% of Total
Fixed Remuneration (FR)	1.75	23%	1.75	13%
STI - Cash	2.1 (120% of FR)	28%	4.2 (240% of FR)	31%
STI - Equity	0	0%	0	0%
LTI	3.72 [†]	49%	7.44 (425% of FR)	56%
Total	US\$7.57m	100%	US\$13.39m	100%

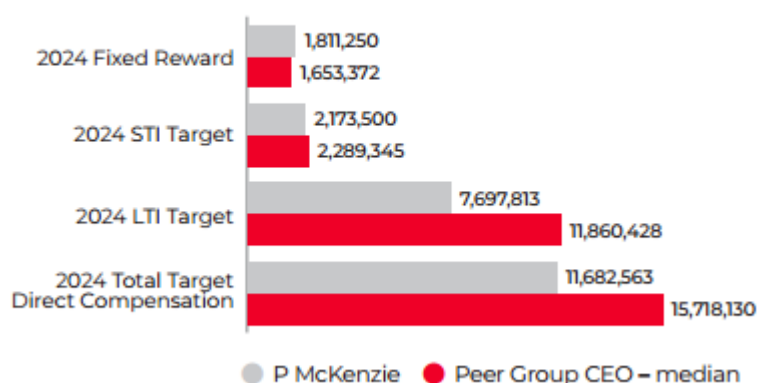
The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent 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 the GRG report benchmarks. CSL provided the following comparison of FY24 CEO remuneration with global peer group, noting an increase of 3.5% in Fixed Remuneration for FY24

2024 P McKenzie Target Remuneration and Peer Group Comparison – US\$



Source: CSL Annual Report 2023

- The quantum of Board fees are within the GRG report 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 2023 the CEO's STI weightings were Net Profit after Tax and

NPATA¹ (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 FY24 Performance Share grants are based on at least two hurdles, one is return on invested capital (ROIC) averaged over a 3-year period (2023-2026) 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 FY24 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 ave)	70%	10.2%	50%	12.8%
EPS growth (3-year)	30%	15.6% pa	50%	17.3% pa

The EPS growth targets appear appropriately challenging.

- 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.
- 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 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.
- ASA prefers total shareholder return (TSR), with no payment if absolute TSR is negative, as one of the performance measures for the LTI award.
- 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.