Diane Grady
Chair, Remuneration Committee of the Board

REMUNERATION REMARKS

This has been a tough year for BlueScope shareholders, staff and board on every dimension, and remuneration is no exception.

Understandably, many shareholders are disappointed that the Board has paid some Short Term Incentive Bonuses to executives when the company has made a loss and its share price has been so poor.

Paying bonuses was not an easy decision, but we believe doing so was in the best interests of the company, and by law, that is Directors' responsibility—to act in the best interests of the company.

Let me explain why we took this decision.

As Graham and Paul outlined, the company has been caught in a perfect storm due to a combination of external factors which I'll reiterate:

First, the rapid rise in the Australian dollar has made our export business which accounted for half of Port Kembla's steelmaking production uncompetitive and imports more attractive. Before this exchange rate shift, BlueScope's steelmaking was in the lowest quartile of the cost curve making our exports attractive to buyers.

Second, the rapid increase in raw material prices has squeezed the profit margin out of steelmaking.

Three years ago raw materials made up just one third of the cost of steel production.

But the soaring increases in iron ore and coking coal prices have taken raw materials up to 70% of our total steelmaking production costs.

Though management has worked hard to reduce costs by almost a billion dollars after the restructuring this has not made up for the massive cost increase the company bears in raw materials.

Third, there has been a significant drop in demand for steel in both Australia and the USA due to stagnant manufacturing and building and construction industries.

This reduction in demand has led to excess steel capacity in most developed countries, which means more export tonnes are trying to find a home.

With our high Aussie dollar imports are knocking on the door, which restricts BlueScope's ability to put through price increases to compensate for soaring raw material costs…
…as I said the perfect storm caused by factors outside management's control.

And since the GFC, executive remuneration has rightly reflected these difficult circumstances.

Two years ago, when profit performance was poor (though we still made dollars), the Board intervened and declined to pay **any** Short Term Incentive bonuses—even though most executives had earned at least some STI either on non-financial KPI's or in regions still doing well on their financials such as China or Asean.

We also instituted a complete pay freeze for executives.

The executive team accepted these decisions—indeed, the CEO recommended them.

The board took a tough position – zero bonuses and there was no push back.

In 2010, the company's financial performance picked up a bit, and we paid the short-term incentives that were earned—still less than 50% of their maximum.

The picture for Long Term Incentives has been even bleaker for executives as well as for shareholders. No LTI payments have been earned since the 2005 award vested in 2008.

The combination of a pay freeze, limited STI bonuses, and no LTI meant significantly reduced remuneration for BlueScope executives.

And we began to lose people — nearly a dozen key managers below the executive leadership team left the company primarily targeted by resources related companies.

In 2011 the board once again seriously considered exercising our discretion to pay no bonuses to executives.

We decided against that course of action for several reasons.

Executives have genuinely earned their non-financial KPIs—they have delivered on a range of specific initiatives which have improved our financial situation or have positioned the company for future growth.

Achieving those initiatives has required – and is still requiring – extraordinary effort, creativity, courage and perseverance -neutralizing carbon tax, shutting the blast furnace, merging three domestic businesses into one, establishing a global PEB business – these are just some examples.

Executives have worn the pain of reduced remuneration in the past, without complaint.

They are not a greedy bunch! This year we felt it was fair—and wise-- to recognize what they have achieved by paying some STI.

I hope shareholders would appreciate that keeping our senior executive team together and motivated is critical both to the company's short term performance and our long term prospects.

Companies facing difficult industry-wide circumstances need top people to work through the cycle. Under Paul's leadership BlueScope's executive team has stuck with us, working hard to manage through one of the toughest industry challenges a company could face. It's certainly not easy money!

If our executives come to believe that no matter what they do, no matter what they achieve, there will be no STI, it will be difficult for us to retain them--and replacing them could well be even more expensive.

Many cashed up resources-related companies would love to get their hands on BlueScope's talent---and they can pay—all part of the two speed economy.

This is not good for BlueScope as a company, and ultimately it is not good for shareholders. Each year since listing, I have addressed shareholders at our AGM to explain key elements of our remuneration report.

We have in many ways been leaders in fostering responsible remuneration policies and transparency-- indeed ASIC used an excerpt from our Remuneration Report last year as an example of good disclosure of non-financial STI's.

Shareholders have supported our approach—we have averaged in excess of 95% favourable votes over the years.

That said, our remuneration system can always be improved.

Early each year the Remuneration and Organisation Committee reviews our remuneration approach and agrees on amendments.

In 2012 we will conduct a comprehensive review that will include consultation with investors and shareholder advisory bodies.

At that time we will consider several potential changes including:

1) assessing the appropriate mix of STI and LTI; and

2) deciding whether we should continue to have 100% of LTI related to TSR, or instead, adopt a mix of hurdles.

We also will respond to requests from proxy advisors to be even more explicit in our disclosure of comparator groups and STI targets and achievements.

When we decided to pay executives the bonuses they had earned against targets set twelve months ago --despite the poor financial performance of the company -- we understood that we risked shareholder opposition—but we concluded it was the right thing for the business—which as I said previously is the legal responsibility of Directors.

We hope shareholders will also reflect on what’s best for the company in placing their vote.

The two strike rule makes retribution easy for unhappy shareholders—but we hope it will also make shareholders consider the consequences of their vote.

A ‘no’ vote could have a particularly demotivating effect in a company like BlueScope that has taken its remuneration responsibilities seriously—a company where executives like shareholders have worn the pain.

We hope that once again you will support the motion to adopt our Remuneration Report.

Thank you, Diane.