BlueScope Annual General Meeting 2015
19 November 2015, Sydney
Address by Penny Bingham-Hall, Chair Remuneration & Organisation Committee

CHECK AGAINST DELIVERY

As chair of the Board's Remuneration and Organisation Committee, I have worked closely with my fellow directors, our external advisers PwC and management to ensure we have an effective remuneration program which continues to motivate our people to deliver results. We also spent time reviewing progress on the development of our talented employees and ensuring we have an inclusive and diverse workplace.

Today I would like to focus on explaining a number of the changes we are proposing to our remuneration structure and the Items of Special Business of our meeting. But first let me make a few comments on our Remuneration Report.

We appreciate that shareholders want a high level of detail and transparency on executive remuneration matters so we have tried to improve disclosure and the flow of information in this year's report. You will see in the section on Reward Outcomes that we have improved disclosure around the outcomes for the Managing Director & CEO's Short Term Incentive (STI) this year.

The Board had set financial targets at a level that required a significant improvement on the prior year performance and, notwithstanding the strong results delivered, not all financial targets were achieved. No STI was awarded for Company underlying net profit after tax and, as a result, the Board exercised discretion to cap awards for cash flow to Target and for projects and new initiatives to 70% of Target. This meant that STI awards were lower than last year with the Managing Director & CEO and his executive team receiving between 40% and 50% of the overall Target award.

As the Chairman and Managing Director & CEO have outlined, the next two years are critical to BlueScope.

It is imperative that Paul O'Malley and his executive team are aligned and focused on our strategic plan that will deliver productivity improvements across the company's operations and generate growth for shareholders. Given the significant initiatives being undertaken by our people across the Australian and New Zealand businesses to lower the cost base and remain competitive, the board felt it was timely to review remuneration arrangements for Key Management Personnel (KMP).

We are asking shareholders to approve new reward arrangements which have an emphasis on strategic outcomes over the next two years, and share price performance over the next two to four years. The Board believes that these special arrangements will maximise the alignment of remuneration for executives with the interests of shareholders.

As we have done in previous years, we have consulted pro-actively with shareholders and proxy advisors, and have sought external advice on our remuneration programs. I am pleased to report that we have received very positive feedback on our proposed approach.

The key changes being proposed for the Managing Director &CEO and members of his executive team are:

- A fixed pay freeze for FY2016 and FY2017, and
- Performance based incentive packages rewarded entirely in equity (ie no cash payments) spread over a two to four-year timeframe.

The overall "at risk" reward opportunity will remain essentially the same but with some key differences:

- The potential reward impact (both upside and downside) from share price changes has been amplified.
- The timing of potential rewards is slightly different with no incentive payable at the end of FY2016
  - Under existing arrangements, two-thirds would be paid in cash and one-third in deferred equity at the end of this financial year.
  - Under the proposed incentive plans, any benefits would be paid in share rights and will escalate out over the next two to four years.

The proposed incentive packages are the subject of approval by Shareholders under Items 4 and 5 of the Special Business of our Annual General Meeting today, so I would like to explain how they will work in a bit more detail.

Short-term incentives for FY2016 and FY2017 will be collapsed into a single incentive. The share rights will be awarded up-front with vesting subject to performance against objectives approved by the Board and assessed over 2 years:

- 50% of the award will be subject to performance against financial targets, and
- 50% of the award will be subject to strategy implementation.

Long-term incentives for FY2017 will be brought forward to align with the FY2016 allocation with both starting in September 2015. One tranche will have a three-year performance period and the other tranche will have a four-year performance period. Also, a second performance hurdle will be added:

- 50% of the award will be measured against relative Total Shareholder Return (TSR) to the ASX 100 companies with the same vesting scale as in previous years (ie 40% will vest at the 51st percentile with 100% vesting at top quartile performance), and
- 50% of the award will be based on performance against a new measure - the Compound Annual Growth Rate of Earnings per Share (EPS) over the performance periods.

The other item of Special Business today is the Approval of Potential Termination Benefits for senior managers and executives. Shareholder approval is sought to ensure that we can continue to treat employees leaving the company fairly and consistently, as well as in accordance with the law and market practice.

As outlined in the Notice of Meeting, these are not new benefits. We are effectively asking that the approval given by shareholders in 2010 for our Long Term Incentive Plan be refreshed for a three-year period and extended to all of our Equity Incentive Plans.

A key feature of our Long Term Incentive Plan adopted in 2002 has been to permit share rights to vest upon a participant ceasing to be employed because of death or disability. This feature, and the potential termination benefits or entitlements as described in the Notice of Meeting, are common across all of our Equity Incentive Plans – both long and short term.

Shareholder approval does not guarantee that employees will receive termination benefits, but rather preserves the discretion of the Board to determine the most appropriate benefit that may be provided in accordance with the relevant employment agreement and plan rules.

In summary, the Board and our Remuneration and Organisation Committee has spent considerable time on reviewing remuneration structures to reflect the Company's current position and strategic plan, and developing the proposals we are asking you to support today. Together with my fellow non-executive directors, I recommend that shareholders vote in favour of the Remuneration Report and the Special Items of Business.

Thank you.