



BlueScope Annual General Meeting 2016

10 November 2016, Melbourne

Address by Penny Bingham-Hall, Chair Remuneration & Organisation Committee

CHECK AGAINST DELIVERY

As your Chairman has said in his address, the Board introduced a special remuneration plan for Key Management Personnel (KMP) last year. I would like to thank our shareholders for supporting this innovative approach to our reward structure which the Board felt had better alignment with strategic outcomes being targeted by management over a two-year timeframe.

So first, let me provide an overview of how this reward structure works and how it differs from previous years. And then I would like to briefly tell you about some of the progress made by the company in ensuring that we have an inclusive and diverse workplace.

The special reward arrangements shareholders approved last year had an emphasis on strategic outcomes over two years, and share price performance over two to four years.

Key changes implemented for the Managing Director & CEO, Paul O'Malley, and members of his executive team included:

- A fixed pay freeze for the 2016 and 2017 financial years, 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 remained 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 this financial year:
 - In previous years, two-thirds of the Short Term Incentive (STI) would have been paid in cash and one-third in deferred equity.
 - Under the new incentive plans, any benefits will be paid in share rights and will escalate out over the next two to four years.

Short-term incentives for the 2016 and 2017 financial years were collapsed into a single incentive. The share rights were awarded up-front with vesting subject to performance against objectives approved by the Board and assessed over 2 years:

- 50% of the award is subject to performance against financial targets,
- 45% is subject to strategy implementation, and
- 5% is subject to safety performance.

I often get asked why safety is only 5% of our STI plan so we included a more detailed explanation of our safety-related performance conditions in this year's Remuneration Report. Be assured, safety remains our first priority and a core value in how our people work each and every day.

The Chief Executive of our Australian and New Zealand business, Mark Vassella, did not participate in any short term incentive arrangement for FY2016. This is consistent with the interventions in the Australian and NZ business restructures announced in August last year.

Other KMP executives participated in the same two-year equity STI program as the MD & CEO with performance measured over the two-year period to the end of FY2017. The only difference being that the



portion related to FY2016 financial performance has been assessed at year end as the Board felt it was important that executives kept focussed on the annual financial performance within their own business units.

These outcomes are detailed in this year's Remuneration Report and vary within each business – most are above Target. However, both measures for North Star BlueScope were below the Threshold and some of the other earnings results were at Target.

I'm pleased to report that based on the Board's interim assessment against the targets set for the two-year STI program, performance is currently tracking well above Target and this is likely to result in strong STI outcomes next year. This final assessment will be detailed in next year's Remuneration Report when actual performance against the two year targets will be disclosed.

Long-term incentives for FY2017 were brought forward to align with the FY2016 allocation with both starting in September 2015. One tranche has a three-year performance period and the other tranche has a four-year performance period.

Also, a second performance hurdle was 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 Board's Remuneration and Organisation Committee also spent time reviewing progress on ensuring we have an inclusive and diverse workplace.

A key priority for the year has been continuing to improve gender diversity in both our overall employee population and in management positions. It has been difficult to improve the overall representation of females in a period that has seen significant structural change (particularly in Australia) but there has been some real progress in Senior Leadership roles and more recently in our Operator workforce.

We now have two women on our Executive Leadership Team and 16% of our Senior Leaders are women. We are working to ensure females have access to a breadth of critical experiences to position them for senior roles and there is a disproportionately high number of women being promoted and undertaking training programs. The Board also continues to actively analyse pay levels to ensure pay equity by gender and that appropriate steps are taken to address any like-for-like differences. I am confident that these initiatives are increasing the pipeline of capable women in our business and will flow through into improved statistics in future years.

Traditionally it has been very difficult to attract women into our manufacturing operations. However, your management team has implemented some very successful pilot programs both in Australia and the US, where they have demonstrated that increasing diversity improves productivity. As a result, there has been a step change in the number of females being recruited into operator roles over the past 6 months.

In conclusion, as chair of the Board's Remuneration and Organisation Committee, I have worked closely with my fellow directors, our independent remuneration advisors PwC, and management, to ensure we have an effective remuneration program which continues to motivate our people, to deliver results.

Together with my fellow non-executive directors, I recommend that shareholders vote in favour of the Remuneration Report.

Thank you.