



## BlueScope Annual General Meeting 2017

11 October 2017, Melbourne

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

### CHECK AGAINST DELIVERY

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Good morning ladies and gentlemen

As your Chairman has said in his address, shareholders have benefited from exceptional company performance over the past two years. This has resulted in Short Term Incentive (STI) outcomes well above target that reflect the strong financial performance and significant increase in our share price.

Today I would like to talk about the reward outcomes for the two-year incentive plan that has just finished and explain the changes to our remuneration framework going forward.

#### Reward Outcomes

So first, let me remind you of the special reward arrangements shareholders approved in 2015 which 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 past two 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 was amplified, and
- The timing of potential rewards was different with no incentive payable the last two financial years.

**Short-term incentives** for the 2016 and 2017 financial years were collapsed into a single incentive and were assessed over two years as follows:

- 50% of the award was subject to performance against the financial targets of underlying Net Profit After Tax (NPAT) and free cash flow. NPAT increased by over 300% which exceeded our stretch target. And free cash flow increased by over 380% which also exceeded our stretch target. An exceptional performance.
- 5% of the award is for our target of zero harm in the workplace. As the Chairman said safety performance deteriorated last year so the Board scored this component zero, and
- the remaining 45% was subject to implementation of our corporate strategy which delivered material value to BlueScope. Specific deliverables included expansion of the coated and painted businesses in Asia, integration of the North Star acquisition in the USA, productivity improvements to ensure a



sustainable return on capital across our global footprint, diversity and innovation initiatives, and de-leveraging of the balance sheet.

This performance resulted in 100% of the maximum STI being paid to the CEO and his Executive Leadership Team. I should note, that consistent with the decision not to operate an STI plan in Australia & New Zealand in FY2016, incoming CEO Mark Vassella did not participate in the plan for that year. However, he did participate in the plan in FY2017 following the reintroduction of incentives to that business.

**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.

These awards will be assessed at the end of FY2018 and FY2019 based on both relative Total Shareholder Return (TSR) and the Compound Annual Growth Rate of Earnings per Share (EPS) over the performance periods.

Your Board believes that the combination of both the two-year STI and the LTI over 3 and 4 years has maximised alignment of remuneration for executives with the interests of shareholders during the turnaround period.

### **New Remuneration Framework**

As this successful two-year incentive plan came to its conclusion, the Board undertook a review of the remuneration framework. The purpose of the review was to develop a framework that pays fairly for delivering on our strategy, and creates value over time in the eyes of both external and internal stakeholders.

We spent time as a Board discussing the design principles and asked the management team to do the same. We also spent considerable time talking to our major shareholders, proxy advisors, and the Australian Shareholders Association about the design principles we believed were appropriate for BlueScope and some options we were considering.

This review found that previous more traditional remuneration structures had delivered very volatile incentive outcomes that were more influenced by external commodity prices or uncontrollable factors than the underlying business performance. And they were costly to shareholders with, at times, no value to executives.

We really wanted to provide a remuneration scheme which improved the alignment with shareholders through a greater level of share ownership whilst providing a clear link to our strategy by rewarding management focus on 3 things:

1. Reducing the impact of cyclicity on business performance
2. Maintaining cost control, debt management and balance sheet integrity, and
3. Growing the business and delivering Return on Invested Capital (ROIC) and cash flow targets.

The Remuneration Report provides a detailed explanation of the new framework. In summary, it includes the following key changes:



- A reduction in the quantum of the STI, with the reduced amount directed to longer-term equity ie the amount previously deferred for one year will in future be deferred for 3 years.
- Replacement of the prior LTI plan with Alignment Rights which have a threshold return on capital measure, a maximum debt hurdle and an individual behaviour gateway of adherence to our company values. Again, the quantum of award available to the CEO and his team has been significantly reduced reflecting the greater certainty of payment if these performance hurdles are met. As illustrated in our remuneration report these hurdles are higher than those consistently delivered by the company over the past 10 years and are at a level that, if achieved over the 3-year performance period, will provide good returns for shareholders.
- To further increase this alignment with shareholders, the minimum shareholding requirements have been increased. The CEO is now required to hold twice his fixed pay in shares while other KMP executives must hold at least one times their fixed pay.

Items 5 and 6 of the Notice of Meeting deal with the approval of the grant of share rights for the incoming CEO for both the Alignment Rights and his STI. This year we have introduced the option for executives to take their STI in shares or cash, or a combination of both. Mark Vassella has elected to take all of his FY2018 STI in shares.

Mark will become CEO on 1 January 2018. His remuneration package for the year will reflect 6 months of his current salary and 6 months of his new salary as CEO.

In conclusion, as chair of the Board's Remuneration and Organisation Committee, I am confident that the new remuneration framework will deliver greater value to shareholders at less cost. I also believe it will maintain a deliberate focus by our management team on the financial fundamentals and our strategy, which will support the future growth of BlueScope.

We believe this new remuneration framework is a fair approach for both shareholders and executives.

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

Thank you