# ANNUAL REPORT

## 2016/2017

# CHAIRMAN'S MESSAGE

**Dear Shareholder**

BlueScope's FY2017 annual results are the most important in a decade.

Your Company announced a return to a $1billion Earnings Before Interest & Tax (EBIT) result, and after ten years at the helm, Managing Director & CEO Paul O'Malley announced his retirement.

Treated separately, either the EBIT performance result or the CEO announcement would be very significant news for you, our shareholders. Combined, they send a clear signal that BlueScope has completed a very difficult journey of transformation since the global financial crisis hit nine years ago and, crucially, is now ready for another exciting period of growth and development.

This revival has been led by outgoing Paul O'Malley who has been an outstanding leader for more than ten years. The Company owes him a great debt of gratitude for his strength of vision and purpose as leader. His focus on safety, and on the essential turnaround and transformation of the Company in the decade after the global financial crisis showed leadership of the highest order.

If you look closely at BlueScope today, you can see a vastly different company from that of 10 years ago when Paul assumed the job.

Ten years ago the world could not supply enough steel to meet the growth in China. As undersupply changed to significant oversupply over that time, BlueScope had to change also. Today the Company has a much lower dependency on export driven commodity sales. Today BlueScope has refocused the Company to serve the changing needs of its domestic customers in Australia, New Zealand and the United States, where it has primary steel making facilities. Service and cost competitiveness are key.

Secondly, its geographic diversity provides growth opportunities coupled with a spread of earnings that stabilises the overall business.

Thirdly, and very importantly, a large proportion of today's business is providing value added, differentiated painted and coated products into Australia, New Zealand, the USA and importantly, growth markets of Asia. The buildings businesses in the USA and China also provide for a differentiated offer.

And lastly, BlueScope enjoys a very strong balance sheet. It gives us the resilience to counter the economic cycles and also to take advantage of opportunities like the one with North Star some two years ago.

All of this enables the Company to have a more predictable cash flow while having good exposure to growth markets.

This will all be part of Paul's legacy. However the real legacy Paul leaves behind is his strong personal values that have set the tone from the top, and are reflected in everything the business does.

He retires as Managing Director & Chief Executive Officer in December with the warmest thanks and best wishes of the Board and all BlueScope employees.

Shareholders will have the opportunity to join me in personally thanking Paul at our Annual General Meeting in October.

From 1 January, 2018, Mr Mark Vassella will take over as Managing Director and CEO.

Mr Vassella joined BlueScope in 2007, and is currently Chief Executive BlueScope Australia and New Zealand. He started in the steel industry as a cadet at BHP Newcastle in NSW, in the early 80s, and has worked through the ranks, in a range of general management and leadership roles in Australia, the UK and the US.

BlueScope is noted for the strength of its management team and after a rigorous international and domestic selection process, the Board was very pleased to be able to select Mark from a very strong internal pool.

BlueScope is delivering well on its strategy, with strong momentum throughout the Company. Mark will lead from the front, and his priority now is to keep delivering on the strategy, and follow-up our recent performance and successes. Continuity is key.

Mark has been a key part of the development of our strategy, and in Australia and New Zealand has led our 8,000 strong workforce in manufacturing and distribution through a major restructure of the business. He has overseen the return of the Australian business to profitability, and was instrumental in the 2015 decision to continue operations at Port Kembla in Australia, and at Glenbrook in New Zealand.

He has run all BlueScope's buildings businesses in North America, leading the integration of our acquisitions and sat on the Board of North Star (the leading mini-mill in North America). He has delivered outstanding performance and will make a significant contribution as global leader of this great Company.

## Financial performance

The FY2017 results show continued growth and strong financial performance.

The improvement in underlying return on invested capital (ROIC) to 18.5 per cent from 9.6 per cent in FY2016 further confirms that strategic initiatives across the Company are working well.

Since we acquired full ownership of North Star BlueScope Steel in FY2016 this business has seen sustained improvement in margins. The outlook for the US steel industry strengthened and the business is extremely well placed to benefit from a domestic US uptick in demand and improved prices.

The Australian and New Zealand businesses produced strong results, not least because of a razor-sharp focus on cost competitiveness. However, there is a need for an ongoing focus on costs in these businesses due to energy price increases.

Our joint venture with Nippon Steel Sumitomo Metals Corporation continues to bring many benefits. We have diversified our customer base in Asia, adding retail and small business sales to our established position in commercial markets. We are continuing to grow and invest in the region, with the development of the third metal coating line with in-line painting in Thailand underway.

The restructure of the BlueScope Buildings business has led to a significant profitability boost in North America, and improved performance in China.

Across our global footprint, these combined improvements have repositioned BlueScope, ready for the journey ahead.

## FY2017 financial highlights and outlook

BlueScope delivered a $715.9 million reported net profit after tax (NPAT) for FY2017 – a 102 per cent increase on FY2016. Underlying NPAT of $650.8 million was 112 per cent higher than FY2016.

The Company lifted underlying earnings before interest and tax (EBIT) by 89 per cent to $1,105 million.

A big achievement is that net debt at 30 June 2017 was $232.2 million, a reduction of 70 per cent from 30 June 2016 through strong operating cash flow.

Our successful transformation has rebased earnings to a higher level, lowered volatility, improved our earnings mix and positioned the Company well to fund growth, reduce debt, and for capital management.

In the immediate half year there are a number of macro factors impacting the outlook:

- U.S. steel margins are lower due to scrap prices increasing ahead of steel prices;
- As trade restrictions take hold in global markets, import product offerings are taking advantage of gaps in the Australian anti-dumping regime, which together with volatility in FX, is leading to lower domestic steel margins; and
- Productivity improvements at Australian Steel Products are not yet fully offsetting the scale of energy cost escalation in FY2018.

The Company currently expects 1H FY2018 underlying EBIT around 80 per cent of 2H FY2017 underlying EBIT (which was $527.3 million). Expectations are subject to spread, FX and market conditions.

## Capital management

The Board approved payment of a fully franked full year dividend of 5.0 cents per share, and will undertake a further on–market share buy-back of up to $150 million during 1H FY2018.

In February, your Board announced a $150 million on-market share buy-back. This was completed in June, with 12.78 million shares bought at an average of $11.74 per share.

The Board's intention is to pay consistent dividends in conjunction with ongoing on-market share buy-backs. Directors believe this achieves the appropriate balance between retaining strong credit metrics, continuing to fund our growth opportunities and returning cash to shareholders.

## Strategic context

The hard work done to steer BlueScope through the cycles of the last 10 years now means BlueScope is in a better position to consistently deliver sustainable profits. The foundations are secure, based on a balanced portfolio of businesses in great regions with significant opportunities for growth. The focus will be on the delivery of improved ROIC, consistently and through the cycle. We will continue our capital management program, further boosting the strength of the Company's balance sheet.

I hasten to add that we are not complacent, and our focus as we start to stretch further into the future will be to embed sustainable profits and growth. We do not underestimate the challenges of a cyclical business, and recognise that at times we will again be exposed, but we have confidence in our focused leadership and the work that has been done to develop a sound platform and strategy.

The FY2017 performance demonstrates one aspect of how we are protecting the business against movements in industry cycles. There has been a distinct change in our sales mix, with increased contribution from value-added products to give a better earnings mix and lower exposure to fluctuations in spread. Similarly the geographic diversity of earnings is much broader than ten years ago when 70 per cent of earnings were derived in Australia. Today, Australian operations account for 41 per cent of FY2017 earnings, and North America is responsible for 38 per cent.

The steel industry is a capital intensive sector, with investments running over decades. A company must make capital work hard to drive returns, and ROIC is the right measure for this, through the cycle. Our philosophy is to invest capital wisely and then make it work hard.

In this context, and to support our strategy for the future, challenging ROIC targets will be the key driver of remuneration rewards for all employees. This new approach and a new remuneration framework will bring more value to shareholders with less cost. It will support a long-term focus on delivering value, coupled with more equity opportunity for executives. It will dictate a continued focus on annual targets aligned to the overall Company strategy, and thus increased executive and shareholder alignment.

## Safety

Safety remains the number one priority at BlueScope. In FY2017, the Company's safety performance deteriorated, as measured by the Lost Time Injury Frequency Rate of 0.8, and the Medically Treated Injury Frequency Rate of 5.6.

This was most disappointing. At a time of great change people can become distracted and the risk of injury rises. However, while that is somewhat understandable, is not acceptable.

Across the business, managers are working with their teams to identify the causes of this increase in injuries, design solutions and ensure the Company gets back on track to pursue its Zero Harm goal.

## Sustainability

All BlueScope people strive to live by the values reflected by Our Bond, which defines our relationships with our customers, employees, shareholders and communities, and the Company has strategies in place to protect our business for the future wellbeing of all stakeholder groups.

The FY2016 BlueScope Sustainability Report outlines the Company's performance in meeting its responsibilities towards each of these groups, and as overseen by governance policies. I hope you have had a chance to read this report on the Company's website.

In working towards more fulsome sustainability reporting in FY2017 and beyond, management has identified five principal areas of initial focus:

- Employee and contractor safety – relentless pursuit of Zero Harm and further improvement in performance against lost time and medically treated injury measures.
- Climate change and energy response – constantly strive to reduce energy emissions, and protect the business against changes and risks from the effects of climate change. BlueScope broadly supports the Australian Government Finkel review's recommendations to improve the reliability and security of the National Energy Market, and we believe a well-designed Clean Energy Target could provide the right signals for investment so as to encourage a diverse energy mix that delivers more affordable and reliable electricity, while also reducing emissions. We also welcome the Government's efforts to ensure adequate supplies of gas are available for domestic industry and electricity generation, through the introduction of the Australian Domestic Gas Security Mechanism (ADGSM), as well as the measures announced to inquire into the competitiveness of the domestic gas and electricity markets, and the steps the Government is taking to secure baseload electricity generation capacity.
- Diversity and equal opportunity – increase the diversity of our workforce to reflect our communities. In FY2017 the percentage of women recruited to permanent roles was almost double at close to 40 per cent. For operator and trade roles, women comprised 29 per cent of all new recruits, up from seven per cent. Women now comprise 17.4 per cent of BlueScope's almost 15,000 global workforce.
- Governance and business conduct – the Board, management, employees, contractors and agents are all expected to behave in accordance with Our Bond and BlueScope policies and standards. Rigorous systems are in place to report and investigate any cases of misconduct. Across our 15,000 employees in 17 countries, the Company's independently-run 24/7 Whistleblower Hotline received 19 calls with allegations during the year. This led to 24 investigations and a total of nine people exited the business. Our HR policy is not to comment on individual cases – but we would if they pertained to members of the leadership team. In line with our commitment to sustainability reporting and transparency, we disclosed that the ACCC has been investigating potential cartel conduct by BlueScope, relating to the supply of steel products in the Australian market, and that it involved a small number of BlueScope employees from late 2013 to mid-2014. That ACCC investigation continues and we are cooperating fully.

  During the year a number of cases were investigated, and a small number found to be proven with appropriate disciplinary action taken. We recognise we need to continue to educate all BlueScope people of the importance of behaving in line with Our Bond and all Company policies, and ongoing reinforcement through new training initiatives to be introduced will assist this.
- Supply chain sustainability – ensure ethical and human business practices at BlueScope and with all third parties with whom we engage along the supply chain, in line with best practice global supply chain principles.

Turning to other significant matters of governance, BlueScope recently announced the appointment of a new director to the Board, Ms Jennifer Lambert. Jennifer has extensive business and leadership experience at the senior executive and board level. She was Group Chief Financial Officer of 151 Property (previously known as Valad Property Group) from 2003 to 2016, where her responsibilities included operational and strategic finance, tax, treasury, legal and compliance. Prior to that she was a Director at PricewaterhouseCoopers specialising in capital raisings, and structuring/due diligence for acquisitions and disposals, across various industries.

Ms Lambert currently serves as non-executive director on the board of Investa Office Management, where she is a member of the Investa Group Audit, Risk and Compliance Committee, Place Management NSW (part of Property NSW), and Mission Australia, where she is Chair of the Board Audit and Risk Committee.

The Directors are very pleased to welcome Jennifer onto the Board. She has a wealth of financial experience and expertise from her time as a CFO in the property sector. Jennifer will bring an incisive perspective to BlueScope's business and help the Board guide the Company's growth and sustainability.

## Conclusion

BlueScope management and employees have continued to work tirelessly to see your Company succeed and prosper, and I sincerely thank them for this.

If it has felt like a long journey to this point – and it has been a tough ride – well welcome to the next phase of a long journey! However, I am confident this one will be much more positive and rewarding, based on the astounding efforts of all BlueScope people and the leadership of Paul O'Malley and his executive team to guide us to where we are today.

I thank my fellow Directors for their collegiality and support. I look forward to working with our newly shaped Board and with incoming CEO Mark Vassella and his team, as we embark on the journey ahead.

I join with all shareholders in looking forward to BlueScope's continued success in the next financial year and beyond.

**John Bevan**
Chairman

# DIRECTORS' REPORT

**BlueScope Steel Limited**

ABN 16 000 011 058

**Directors' Report for the year ended 30 June 2017**

The Directors of BlueScope Steel Limited ('BlueScope Steel') present their report on the consolidated entity ('BlueScope Steel Group' or 'the Company') consisting of BlueScope Steel Limited and its controlled entities for the year ended 30 June 2017.

# OPERATING AND FINANCIAL REVIEW

## DESCRIPTION OF OPERATIONS

BlueScope is a technology leader in, and the largest global producer of, metal coated and painted steel building products. Principally focused on the Asia-Pacific region, the Company manufactures and markets a wide range of branded products that include pre-painted COLORBOND® steel, zinc/aluminium alloy-coated ZINCALUME® steel and the LYSAGHT® range of building products.

The Company has an extensive footprint of metallic coating, painting and steel building product operations in China, India, Indonesia, Thailand, Vietnam, Malaysia and North America, primarily servicing the residential and non-residential building and construction industries across Asia, and the non-residential construction industry in North America. BlueScope operates across ASEAN and in North America in partnership with Nippon Steel & Sumitomo Metal Corporation (NSSMC) and in India with Tata Steel. Both are 50/50 joint ventures with BlueScope controlling and therefore consolidating the joint venture with NSSMC, and jointly controlling and therefore equity accounting the joint venture with Tata Steel.

BlueScope is Australia's largest steel manufacturer, and New Zealand's only steel manufacturer. BlueScope's vertically integrated operations for flat steel products in Australia and New Zealand produce value-added metallic coated and painted products, together with hot rolled coil, cold rolled coil, steel plate and pipe and tube.

BlueScope manufactures and sells long steel products in New Zealand through its Pacific Steel business. In Australia and New Zealand, BlueScope serves customers in the building and construction, manufacturing, automotive and transport, agricultural and mining industries. In Australia, BlueScope's steel products are sold directly to customers from our steel mills and through a national network of service centres and steel distribution businesses.

BlueScope is a leading supplier of engineered building solutions (EBS) to industrial and commercial markets. Its EBS value proposition is based on speed of construction, low total cost of ownership and global delivery capability. Leading brands, including BUTLER®, VARCO PRUDEN® and PROBUILD®, are supplied from BlueScope's global supply chain and major manufacturing and engineering centres in Asia and North America.

On 30 October 2015 BlueScope acquired full ownership of North Star BlueScope Steel (NSBSL), previously 50% owned. The Ohio, U.S. mill is a low cost regional supplier of hot rolled coil. NSBSL is highly efficient, operates at industry leading utilisation rates and is strategically located near its customers and in one of the largest scrap markets of North America.

## STRATEGY

The Company's target is to deliver top quartile shareholder returns with safe operations.

BlueScope's strategy focuses on the following areas:

| Grow **premium branded steel businesses** with strong channels to market | | Deliver **competitive commodity steel supply** in our local markets | | Ensure ongoing **financial strength** |
|---|---|---|---|---|
| **Coated & Painted Products** | **BlueScope Buildings** | **North Star BlueScope** | **Australia & NZ Steelmaking** | **Balance Sheet** |
| Drive growth in premium branded coated and painted steel markets in Asia-Pacific | Drive growth in North America and turn around China | Maximise value | Deliver value from Australian/NZ steelmaking and iron sands by game-changing cost reduction or alternative model | Maintain strong balance sheet |
| *Invest & grow* | *Optimise & grow* | *Optimise / invest* | *Restructure* | *Maintain* |

## DELIVERY ON OUR STRATEGY: SIGNIFICANT IMPROVEMENTS TO BLUESCOPE'S PORTFOLIO

- Coated & Painted Products:
  - 32% pa compound growth in ASEAN, North America & India EBIT in last five years – particularly strong in North America.
  - Increased customer diversity in ASEAN – adding retail and SME sales to our established position in commercial markets.
  - Sales of home appliance steels (SuperDyma®) growing in Thailand, and construction of MCL3 on track.
  - Growth in Australian domestic coated product sales; pursuing inter-material growth opportunities.
  - Reviewing expansion opportunities in India, including further painting and metal coating capacity.
- Restructured BlueScope Buildings:
  - Significant profitability boost in North America; $30M productivity savings on track for FY2018 (over FY2016)
  - China Buildings restructure delivering results, being breakeven in 4Q FY2017.
- North Star:
  - Moved to full ownership in October 2015, adding more than $200M EBIT in FY2017 (compared to 50% ownership).
  - Delivering incremental volume growth: production increased 71kt this year.
  - Reducing conversion costs – delivered cost savings of over $10M pa in recent years.
- Australia & New Zealand steelmaking:
  - Businesses streamlined – $375M improvement in cost competitiveness (relative to FY2015 cost base) and primary focus now on domestic markets.
  - Exited Taharoa export iron sands business, a non-core business which has delivered volatile earnings in recent years.
- Balance sheet:
  - Net debt reduced to $232.2M. Leverage reduced to 0.16x (net debt over underlying EBITDA).
  - Clear capital management framework incorporating ongoing buy-backs.

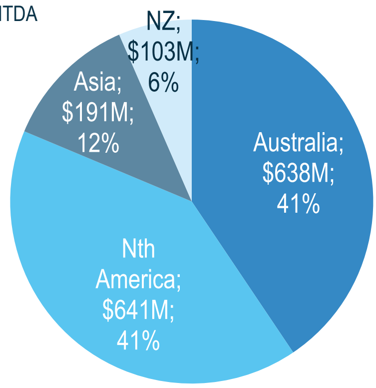
## RESULTANT ENHANCEMENT TO BLUESCOPE'S POSITION

The pursuit of our strategy, including the improvements made in recent years, has delivered:

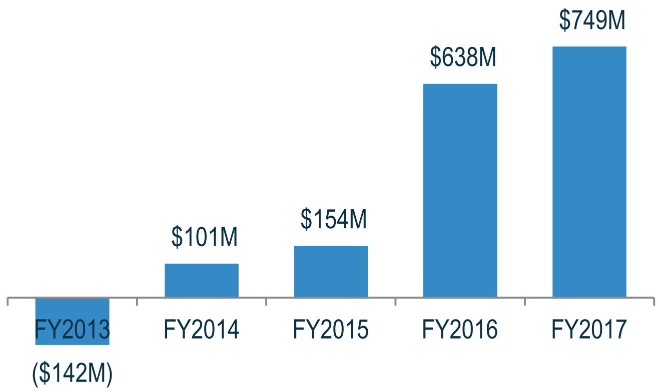
- a pivot in our sales mix – with 75% of our volume sold as value added or highly cost competitive products
- better business segment earnings mix across the portfolio
- broader geographic diversity – 59% of underlying EBITDA (excluding corporate costs) derived outside of Australia in FY2017
- strong overall improvement in cash flow, facilitating commencement of on-market buy-backs during 2H FY2017.

### Improved geographic diversity

FY2017 underlying EBITDA Total: $1,485.4M (including $87M of corporate costs not shown in chart)




### Improvement in free cash flow (op. cash flow less capex)




## SUSTAINABILITY

At BlueScope our health, safety, environment and community responsibilities are integral to the way we do business, being core elements of strategy and risk management. We made some key achievements in FY2017, and continue to look for ways to improve:

- In safety, while our goal remains zero harm, we achieved our thirteenth successive year with an industry-leading LTIFR rate below 1.0 per million man-hours worked.
- On our goal of increasing workforce diversity to reflect our communities, in FY2017 29% of new hires into operator and trade roles were female, being nearly five times the current 6% representation of females across all of our operator and trade roles.
- We have reduced Australian $CO_2$ emissions by an estimated 43% since FY2011 – down to 7.4Mt from 12.9Mt in FY2011.
- We remain vigilant on governance and business conduct with an actively-promoted whistle-blower line.

We recently released our FY2016 Sustainability Report, being our first integrated report on environment, social and governance matters. We intend to release a further enhanced Sustainability Report for FY2017, in early 2018. Using a market-recognised approach, this report will bring added focus on the most material sustainability topics for BlueScope. As part of this we intend to provide more detailed disclosure on climate-related governance, strategy, risk management and metrics. It is intended that this will be followed by more detailed disclosure in the FY2018 Sustainability Report, including information on the organisation's resilience under different climate-related scenarios.

# GROUP FINANCIAL REVIEW

## HIGHLIGHTS

**Sales from continuing operations**

**$10,626.7M** ↑ 17% on FY2016

2H result $5,522.2M, up $835.5M

**Reported net profit after tax**

**$715.9M** ↑ 102% on FY2016

2H result $356.7M, up $203.1M

**Underlying EBIT**

**$1,105.0M** ↑ 89% on FY2016

2H result $527.3M[1], up $187.9M

$1,131.2M on a 'guidance' basis (including Taharoa)[1]

**Underlying return on invested capital**

**18.5%** ↑ from 9.6%

**Capital management**

**5.0cps final dividend (4.0cps interim)**
**$150M buy-back completed in 2H FY2017**
**$150M buy-back announced for 1H FY2018**

**Net debt**

**$232.2M** ↓ $545.8M on Jun 2016

## FINANCIAL SUMMARY

**Table 1: Financial summary**

| $M unless marked | FY2017 | FY2016 | Variance % |
|---|---|---|---|
| Sales revenue from continuing operations | 10,626.7 | 9,067.8 | 17% |
| EBITDA – underlying [2] | 1,485.4 | 966.0 | 54% |
| EBIT – reported | 1,044.5 | 621.6 | 68% |
| EBIT – underlying [2] | 1,105.0 | 583.8 | 89% |
| Return (underlying EBIT) on invested capital (%) | 18.5% | 9.6% | +8.9% |
| NPAT – reported | 715.9 | 353.8 | 102% |
| NPAT – underlying [2] | 650.8 | 306.6 | 112% |
| Final ordinary dividend (cents) | 5.0 cps | 3.0 cps | 67% |
| Reported earnings per share (cents) | 125.3 cps | 62.1 cps | 102% |
| Underlying earnings per share (cents) | 113.9 cps | 53.8 cps | 112% |
| Net debt | 232.2 | 778.0 | (70%) |
| Gearing (%) | 4.0% | 13.5% | -9.5% |
| Leverage (ND / proforma underlying EBITDA) | 0.16x | 0.80x | -0.64x |

[1] Arising from its divestment in May 2017, the Taharoa export iron sands business has been reclassified into Discontinued Operations. Earnings have been restated to exclude the Taharoa export iron sands business from the NZPac segment (amounting to $25.9M and $0.3M of underlying earnings in 1H FY2017 and 2H FY2017 respectively). Table 13 provides further detail.

[2] Underlying results in this report are categorised as non-IFRS financial information provided to assist readers to better understand the financial performance of the underlying operating business. Underlying adjustments included discontinued operations, acquisitions and disposals of businesses, asset impairments/write-backs and restructuring costs. Tables 10, 11 and 12 explain why the Company has disclosed underlying results and provide reconciliations of underlying earnings to reported earnings

## REVENUE

The 17% increase in total revenue was principally due to:

- the move to full ownership of North Star in October 2015
- higher steel prices in all regions
- increased sales volumes in the Australian Steel Products, Building Products and BlueScope Buildings segments
- unfavourable translation impacts from a stronger Australian dollar exchange rate (AUD:USD)
- planned lower export volumes at New Zealand and Pacific Steel as part of the Pacific Steel investment.

## EARNINGS BEFORE INTEREST AND TAX

**The 89% increase in underlying EBIT** reflects:

- **$260.1M increase in North Star** contribution due to favourable impact of full ownership after 30 October 2015, stronger steel spreads and lower conversion costs
- **$139.2M spread** increase, primarily comprised of:
  - increase in domestic and export prices due to higher global steel prices, partly offset by the unfavourable influence of a weaker AUD:USD ($525.6M)
  - higher raw material costs – higher coal and iron ore purchase prices at ASP; higher steel feed costs at BP and BB ($386.4M)
- **$78.1 favourable movement in costs**, primarily driven by:
  - $203.1M cost improvement initiatives mainly in ASP, BlueScope Buildings North America and NZPac
  - $149.5M unfavourable impact of cost escalation from utilities, employment, consumables and other costs, including the re-introduction of an employee bonus scheme in Australia and New Zealand, which is profit-share based
  - $24.4M net decrease in other costs.
- **$26.9M benefit from volume and mix** due to: higher despatch volumes in the Building Products and BlueScope Buildings segments in most countries in which we operate combined with a planned reduction in export steel despatches at NZPac
- **$8.8M increase in Tata BlueScope Steel** performance due to volume growth and better margins
- **$8.1M favourable movement in other items**, including foreign exchange translation: $9.1M unfavourable movement.

The $422.9M (68%) increase in reported EBIT reflects the movement in underlying EBIT discussed above and $98.3M unfavourable movement in underlying adjustments explained in Tables 11 and 12, with the major adjustments being for the discontinued Taharoa export iron sands operations, impact of acquiring 50% of North Star in FY2016, lower asset impairments, lower restructuring costs and utilisation of previously impaired deferred tax assets. Noting the current period included asset impairments in BP Indonesia ($50.3M) and Buildings China ($43.9M).

## FINANCE COSTS AND FUNDING

The $14.1M decrease in finance costs compared to FY2016 was largely due to:

- a decrease in average gross borrowings (FY2017 $1,144M; FY2016 $1,462.3M)
- the cost of early redemption of the US$110M 144a Unsecured Notes in FY2016
- partly offset by a higher average cost of debt (FY2017 6.3%; FY2016 5.0%) due to a change in the mix of drawn debt.

Financial liquidity was $1,932.4M at 30 June 2017 ($1,801.4M at 31 December 2016 and $1,813.1M at 30 June 2016), comprised of committed available undrawn capacity under bank debt facilities of $1,179.4M, plus cash $753.0M. Liquidity in the NS BlueScope Coated Products JV was $397.1M which is included in the group liquidity measure.

The improved cash flow position enabled BlueScope to repay the remaining US$110M senior unsecured notes in November 2016, which were due to mature May 2018.

BlueScope has in place off balance sheet receivables securitisation programs which were increased by $210.0M during FY2017 to a total limit of $460M. These facilities were drawn to $377.4M at 30 June 2017 ($198.5M at 30 June 2016).

## TAX

Net tax expense of $181.8M (FY2016 $101.4M) primarily relates to income generated in businesses outside of Australia and New Zealand.

In Australia the Company has utilised previously unrecognised tax losses to offset taxable income generated during the period. The Company has deferred the recognition of any further tax losses in Australia and New Zealand until a history of taxable profits has been demonstrated. Australian and New Zealand tax losses are able to be carried forward indefinitely.

FY2017 financial results include $128.4M (FY2016 $42.3M) utilisation of previously impaired deferred tax assets in Australia and New Zealand, $11.3M of tax assets impaired in China, $101.2M of non-tax effected asset impairments in China, New Zealand and Indonesia and non-taxable gains of $26.7M from the sale of Taharoa.

## DIVIDEND & CAPITAL MANAGEMENT

The Board of Directors has approved payment of a final dividend of 5.0 cents per share and a $150M on-market buy-back for 1H FY2018. During 2H FY2017, the Company paid an interim dividend of 4.0 cents per share and bought shares to the value of $150M through an on-market buy-back.

The final dividend will have attached 100% franking credits and imputation credits for Australian and New Zealand tax purposes respectively. BlueScope's dividend reinvestment plan will not be active for the final dividend.

Relevant dates for the final dividend are as follows:

- Ex-dividend share trading commences: 8 September 2017.
- Record date for dividend: 11 September 2017.
- Payment of dividend: 16 October 2017.

The Board's present intention is to pay consistent dividends, given limited franking availability, in conjunction with ongoing on-market buy-backs[3], funded on the following basis:

- to retain strong credit metrics
- ensuring a balance between returning capital to shareholders and maintaining flexibility to pursue growth; and
- to be 30% to 50% of free cash flow.

## FINANCIAL POSITION

Net assets increased $553.4M to $5,538.8M at 30 June 2017 from $4,985.3M at 30 June 2016. Significant movements were:

- $545.8M decrease in net debt through strong cash flow
- $120.7M increase in net working capital, particularly driven by a $270.5M increase in inventory (mainly due to unit cost and net volume increases), a $169.8M increase in receivables and a $334.3M increase in payables
- $109.8M decrease in retirement benefit liabilities from improved asset returns and higher discount rates
- $112.4M decrease in property, plant and equipment
- $80.9M decrease in intangible assets mainly due to amortisation charges and foreign exchange fluctuations.

[3] On-market buy-backs are seen as the most effective method of returning capital to shareholders after considering various alternatives and given the Company's limited franking capacity (capacity to frank 5.9cps of dividends, prior to payment of the final dividend). The Board reserves the right to suspend or terminate buy-back at any time.

# AUSTRALIAN STEEL PRODUCTS (ASP)

ASP produces and markets a range of high value coated and painted flat steel products for Australian building and construction customers, together with providing a broader offering of commodity flat steel products. Products are sold mainly to the Australian domestic markets, with some volume exported. Key brands include zinc/aluminium alloy-coated ZINCALUME® steel and galvanised and zinc/aluminium alloy-coated pre-painted COLORBOND® steel. The segment's main manufacturing facilities are at Port Kembla (NSW) and Western Port (Victoria).

ASP also operates pipe and tube manufacturing, and a network of rollforming and distribution sites throughout Australia, acting as a major steel product supplier to the building and construction, manufacturing, transport, agriculture and mining industries.

## KEY FINANCIAL & OPERATIONAL MEASURES

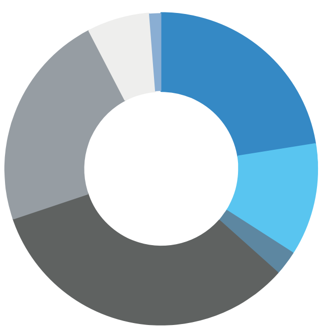
**Table 2: Segment financial performance**

| $M | FY2017 | FY2016 | Var % | 2H FY2017 |
|---|---|---|---|---|
| Sales revenue | 4,918.7 | 4,437.4 | 11% | 2,553.7 |
| Reported EBIT | 459.5 | 77.7 | 491% | 217.4 |
| Underlying EBIT | 459.4 | 361.4 | 27% | 216.9 |
| NOA (pre-tax) | 2,140.6 | 2,088.7 | 2% | 2,140.6 |
| Underlying ROIC | 20.5% | 15.3% | +5.2% | 18.8% |

**Table 3: Steel sales volume**

| 000 tonnes | FY2017 | FY2016 | Var % | 2H FY2017 |
|---|---|---|---|---|
| Domestic | | | | |
| - ex-mill | 2,109.6 | 2,008.5 | 5% | 1,076.0 |
| - ext sourced | 143.9 | 182.7 | (21%) | 70.2 |
| Export | 837.2 | 695.5 | 20% | 478.1 |
| **Total** | **3,090.7** | **2,886.7** | **7%** | **1,624.3** |

**Chart 1: ASP domestic steel sales volume mix FY2017**




## FINANCIAL PERFORMANCE – FY2017 VS. FY2016

**Sales revenue**

The increase in sales revenue was primarily due to:
- higher domestic and export prices driven by higher global steel prices, partly offset by a stronger AUD:USD exchange rate
- higher domestic volumes, particularly galvanised and plate sales into the distribution and manufacturing sectors.

**EBIT performance**

The increase in underlying EBIT was largely due to:
- higher spread with the impact of higher global steel prices on revenue offsetting coal and iron ore purchase price increases
- higher domestic volumes, particularly in galvanised and plate sales into the distribution and manufacturing sectors
- higher export volumes on strong production delivering positive variable margin
- lower costs driven by the planned cost reduction program and lower unit costs with higher production volumes offset by the re-introduction of an employee bonus scheme (profit-share based scheme) and cost escalation.

Underlying adjustments in reported EBIT are set out in tables 11 and 12.

**Return on invested capital**

Underlying ROIC increased to 20.5% driven by stronger EBIT offsetting higher net operating assets. NOA were $51.9M higher than at 30 June 2016 primarily due to:
- higher inventories driven by higher raw material input prices and activity levels
- higher receivables with higher pricing and activity levels offsetting benefits of the off balance sheet securitisation program
- offset by higher creditors on higher prices.

## MARKETS AND OPERATIONS

**Sales direct to Australian building sector**

- Domestic building sector direct sales volumes strengthened in FY2017 compared to FY2016.
- Activity within residential construction stabilised in FY2017 after a long period of sustained growth.
  - New residential development activity continued to make a positive contribution to growth, supported by low interest rates, strong investor demand and robust population growth.
  - Strong investment within VIC, QLD, NSW, and SA delivered positive sales growth, particularly in metropolitan markets. WA softened during the period influenced by the decline in mining investment however there are indications that conditions are now improving.
  - Alterations and additions activity has grown, supported by record house price growth and low interest rates.
  - Sales volumes of COLORBOND® steel in FY2017 were similar to FY2016 with the broader growth in activity across the eastern seaboard offset by the significant wet weather in that region and a decline in activity within WA, which now appears to be improving.
  - A COLORBOND® steel price rise was implemented during 1H FY2017.
- Non-residential construction activity held relatively flat in FY2017, however positive signs of a rebound are emerging through the approvals data, especially in the commercial and industrial segments.
  - Investment activity continued to be impacted by persistent low levels of confidence within the private sector.
  - Activity remained muted across most segments under commercial and industrial construction, led by retail and offices, however accommodation and warehouse investment demonstrated growth.
  - Social and institutional construction activity grew modestly with improved investment in education and aged care, offset by a decline in health related projects.

**Sales direct to domestic non-building sector customers**

- Sales volumes to distributors were strong in FY2017, whilst other non-building sector customers were relatively stable or marginally lower.
- Increased infrastructure spending, particularly from government-backed projects has improved market conditions during FY2017.
- Stability in the Australian dollar has also increased market certainty, which has benefitted local manufacturing and general business confidence.
- Sales to distributors strengthened through:
  - increased demand for steel plate from project activity in roads, bridges, and wind towers
  - other growth initiatives focused on increasing the flexibility of our service offerings as well as improving our price competitiveness.
- Sales to pipe and tube makers declined in FY2017 due to:
  - reductions in stock holding levels by two key customers
  - increased competition from imported finished goods.
- Sales to the automotive industry were lower due to Ford's closure in October 2016.
- Sales to manufacturers improved marginally during 1H FY2017 supported by initiatives targeting the substitution of imported finished goods with locally manufactured steel. Business conditions in general have improved within manufacturing with the Ai Group Performance of Manufacturing Index (sentiment) remaining in a net expansionary indicator for most of FY2017.

**Mill sales to export markets**

- Despatches to export market customers in FY2017 were 837.2kt, 20% higher than FY2017 due to increased production efficiency at Port Kembla.
- Prices in export markets were significantly higher in FY2017 than FY2016 supported by higher global steel prices.

## NORTH STAR BLUESCOPE STEEL

North Star is a single site electric arc furnace producer of hot rolled coil in Ohio, in the U.S. On 30 October 2015, BlueScope acquired the 50% of North Star that was previously owned by Cargill. BlueScope's 50% interest in North Star was equity accounted up to 30 October 2015 and has been consolidated in BlueScope's accounts thereafter.

### KEY FINANCIAL & OPERATIONAL MEASURES

**Table 4: Segment performance**

| $M unless marked | FY2017 | FY2016 | Var % | 2H FY2017 |
|---|---|---|---|---|
| Sales revenue [1] | 1,700.9 | 847.3 | 101% | 906.9 |
| Reported EBIT [2] | 433.3 | 847.3 | (49%) | 195.4 |
| Underlying EBIT [2] | 406.6 | 146.5 | 178% | 195.4 |
| NOA (pre-tax) | 1,735.6 | 1,862.3 | (7%) | 1,735.6 |
| Underlying ROIC | 22.4% | n/a | - | 21.7% |

1) Excludes the Company's 50% share of NSBSL's sales revenue prior to 30 October 2015.
2) Includes 50% share of net profit before tax from NSBSL of A$28.7M in the four months ending 30 Oct 2015. FY2016 reported EBIT includes the de-recognition and fair value gain on BSL's existing 50% equity investment in North Star ($706.6M pre-tax).

### FINANCIAL PERFORMANCE – FY2017 VS. FY2016

**Sales revenue**

Until November 2015 the segment was comprised of two equity accounted investments and as such had no sales revenue recorded in the Group accounts. Segment revenue reflects consolidation of North Star from November 2015.

**Earnings performance**

The $260.1M increase in underlying EBIT was largely due to:

- full ownership of North Star after 30 October 2015
- higher steel spread, due mainly to rises in Midwest U.S. steel prices in excess of raw material cost increases
- lower conversion costs
- higher production and despatch volumes.

Underlying adjustments in reported EBIT are set out in tables 11 and 12.

**Table 5: North Star BlueScope Steel – pro-forma performance (100% basis) in US$M**

| US$M unless marked | FY2017 | FY2016 | Var % | 2H FY2017 |
|---|---|---|---|---|
| Sales revenue | 1,282.5 | 959.6 | 34% | 683.8 |
| Underlying EBITDA | 348.3 | 163.4 | 113% | 168.1 |
| Production (kt) | 2,141.3 | 2,069.9 | 3% | 1,079.6 |
| Despatches (kt) | 2,093.0 | 2,021.6 | 4% | 1,076.5 |

**Return on invested capital**

Underlying ROIC was 22.4% driven by strong EBIT contribution combined with lower net operating assets. Net operating assets at 30 June 2017 were $126.7M lower than at 30 June 2016 primarily due to the foreign exchange translation impact of a stronger AUD:USD.

### MARKETS AND OPERATIONS

- North Star sells approximately 90% of its production in the Midwest U.S., with its end customer segment mix being broadly 50% automotive, 35% construction, 5% agricultural and 10% manufacturing/industrial applications.
- North Star continues to benefit from strength in the automotive sector as well as continued recovery in the construction sector.
- High capacity utilisation rates have been maintained by NSBSL through an ability to retain existing customers and win new customers by consistent high performance in on-time delivery, service and quality.
- Good progress continues to be made in reducing costs. Continuous improvement program has delivered over $10M pa in margin improvement over the last several years.
- Work continues on incremental expansion projects to increase hot strip mill and caster capacity. A new hot strip mill edger was installed and commissioned in February 2017, and caster speed increases have been delivered.

## BUILDING PRODUCTS ASEAN, NORTH AMERICA & INDIA

BlueScope is a technology leader in metal coated and painted steel building products, principally focused on the Asia-Pacific region, with a wide range of branded products that include pre-painted COLORBOND® steel, zinc/aluminium alloy-coated ZINCALUME® steel and the LYSAGHT® range of building products.

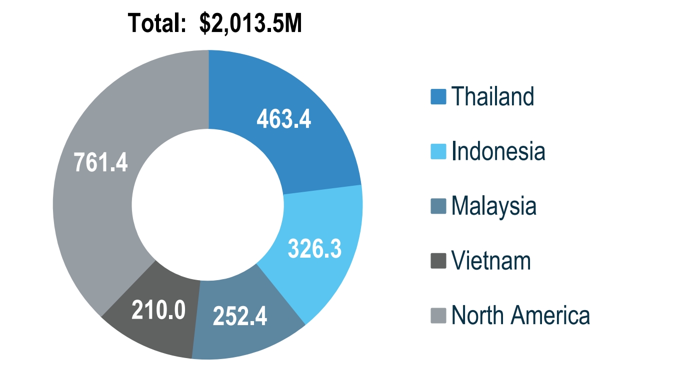
The Company has an extensive footprint of metallic coating, painting and steel building product operations in Thailand, Indonesia, Vietnam, Malaysia, India and North America, primarily servicing the residential and non-residential building and construction industries across Asia, and the non-residential construction industry in North America. BlueScope operates in ASEAN and North America in partnership with Nippon Steel & Sumitomo Metal Corporation (NSSMC) and in India with Tata Steel. Both are 50/50 joint ventures, with BlueScope controlling and therefore consolidating the joint venture with NSSMC, and jointly controlling and therefore equity accounting the joint venture with Tata Steel.

## KEY FINANCIAL & OPERATIONAL MEASURES

**Table 6: Segment performance**

| $M unless marked | FY2017 | FY2016 | Var % | 2H FY2017 |
|---|---|---|---|---|
| Sales revenue | 1,970.5 | 1,766.8 | 12% | 1,019.5 |
| Reported EBIT | 140.8 | 149.3 | (6%) | 36.8 |
| Underlying EBIT | 201.7 | 149.3 | 35% | 90.4 |
| NOA (pre-tax) | 1,032.8 | 1,009.7 | 2% | 1032.8 |
| Underlying ROIC | 18.9% | 13.6% | +5.3% | 16.6% |
| Despatches (kt) | 1,435.9kt | 1,369.5kt | 5% | 724.2kt |

**Chart 2: Segment geographic sales revenue FY2017, $M [1]**




1) Chart does not include $43.0M of eliminations (which balances back to total segment revenue of $1,970.5M). Chart also does not include India, which is equity accounted.

## FINANCIAL PERFORMANCE – FY2017 VS. FY2016

### Sales revenue

The $203.7M increase in sales revenue was mainly driven by higher volumes across all countries in Asia combined with higher regional steel prices favourably impacting the North America business. These were partly offset by unfavourable foreign exchange translation rate impacts (against the AUD) in all countries.

### EBIT performance

The $52.4M increase in underlying EBIT was particularly driven by higher margins and volumes in our North America, Vietnam and India businesses. North America saw a particularly strong improvement of $49.0M with strong domestic demand, improved product margins and one-off favourable inventory pricing effect arising from the timing of raw material purchases.

Earnings in Thailand softened with a slowdown in the industrial and commercial segment, in which the business sells its premium products.

The stronger AUD:USD exchange rate led to an unfavourable movement in translation of earnings.

Underlying adjustments in reported EBIT are set out in Tables 11 and 12.

### Return on invested capital

Underlying ROIC increased to 18.9% driven by improved EBIT and a slight increase of NOA, mainly reflecting higher receivables and inventory part offset by higher creditors and lower net fixed assets.

## MARKETS AND OPERATIONS

### Thailand

- FY2017 volume was 4% higher than FY2016. A slowdown in the Industrial and Commercial segment, in which the business sells its premium products, was offset by increased despatches in the Retail and Home Appliance segments.
- Further expansion of the Retail segment channel with an increase in the number of BlueScope Authorised Dealer partners from 30 in FY2016 to 40 in FY2017.
- Customer uptake and growth in ViewKote® and SuperDyma® sales (home appliance) increasing, but at a slower rate than expected. Growing demand for SuperDyma® products into building and construction applications as a substitute for galvanized structural product.
- Business continues to increase intra-regional paint feed and finished good sourcing volumes ahead of MCL3 commissioning in 1H FY2019.
- Lysaght roll-forming facility in Myanmar is expected to be operational in 1H FY2018.

### Indonesia

- FY2017 volume was 9% higher than FY2016 due to growth in the Retail segment. However, the business experienced margin compression across all products from increased raw material costs.
- Strategic initiatives are being executed to accelerate Retail market development, broaden the customer base and improve raw material supply costs.
- Changes to local steel regulations, including import quotas, have tightened supply. The sustainability of these regulations and impact on the domestic market remain uncertain.
- The business faces structural challenges in sourcing steel due to the Indonesian regulatory environment, which is impacting earnings by around $20M per annum.
- In view of the uncertain regulatory environment and ongoing margin compression, a $50.3M pre-tax non-current asset impairment was recognised in 2H FY2017.

### Vietnam

- A record result, with solid growth in FY2017 driven by stronger volumes (largely in exports) and higher premium product mix.
- Economic and market conditions remain positive.
- Market competition remains strong. The business continues to focus on strengthening the Retail channel model to enhance brand value and build customer loyalty.

### Malaysia

- FY2017 volume was 11% higher than FY2016, driven by stronger export volumes and intra-region finished goods supply to Thailand ahead of MCL3 commissioning in 1H FY2019.
- Product margins were lower due to compression from higher raw material costs vs FY2016, further exacerbated by ~10% MYR depreciation.
- Domestic and core export markets are generally stable, however, political uncertainty remains a concern with an impending general election.
- Utilisation of in-line painting (ILP) capability continues to increase, enabling the business to grow volumes in the Retail segment.

### North America (Steelscape & ASC Profiles)

- The business delivered record earnings growth driven by strong domestic demand, improved product margins and one-off favourable inventory pricing effect arising from the timing of raw material purchases.
- A strategic review of the ASC Profiles business completed and restructuring plan in execution with the goal of further enhancing performance.

- Department of Commerce Section 232 review relating to the business' imported raw material supply is in progress and a comprehensive sourcing strategy has been developed to mitigate any potential impact on the business.

**India (in joint venture with Tata Steel (50/50) for all operations)**

- The joint venture delivered a record underlying EBIT of $50.9M (100% basis) driven by improved gross margins through higher volumes, pricing discipline, productivity and better product mix.
- Revenue grew by 5% in FY2017. Domestic prime coated steel sales volume grew by 8% compared to FY2016 with 19% growth in bare products and 4% growth in painted products.
- Market demographics are suited for continued growth in the coated and pre-painted steel markets. Continued growth in key market segments with despatches in Projects and Retail growing by 14% and 4% respectively. Ongoing success in the Retail segment due to strength of the DURASHINE® brand and market channels including the Tata Shaktee dealer network.
- The paint line continues to operate at full capacity, with the feasibility study on additional paint line capacity continuing.
- Restructuring of the underperforming Engineered Buildings business is progressing, including manufacturing reconfiguration and exit of unprofitable product lines and customer accounts.

# BLUESCOPE BUILDINGS

BlueScope Buildings is a leader in engineered building solutions (EBS), servicing the low-rise non-residential construction needs of customers from engineering and manufacturing bases in Asia and North America. EBS plants are located in China, Thailand, Vietnam, North America, Saudi Arabia and India. As part of the integrated value chain feeding the EBS operations, this segment includes BlueScope's metal coating, painting and Lysaght operations in China (Building Products China).

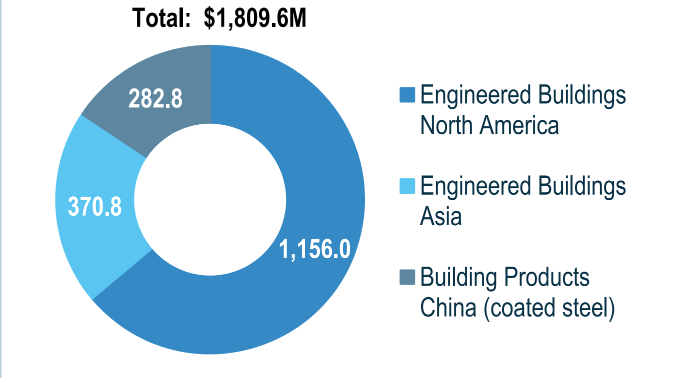
BlueScope Buildings is currently expanding its engineering and sales capability through the roll out of a updated engineering software system across North America.

## KEY FINANCIAL & OPERATIONAL MEASURES

**Table 7: Segment performance**

| $M unless marked | FY2017 | FY2016 | Var % | 2H FY2017 |
|---|---|---|---|---|
| Sales revenue | 1,756.8 | 1,705.9 | 3% | 860.7 |
| Reported EBIT | (3.0) | 39.0 | (108%) | 10.4 |
| Underlying EBIT | 64.0 | 49.2 | 30% | 14.6 |
| NOA (pre-tax) | 531.54 | 603.3 | (12) | 531.5 |
| Underlying ROIC | 10.5% | 6.6% | +3.9% | 4.9% |
| Despatches (kt) | 626.6 | 601.9 | 4% | 294.5 |

**Chart 3: Segment geographic sales revenue FY2017, $M** [1]




1) Chart does not include $52.8M of eliminations (which balances back to total segment revenue of $1,756.8M).

## FINANCIAL PERFORMANCE – FY2017 VS. FY2016

**Sales revenue**

The $50.9M increase is sales revenue was mainly due to higher despatch volumes in North America and China. This was partly offset by lower selling prices in China and Asia and unfavourable foreign exchange translation rate impacts (against the AUD) in all regions.

**EBIT performance**

The $14.8M increase in underlying EBIT was largely due to:

- lower costs in North America driven by favourable impact of productivity and cost saving initiatives
- higher despatch volumes in North America and China.

This was partly offset by lower net margins in North America and Building Products China due to increases in steel feed costs being greater than selling price increases.

Underlying adjustments in reported EBIT are set out in tables 11 and 12.

**Return on invested capital**

Underlying ROIC increased to 10.5% driven by improved EBIT and a $131.8M decrease in NOA, mainly reflecting reduced working capital (lower receivables and in inventories combined with higher creditors and provisions) and lower net fixed assets.

## MARKETS AND OPERATIONS

**Engineered Buildings North America**

- Productivity improvements and cost savings delivered 51% underlying EBIT growth in FY2017 over FY2016. The majority of the $30M FY2018 initiatives target was achieved in FY2017.
- Varco Pruden sales performed well, however premium Butler volumes came under pressure during the period leading to overall margin deterioration.

**Engineered Buildings Asia (China & ASEAN)**

- Weak building and construction activity in the premium market segment across private and government participants continue to constrain margins.
- Manufacturing sites are being reconfigured or closed to further lower the cost base. The restructuring work is delivering benefits with the China business underlying EBIT breakeven in 4Q FY2017.
- In a market seeing strong price competition, Buildings ASEAN is seeking to improve its cost base and optimise in-house production.

**Building Products China (coating, painting and rollforming)**

- Despatch volumes increased 15% relative to FY2016, driven particularly by distributor and engineered building solution customer demand.
- Sales and marketing initiatives continue to expand the scope of sales into the distribution and pre-engineering buildings channel to drive further volume growth.

# NEW ZEALAND AND PACIFIC STEEL

New Zealand and Pacific Steel consists of three business areas: New Zealand Steel; Pacific Steel; and BlueScope Pacific Islands.

New Zealand Steel is the only steel producer in New Zealand, producing slab, billet, hot rolled coil and value-added coated and painted products for both domestic and export markets across the Pacific Region. Operations include the manufacture and distribution of the LYSAGHT® range of products in Fiji, New Caledonia and Vanuatu.

Supplied with billet from New Zealand Steel, Pacific Steel is the sole producer of long steel products such as rod, bar, reinforcing coil and wire in New Zealand.

The Taharoa export iron sands business was divested in May 2017, and its earnings contribution moved from underlying earnings to discontinued businesses.

## KEY FINANCIAL & OPERATIONAL MEASURES

**Table 8: Segment financial performance[4]**

| $M | FY2017 | FY2016 | Var % | 2H FY2017 |
|---|---|---|---|---|
| Sales revenue | 747.5 | 772.4 | (3%) | 402.7 |
| Reported EBIT | 87.2 | (201.6) | 143% | 73.6 |
| Underlying EBIT | 61.1 | (40.3) | 252% | 47.5 |
| NOA (pre-tax) | 336.4 | 199.5 | 69% | 336.4 |
| Underlying ROIC | 26.7% | (9.2%) | +35.9% | 38.1% |

**Table 9: Steel sales volume**

| 000 tonnes | FY2017 | FY2016 | Var % | 2H FY2017 |
|---|---|---|---|---|
| Domestic flats | 270.7 | 258.0 | 5% | 135.4 |
| Domestic longs | 183.1 | 169.2 | 8% | 96.3 |
| **Domestic (steel)** | **453.8** | **427.2** | **6%** | **231.7** |
| | | | | |
| Export flat | 129.0 | 205.6 | (37%) | 80.9 |
| Export longs | 22.1 | 64.3 | (66%) | 15.9 |
| **Export (steel)** | **151.1** | **269.9** | **(44%)** | **96.8** |

[4] Arising from its divestment in May 2017, the Taharoa export iron sands business has been reclassified into Discontinued Operations. Earnings have been restated to exclude the Taharoa export iron sands business from the NZPac segment (amounting to $25.9M and $0.3M of underlying earnings in 1H FY2017 and 2H FY2017 respectively). Table 13 provides further detail.

## FINANCIAL PERFORMANCE – FY2017 VS. FY2016

**Sales revenue**

The decrease in sales revenue was primarily due to planned lower export steel volumes, offset by favourable destination mix, with the full production rate of the Pacific Steel investment; offset by higher steel prices in line with global price rises.

**EBIT performance**

The $101.4M increase in underlying EBIT was primarily due to productivity and cost improvement initiatives, including higher despatch volumes and improved mix, and higher realised steel prices driven by higher global steel prices.

Underlying adjustments in reported EBIT are set out in Tables 11 and 12.

**Return on invested capital**

Underlying ROIC increased to 26.7% driven by improved EBIT partly offset by a $136.8M increase in NOA, primarily due to a decrease in provisions and increases in receivables and inventory.

## MARKETS & OPERATIONS

**Steel**

- Domestic market
  - FY2017 flat product sales volume increased over FY2016 due to strong building and construction activity and strong sales into the general engineering and manufacturing sectors.
  - Domestic residential building consents for the year ended June 2017 were up 4.7% in number and 9.3% in value over the same period in 2016.
  - Domestic non-residential building activity maintained positive momentum, albeit at a slower pace, with the value of consents up 1.6% in the 12 months to June 2017 compared to the previous 12-month period.
  - Domestic demand for long products is strong on the back of continued growth in the infrastructure sector.
- Export market
  - Prices in export markets were stronger in FY2017 compared to FY2016 due to higher global steel prices.

**Productivity and cost reduction initiatives**

- As with the Australian steelmaking operation, the New Zealand steelmaking operations were set the challenge of delivering a game-changing approach that would significantly improve productivity and reduce costs to ensure they are internationally competitive and support reinvestment.
- Productivity and cost reduction initiatives of NZ$80M were delivered in FY2017, compared to the FY2015 base.
- We are targeting incremental improvements in FY2018.

**Iron sands**

- BlueScope divested the Taharoa export iron sands operations on 1 May 2017. The business was bought by Taharoa Mining Investments Limited (TMIL), a majority owned subsidiary of Taharoa C Block Incorporation (Taharoa C). Taharoa C is a Maori Incorporation with a wide shareholder base that owns the land at Taharoa.
- Now classified in Discontinued Businesses, and no longer in the NZPac segment, Taharoa contributed underlying EBIT of $26.2M in FY2017 ($13.3M loss in FY2016). 2H FY2017 underlying EBIT was $0.3M, impacted by the buoy outage during the months of January to March 2017, and ownership for four months of the period.

# OUTLOOK, FUTURE PROSPECTS AND RISKS

## 1H FY2018 OUTLOOK

Expectations for the performance of our businesses in 1H FY2018 are as follows:

- ASP:
  - Expect a lower result in 1H FY2018.
  - As trade restrictions take hold in global markets, import product offerings are taking advantage of gaps in the Australian anti-dumping regime, which together with FX volatility, is leading to lower domestic steel margins.
  - Q1 impacted by lagged impact of higher raw material costs (especially coal) and the roll-off of buying and mix benefits realised in 2H FY2017.
  - Continued strength in despatch volumes in core construction and manufacturing segments – but volume impact from cessation of auto-makers.
  - Productivity improvements and cost savings are not expected to fully offset escalation due to energy cost increases.
- North Star:
  - Expect average spread through 1H FY2018 to be US$30/t lower than realised 2H FY2017 spreads.
  - Spread expectations do not include any potential s232 impact.
  - Incremental production volume, but some seasonality expected to lead to slightly lower despatches.
- BP:
  - Expecting flat result compared to 1H FY2017 (after adjusting for ~$20M inventory benefit in North America in 1H FY2017).
  - Expecting continued volume growth with continued investment in developing residential / SME markets and channels.
- BB:
  - North America: softness in premium manufacturing & industrial segments leading to lower margins; expect a result in 1H FY2018 between that of 1H FY2017 and 2H FY2017. Pursuing initiatives to improve performance.
  - Coated China: expect continued strong performance.
  - China Buildings: seasonally stronger half; expect result better than breakeven.
- NZPac:
  - Benefit of further productivity and cost initiatives.
  - Currency and assumed steel prices likely to lead to a slightly softer half than 2H FY2017.

Group outlook:

- BlueScope's successful transformation has rebased earnings to a higher level, lowered volatility, improved earnings mix and positioned the company well to fund growth, reduce debt and for capital management.
- In the immediate half year there are a number of macro factors impacting the outlook:
  - U.S. steel margins are lower due to scrap prices increasing ahead of steel prices,
  - as trade restrictions take hold in global markets, import product offerings are taking advantage of gaps in the Australian anti-dumping regime, which together with FX volatility, is leading to lower domestic steel margins,
  - productivity improvements at ASP not yet fully offsetting the scale of energy cost escalation in FY2018.
- The Company expects 1H FY2018 underlying EBIT around 80% of 2H FY2017 underlying EBIT (which was $527.3M). This is based on assumption of average (all prices on a metric tonne basis):
  - East Asian HRC price of ~US$500/t
  - 62% Fe iron ore price of ~US$65/t CFR China
  - Hard coking coal price of ~US$160/t FOB Australia
  - U.S. mini-mill spreads to be US$30/t lower than realised 2H FY2017 spreads
  - AUD:USD at US$0.77
- Underlying net finance costs in 1H FY2018 are expected to be lower than 2H FY2017 due to lower average net debt; a similar underlying tax rate and profit attributable to non-controlling interests to 2H FY2017 are expected in 1H FY2018.
- Expectations are subject to spread, FX and market conditions.

## MATTERS SUBSEQUENT TO YEAR END

BlueScope announced on 21 August 2017 Mr Mark Vassella as its new Managing Director & CEO from 1 January 2018, after Mr Paul O'Malley announced his retirement effective 31 December 2017 as Managing Director & CEO. The remuneration arrangements for Mr Vassella and the retirement conditions for Mr O'Malley are outlined in the Remuneration Report.

BlueScope announced on 21 August 2017 the appointment of Jennifer Lambert as a non-executive director effective 1 September 2017. Ms Lambert will nominate for election at the Annual General Meeting on 11 October 2017.

## FUTURE PROSPECTS AND RISKS

BlueScope's financial performance since the global financial crisis in FY2009 has been impacted by slower demand for its products in Australia and North America, lower global commodity steel prices relative to raw material costs, and until late calendar year 2014, a stronger Australian dollar relative to the U.S. dollar. These are the external macroeconomic factors to which BlueScope is exposed. While there has been improvement in some external macroeconomic factors, there continues to be significant short-term fluctuation.

The Company has undertaken over the past five years, and continues to undertake, significant restructuring and other initiatives across all its operating segments to offset these macroeconomic market factors, with the key improvements outlined in the strategy section of this report. This has resulted in BlueScope returning an underlying NPAT in FY2013, which has continued to improve through to FY2017.

BlueScope has regard to a number of recognised external forecasters when assessing possible future operating and market conditions. These forecasters expect a general slow-down in steel demand impacting our Australian business over the next few years, an improvement in global commodity steel prices relative to iron ore and coking coal raw material costs, and a relatively stable Australian dollar. In addition, recognised external forecasters expect a continued improvement in non-residential building and construction activity in North America but not at the pace experienced in recent years.

BlueScope is also exposed to a range of market, social, environmental, compliance, conduct, operational and financial risks common to a multinational company. The Company has risk management and internal control systems to quantify its risk appetite, identify material business and emerging risks and where possible take mitigating actions.

The nature and potential impact of risks changes over time. There are various risks that could impact the achievement of the Company's strategies and financial prospects. These include, but are not limited to:

(a) **(Market)** *Weaker economic conditions or another economic downturn.*
The global financial crisis in FY2009 caused a reduction in worldwide demand for steel with a continuing production capacity oversupply, and the subsequent recovery has been slow and uncertain. Although the global economy has improved since FY2009, there is no assurance that this trend will continue. Another economic downturn in developed economies or significantly slower growth in emerging economies, particularly China, could have a material adverse effect on the global steel industry which may affect demand for the Company's products and financial prospects.

(b) **(Market)** *A significant cyclical or permanent downturn in the industries in which the Company operates.*
The Company's financial prospects are sensitive to the level of activity in a number of industries, but principally the building, construction and manufacturing industries. These industries are cyclical in nature, with the timing, extent and duration of these economic cycles unpredictable. Because many of the Company's costs are fixed, it may not readily be able to reduce its costs in proportion to an economic downturn and therefore any significant, extended or permanent downturn could negatively affect the Company's financial prospects, as would the permanent closure of significant manufacturing operations in response to a sustained weak economic outlook or loss of key customer relationships.

(c) **(Market)** *Declines in the price of steel, or any significant and sustained increase in the price of raw materials in the absence of corresponding steel price increases.*
The Company's financial prospects are sensitive to the long-term price trajectory of international steel products and key raw material prices. A significant and sustained increase in the price of raw materials, in particular iron ore and coking coal, with no corresponding increase in steel prices, would have an adverse impact on the Company's financial prospects. A decline in the price of steel with no corresponding decrease in the price of raw materials would have the same effect.

In addition to these long-term trends, the price of raw materials and steel products can fluctuate significantly in a reasonably short period of time affecting the Company's short-term financial performance. In particular this relates to commodity products such as slab, plate, hot rolled coil, cold rolled coil, and some metallic coated steel products.

The Company is monitoring the general trend of lower steel prices since the global financial crisis coinciding with a slowing in Chinese domestic steel demand growth, increased steel exports from China and broader over-capacity in steelmaking globally. These trends, if sustained, could impact the long term competitiveness of supply of steel from its Australian and New Zealand steelmaking businesses and impact ongoing reinvestment.

(d) **(Market)** *The Company is exposed to the effects of exchange rate fluctuations.*
The Company's financial prospects are sensitive to foreign exchange rate movements, in particular the Australian dollar relative to the U.S. dollar. A strengthening of the Australian dollar relative to the U.S. dollar could have an adverse effect on the Company. This is because:

- export sales are typically denominated in U.S. dollars
- a strong Australian dollar makes imported steel products less expensive to Australian customers, potentially resulting in more imports of steel products into Australia
- a strong Australian dollar affects the pricing of steel products in some Australian market segments where pricing is linked to international steel prices
- earnings from its international businesses must be translated into Australian dollars for financial reporting purposes
- these are offset in part by a significant amount of raw material purchases being denominated in U.S. dollars.

(e) **(Market)** *Competition from other materials and from other steel producers could significantly reduce market prices and demand for the Company's products.*
In many applications, steel competes with other materials such as aluminium, concrete, composites, plastic and wood. Improvements in the technology, production, pricing or acceptance of these competitive materials relative to steel could result in a loss of market share or margins.

In addition, the global steel industry is currently characterised by significant excess capacity and the Company faces competition from imports into most of the countries in which it operates. Increases in steel imports could negatively impact demand for or pricing of the Company's products. If the Company is unable to maintain its current market position or to develop new channels to market for its existing product range, its financial prospects could be adversely impacted.

Other risks that could affect BlueScope include:

*Market (macro/microeconomics, competition, brands, product quality, customer experience):*

- political, social and economic policies and uncertainties in the countries in which we operate
- potential product warranty claims

*Social (people, culture and communities):*

- loss of key Board, management or operational personnel
- industrial disputes with unions that disrupt operations
- failure to maintain occupational health and safety systems

*Environmental (carbon emissions, climate change, pollution):*

- not adapting and appropriately responding to climate change

*Compliance and Conduct (regulation and ethical standards):*

- a rise in trade protectionism such as tariffs or unique local standards that disadvantage our business model
- the Company is subject to extensive government laws and regulation, including environmental, greenhouse gas emissions, tax, occupational health and safety, competition law and trade restrictions in each of the countries in which it operates. The Company is also subject to the risk of regulatory investigations into compliance with these laws and regulations which could be lengthy and costly
- the conduct of our employees and other participants in the supply chain
- disruptive behaviours by external parties, including cyber-attack and special interest groups, impacting our business or supply chain
- potential legal claims

Over the last financial year, the Australian Competition and Consumer Commission (ACCC) has been investigating potential cartel conduct by BlueScope relating to the supply of steel products in Australia, that involved a small number of BlueScope employees in the period from late 2013 to mid-2014. BlueScope has co-operated, and continues to co-operate, with the ACCC's investigation.

*Operational (production, costs, systems and security)*

- an inability to maintain a competitive cost base, particularly at Port Kembla and Glenbrook, including maintaining, extending or renewing key raw materials, wages, operational supplies, services and funding on acceptable terms
- energy pricing and security of supply
- a major operational failure or disruption to our manufacturing facilities or supply chain

*Financial (performance, investment, funding and shareholder returns)*

- not being able to realise or sustain expected benefits of internal restructuring, project developments, joint ventures or future acquisitions
- significant asset impairment, particularly if market conditions deteriorate

- substantial Company contributions to its employees' defined benefit funds, which are currently underfunded
- the impact on reported earnings and financial position of the Company from changes to accounting standards.

This document sets out information on the business strategies and prospects for future financial years, and refers to likely developments in BlueScope's operations and the expected results of those operations in future financial years. This information is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of BlueScope. Detail that could give rise to likely material detriment to BlueScope, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage has not been included. Other than the information set out in this document, information about other likely developments in BlueScope's operations in future financial years has not been included.

# DETAILED EXPLANATORY TABLES

## A. DETAILED INCOME STATEMENT

The BlueScope Steel Group comprises five reportable operating segments: Australian Steel Products (ASP); North Star BlueScope Steel; BlueScope Buildings (BB); Building Products ASEAN, North America and India (BP); and New Zealand & Pacific Steel (NZPac).

**Table 10: Detailed income statement**

| | Revenue | | Reported Result [1] | | Underlying Result [2] | |
|---|---|---|---|---|---|---|
| **$M** | **FY2017** | **FY2016[3]** | **FY2017** | **FY2016** | **FY2017** | **FY2016** |
| **Sales revenue/EBIT[3]** | | | | | | |
| Australian Steel Products | 4,918.7 | 4,437.4 | 459.5 | 77.7 | 459.4 | 361.4 |
| North Star BlueScope Steel | 1,700.9 | 847.3 | 433.3 | 847.3 | 406.6 | 146.5 |
| Building Products ASEAN, Nth Am & India | 1,970.5 | 1,766.8 | 140.8 | 149.3 | 201.7 | 149.3 |
| BlueScope Buildings | 1,756.8 | 1,705.9 | (3.0) | 39.0 | 64.0 | 49.2 |
| New Zealand & Pacific Steel | 747.5 | 772.4 | 87.2 | (201.6) | 61.1 | (40.3) |
| Discontinued operations | 108.6 | 114.9 | 18.9 | (196.4) | 0.0 | 0.0 |
| **Segment revenue/EBIT** | **11,203.0** | **9,644.7** | **1,136.7** | **715.3** | **1,192.8** | **666.1** |
| Inter-segment eliminations | (467.7) | (462.0) | 1.1 | (1.4) | 1.2 | (1.3) |
| **Segment external revenue/EBIT** | **10,735.3** | **9,182.7** | **1,137.8** | **713.9** | **1,194.0** | **664.8** |
| Other revenue/(net unallocated expenses) | 22.3 | 20.0 | (93.3) | (92.3) | (89.0) | (81.0) |
| **Total revenue/EBIT** | **10,757.6** | **9,202.7** | **1,044.5** | **621.6** | **1,105.0** | **583.8** |
| Finance costs | | | (95.0) | (109.1) | (86.9) | (89.7) |
| Interest revenue | | | 6.2 | 5.2 | 6.2 | 5.2 |
| Profit/(loss) from ordinary activities before income tax | | | 955.7 | 517.7 | 1,024.3 | 499.3 |
| Income tax (expense)/benefit | | | (181.8) | (101.4) | (290.2) | (130.1) |
| Profit/(loss) from ordinary activities after income tax expense | | | 773.9 | 416.3 | 734.1 | 369.2 |
| Net (profit)/loss attributable to outside equity interest | | | (58.0) | (62.5) | (83.2) | (62.6) |
| **Net profit/(loss) attributable to equity holders of BlueScope Steel** | | | **715.9** | **353.8** | **650.8** | **306.6** |
| Basic earnings per share (cents) | | | 125.3 | 62.1 | 113.9 | 53.8 |

1) The financial report has been prepared in accordance with the Australian Accounting Standards issued by the Australian Accounting Standards Board. References to 'reported' financial information throughout this report are consistent with IFRS financial information disclosed in the financial report.
2) References to 'underlying' information are to non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 (Disclosing non-IFRS financial information) issued in December 2011. Non-IFRS financial information, while not subject to audit or review, has been extracted from the financial report, which has been audited by our external auditors.
3) Performance of operating segments is based on EBIT which excludes the effects of interest and tax. The Company considers this a useful and appropriate segment performance measure because Group financing (including interest expense and interest income) and income taxes are managed on a Group basis and are not allocated to operating segments. Arising from its divestment in May 2017, the Taharoa export iron sands business has been reclassified into Discontinued Operations. Earnings have been restated to exclude the Taharoa export iron sands business from the NZPac segment (amounting to $25.9M and $0.3M of underlying EBIT in 1H FY2017 and 2H FY2017 respectively). Table 13 provides further detail.

## B. RECONCILIATION OF UNDERLYING EARNINGS TO REPORTED EARNINGS

**Table 11: Reconciliation of Underlying Earnings to Reported Earnings**

Management has provided an analysis of unusual items included in the reported IFRS financial information. These items have been considered in relation to their size and nature, and have been adjusted from the reported information to assist readers to better understand the financial performance of the underlying operating business. Throughout this report management has used the term 'reported' to reference IFRS financial information and 'underlying' to reference non-IFRS financial information. These adjustments are assessed on a consistent basis from period to period and include both favourable and unfavourable items. Non-IFRS financial information while not subject to audit or review has been extracted from the financial report which has been audited by our external auditors. An explanation of each adjustment and reconciliation to the reported IFRS financial information is provided in the table below.

| | EBITDA $M | | EBIT $M | | NPAT $M | | EPS $ [10] | |
|---|---|---|---|---|---|---|---|---|
| | FY2017 | FY2016 | FY2017 | FY2016 | FY2017 | FY2016 [3] | FY2017 | FY2016 [3] |
| **Reported earnings** | **1,425.0** | **1,009.8** | **1,044.5** | **621.6** | **715.9** | **353.8** | **1.25** | **0.62** |
| *Underlying adjustments:* | | | | | | | | |
| Net (gains)/losses from businesses discontinued [1] | (19.0) | 193.7 | (18.9) | 196.4 | (14.9) | 201.7 | (0.03) | 0.35 |
| Impact of acquiring a controlling interest in North Star [2] | 0.0 | (704.0) | 0.0 | (700.8) | 0.0 | (702.9) | 0.00 | (1.23) |
| Asset impairments [3] | 98.9 | 371.2 | 98.9 | 371.2 | 73.7 | 371.2 | 0.13 | 0.65 |
| Business development, transaction and pre-operating costs [4] | 4.3 | 18.2 | 4.3 | 18.2 | 3.0 | 12.8 | 0.01 | 0.02 |
| Production disruptions [5] | 0.0 | 1.6 | 0.0 | 1.6 | 0.0 | 1.2 | 0.00 | 0.00 |
| Restructure and redundancy costs [6] | 33.1 | 109.8 | 33.1 | 109.8 | 28.8 | 76.8 | 0.05 | 0.13 |
| Asset sales [7] | (57.0) | (34.3) | (56.9) | (34.3) | (47.7) | (33.9) | (0.08) | (0.06) |
| Debt restructuring costs [8] | 0.0 | 0.0 | 0.0 | 0.0 | 2.2 | 6.2 | 0.00 | 0.01 |
| Tax asset impairment / (write-back) [9] | 0.0 | 0.0 | 0.0 | 0.0 | (110.2) | 19.6 | (0.19) | 0.03 |
| **Underlying earnings** | **1,485.4** | **966.0** | **1,105.0** | **583.8** | **650.8** | **306.6** | **1.14** | **0.54** |

1) FY2017 reflects profits from the disposed Taharoa iron sands operations ($19.2M pre-tax – this is net of the fixed asset write off of $7.0M recognised in December 2016) and foreign exchange translation gains within the closed Lysaght Taiwan business ($0.5M pre-tax), partly offset by additional legal costs in the closed Australian Buildings business ($0.8M pre-tax). FY2016 reflects losses within the disposed Taharoa iron sands operations ($193.7M pre-tax – this includes fixed assets write-off of $182.4M, of which $162.7M was recognised in December 2015 and the remainder in June 2016) and foreign exchange translation losses within the closed Lysaght Taiwan business ($0.7M pre-tax).
2) FY2016 reflects the de-recognition and fair value gain on BSL's existing 50% equity investment in North Star ($706.6M pre-tax) partly offset by other one-off acquisition accounting impacts ($5.8M pre-tax) following the acquisition of the remaining 50% on 30 October 2015.
3) FY2017 includes the following asset impairments:
   - Building Products: fixed assets write off at PT NS BlueScope Indonesia ($50.3M pre-tax) recognised in June 2017 due to the uncertain regulatory environment and ongoing margin compression.
   - BlueScope Buildings: write off at Engineered Buildings China ($43.9M pre-tax) in relation to assets that will no longer be required, goodwill and other intangibles.
   - Building Products: fixed asset write off at the India joint venture ($4.7M pre-tax) in relation to engineered building solutions business assets that will no longer be required.

   FY2016 includes the following asset impairments:
   - ASP: fixed assets and intangibles write off ($189.0M pre-tax) recognised in December 2015.
   - NZPac: New Zealand Steel and Pacific Steel – fixed assets write off ($182.2M pre-tax) recognised in December 2015.
4) FY2017 reflects corporate transaction costs ($4.3 pre-tax). FY2016 reflects Corporate transaction costs associated with the acquisition of the remaining 50% share in North Star ($9.4M pre-tax), Corporate business development costs ($1.9M pre-tax), integration costs associated with the Australian businesses acquired during 2H FY2014 ($2.4M pre-tax) and production losses incurred through commissioning the billet caster in New Zealand ($4.5 pre-tax).
5) FY2016 reflects the impact of the Tianjin port explosion on the Engineered Buildings China site (net of insurance recoveries).
6) FY2017 reflects staff redundancy and restructuring costs at BlueScope Buildings ($23.1M pre-tax) relating to the cost reduction program, Building Products ($5.8M pre-tax) and ASP ($4.2M pre-tax). FY2016 reflects staff redundancy and restructuring costs at ASP ($93.7M pre-tax) primarily relating to the cost reduction program in Australian steelmaking and restructure of Australian Distribution and staff redundancy and restructuring costs in New Zealand ($7.5M pre-tax) and BlueScope Buildings ($8.6M pre-tax).
7) FY2017 reflects the profit on the sale of BSL's 47.5% interest in Castrip in North America ($26.6M pre-tax), profit on sale of the Taharoa iron sands business ($26.1M pre-tax) and the reversal of a provision relating to the sale of an intangible asset in ASP in FY2013 ($3.4M pre-tax) and property, plant and equipment ($0.8M pre-tax) in ASP. FY2016 reflects the profit on sale of McDonald's Lime in New Zealand ($32.9M pre-tax) and property, plant and equipment in ASP ($1.4M pre-tax).
8) FY2017 reflects the early redemption premium on the US$110M 144A senior unsecured notes due in May 2018 and the write-off of unamortised borrowing costs. FY2016 reflects the premium on early redemption of the US$190M senior unsecured notes due in May 2018 and the write-off of unamortised borrowing costs associated with the senior unsecured notes and North Star acquisition bridge facilities which were refinanced within the period.
9) FY2017 reflects utilisation of previously impaired deferred tax assets in Australia ($124.2M) and New Zealand ($4.2M) partly offset by the impairment of carried forward tax losses in China ($11.3M). FY2016 reflects impairment of deferred tax assets in New Zealand ($64.7M) inclusive of a $33.6M impairment of carried forward tax losses. These were partly offset by utilisation of previously impaired deferred tax assets in Australia arising from the favourable movement in timing differences exceeding tax losses generated during the period ($39.8M).
10) Earnings per share are based on the average number of shares on issue during the respective reporting periods (571.1m in FY2017 vs. 570.1M in FY2016).

**Table 12: Segmental underlying EBITDA and underlying EBIT**

| FY2017 underlying EBIT adjustments $M | ASP | North Star | BB | BP | NZPac | Corp | Discon Ops | Elims | Total |
|---|---|---|---|---|---|---|---|---|---|
| Net (gains)/losses from businesses discontinued | | | | | | | (18.9) | | (18.9) |
| Asset impairment | | | 55.1 | 43.9 | | | | | 98.9 |
| Business development, transaction and pre-operating costs | | | | | | 4.3 | | | 4.3 |
| Production disruptions | | | | | | | | | 0.0 |
| Restructure and redundancy costs | 4.2 | | 5.8 | 23.1 | | | | | 33.1 |
| Asset sales | (4.2) | (26.6) | | | (26.1) | | | | (56.9) |
| **Underlying adjustments** | **(0.1)** | **(26.6)** | **60.9** | **67.0** | **(26.1)** | **4.3** | **(18.9)** | | **60.5** |

## C. RESTATEMENT OF PRIOR PERIOD EARNINGS FOR RECLASSIFICATION OF TAHAROA EXPORT IRON SANDS BUSINESS INTO DISCONTINUED OPERATIONS

**Table 13: Restatement of Prior Period Earnings to Reflect Change operations sold or closed**

Consistent with BlueScope accounting policy and Australian Accounting Standards, operations that are either sold or closed are to be defined as Discontinued Operations and the revenues and expenses of these operations are retrospectively excluded from the earnings of Continuing Operations. As such prior period earnings have been restated to exclude the Taharoa export iron sands business from the NZPac segment to ensure comparisons can be made on a like-for-like basis.

| | 1H FY2017 | | | 2H FY2017 | | | FY2017 | | |
|---|---|---|---|---|---|---|---|---|---|
| **$M** | **Taharoa included** | **Change** | **Restated** | **Taharoa included** | **Change** | **Restated** | **Taharoa included** | **Change** | **Restated** |
| **NZ Pac segment:** | | | | | | | | | |
| Underlying EBITDA | 59.4 | (25.9) | 33.5 | 70.1 | (0.4) | 69.8 | 129.5 | (26.3) | 103.2 |
| Underlying EBIT | 39.5 | (25.9)[1] | 13.6 | 47.8 | (0.3) | 47.5 | 87.3 | (26.2) | 61.1 |
| | | | | | | | | | |
| **BlueScope Group:** | | | | | | | | | |
| Underlying EBITDA | 793.0 | (25.9) | 767.1 | 718.7 | (0.4) | 718.3 | 1,511.7 | (26.3) | 1,485.4 |
| Underlying EBIT | 603.6 | (25.9) | 577.7 | 527.6 | (0.3) | 527.4 | 1,131.2 | (26.2) | 1,105.0 |
| Underlying NPAT | 360.0 | (16.5) | 343.5 | 306.3 | 1.0 | 307.3 | 666.3 | (15.5) | 650.8 |

| | 1H FY2016 | | | 2H FY2016 | | | FY2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| **$M** | **Taharoa included** | **Change** | **Restated** | **Taharoa included** | **Change** | **Restated** | **Taharoa included** | **Change** | **Restated** |
| **NZ Pac segment:** | | | | | | | | | |
| Underlying EBITDA | (15.5) | 11.6 | (3.9) | 15.5 | (1.0) | 14.5 | 0.0 | 10.6 | 10.6 |
| Underlying EBIT | (47.1) | 14.2 | (32.9) | (6.3) | (1.0) | (7.3) | (53.5) | 13.2 | (40.3) |
| | | | | | | | | | |
| **BlueScope Group:** | | | | | | | | | |
| Underlying EBITDA | 417.8 | 11.6 | 429.4 | 537.6 | (1.0) | 536.6 | 955.4 | 10.6 | 966.0 |
| Underlying EBIT | 230.1 | 14.2 | 244.3 | 340.4 | (1.0) | 339.4 | 570.5 | 13.3 | 583.8 |
| Underlying NPAT | 119.0 | 10.2 | 129.2 | 174.1 | 3.2 | 177.3 | 293.1 | 13.5 | 306.6 |

1) Taharoa underlying EBIT was disclosed in the 1H FY2017 results presentation as $25.4M. As part of the sale process, adjustments were made to cost allocations resulting in revised Taharoa 1H FY2017 underlying EBIT of $25.9M.

## D. CASH FLOW STATEMENT

**Table 14: Consolidated cash flow statement**

| $M | FY2017 | FY2016 | Variance % |
|---|---|---|---|
| **Reported EBITDA** | **1,425.0** | **1,009.8** | **41%** |
| Add cash/(deduct non-cash) items | | | |
| - Share of profits from associates and joint venture partnership not received as dividends | (4.8) | (12.4) | 60% |
| - Impaired assets | 101.2 | 554.8 | (82%) |
| - Net (gain) loss on acquisitions and sale of assets | (51.0) | (734.3) | 93% |
| - Expensing of share-based employee benefits | 24.0 | 23.2 | 3% |
| **Cash EBITDA** | **1,494.4** | **841.1** | **78%** |
| Changes in working capital | (119.0) | 265.6 | (145%) |
| **Gross operating cash flow** | **1,375.4** | **1,106.7** | **24%** |
| Finance costs | (90.8) | (111.2) | 18% |
| Interest received | 6.1 | 6.5 | (6%) |
| Tax received/(paid) [1] | (158.3) | (50.0) | (217%) |
| **Net cash from operating activities** | **1,132.4** | **952.0** | **19%** |
| Capex: payments for P, P & E and intangibles | (383.0) | (313.9) | (22%) |
| Other investing cash flows | (25.3) | (975.6) | 97% |
| **Net cash flow before financing** | **724.1** | **(337.5)** | **315%** |
| Equity issues / (buy-backs) | (150.4) | - | - |
| Dividends to non-controlling interests [2] | (63.4) | (38.8) | (63%) |
| Dividends to BlueScope Steel Limited shareholders | (40.2) | (34.2) | (18%) |
| Transactions with non-controlling interests | - | - | - |
| Net drawing/(repayment) of borrowings | (254.7) | 440.9 | (158%) |
| **Net increase/(decrease) in cash held** | **215.4** | **30.4** | **609%** |

1) The BlueScope Steel Australian tax consolidated group is estimated to have carry forward tax losses, as at 30 June 2017, of approximately $2.3Bn. There will be no Australian income tax payments until these are recovered.
2) These dividend payments primarily relate to dividend payments to Nippon Steel & Sumitomo Metal Corporation (NSSMC) in respect of NS BlueScope Coated Products joint venture.

# ABBREVIATIONS

| | |
|---|---|
| **1H** | Six months ended 31 December in the relevant financial year |
| **1H FY2016** | Six months ended 31 December 2015 |
| **1H FY2017** | Six months ended 31 December 2016 |
| **2H** | Six months ended 30 June in the relevant financial year |
| **2H FY2015** | Six months ended 30 June 2015 |
| **2H FY2016** | Six months ending 30 June 2016 |
| **2H FY2017** | Six months ending 30 June 2017 |
| **ADC** | Anti-Dumping Commission |
| **ASEAN** | Association of South East Asian Nations |
| **ASP** | Australian Steel Products segment |
| **AUD, A$, $** | Australian dollar |
| **BANZ** | BlueScope Australia and New Zealand (comprising ASP and NZPac segments) |
| **BB** | BlueScope Buildings segment |
| **BP or Building Products** | Building Products, ASEAN, North America and India segment |
| **BSL or BlueScope** | BlueScope Steel Limited and its subsidiaries |
| **CIPA** | Former Coated & Industrial Products Australia segment |
| **CRC** | Cold rolled coil steel |
| **DPS** | Dividend per share |
| **EAF** | Electric arc furnace |
| **EBIT** | Earnings before interest and tax |
| **EBITDA** | Earnings before interest, tax, depreciation and amortisation |
| **EBS** | Engineered building solutions, a key product offering of the BlueScope Buildings segment |
| **EITE** | Emissions-intensive, trade-exposed |
| **EPS** | Earnings per share |
| **FDI** | Foreign direct investment |
| **FY2015** | 12 months ended 30 June 2015 |
| **FY2016** | 12 months ending 30 June 2016 |
| **FY2017** | 12 months ending 30 June 2017 |
| **Gearing ratio** | Net debt divided by the sum of net debt and equity |
| **Group, Company** | BlueScope Steel Limited and its subsidiaries |
| **HRC** | Hot rolled coil steel |
| **IFRS** | International Financial Reporting Standards |
| **Leverage, or leverage ratio** | Net debt over underlying EBITDA |
| **Net debt, or ND** | Gross debt less cash |
| **n/m** | Not meaningful |
| **NOA** | Net operating assets pre-tax |
| **North Star** | North Star BlueScope Steel |
| **NPAT** | Net profit after tax |
| **NRV** | Net realisable value adjustment |
| **NSBCP** | NS BlueScope Coated Products joint venture |
| **NSBSL** | North Star BlueScope Steel |
| **NSSMC** | Nippon Steel & Sumitomo Metal Corporation |
| **NZD** | New Zealand dollar |
| **NZPac** | New Zealand & Pacific Steel segment |
| **ROIC** | Return on invested capital (or ROIC) – underlying EBIT (annualised in case of half year comparison) over average monthly capital employed |
| **STP** | Steel Transformation Plan |
| **TBSL** | Tata BlueScope Steel |
| **U.S.** | United States of America |
| **USD, US$** | United States dollar |

## BOARD COMPOSITION

The following were Directors for the full year ended 30 June 2017: John Andrew Bevan (Chairman), Daniel Bruno Grollo, Kenneth Alfred Dean, Paul Francis O'Malley (Managing Director and Chief Executive Officer), Penelope Bingham-Hall, Ewen Graham Wolseley Crouch AM, Lloyd Hartley Jones, and Rebecca Patricia Dee-Bradbury.

Particulars of the skills, experience, expertise and special responsibilities of the Directors are set out below.

## DIRECTORS' BIOGRAPHIES

**John Bevan**, Chairman (Independent)
Age 60, BCom (Mkt)
Director since: March 2014
Directorships of other Australian listed entities in the past three years: Ansell Limited (August 2012 to date), Nuplex Industries Limited (September 2015 to September 2016) and Alumina Limited (June 2008 to January 2014).

Mr Bevan was CEO of Alumina Limited from 2008 to 2014. Before joining Alumina Limited in 2008 Mr Bevan spent 29 years in a variety of senior management roles with BOC Group, including as a director on The BOC Group plc Board, Chief Executive Process Gas Solutions with responsibility for the bulk and tonnage business for the entire BOC group, Chief Executive Asia and country lead roles in the United Kingdom, Thailand and Korea. Mr Bevan is also the Deputy Chairman of Ansell Limited. In July 2017, Mr Bevan was appointed to the Board of the Humpty Dumpty Foundation.

He brings to the Board extensive experience in international business and heavy industrial operations.

Mr Bevan is also Chair of the Nomination Committee.

**Daniel Grollo**, Non-Executive Director (Independent)
Age 47
Director since: September 2006
Directorships of other listed entities in the past three years: Nil

Mr Grollo is Executive Chairman of Grocon Group Holdings Pty Ltd, Australia's largest privately owned development and construction company. He brings extensive knowledge of the building and construction industry to the Board.

Mr Grollo has previously held positions as Chairman of the Green Building Council of Australia and National President of the Property Council of Australia and Member of the Prime Minister's Business Advisory Council.

Mr Grollo is also Chair of the Health, Safety and Environment Committee.

**Paul O'Malley**, Managing Director and Chief Executive Officer
Age 53, BCom, M. App Finance, ACA
Director since: August 2007
Directorships of other Australian listed entities in the past three years: Nil

Mr O'Malley was appointed a Director of the Board, and Managing Director and Chief Executive Officer of BlueScope Steel, in 2007.

Mr O'Malley joined BlueScope as its Chief Financial Officer in December 2005. He was formerly the Chief Executive Officer of TXU Energy, a subsidiary of TXU Corp based in Dallas, Texas, and held other senior management roles within TXU. Before joining TXU, he worked in investment banking and consulting.

Mr O'Malley is also Chairman of the Worldsteel Association Nominating Committee and a Trustee of the Melbourne Cricket Ground Trust.

**Ken Dean**, Non-Executive Director (Independent)
Age 64, BCom (Hons), FCPA, FAICD
Director since: April 2009
Directorships of other Australian listed entities in the past three years: Santos Limited (February 2005 to May 2016) and Virgin Australia Holdings Limited (December 2016 to date)

Mr Dean is Chairman of Mission Australia, a Director of Energy Australia Holdings Ltd, Virgin Australia Holdings Ltd and is a member of the Director Advisory Panel of the Australian Securities & Investments Commission. He has held directorships with Santos Limited, Alcoa of Australia Limited, Woodside Petroleum Limited and Shell Australia Limited. He spent more than 30 years in a variety of senior management roles with Shell in Australia and the United Kingdom. His last position with Shell, which he held for five years, was Chief Executive Officer of Shell Finance Services based in London.

Mr Dean was Chief Financial Officer of Alumina Limited from 2005 to 2009. He brings extensive international financial and commercial experience to the Board.

Mr Dean is also Chair of the Audit and Risk Committee.

**Penny Bingham-Hall**, Non-Executive Director (Independent)
Age 57, BA (Ind.Des) FAICD, SF(Fin)
Director since: March 2011
Directorships of other Australian listed entities in the past three years: DEXUS Funds Management Limited (responsible entity for the DEXUS Property Group) (June 2014 to date), Fortescue Metals Group Ltd (November 2016 to date)

Ms Bingham-Hall is a director of DEXUS Property Group, Fortescue Metals Group Ltd, the Port Authority of NSW and Macquarie Specialised Asset Management, and is a former director of Australia Post and The Global Foundation. She is a director of Taronga Conservation Society Australia and has previously held non-executive directorships with other industry and community organisations, including the Tourism & Transport Forum, Infrastructure Partnerships Australia and as the inaugural Chairman of Advocacy Services Australia. Ms Bingham-Hall is a member of Chief Executive Women and of the WomenCorporateDirectors Foundation.

Ms Bingham-Hall spent more than 20 years in a variety of roles with Leighton Holdings (now Cimic Group) prior to retiring from the company at the end of 2009. Senior positions held with Leighton include Executive General Manager Strategy, responsible for Leighton Group's overall business strategy and Executive General Manager Corporate, responsible for business planning and corporate affairs. She brings extensive knowledge of the building and construction industry in both Australia and Asian markets.

Ms Bingham-Hall is Chair of the Remuneration and Organisation Committee.

**Ewen Crouch AM,** Non-Executive Director (Independent)
Age 61, BEc (Hons) LLB, FAICD
Director since: March 2013
Directorships of other listed entities in the past three years: Westpac Banking Corporation (February 2013 to date)

Mr Crouch is a Director of Westpac Banking Corporation. He is a member of the Commonwealth Remuneration Tribunal, a Fellow of the Australian Institute of Company Directors and a member of its Law Committee. Mr Crouch is also a board member of Sydney Symphony Orchestra and Jawun.

Mr Crouch was a Partner at Allens from 1998 to 2013 where he was one of Australia's leading M&A lawyers. His roles at Allens included Chairman of Partners, Co-Head Mergers and Acquisitions and Equity Capital markets, Executive Partner – Asian Offices and Deputy Managing Partner, as well as 11 years' service on its board.

He was a member of the Takeovers Panel from 2010 to 2015 and is a past director and Chairman of Mission Australia (between July 1995 and November 2016).

Mr Crouch brings to the Board the breadth of his experience in financial markets, governance and risk together with his knowledge of strategic mergers, acquisitions and cross border finance transactions.

**Lloyd Jones**, Non-Executive Director (Independent)
Age 64, BEng, MBA, GAICD
Director since: September 2013
Directorships of other Australian listed entities in past three years: RCR Tomlinson Ltd (November 2013 to date)

Mr Jones is a director of RCR Tomlinson Ltd. He is also a member of the Advisory Council to the Dean of Engineering & Mathematical Sciences at the University of Western Australia. Mr Jones was a director of Myer Family Investments Pty Ltd from November 2010 to October 2016 and was an advisory director to a division of Deutsche Bank in Australia between 2012 and 2017.

Mr Jones is a qualified engineer and spent 25 years of his career in a variety of senior management roles with Alcoa including General Manager of WA Operations, President of US Smelting and President Asia Pacific (based in Tokyo and Beijing). Most recently Mr Jones has served as President of Cerberus Capital Management's Asia Advisors Unit. His experience encompasses metals, smelting and roll forming, plant operations, energy, construction, mergers and acquisitions, corporate affairs and finance.

**Rebecca Dee-Bradbury**, Non-Executive Director (Independent)
Age 49, BBus (Mkt), GAICD
Director since: April 2014
Directorships of other Australian listed entities in the past three years: TOWER Limited (15 August 2014 to September 2016), GrainCorp Limited (30 September 2014 to date)

Ms Dee-Bradbury was Chief Executive Officer/President Developed Markets Asia Pacific and ANZ for Kraft/Cadbury from 2010 to 2014, leading the business through significant transformational change. Before joining Kraft/Cadbury Ms Dee-Bradbury was Group CEO of the global Barbeques Galore group, and has held other senior executive roles in organisations including Maxxium, Burger King Corporation and Lion Nathan/Pepsi Cola Bottlers.

Ms Dee-Bradbury is a director of GrainCorp Limited, Energy Australia Holdings Ltd and former director of TOWER Limited. She is also an inaugural Member of the Business Advisory Board for the Monash Business School, a member of Chief Executive Women and of the WomenCorporateDirectors Foundation, and a former member of the Federal Government's Asian Century Strategic Advisory Board. Ms Dee-Bradbury brings to the Board significant experience in strategic brand marketing, customer relationship management and innovation.

## COMPANY SECRETARIES

The following were Company Secretaries of BlueScope Steel Ltd for the full year ended 30 June 2017:

**Michael Barron**, BEc, LLB, AGIA, ACIS
Responsible for the legal affairs of BlueScope Steel and for company secretarial matters. Joined the Company as Chief Legal Officer and Company Secretary in January 2002. Prior to that occupied position of Group General Counsel for Orica. Mr Barron retired as Chief Legal Officer on 31 December 2016 and as Company Secretary on 30 June 2017.

**Clayton McCormack**, BCom, LLB
Senior Corporate Counsel, Governance with BlueScope Steel. A lawyer with over 20 years' experience in private practice and corporate roles.

**Darren Mackenzie**, BA, LLB (Hons)
General Counsel, BANZ with BlueScope Steel. A lawyer with 20 years' experience in private practice and corporate roles.

## PARTICULARS OF DIRECTORS' INTERESTS IN SHARES AND OPTIONS OF BLUESCOPE STEEL

As at the date of this report the interests of the Directors in shares and options of BlueScope Steel are:

| Director | Ordinary shares | Share rights |
|---|---|---|
| J A Bevan | 52,746 | - |
| P F O'Malley | 683,172 | 3,737,664 |
| D B Grollo | 38,447 | - |
| K A Dean | 40,488 | - |
| P Bingham-Hall | 57,834 | - |
| E G W Crouch | 32,500 | - |
| L H Jones | 42,000 | - |
| R P Dee-Bradbury | 27,300 | - |

## MEETINGS OF DIRECTORS

Attendance of the current Directors at Board and Board Committee meetings from 1 July 2016 to 30 June 2017 is as follows:

| | Board meetings | | Audit and Risk Committee | | Remuneration and Organisation Committee | | Health, Safety and Environment Committee | | Nomination Committee | | Other Sub-Committees | | Annual General Meeting | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** |
| J A Bevan | 11 | 11 | 4 | 4 | 6 | 6 | 4 | 4 | 8 | 8 | 4 | 4 | 1 | 1 |
| P F O'Malley | 11 | 11 | - | 4[1] | - | 6[1] | 4 | 4 | - | 5[1] | - | 4[1] | 1 | 1 |
| D B Grollo | 11 | 11 | - | - | 6 | 6 | 4 | 4 | 8 | 8 | - | 1[2] | 1 | 0[3] |
| K A Dean | 11 | 11 | 4 | 4 | - | - | 4 | 4 | 8 | 8 | | 4 | 1 | 1 |
| P Bingham-Hall | 11 | 11 | - | - | 6 | 6 | 4 | 4 | 8 | 8 | - | 1[2] | 1 | 1 |
| E G W Crouch | 11 | 11 | 4 | 4 | - | 2[2] | 4 | 4 | 8 | 8 | 4 | 4 | 1 | 1 |
| L H Jones | 11 | 11 | 4 | 4 | - | 2[2] | 4 | 4 | 8 | 8 | - | 1[2] | 1 | 1 |
| R P Dee-Bradbury | 11 | 11 | 4 | 4 | 6 | 6 | 4 | 4 | 8 | 8 | - | 1[2] | 1 | 1 |

All current Directors have held office for the entire year ended 30 June 2017.

A = number of meetings held in the period 1 July 2016 to 30 June 2017 during which time the relevant Director was a member of the Board or the Committee, as the case may be.
B = number of meetings attended by the relevant Director from 1 July 2016 to 30 June 2017.

1 The Managing Director and Chief Executive Officer is not a Committee member and attends by invitation as required.
2 The Director is not a Committee member and attends by invitation as required.
3 Mr Grollo missed the Annual General Meeting through unavailability due to personal reasons.

Directors meet regularly in the absence of management.

# REMUNERATION REPORT (AUDITED)

## Letter from the Chair of the Remuneration and Organisation Committee

Dear fellow Shareholder,

On behalf of the Directors of BlueScope, I am pleased to present our Remuneration Report for FY2017.

BlueScope is a global company, operating in 17 countries around the world, with a large and successful presence throughout Asia and the United States, in addition to its operations in Australia and New Zealand. Today, we are a truly global company with 60% of BlueScope's business located outside Australia. BlueScope is one of the few steel companies in the world that is not only profitable but has improved its profitability over the past few years, both through successful implementation of our strategy and targeted business unit turnarounds. During FY2017, the Company continued to grow despite ongoing oversupply in the steel industry, delivering a $650.8M underlying net profit after tax, a $344.2M increase from FY2016 including growing underlying EBIT by 89% to $1,105.0M.

**As noted throughout this report, shareholders have benefited from exceptional Company performance over the past two years, resulting in strong Short Term Incentive (STI) outcomes well above target. When coupled with expected strong vesting of Long Term Incentive (LTI), and the significant increase in our share price (approximately 300% since FY2015), the value of executive shareholdings has increased substantially, aligned to the significant increase in shareholder value that has been created.**

BlueScope instituted a number of changes to its remuneration framework in FY2016 and FY2017 in order to focus executives on implementing the Company's strategic objectives and delivering turnarounds in underperforming businesses. These included:

- ***A fixed pay freeze for FY2016 and FY2017*** for the MD & CEO and KMP Executives.
- The Short Term Incentive (STI) was awarded ***entirely in equity (no cash payments)*** with performance to be measured over the two year period to the end of FY2017.
- The Long Term Incentive Plan (LTI) was amended to introduce a second performance hurdle, compound annual growth rate of Earnings per Share (EPS), alongside the existing Relative Total Shareholder Return (TSR) condition, split evenly. In addition, the FY2017 LTI Plan award was brought forward to coincide with the FY2016 award.

The Board believes these arrangements maximised the alignment of remuneration for executives with the interests of shareholders during the turnaround period, and they were approved by shareholders for the MD & CEO at the AGM in November 2015**.**

**As the successful two-year incentive programme came to its conclusion, the Board undertook a review of the remuneration framework to be adopted for FY2018 and beyond. After extensive internal and external consultation, the Board determined that an incentive plan which created a greater level of share ownership would better align executive and shareholder interests.**

Performance measures for this incentive plan focus on sustainable long term earnings, reduced volatility in business performance, and continued cost control and debt management.

The FY2018 remuneration framework has been developed with the following key changes:

- Reduction in the quantum of STI, with the reduced amount being directed to longer-term equity in the form of Alignment Rights, to reinforce executive focus on longer-term performance while retaining some STI to reward achievement of annual business plan targets and growth. Accordingly, the amount previously deferred for one year will in future be deferred for three years.
- Replacement of the prior LTI plan with Alignment Rights, which will vest subject to achievement of a threshold level of Return on Invested Capital (ROIC) over the cycle and a maximum debt leverage hurdle, as well as adherence to the Company's values. The quantum of LTI has also been reduced, reflecting the potential for greater certainty of payment compared to the prior LTI plan. It remains subject to performance hurdles that are higher than those consistently delivered by the Company over the past 10 years. There will be no retesting.
- To further increase the alignment between shareholders and executives, the minimum shareholding requirements have been increased, with the MD & CEO now required to hold twice fixed pay in shares, while other KMP members are required to hold one times fixed pay.

The Board is confident that the new remuneration framework will deliver greater value to shareholders at less cost, maintain a deliberate and continued focus by executives on financial fundamentals, and provide the potential for more value to executives despite a significant reduction in quantum of incentives to both the MD & CEO and KMP Executives.

I trust you, our shareholders, find the 2017 Remuneration Report provides clear and informative insights into our current executive remuneration policies, practices and outcomes. I also hope it clearly explains our new remuneration framework and ask for your support.

**Penny Bingham-Hall**
Chair of the Remuneration & Organisation Committee

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# 1. INTRODUCTION

The Directors of the Company present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and the consolidated entity for the year ended 30 June 2017. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001*. This Remuneration Report forms part of the Directors' Report.

## 1.1 KEY MANAGEMENT PERSONNEL

This Report focuses on the remuneration of Key Management Personnel (KMP) of BlueScope Steel Limited. These KMP include those members of the Executive Leadership Team (KMP Executives) who have the authority and responsibility for planning, directing and controlling the activities of the Company.

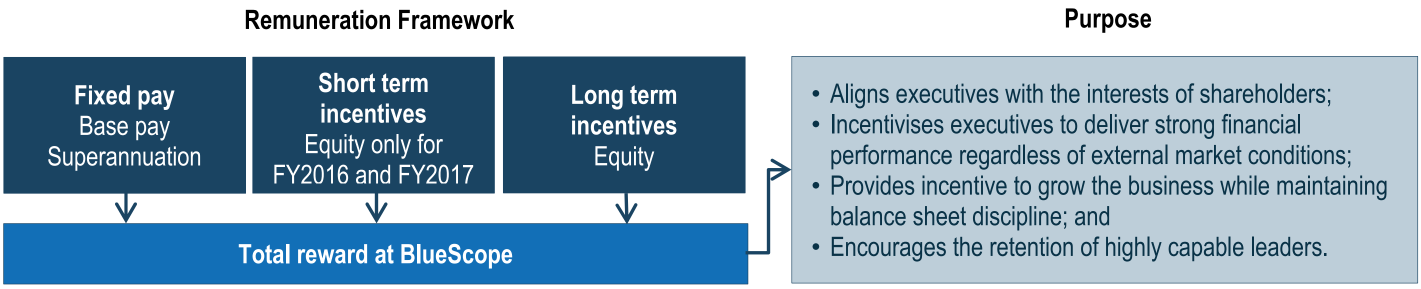
The following table lists the KMP for FY2017.

| Name | Position |
|---|---|
| **Senior Executives** | |
| Mr Paul O'Malley | Managing Director & CEO |
| Mr Sanjay Dayal | Chief Executive, NS BlueScope |
| Mr Charlie Elias | Chief Financial Officer |
| Mr Pat Finan | Chief Executive, BlueScope Buildings |
| Mr Mark Vassella | Chief Executive, BlueScope Australia and New Zealand |
| **Non-executive Directors** | |
| Mr John Bevan | Chairman of the Board |
| Ms Penny Bingham-Hall | Non-Executive Director |
| Mr Ewen Crouch AM | Non-Executive Director |
| Mr Ken Dean | Non-Executive Director |
| Ms Rebecca Dee-Bradbury | Non-Executive Director |
| Mr Daniel Grollo | Non-Executive Director |
| Mr Lloyd Jones | Non-Executive Director |

## 2. Remuneration Framework and Policy in FY2017

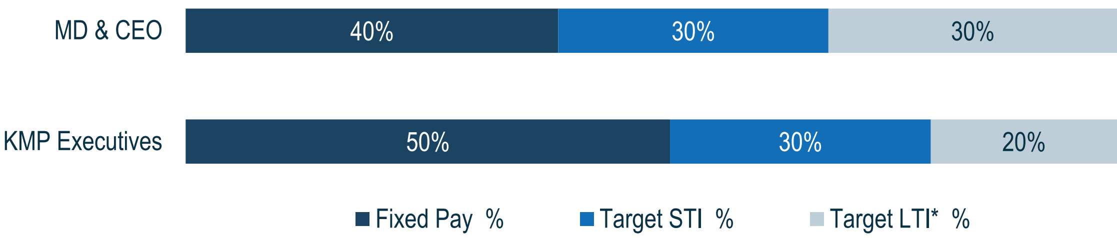
### 2.1 Framework and Purpose

At BlueScope, executive remuneration packages comprised three elements in FY2017 – fixed pay, short term incentives and long term incentives, the purpose of which is to align executive reward with shareholder outcomes, executive performance and the retention of key talent. Although these elements are described separately, they must nevertheless be viewed as part of an integrated package:




Changes to our remuneration framework have been made for the year ahead in FY2018, and these are discussed in Section 2.6.

The mix of remuneration elements differs depending on an executive's level in the organisation with a relatively higher fixed pay component at more junior levels. Overall the aim is to provide executives the opportunity to earn top quartile remuneration for stretch performance. For KMP the usual mix of elements as a proportion of total remuneration at target in FY2017 is shown below:




* Target LTI value is based on an estimate of the fair value of target awards. Face value is used for allocation purposes.

### 2.2 Fixed Pay

Fixed pay recognises the market value of an individual's skills, experience, accountability and their expected sustained contribution in delivering the requirements of their role. In order to attract and retain skilled leaders, BlueScope aims to maintain a competitive position for fixed pay – around the 60th percentile of the peer group noted at section 6.3. Fixed pay includes base pay and superannuation.

In FY2017, fixed pay continued to be frozen for the MD & CEO and other KMP Executives.

### 2.3 Short Term Incentive (STI)

The following table summarises the STI plan that applied in FY2017.

| Feature | Description |
|---|---|
| **Purpose** | To achieve BlueScope's overall strategic objectives by motivating executives to deliver on annual team-based outcomes. |
| **Eligibility** | All KMP Executives disclosed in this report. |
| **Value/opportunity** | Target STI levels are set having regard to appropriate levels in the market and are:<br>▪ 80% of base pay (or 70% of fixed pay) for the MD & CEO<br>▪ 60% of base pay (or 53% of fixed pay) for the other KMP Executives<br>Maximum STI (for outstanding results or stretch outcomes) are capped at:<br>▪ 120% of base pay for the MD & CEO<br>▪ 90% of base pay for the other KMP Executives |

<table>
<tr><th>Feature</th><th>Description</th></tr>
<tr><td>Performance conditions</td><td>
As previously noted, changes were made to the STI plan for FY2016 and FY2017. The key changes to the performance conditions are as follows:
<ul>
<li>Financial and strategic STI objectives to be measured over two years to FY2017 for the MD & CEO</li>
<li>To retain focus on annual financial performance, financial objectives to be measured over each of FY2016 and FY2017 for other KMP Executives (except the Chief Executive BANZ, who did not participate in the FY2016 STI Plan) covering both Company-wide performance and Business Unit performance, with strategic objectives to be measured over two years to 30 June 2017.</li>
</ul>
The table below outlines the performance measures and relative weightings for the FY2016 / FY2017 STI Plan:
<table>
<tr><td colspan="2">Performance measures</td><td>MD & CEO weighting</td><td>Other KMP Executives weighting</td></tr>
<tr><td rowspan="2">Financial performance</td><td>Company-wide underlying Net Profit After Tax (2/3rds), Cash Flow from Operations (1/3rd)</td><td>50%</td><td>25%</td></tr>
<tr><td>Controllable Business Unit underlying Earnings Before Interest and Tax (2/3rds), Cash Flow from Operations (1/3rd)</td><td>0%</td><td>25%</td></tr>
<tr><td>Zero harm</td><td>Safety performance measures, including Lost Time Injury Frequency Rates (LTIFR) and Medical Treatment Injury Frequency Rates (MTIFR) – see below</td><td>5%</td><td>5%</td></tr>
<tr><td>Strategy</td><td>Performance measures based on results from the execution and implementation of business priorities included in the strategic plan</td><td>45%</td><td>45%</td></tr>
</table>
Safety-related performance conditions in the STI plan<br>
BlueScope has safety as its number one priority. Historically, the Company has set percentage improvement targets on Lost Time Injury Frequency Rates (LTIFR) and Medical Treatment Injury Frequency Rates (MTIFR) to support our journey to Zero Harm by encouraging a safe and healthy work environment.<br>
For KMP Executives, a performance hurdle of no fatality and a LTIFR of <1 is in place. MTIFR improvement targets are established against the previous year’s performance.<br>
For individual business units, a benchmark (Best practice LTIFR and MTIFR) is set at the highest business level (NS BlueScope, BlueScope Buildings, North Star BlueScope or BANZ) based on the previous year’s results. Business Units whose performance is worse than the best practice benchmark are required to maintain improvement targets focused on output (LTIFR/MTIFR) measures. Business Units performing at or better than the best practice benchmark can substitute output measures with input measures better suited to their individual circumstances and drive improved performance.
</td></tr>
<tr><td>Mechanics and target setting</td><td>Performance targets for FY2016 and FY2017 were set to deliver implementation of the Company strategy and to deliver turnarounds in underperforming businesses. Performance targets, including Threshold, Target and Stretch hurdles, are set by the Board for all KMP Executives. If the Threshold level is not reached, no payment is made in respect of that target.</td></tr>
<tr><td>Payment/deferral</td><td>
In prior financial years, two-thirds of any STI payment was made in cash, and one third was withheld and awarded in restricted equity with a one year trading lock.<br>
In FY2017, STI was equity only, with no cash component. Share rights were awarded at the start of FY2016 for FY2016 and FY2017 performance and have vested to the extent that the performance conditions were achieved.<br>
Rights were awarded based on the face value of shares using the volume weighted average price over the three months prior to 31 August 2015.<br>
For each performance target, the number of share rights to vest were determined as follows:
<table>
<tr><th>Performance relative to target</th><th>% of share rights that vest</th></tr>
<tr><td>Below threshold</td><td>0%</td></tr>
<tr><td>Threshold</td><td>33%</td></tr>
<tr><td>Target</td><td>67%</td></tr>
<tr><td>Maximum</td><td>100%</td></tr>
</table>
The STI outcomes and % of share rights awarded that have vested are provided in section 3.2.
</td></tr>
<tr><td>Clawback</td><td>The Board continues to have discretion to clawback STI equity awards in the event of serious misconduct by</td></tr>
</table>

| Feature | Description |
|---|---|
| | management which undermines the Company's performance, financial soundness and reputation. These events include misrepresentation or material misstatements due to errors, omissions or negligence. |
| **Governance** | The Board retains the discretion to limit, defer or cancel any STI awards in exceptional circumstances, including determining that a reduced award or even no award should vest. |

## 2.4 LONG TERM INCENTIVE (LTI)

The following table summarises the LTI plan that applied in FY2017.

<table>
<tr><th>Feature</th><th>Description</th></tr>
<tr><td>Purpose</td><td>LTI provides incentives to executives to deliver sustained performance over time for the benefit of shareholders.</td></tr>
<tr><td>Eligibility</td><td>All KMP Executives disclosed in this report.</td></tr>
<tr><td>Value/opportunity</td><td>The quantum of LTI awards is calculated based on an agreed percentage of base salary divided by the face value of shares using the volume weighted average price over the three months prior to the commencement of the performance period. The LTI award level for the MD & CEO is 155% of base pay and for the KMP Executives is 80% of base pay. Fair value is used for reporting purposes as required by accounting standards, and is also used in benchmarking executive remuneration against the selected peer group which reports fair value. The actual allocation of share rights is based on face value.</td></tr>
<tr><td>Instrument</td><td>Share rights vest into fully paid ordinary BSL shares subject to time and performance conditions being met.</td></tr>
<tr><td>Performance conditions</td><td>As previously communicated, BlueScope introduced a second LTI performance hurdle, Earnings Per Share (EPS) to complement relative Total Shareholder Return (TSR) in FY2016.<br>For the FY2017 LTI award:
<ul>
<li>50% is assessed against relative TSR compared to the ASX 100 over a four year period (see below), plus a single retest which reflects the ongoing impact of earnings volatility on the retention and incentive value of the LTI, and operates to extend the performance period from four years to five years. The re-test requires significant further outperformance in the fifth year before any vesting. In the absence of a relevant local or global peer group, the ASX 100 is considered to be appropriate given BlueScope's market capitalisation and source of capital.</li>
<li>50% is assessed against the compound annual growth rate (CAGR) in EPS over a four year period (see below) and refers to underlying EPS. This measure does not include a re-test.</li>
</ul>
As previously approved by shareholders for the MD & CEO, to further enhance the alignment of long term incentives with shareholder reward the FY2017 LTI award was brought forward and granted at the same date as the FY2016 award, with the performance period on both the TSR and EPS hurdles increasing to four years (with one re-test on the TSR portion). This resulted in a grant of two LTIP tranches in FY2016, doubling the number in this particular year as shown in table 4.2, with no further LTI grant made in FY2017.<br><br>
Relative TSR vesting schedule:
<table>
<tr><th>Achievement</th><th>Vesting outcome (% of award that vests)</th></tr>
<tr><td>Less than 51st percentile</td><td>0%</td></tr>
<tr><td>51st percentile</td><td>40%</td></tr>
<tr><td>Between 51st percentile and 75th percentile</td><td>Straight line vesting</td></tr>
<tr><td>75th percentile and above</td><td>100%</td></tr>
</table>
EPS vesting schedule:
<table>
<tr><th>Achievement</th><th>Vesting outcome (% of award that vests)</th></tr>
<tr><td>Below Threshold</td><td>0%</td></tr>
<tr><td>Threshold</td><td>40%</td></tr>
<tr><td>Between threshold and maximum</td><td>Straight line vesting</td></tr>
<tr><td>Maximum</td><td>100%</td></tr>
</table>
The Board established EPS CAGR targets and set the "threshold" and "maximum" at levels that would require a significant uplift in the Company's earnings and that also take account of the Company's long-term</td></tr>
</table>

| Feature | Description |
|---|---|
| | business plans and financial projections, market practice and consensus forecasts. The Board will advise details of the specific underlying EPS CAGR targets and performance against the targets following the end of the performance period/s. |
| **Hedging** | Executives are not permitted to hedge (such as 'cap and collar' arrangements) LTI awards. |
| **Governance** | The Board retains the discretion to limit, defer or cancel any LTI awards in exceptional circumstances, including determining that a reduced award or even no award is paid. |

## 2.5 EXECUTIVE SHAREHOLDING GUIDELINES

The Board considers the requirement for executives to hold shares as the most effective means of aligning the interests of executives with those of shareholders. To support this principle, an executive shareholding policy was in place during FY2017 which required the MD & CEO to hold a minimum value of shares equivalent to 100% of base pay and for the KMP Executives to build a minimum of 50% of base pay.

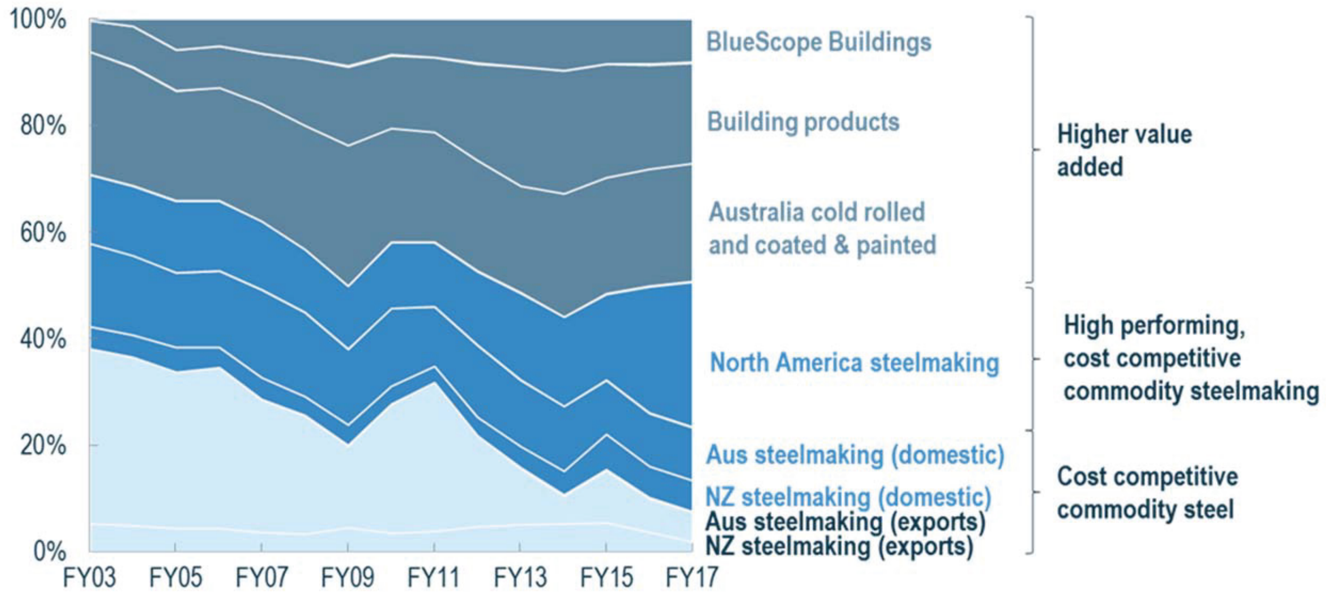
Refer to section 2.6 below for details on increased executive shareholding guidelines to be introduced for FY2018.

## 2.6 CHANGES TO THE REMUNERATION FRAMEWORK FOR FY2018

Over the past decade, BlueScope has been a company in transformation. Where it was once a company whose core business was steelmaking in Australia, today BlueScope is a truly global company, with 60% of its earnings derived from operations located outside Australia. BlueScope operates in 17 countries including a large and successful presence throughout Asia and the United States, in addition to its operations in Australia and New Zealand.

The chart below demonstrates the shift from a company mainly reliant on commodity steel production in Australia to a global company supplying customers premium branded value-added products with a lower commodity exposure. This transformation is delivering much better earnings performance with real benefits to shareholders.

**BlueScope despatch volume mix**




The Board believes that executive remuneration is a key driver to incentivise executives to develop the steps necessary to deliver the Company's strategic objectives.

BlueScope had in place an effective remuneration framework, well supported by shareholders, for FY2016 and FY2017. As the two-year incentive programme came to its conclusion, noting its success in driving the Company's recent achievements, the Board undertook a comprehensive review of the remuneration framework to be adopted for FY2018 and beyond.

After extensive internal and external consultation, the Board determined that an incentive plan which created a greater level of share ownership would better align executive and shareholder interests as the Company continued to implement its strategy. Performance measures for this incentive plan focus on sustainable long term earnings, reduced volatility in business performance, and continued cost control and debt management.

**The Board believes this new executive incentive plan will continue to deliver positive outcomes for shareholders at less cost, whilst providing more value for executives through increased share ownership.**

Details of the review are outlined below:

| | |
|---|---|
| **Purpose of the review** | The review was led by the Remuneration & Organisation Committee, and had a simple objective: to develop a framework that **pays fairly for delivering on our strategy, and that creates value over time in the eyes of external and internal stakeholders**. |
| **What the review found** | The shortcomings in the traditional structures of remuneration are not suitable to support BlueScope's future aspirations:<br>• They can deliver very volatile STI and LTI outcomes that are more influenced by external commodity or uncontrollable factors than underlying business performance.<br>• In many years, this had seen low to no levels of award that did not reflect the underlying performance of the business or the shareholder experience.<br>• As BlueScope moves to deliver consistently strong business performance over the cycle, less materially influenced by external factors, the potential for volatility in incentive outcomes under current LTI performance measures may not provide the best alignment between shareholders and executives.<br>• The current LTI plan is costly to shareholders, requiring an expense to be recognised with at times no value to executives. |
| **Implication for BlueScope's remuneration structure** | BlueScope's remuneration structure should continue to enhance alignment of shareholder and executive interests by rewarding management focus on:<br>• Reducing the impact of cyclicality in business performance.<br>• Maintaining cost control, debt management, and balance sheet integrity.<br>• Growing the business and delivering ROIC and cash flow targets. |

### FY2018 remuneration framework design principles

The review developed five key design principles that would assist with the new remuneration framework design:

1. **Keep the right people** – The right people do not cite remuneration as the reason they join or leave BlueScope.
2. **Further encourage executives to behave like an owner** – Employees and shareholders share the highs and lows of the external environment. Consistent operations performance and cost control are always at the forefront of our thinking, as is delivering target returns on invested capital.
3. **Enable delivery of the strategy** – Our employees can confidently make decisions that favour the achievement of BlueScope's long-term strategy.
4. **Is fair over the cycle** – Our shareholders approve the Remuneration Report, and our employees tell us the remuneration outcomes are fair.
5. **Easily explained** – The remuneration framework can be easily explained to our shareholders, employees and other key stakeholders.

Following the review, the FY2018 remuneration framework, outlined below, was designed to improve alignment with BlueScope's future needs.

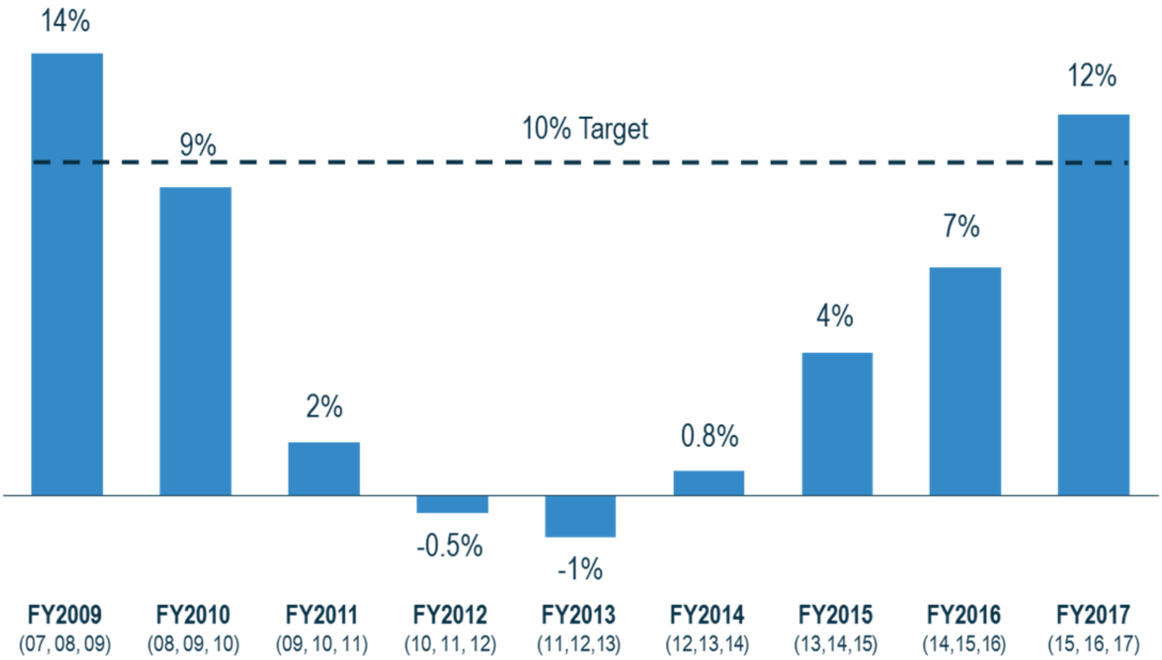
| FY2018 framework feature | Description | What's changed since FY2017? | Rationale for change |
|---|---|---|---|
| **Fixed pay** | Annual base salary, superannuation, and non-monetary benefits. | The new MD & CEO's fixed pay is 15% lower than his predecessor.<br><br>No change for other KMP Executives. | The lower fixed pay for the new MD & CEO reflects market practice for the appointment of new MD & CEO's.<br><br>Fixed pay will continue to be benchmarked in future against BlueScope's industry peer group. |
| **STI** | Annual cash payment subject to achievement of annual business plan targets of Group, business, safety and individual performance levels.<br><br>Senior executives can elect to receive the award in equity. | The quantum has been reduced by at least one third.<br><br>STI performance continues to be measured in the same way, but with stretch Underlying ROIC now being a key component of financial hurdles.<br><br>Executives can elect to be paid STI in all cash, 50% cash: 50% equity, or all in equity (with shares awarded based on the face value using the volume weighted average price over the three months to 31st August each year). | Retaining an incentive component to continue to deliver annual growth and business performance targets with the reduced amount of STI incentive being moved to Alignment Rights and effectively deferred for 3 years.<br><br>To support our strategy, Underlying ROIC targets will be the key driver of reward outcomes for all employees with stretch annual targets for STI.<br><br>Allows executives to choose whether they want to be rewarded in cash and/or equity. |
| **Alignment Rights** | Annual award of share rights subject to achievement of strong underlying financial performance over a three-year period. The measures of success are:<br>• Minimum 10% rolling three-year average Underlying Return on Invested Capital (ROIC); and<br>• Net Debt to EBITDA ratio of <1.0x.<br><br>In addition, to be eligible for any vesting, executives must continue to conduct themselves in accordance with 'Our Bond', with an individual assessment to be made by the Board each year.<br><br>Board discretion will also continue to apply to protect against unintended outcomes. | Alignment Rights have replaced the performance rights granted under the prior LTI plan.<br><br>Underlying ROIC and the Net Debt to Underlying EBITDA ratio have replaced the relative TSR and EPS CAGR measures under the prior LTI plan.<br><br>The quantum of the Alignment Rights has been reduced compared to the prior LTI plan to reflect the greater potential for payment (subject to performance conditions being met).<br><br>The re-test provisions in the prior LTI plan have also been removed. | Alignment Rights reward executives for delivering consistent financial returns through:<br>• The threshold Underlying ROIC hurdle achieves our weighted average cost of capital (WACC), top quartile performance compared to major steel companies, and median performance compared to the ASX100. Based on historical performance, the hurdle would have been met only twice since the onset of the Global Financial Crisis (FY2009 and FY2017 – see chart below).<br>• The Net Debt to Underlying EBITDA ratio hurdle ensures executives focus on sustainable investment, and protection of the Company's balance sheet.<br><br>The focus on these two measures (as well as adherence to 'Our Bond') will ensure the Company is well placed to weather downturns in the cycle, while further incentivising executives to behave as owners of the business (including sharing in the profit). BlueScope believes this will provide the optimum form of shareholder alignment. |

| FY2018 framework feature | Description | What's changed since FY2017? | Rationale for change |
|---|---|---|---|
| **Reduction in performance pay quantum** | Overall quantum of performance pay has reduced for both the MD & CEO and other KMP Executives due to:<br>• STI quantum being reduced by one-third, with the reduced component converted into Alignment Rights.<br>• Less Alignment Rights being awarded compared to performance rights under the prior LTI plan, reflecting the greater potential for payout (subject to performance conditions being met that require ROIC to be delivered at levels not seen consistently over the past decade). | The new MD & CEO's maximum performance pay has reduced by 41% when compared against the current MD & CEO.<br><br>Other KMP members' maximum performance pay has reduced by approximately 20%. | The Board believes it is appropriate to reduce the overall quantum of pay for the MD & CEO and other KMP Executives, and also believes the changes to compensation structure provides real value opportunity for executives. |
| **Minimum shareholding requirement** | Executives will be required to build a holding of BlueScope shares until their minimum shareholding requirement is reached. | The minimum shareholding requirements have been increased compared to FY2017, and are now:<br>• MD & CEO – 200% of fixed pay<br>• Other KMP Executives – 100% of fixed pay. | Furthers the alignment between shareholders and executives, by requiring executives to hold an increased value of shares whilst employed by the Company. |

**The following chart demonstrates the quantum reduction in the remuneration of the new MD & CEO, inclusive of lower fixed pay and the reduction inherent in maximum performance pay in the new remuneration framework, compared to the current MD & CEO's remuneration under the previous framework.**


1) For the period from 1 July 2017 to 23 February 2018, the current MD & CEO will only receive fixed pay, and no further STI or LTI will be awarded for this period.
2) All values are represented as maximum STI and face value equity (LTI and Alignment Rights)
3) Prior to FY2016, the STI plan pay-out was split 67% cash and 33% deferred equity. In FY16 and FY17, all potential STI was awarded in deferred equity up-front, vesting subject to the annual scorecard (no cash awarded).

**The chart below shows BlueScope's rolling three-year average Underlying ROIC for each of the last nine years (an 11 year performance timeframe). It also highlights that the Alignment Rights target has been set at a level met only twice in the past nine years.**




The Board believes that the FY2018 remuneration framework will deliver:

**More value to shareholders through:**

- Improving alignment of shareholder and executive outcomes;
- Less cost to shareholders due to an overall reduction in executive remuneration; and
- A continued focus on improving Company performance, measured by 3-year average Underlying ROIC and balance sheet integrity.

**Potential for more value to participants through:**

- Incentivising executives to implement the Company strategy to deliver target financial returns, achieving more consistent returns over time compared to the past decade; and
- An overall reduction in variable remuneration but potential for better reward to executives if consistent financial returns beyond the Company's cost of capital are delivered to shareholders.

The Board is confident these changes will enhance the alignment between shareholder and executives and will motivate executives to deliver the Company's strategy for the benefit of shareholders, customers, employees and our communities. Further detail on the new framework, including grants made to members of KMP during FY2018, will be provided in the 2018 Annual Report.

# 3. REWARD OUTCOMES - THE LINK BETWEEN REMUNERATION AND PERFORMANCE

## 3.1 OVERVIEW OF BUSINESS PERFORMANCE

FY2017 was a year of significant achievement for BlueScope Steel, with strong financial performance across the company, and significant improvements to the portfolio resulting from delivery of the corporate strategy. Achievements for the year are outlined below:

### Group financial performance in FY2017

- **Underlying EBIT of $1,105.0m was 89% higher than FY2016**. Underlying EBIT has grown at a compound annual rate of 71% since FY2014.
- **ROIC improved to 18.5%**, up from 9.6% in FY2016, with strong earnings growth. This has been achieved noting the growth in the asset base from the move to full ownership of North Star.
- **Underlying NPAT of $650.8m was 112% or $344.2m higher than FY2016,** and $490m higher than FY2015, on strong EBIT growth.
- **Reported NPAT rose 102%**, from $353.8m to $715.9m.

### Segment financial performance in FY2017

- **Australian Steel Products** delivered underlying EBIT of $459.4m, a $98.0m increase on FY2016. Lower costs, particularly through improved production rates, and higher sales volume (both domestic and export) contributed to the improvement. This was combined with stronger steel spread due to higher global steel prices offsetting higher coal and iron ore purchase prices.

- **North Star BlueScope Steel** delivered underlying EBIT of $406.6m, a $260.1m increase on FY2016. 100% BlueScope ownership after 30 October 2015, higher spreads, and lower conversion costs contributed to this performance.
- **Building Products** delivered underlying EBIT of $201.7m, a $52.4m increase on FY2016. Driven by higher margins and increased sales volumes across most countries. BlueScope's North America, Vietnam and India businesses were major contributors to this growth. Thailand, Indonesia and Malaysia reported weaker results.
- **BlueScope Buildings** delivered underlying EBIT of $64.0m, a $14.8m increase on FY2016. Driven by lower costs in North America through cost reductions and higher sales volumes. This was partly offset by lower net margins in North America and Building Products China due to increases in steel feed costs.
- **New Zealand and Pacific Steel** delivered underlying EBIT of $61.1m, a $101.4m increase on FY2016, through higher steel prices, full run-rate of the Pacific Steel acquisition, and delivery on cost reduction and productivity initiatives.

## Safety Performance

The zero harm targets comprise two hurdles and a performance measure. Both hurdles were achieved in that there were no fatalities and our LTIFR performance was less than 1. However, the MTIFR performance measure was below threshold of 5.18.

## Ongoing delivery of strategy through FY2017

BlueScope's strategy is to ***deliver top quartile shareholder returns with safe operations***, through:

- Growing **premium branded steel businesses** with strong channels to market;
- Delivering **competitive commodity steel supply** in its local markets; and
- Ensuring ongoing **financial strength**

The Company has made significant progress in delivering this strategy, with achievements outlined below:

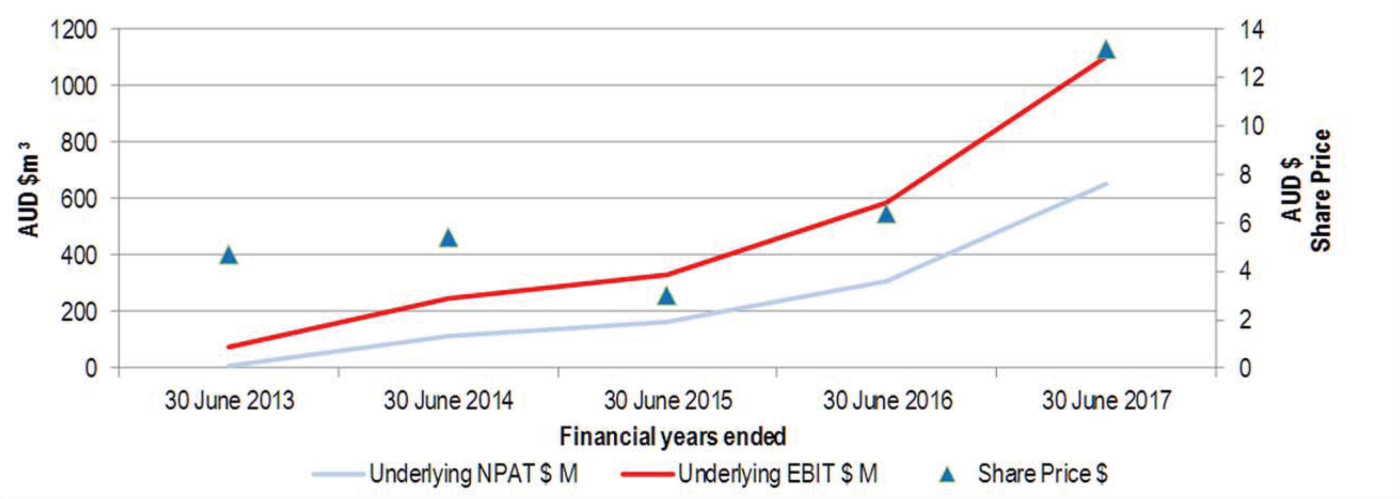
| | |
|---|---|
| **Growth in Coated & Painted Products** | • 32% pa compound growth in ASEAN, North America and India Underlying EBIT in last five years – particularly strong in North America<br>• Increased customer diversity in South East Asia – adding retail and SME sales to our established position in commercial markets<br>• Sales of home appliance steel (SuperDyma®) growing in Thailand, and construction of MCL3 on track<br>• Reviewing expansion opportunities in India, including further painting and metal coating capacity<br>• Growth in Australian domestic coated product sales; pursuing inter-material growth opportunities |
| **Restructured BlueScope Buildings** | • Restructured, with significant profitability boost in North America; $30m productivity savings on-track for FY2018 (over FY2016)<br>• China Buildings restructure delivering results, being profitable in 4Q FY2017 |
| **Full benefits of North Star ownership** | • Moved to full ownership in October 2015, adding more than $200m Underlying EBIT in FY2017 (over 50% ownership)<br>• Delivering incremental volume growth: despatches increased 65kt this year<br>• Reducing conversion costs – delivered cost savings of over $10m pa in recent years |
| **Streamlined Australia & New Zealand steelmaking** | • Businesses streamlined – primary focus is now on domestic markets; dramatic improvements in cost competitiveness<br>• Exited Taharoa export iron sands business, a non-core business which has delivered volatile earnings in recent years |
| **Balance sheet strength** | • Net debt reduced to $232.2m. Leverage reduced to 0.16x (net debt over underlying EBITDA)<br>• Clear capital management framework incorporating ongoing share buy-backs |

## Comparison of FY2017 with historical performance

The table and graph below summarises the Company's performance for FY2017 and the previous four years.

| Measure | 30 June 2013 [1] | 30 June 2014 | 30 June 2015 | 30 June 2016 | 30 June 2017 |
|---|---|---|---|---|---|
| **Share price ($) [2]** | 4.67 | 5.42 | 3.00 | 6.37 | 13.21 |
| **Dividend per Ordinary Share (cents)** | 0 | 0 | 6 | 6 | 9 |
| **Buybacks ($)** | - | - | - | - | 150m |
| **Earnings per Share (cents)** | -19.1 | -14.8 | 24.3 | 62.1 | 125.3 |

1) Changes to AASB 119 Employee Benefits came into effect for BlueScope on 1 July 2013. The impact of this revised accounting standard is to increase defined benefit plan pension expense. Australian Accounting Standards require that comparative period financial information be adjusted to reflect the revised approach. Accordingly, each of the FY 2013 earnings metrics are adjusted down by $28.7M pre-tax and $23.0M post-tax compared to those reported in the FY2013 financial statements.
2) On 19 December 2012, the Company consolidated its share capital through the conversion of every six shares in the Company into one ordinary share in the Company. As a result, share prices and earnings per share for the prior periods have been restated to reflect this change.




3) Underlying earnings (NPAT and EBIT) are categorised as non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 – Disclosing non-IFRS financial information, issued in December 2011. Non-IFRS financial information while not subject to audit or review has been extracted from the financial report which has been audited by our external auditors. Underlying adjustments have been considered in relation to their size and nature, to assist readers to better understand the financial performance of the underlying business. These adjustments are assessed on a consistent basis from period to period and include both favourable and unfavourable items.

## 3.2 SHORT TERM INCENTIVE (STI) OUTCOMES

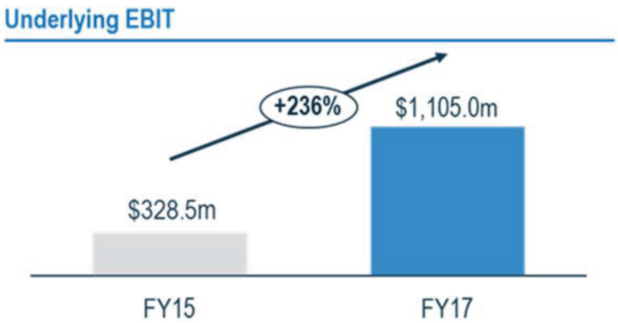
STI outcomes varied from FY2013 to FY2017, owing to the significant variation in financial performance driven substantially by challenges in the steel industry. Specifically:

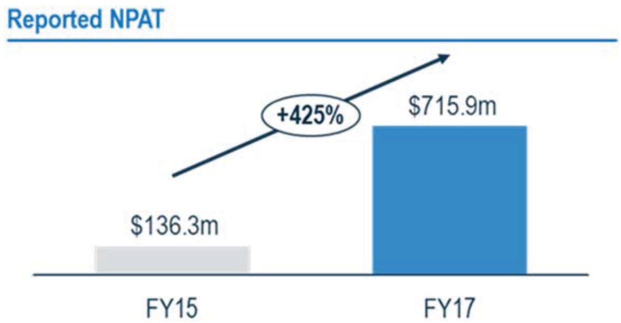
- Significantly below target STI Awards were made in FY2012 with higher STI awards made in FY2013 and FY2014 reflecting the significant improvement in performance in those years.
- Notwithstanding the improvements in financial performance in FY2015, STI Awards were less than 50% of target reflecting the challenging business circumstances faced by the Company, particularly in New Zealand and China, and the lower than expected spreads in the Australian business

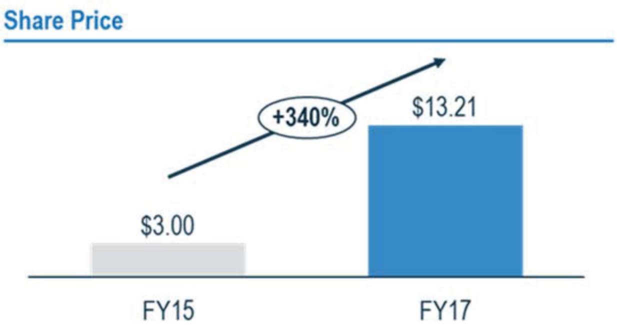
As previously communicated and also noted in section 2.3, the annual STI plans for FY2016 and FY2017 were replaced by a two-year STI programme which was awarded in equity only after being approved by shareholders at the 2015 AGM.

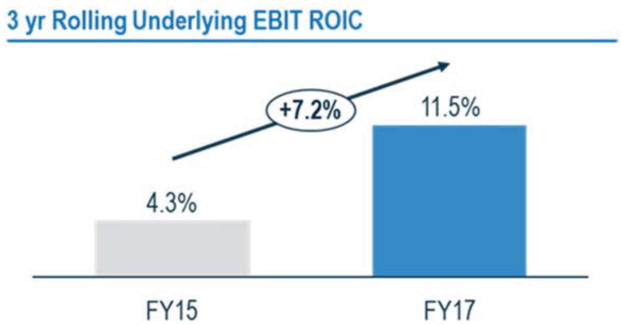
As a result, no STI cash was awarded in FY2016 or FY2017. In order to focus on delivering the objectives outlined in the business strategy review, performance was to be assessed at the end of FY2017 against a range of mainly financial measures aimed at delivering improved returns for shareholders.

The financial measures shown in the cart below were the basis for the assessment of the MD & CEOs STI performance over the two year period FY2016 and FY2017. They demonstrate the successful delivery of the strategy adopted and clearly identify the returns to shareholders delivered, while at the same time retaining balance sheet strength.



**MD & CEO STI Outcomes**

| Objective | Target Weighting | Result | Achievement |
|---|---|---|---|
| **Company Financials**<br>• Underlying NPAT (2/3)<br>• Free Cash Flow (1/3) | 50% | 100% | The Company delivered an underlying NPAT for year ended 30 June 2017 of $650.8m. This represented a 304% increase on FY2015 of $160.9m. **Exceeded stretch target**.<br>Free cash flow performance (excluding BSL Dividends and share buy backs) for FY17 was $749.4m a 387% improvement compared to FY2015 of $153.8m. **Exceeded stretch target.** |
| **Zero Harm**<br>• No fatality gateway<br>• LTIFR <1<br>• MTIFR < 5.18 | 5% | 0% | No fatality, LTIFR below 1.0 however the MTIFR performance was 5.61 compared to a threshold of 5.18. **Below threshold**. |
| **Projects and New Initiatives**<br>• Implement corporate strategy delivering material value benefits to BlueScope | 45% | 75% | Continued roll-out of the corporate strategy, delivered a significant shift to value-added products and geographic diversification, including growth in Asia, with material value delivered to shareholders. The Company has been transformed and now has strong platforms for future growth. Specific deliverables were:<br>• Expansion of coated and painted businesses with focus on retail and appliance growth in ASEAN and India. **Achieved target**.<br>• Integration of North Star acquisition delivering substantially above business case earnings in year one. **Exceeded stretch target**<br>• Productivity improvements in each geographic region (New Zealand, Buildings North America, Buildings China, India and Australia) to ensure each business unit can deliver annual ROIC targets and sustain future investment. Over 4,500 jobs saved in Australia. **Achieved stretch target**.<br>• Workplace reform to foster further productivity improvements through diversity and innovation. **Achieved target**.<br>• Corporate deleveraging ratio (net-debt to underlying EBITDA) target of less than 1.0 achieved within 18 months of North Star acquisition. Actual leverage ratio at the end of FY2017 0.16 times (Net debt of $232.2m and underlying EBITDA of $1,485.4m). **Exceeded stretch target**. |
| Total awarded | 100% | 150%* | |

*The actual result was 175% of Target which has been capped according to Corporate Policy at the maximum STI outcome of 150% of Target.

Consistent with the STI objectives communicated last year, and the performance outcomes noted in the scorecard above, the Board has resolved that the MD & CEO and KMP Executives achieved the outcomes for the two-year STI programme as shown in the table below. The combination of Company and business financial measures exceeding target in most cases, and individual objectives being assessed up to 200% of target (with an overall cap of 150% of target applied), has resulted in maximum STI being awarded to all KMP Executives (including the MD & CEO). As such, all STI rights granted to KMP executives have vested. Consistent with the excellent results for shareholders, the strong vesting outcomes and strong share price performance have also resulted in substantial actual value delivered to executives.

| KMP | % of maximum FY16 STI achieved | % of maximum FY17 STI achieved | % of maximum 2 year STI achieved | % of STI rights vested |
|---|---|---|---|---|
| Paul O'Malley | N/A | N/A | 100% | 100% |
| Sanjay Dayal | 100% | 100% | 100% | 100% |
| Charlie Elias | 100% | 100% | 100% | 100% |
| Pat Finan | 100% | 100% | 100% | 100% |
| Mark Vassella [1] | N/A | 100% | N/A | 100% |

1) Consistent with the decision not to operate an STI plan in the Australia & New Zealand business in FY2016, Mr Vassella did not participate in the STI programme in FY2016. Following the reintroduction of incentives to that business in FY2017, only FY2017 performance is shown.

## 3.3 LONG TERM INCENTIVE (LTI) OUTCOMES

No LTI Awards vested between 2008 and 2014, given BlueScope performance against the relative TSR hurdle over those years. In FY2015, awards made to members of KMP other than MD & CEO vested in full, while in FY2016, the MD & CEO's LTI award vested for the first time in seven years.

The table below shows the results of LTI awards made in prior years, and those that remain outstanding:

| Allocation year [1] | Made to | Grant date | Vesting period [2] | Hurdle | Vesting status |
|---|---|---|---|---|---|
| **FY2008** | MD & CEO and other KMP | 14 Nov 2007 (MD & CEO) and 5 Nov 2007 (other KMP) | 1 Sep 2010 to 31 Oct 2012 | 100% relative TSR versus ASX100 | Lapsed in full |
| **FY2009** | MD & CEO and other KMP | 28 Nov 2008 | 1 Sep 2011 to 31 Oct 2013 | 100% relative TSR versus ASX100 | Lapsed in full |
| **FY2010** | MD & CEO and other KMP | 30 Nov 2009 | 1 Sep 2012 to 31 Oct 2014 | 100% relative TSR versus ASX100 | Lapsed in full |
| **FY2011** | MD & CEO and other KMP | 30 Nov 2010 | 1 Sep 2013 to 31 Oct 2015 | 100% relative TSR versus ASX100 | Lapsed in full |
| **FY2012** | Other KMP only | 16 Apr 2012 | 1 February 2015 to 31 January 2016 | 100% relative TSR versus ASX100 | **No award was made to the MD & CEO.** For KMP Executives other than the MD & CEO, the award vested in full in FY2015 with a 12 month holding condition which was released during FY2016. |
| **FY2013** | MD & CEO (LTI) | 1 Sep 2012 | 1 Sep 2015 to 31 Oct 2017 | 100% relative TSR versus ASX100 | 100% of award vested in FY2016, 94.44% vested on 1 Sep 2015 and the balance vested on retest on 1 Mar 2016. **This was the MD & CEO's first LTI award to vest in seven years.** |
| | Other KMP (LTI) | 1 Sep 2012 | 1 Sep 2015 to 31 Oct 2015 | 100% relative TSR versus ASX100 with absolute share price threshold | 81.95% of the award vested in FY2016 with a 24 month holding condition to be released in FY2018. [3] |
| | Other KMP (Retention rights) | 1 Sep 2012 and 20 Dec 2012 | 1 Sep 2015 to 31 Oct 2015 | Absolute share price threshold | 100% of the award to the other KMP Executives vested on 1 Sep 2015 |
| **FY2014** | MD & CEO and other KMP | 14 Nov 2013 (MD & CEO) and 1 Sep 2013 (other KMP) | 1 Sep 2016 to 31 Oct 2017 | 100% relative TSR versus ASX100 | 56.95% of the MD & CEO's and KMP Executives FY2014 award vested in FY2017 after the first performance test. The final performance test will be in Aug 2017. |
| **FY2015** | MD & CEO and other KMP | 1 Sep 2014 | 1 Sep 2017 to 31 Oct 2018 | 100% relative TSR versus ASX100 | To be tested during FY2018 |
| **FY2016** | MD & CEO and other KMP | 26 Nov 2015 | 31 Aug 2018 (through to 31 Aug 2019 for relative TSR hurdle) | 50% relative TSR versus ASX100<br>50% CAGR in EPS | To be tested during FY2019 |
| **FY2017** [4] | MD & CEO and other KMP | 26 Nov 2015 | 31 Aug 2019 (through to 31 Aug 2020 for relative TSR hurdle) | 50% relative TSR versus ASX100<br>50% CAGR in EPS | To be tested during FY2020 |

1) See applicable financial year Annual Report for further details on each LTI grant
2) Vesting period is inclusive of re-tests on relative TSR portion if applicable to a particular grant
3) The only exception was to permit the release of a portion of the shares to pay tax liabilities incurred on vesting.
4) FY2017 LTI grant was made at the same time as the FY2016 grant.

# 4. EXECUTIVE REMUNERATION TABLES

## 4.1 KEY MANAGEMENT PERSONNEL – EXECUTIVES (INCLUDING MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER)

The information contained in the following tables represents the annual remuneration for the year ended 30 June 2017 KMP. There are a number of points to note in interpreting the information in the table:

- Consistent with the previously communicated two-year STI programme being awarded entirely in equity, and the granting of FY2017 LTI in FY2016, the share-based payments expense for KMP increased in FY2016.
- There were no cash STI payments in either FY2016 or FY2017. All short and long term incentives are in equity.
- Mark Vassella did not participate in the FY2016 STI equity programme, but participated for FY2017. As a result, his FY2017 STI equity grant was expensed and included in the Share Rights column.
- No further STI (other than for Mr Vassella) or LTI Share Rights grants were made in FY2017.

| Name | Year | Salary and fees [1] $ | Movement in annual leave provision [2] $ | Short Term Incentive [3] $ | Non-monetary [4] $ | Other [5] $ | Sub-total $ | Superannuation $ | Movement in Long Service Leave $ | Share Rights [3 6] $ | Total $ | % of performance related pay [7] % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | | | | | | |
| P F O'Malley | 2017 | 1,856,575 | 6,943 | 0 | 1,161 | 229,921 | 2,094,600 | 30,000 | (53,621) | 4,792,278 | 6,863,257 | 69.8 |
| | 2016 | 1,856,575 | 43,041 | 0 | 0 | 229,921 | 2,129,537 | 30,000 | (117,755) | 5,487,501 | 7,529,283 | 72.9 |
| **KMP Executives** | | | | | | | | | | | | |
| M R Vassella | 2017 | 1,060,900 | (4,194) | 0 | 0 | 118,526 | 1,175,232 | 30,000 | 2,003 | 1,945,432 | 3,152,667 | 61.7 |
| | 2016 | 1,060,900 | (44,771) | 0 | 0 | 118,526 | 1,134,655 | 30,000 | 26,555 | 821,137 | 2,012,347 | 40.8 |
| S R Elias | 2017 | 825,185 | 19,982 | 0 | 1,161 | 85,526 | 931,854 | 30,000 | 49,702 | 1,344,734 | 2,356,290 | 57.1 |
| | 2016 | 825,185 | (12,607) | 0 | 0 | 85,526 | 898,104 | 30,000 | 20,659 | 1,334,350 | 2,283,113 | 58.4 |
| S Dayal [8] | 2017 | 951,720 | (10,982) | 0 | 20,491 | 103,241 | 1,064,470 | 30,000 | 24,110 | 3,328,673 | 4,447,253 | 74.8 |
| | 2016 | 951,720 | 29,284 | 0 | (128,570) | 103,241 | 955,675 | 30,000 | 24,110 | 2,576,224 | 3,586,009 | 71.8 |
| P J Finan | 2017 | 769,129 | (3,168) | 0 | 663 | 0 | 766,624 | 26,605 | 0 | 1,210,884 | 2,004,113 | 60.4 |
| | 2016 | 796,594 | 18,013 | 0 | 961 | 0 | 815,568 | 27,297 | 0 | 1,188,588 | 2,031,453 | 58.5 |
| R J Moore [9] | 2017 | - | - | - | - | - | - | - | - | - | - | - |
| | 2016 | 331,025 | (20,441) | 0 | 86,200 | 33,863 | 430,647 | 12,481 | 8,276 | 120,287 | 571,691 | 21.0 |
| **Total 2017** | | 5,463,509 | 8,581 | 0 | 23,476 | 537,214 | 6,032,780 | 146,605 | 22,194 | 12,622,001 | 18,823,580 | |
| **Total 2016** | | 5,821,999 | 12,519 | 0 | (41,409) | 571,077 | 6,364,186 | 159,778 | (38,155) | 11,528,087 | 18,013,896 | |

1) There were no base pay increases during FY2017. Exchange rate differences affected overseas based KMPs.
2) Negative movement in annual and long service leave provisions indicates leave taken during the year exceeded leave accrued during the current year. This is to be read in conjunction with column one (Salary and Fees).
3) There were no Short Term Incentive cash components in FY2016 and FY2017. All STI is included in restricted equity which is included as a share based payment.
4) Non-monetary includes executive health check and benefits provided under the Company's international assignment policy e.g. accommodation, tax equalisation, relocation benefits and medical coverage.
5) Due to changes in the superannuation legislation resulting in maximum contribution levels, members of the Defined Contribution Division can elect to receive a proportion of their superannuation as a cash allowance.
6) Includes all awards of share rights including Awards under Short Term and Long Term Incentive Plans.
7) The % of remuneration that is performance related recognises LTI based on accounting values and not vested amounts actually received by executives.
8) S Dayal had previously been awarded only cash rights due to certain Singapore restrictions. Changes were introduced in FY2015 to enable equity rewards to be made.
9) R J Moore retired effective 30 November 2015.

## 4.2 SHARE RIGHTS AWARDED AS REMUNERATION AND HOLDINGS

The numbers of rights over ordinary shares in the Company held during the financial year by each Director of BlueScope Steel Limited and other KMP Executives, including their related parties, as well as the value of share rights granted and exercised, are set out in the tables below. Vesting is subject to achieving challenging performance targets over a two to four year period consistent with the terms approved by shareholders at the November 2015 AGM:

- The FY2016 and FY2017 STI Plan has been assessed at the end of FY2017 and 100% has vested in full as a result of performance against objectives. No STI is payable in cash for either FY2016 or FY2017.
- The FY2016 LTI Plan was awarded in two tranches and vesting is subject to achieving relative TSR and EPS CAGR targets over three years.
- The FY2017 LTI Plan was awarded in two tranches and vesting is subject to achieving relative TSR and EPS CAGR targets over a four year timeframe. This award was granted during FY2016 and no further awards were granted during FY2017.

**Share Rights holdings for FY2017**

| 2017 | Balance at 30 June 2016 | Granted in year ended 30 June 2017 [1] | Vested and exercised in year ended 30 June 2017 [2] | Lapsed in year ended 30 June 2017 | Balance at 30 June 2017 | Vested and not yet exercised in year ended 30 June 2017 | Unvested at 30 June 2017 | Total Share Rights vested in year ended 30 June 2017 | Value of Share Rights granted during the year at grant date [3] | Value of Share Rights exercised during the year [4] |
|---|---|---|---|---|---|---|---|---|---|---|
| | # | # | # | # | # | # | # | # | $ | $ |
| **Executive Director** | | | | | | | | | | |
| P F O'Malley | 4,119,653 | - | 381,989 | - | 3,737,664 | - | 3,737,664 | 381,989 | - | 1,376,262 |
| **KMP Executives** | | | | | | | | | | |
| M R Vassella | 1,085,916 | 127,111 | 119,956 | - | 1,093,071 | - | 1,093,071 | 119,956 | 1,076,630 | 415,899 |
| S R Elias | 1,087,212 | - | 94,056 | - | 993,156 | - | 993,156 | 94,056 | - | 326,565 |
| S Dayal | 1,252,604 | - | 107,148 | - | 1,145,456 | - | 1,145,456 | 107,148 | - | 371,192 |
| P J Finan | 956,310 | - | 66,772 | - | 889,538 | - | 889,538 | 66,772 | - | 232,678 |

1) The number of share rights granted includes rights awarded under the FY2017 Short Term Incentive (STI) Award which are subject to Company performance hurdles.
2) The number of shares issued is equal to the number of rights exercised and no amount was paid or remains unpaid for each share issued. Due to restrictions relating to awards of equity in Singapore, Mr Dayal was awarded Cash Rights in 2014 which delivers a cash payment on vesting.
3) External advice from PWC Securities Limited has been used to determine the value of share rights awarded in the year ended 30 June 2017. The valuation has been made using the Black-Scholes Options Pricing Model (BSM) that includes a Monte Carlo simulation analysis. The fair value per instrument of the Share Rights granted in the year ended 30 June 2017 was: FY17 STI Award – 1 yr - $8.47
4) Share Rights vested during the year under the FY2015 STI Awards and FY2014 Long Term Incentive Plan.

The table below sets out the details of each specific share right tranche and awards granted and vested during FY2017 for each KMP Executive.

| 2017 | Award Details | Number of Share Rights awarded | Date of grant | % vested in year ended 30 June 2017 | % forfeited in year ended 30 June 2017 | Share Rights yet to vest | Financial year in which awards may vest |
|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | |
| P F O'Malley | FY14 LTI Award (TSR) - 3 yr | 568,126 | 14-Nov-13 | 56.95 | - | 244,579 | 2017 |
| | FY15 LTI Award (TSR) - 3 yr | 500,885 | 01-Sep-14 | - | - | 500,885 | 2018 |
| | FY15 Deferred STI Rights - 1 yr | 58,442 | 24-Aug-15 | 100 | - | 0 | 2017 |
| | FY16 & FY17 STI Award - 2 yr [1] | 1,305,680 | 26-Nov-15 | - | - | 1,305,680 | 2018 |
| | FY16 LTI Award (TSR) - 3 yr | 421,630 | 26-Nov-15 | - | - | 421,630 | 2019 |
| | FY16 LTI Award (EPS) - 3 yr | 421,630 | 26-Nov-15 | | | 421,630 | 2019 |
| | FY17 LTI Award (TSR) - 4 yr | 421,630 | 26-Nov-15 | - | - | 421,630 | 2020 |
| | FY17 LTI Award (EPS) - 4 yr | 421,630 | 26-Nov-15 | | | 421,630 | 2020 |
| **KMP Executives** | | | | | | | |
| M R Vassella | FY14 LTI Award (TSR) - 3 yr | 167,560 | 01-Sep-13 | 56.95 | - | 72,135 | 2017 |
| | FY15 LTI Award (TSR) - 3 yr | 147,725 | 01-Sep-14 | - | - | 147,725 | 2018 |
| | FY15 Deferred STI Rights - 1 yr | 24,531 | 24-Aug-15 | 100 | - | 0 | 2017 |
| | FY16 LTI Award (TSR) - 3 yr | 186,525 | 26-Nov-15 | - | - | 186,525 | 2019 |
| | FY16 LTI Award (EPS) - 3 yr | 186,525 | 26-Nov-15 | - | - | 186,525 | 2019 |
| | FY17 LTI Award (TSR) - 4 yr | 186,525 | 26-Nov-15 | - | - | 186,525 | 2020 |
| | FY17 LTI Award (EPS) - 4 yr | 186,525 | 26-Nov-15 | - | - | 186,525 | 2020 |
| | FY17 STI Award - 1 yr | 127,111 | 01-Sep-16 | - | - | 127,111 | 2018 |

| 2017 | Award Details | Number of Share Rights awarded | Date of grant | % vested in year ended 30 June 2017 | % forfeited in year ended 30 June 2017 | Share Rights yet to vest | Financial year in which awards may vest |
|---|---|---|---|---|---|---|---|
| **KMP Executives** | | | | | | | |
| S R Elias | FY14 LTI Award (TSR) - 3 yr | 130,385 | 01-Sep-13 | 56.95 | - | 56,131 | 2017 |
| | FY15 LTI Award (TSR) - 3 yr | 114,905 | 01-Sep-14 | - | - | 114,905 | 2018 |
| | FY15 Deferred STI Rights - 1 yr | 19,802 | 24-Aug-15 | 100 | - | 0 | 2017 |
| | FY16 & FY17 STI Award - 2 yr [1] | 435,240 | 26-Nov-15 | - | - | 435,240 | 2018 |
| | FY16 LTI Award (TSR) - 3 yr | 96,720 | 26-Nov-15 | - | - | 96,720 | 2019 |
| | FY16 LTI Award (EPS) - 3 yr | 96,720 | 26-Nov-15 | | | 96,720 | 2019 |
| | FY17 LTI Award (TSR) - 4 yr | 96,720 | 26-Nov-15 | - | - | 96,720 | 2020 |
| | FY17 LTI Award (EPS) - 4 yr | 96,720 | 26-Nov-15 | | | 96,720 | 2020 |
| S Dayal [2] | FY14 LTI Award (TSR) - 3 yr | 150,315 | 01-Sep-13 | 56.95 | - | 64,711 | 2017 |
| | FY15 LTI Award (TSR) - 3 yr | 132,525 | 01-Sep-14 | - | - | 132,525 | 2018 |
| | FY15 Deferred STI Rights - 1 yr | 21,544 | 24-Aug-15 | 100 | - | 0 | 2017 |
| | FY16 & FY17 STI Award - 2 yr [1] | 502,000 | 26-Nov-15 | - | - | 502,000 | 2018 |
| | FY16 LTI Award (TSR) - 3 yr | 111,555 | 26-Nov-15 | - | - | 111,555 | 2019 |
| | FY16 LTI Award (EPS) - 3 yr | 111,555 | 26-Nov-15 | - | - | 111,555 | 2019 |
| | FY17 LTI Award (TSR) - 4 yr | 111,555 | 26-Nov-15 | - | - | 111,555 | 2020 |
| | FY17 LTI Award (EPS) - 4 yr | 111,555 | 26-Nov-15 | - | - | 111,555 | 2020 |
| P J Finan | FY14 LTI Award (TSR) - 3 yr | 90,750 | 01-Sep-13 | 56.95 | - | 39,068 | 2017 |
| | FY15 LTI Award (TSR) - 3 yr | 79,990 | 01-Sep-14 | - | - | 79,990 | 2018 |
| | FY15 Deferred STI Rights - 1 yr | 15,090 | 24-Aug-15 | 100 | - | 0 | 2017 |
| | FY16 & FY17 STI Award - 2 yr [1] | 407,900 | 26-Nov-15 | - | - | 407,900 | 2018 |
| | FY16 LTI Award (TSR) - 3 yr | 90,645 | 26-Nov-15 | - | - | 90,645 | 2019 |
| | FY16 LTI Award (EPS) - 3 yr | 90,645 | 26-Nov-15 | - | - | 90,645 | 2019 |
| | FY17 LTI Award (TSR) - 4 yr | 90,645 | 26-Nov-15 | - | - | 90,645 | 2020 |
| | FY17 LTI Award (EPS) - 4 yr | 90,645 | 26-Nov-15 | - | - | 90,645 | 2020 |

1) Following year end and based on performance against targets set at the start of the 2 year performance period, the Board approved vesting of share rights granted under the FY2016 and FY2017 STI Award. Refer section 3.2 for further details.
2) Due to restrictions relating to awards of equity in Singapore, S Dayal was awarded Cash Rights in FY2014 which delivers a cash payment on vesting. As such, he holds 85,604 Cash Rights that were awarded under the LTIP FY2014.

## 4.3 SHARE HOLDINGS IN BLUESCOPE STEEL LIMITED

The numbers of shares in the Company held during the financial year by each Director of BlueScope Steel Limited and other Key Management Personnel of the Group, including their personally related parties are set out below: 1

| Name | Ordinary shares held as at 30 June 2016 | Received during the year on the exercise of share rights[2] | Shares granted as compensation | Net changes (other)[3] | Ordinary shares held as at 30 June 2017 |
|---|---|---|---|---|---|
| **Non-executive Directors** | | | | | |
| J A Bevan | 46,126 | - | - | 6,620 | 52,746 |
| D B Grollo | 38,447 | - | - | - | 38,447 |
| K A Dean | 40,488 | - | - | - | 40,488 |
| P Bingham-Hall | 57,834 | - | - | - | 57,834 |
| E G W Crouch | 32,500 | - | - | - | 32,500 |
| L H Jones | 42,000 | - | - | - | 42,000 |
| R P Dee-Bradbury | 27,300 | - | - | - | 27,300 |
| **Executive Director** | | | | | |
| P F O'Malley | 871,183 | 381,989 | - | (570,000) | 683,172 |
| **KMP Executives** | | | | | |
| M R Vassella | 319,837 | 119,956 | - | (95,425) | 344,368 |
| S R Elias | 385,401 | 94,056 | - | (164,414) | 315,043 |
| S Dayal | 105,632 | 21,544 | - | (102,298) | 24,878 |
| P J Finan | 189,927 | 66,772 | - | (15,000) | 241,699 |

1) Including related party interests.
2) Exercise of share rights awarded under the FY2015 STI Plan and FY2014 Long Term Incentive Plan.
3) These amounts represent on market acquisitions and disposals of shares including shares sold to fund payment of income tax liabilities arising from vesting of share right awards.

# 5. NON-EXECUTIVE DIRECTORS' REMUNERATION

## 5.1 OVERVIEW

Fees are normally reviewed annually on 1 January. Following a review this year, the Board decided that there would be an increase in Chairman fees and Committee fees to align with market movement, effective 1 January 2017. There was no increase in Directors' base fees for 2017.

Non-executive Directors are expected to build a shareholding in the Company equivalent to one year's base fees.

The maximum fee pool limit is currently $2,925,000 per annum (inclusive of superannuation) as approved by shareholders at the Annual General Meeting in 2008. Total fees paid to Directors for the year ended 30 June 2017 amounted to $1,841,879 (FY2016 $1,922,708).

Compulsory superannuation contributions per Director are paid on behalf of each Director with no other retirement benefits provided.

The schedule of fees (exclusive of superannuation) effective 1 January 2017, and which currently applies, is shown in the table opposite.

| Role | | Fees effective 1 Jan 2017 |
|---|---|---|
| Chairman 1 | | $486,000 |
| Non-executive Director | | $157,500 |
| Audit and Risk Committee | Chair | $41,000 |
| | Member | $21,000 |
| Remuneration and Organisation Committee | Chair | $35,000 |
| | Member | $19,000 |
| Health, Safety and Environment Committee | Chair | $35,000 |
| | Member | $18,000 |

1) Additional fees are not payable to the Chairman for membership of Committees

## 5.2 DIRECTORS' REMUNERATION TABLE

Details of the audited remuneration for FY2017 for each Non-executive Director of BlueScope are set out in the following table.

| Name | Year | Short-term benefits Fees[1] | Non-monetary | Sub-total | Post-employment benefits [2] | Total |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| **Non-executive Directors** | | | | | | |
| J A Bevan [3] | 2017 | 479,224 | - | 479,224 | 19,616 | 498,840 |
| | 2016 | 364,176 | - | 364,176 | 18,878 | 383,054 |
| D B Grollo | 2017 | 206,481 | - | 206,481 | 19,416 | 225,897 |
| | 2016 | 201,500 | - | 201,500 | 19,143 | 220,643 |
| K A Dean | 2017 | 213,990 | - | 213,990 | 19,616 | 233,606 |
| | 2016 | 211,500 | - | 211,500 | 19,308 | 230,808 |
| P Bingham-Hall | 2017 | 207,990 | - | 207,990 | 19,607 | 227,597 |
| | 2016 | 205,500 | - | 205,500 | 19,308 | 224,808 |
| E G W Crouch | 2017 | 193,990 | - | 193,990 | 18,429 | 212,419 |
| | 2016 | 191,500 | - | 191,500 | 18,193 | 209,693 |
| L H Jones | 2017 | 193,990 | - | 193,990 | 18,429 | 212,419 |
| | 2016 | 191,500 | - | 191,500 | 18,193 | 209,693 |
| R P Dee-Bradbury | 2017 | 211,485 | - | 211,485 | 19,616 | 231,101 |
| | 2016 | 194,676 | - | 194,676 | 18,494 | 213,170 |
| G J Kraehe [4] | 2017 | - | - | - | - | - |
| | 2016 | 196,574 | 26,232 | 222,806 | 8,033 | 230,839 |
| **Total 2017** | | 1,707,150 | - | 1,707,150 | 134,729 | 1,841,879 |
| **Total 2016** | | 1,756,926 | 26,232 | 1,783,158 | 139,550 | 1,922,708 |

1) There was an increase in Chairman fees and Committee fees effective 1 January 2017.
2) Post-employment benefits relate to government compulsory superannuation contributions.
3) J A Bevan was appointed Chairman with effect from 19 November 2015.
4) G J Kraehe retired with effect 19 November 2015.

# 6. REMUNERATION GOVERNANCE

## 6.1 ROLE OF THE REMUNERATION AND ORGANISATION COMMITTEE

The Board oversees the BlueScope human resources strategy, both directly and through the Remuneration and Organisation Committee of the Board (the Committee). The Committee consists entirely of independent Non-executive Directors.

The Committee's purview extends beyond remuneration matters and includes human resources strategy, policies, diversity, talent development, and the development and succession of executives. With respect to remuneration specifically, the Committee has responsibility for overseeing and recommending to the Board remuneration strategy, policies and practices applicable to Non-executive Directors, the MD & CEO, KMP Executives, senior managers and employees generally, and focuses on the following activities:

- An annual review of the Company's remuneration strategy (including consultation with shareholders and proxy advisors);
- Approving the terms of employment of the KMP, including determining the levels of remuneration;
- Ensuring a robust approach to performance management through approval of the STI objectives and awards and reviewing performance of KMP Executives;
- Considering all matters relating to the remuneration and performance of the MD & CEO prior to Board approval;
- Approving awards of equity to employees; and
- Ensuring the Company's remuneration policies and practices operate in accordance with good corporate governance standards, including approval of the Remuneration Report and communications to shareholders on remuneration matters.

The Committee seeks input from the MD & CEO and the Executive General Manager People & Performance, who attend Committee meetings, except where matters relating to their own remuneration are considered.

## 6.2 INDEPENDENT REMUNERATION CONSULTANT

The Committee engages and considers advice from independent remuneration consultants where appropriate. Remuneration consultants are engaged by, and report directly to, the Committee. Potential conflicts of interest are considered when remuneration consultants are selected and their terms of engagement regulate their level of access to, and require independence from, BlueScope's management. Any advice from external consultants is used as a guide, and is not a substitute for thorough consideration of all the issues by the Committee.

The Committee, on behalf of the Board, also seeks the advice of expert external remuneration consultants to ensure that Director fees and payments reflect the duties of Board members and are in line with the market. The Chairman of the Board does not participate in any discussions relating to the determination of his own fees.

During FY2017, the Remuneration and Organisation Committee proactively sought external perspectives on executive remuneration matters, employing the services of PwC to provide information and advice on remuneration strategy and structure including market practice which covers KMP Executives. No remuneration recommendations as defined in section 9B of the *Corporations Act 2001* were provided.

PwC attended selected Committee meetings during the year, providing an independent perspective on matters of quantum and structure of executive remuneration. The Board is satisfied that any advice provided to the Committee was made free from undue influence from any KMP.

## 6.3 BlueScope Steel Remuneration Peer Group

The Board has selected (and reviews annually) a peer group of companies for the purposes of benchmarking remuneration that reflects the size and complexity of BlueScope with similarities on one or more of the following dimensions: operate in multiple geographies, have manufacturing or logistics operations in Australia, are involved in the building and construction industry, have similar number of employees, have similar revenue, or similar market capitalisation on the ASX.

The Board believes that the more traditional reliance on market capitalisation as the sole criteria is not appropriate for establishing BlueScope's remuneration benchmarks and would lead to unmanageable fluctuations in executive remuneration, and could result in an inability to attract and retain the skills required to manage a business operating in the complex and volatile environment in which BlueScope operates globally.

The current peer group is listed below:

| | | | |
|---|---|---|---|
| Adelaide Brighton Ltd | Boral Ltd | Fletcher Building Ltd | Orora Ltd |
| AGL Energy Ltd | Caltex Australia Ltd | Incitec Pivot Ltd | Qantas Airways Ltd |
| Amcor Ltd | CIMIC Group Ltd | Lend Lease Corp Ltd | South32 Ltd |
| Aurizon Holdings Ltd | CSR Ltd | Orica Ltd | WorleyParsons Ltd |
| Brambles Ltd | Downer EDI Ltd | Origin Energy Ltd | |

## 6.4 Summary Terms of Employment

**MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**

The following table outlines the summary terms of employment for the new MD & CEO, as well as the terms of employment for the current MD & CEO:

| Feature | MD & CEO Paul O'Malley | New MD & CEO Mark Vassella |
|---|---|---|
| **Contract term and notice period** | Paul O'Malley was appointed to the position of Managing Director and Chief Executive Officer effective from 1 November 2007 and announced his retirement on 21 August 2017. Mr O'Malley will cease to be MD & CEO on 31 December 2017. The contract was able to be terminated by either party at any time on six months' notice. | Mark Vassella will be appointed to the position of Managing Director and Chief Executive Officer effective from 1 January 2018 and the contract is ongoing with no fixed term. The contract can be terminated by either party at any time on 12 months' notice. |
| **Remuneration** | Mr O'Malley was entitled to the following remuneration in FY2017:<br>• Fixed pay of $2,116,000 (inclusive of superannuation at 14%)<br>• Target STI opportunity of $1,486,000, and maximum STI opportunity of $2,228,000<br>• LTI opportunity (at face value) of $2,878,000<br>With effect from 1 July 2017 he has:<br>• No STI entitlement<br>• No further LTI grants | Mr Vassella will be entitled to the following remuneration in his new role as Managing Director and Chief Executive Officer from 1 January 2018:<br>• Fixed pay of $1,800,000 (inclusive of superannuation)<br>• Target STI opportunity of $800,000, and maximum STI opportunity of $1,200,000<br>• LTI in the form of Alignment Rights opportunity (at face value) of $1,800,000<br>STI and LTI will be pro-rated for FY18 to reflect the period of employment as MD & CEO.<br>Remuneration levels will continue to be reviewed annually by the Board. |
| **Termination of employment** | **Without cause:** If BlueScope terminated Mr O'Malley's employment by notice, it was to provide payment in lieu of notice and make an additional payment of 12 months' annual base pay.<br>**With cause:** Mr O'Malley would have been immediately terminated by BlueScope if, among other things, he wilfully breached his Service Contract, was convicted of various offences for which he could have been imprisoned or was disqualified from managing a corporation, or engaged in conduct which is likely to adversely impact the reputation of BlueScope. In this circumstance, Mr O'Malley was only entitled to his annual base pay up to the date of termination. | **Without cause:** If BlueScope terminates Mr Vassella employment by notice, it may provide payment in lieu of notice and must make an additional payment of 12 months' fixed pay, provided that the total of any payments in lieu of notice and the termination payment do not exceed 12 months fixed pay.<br>**With cause:** Same terms as the current MD & CEO |
| **Illness or disablement** | BlueScope would have been able to terminate Mr O'Malley's employment if he became incapacitated by physical or mental illness, accident or any other circumstances beyond his control for an accumulated period of six months in any 12 | Same as the current MD & CEO other than the notice period is 12 months' fixed pay. |

| Feature | MD & CEO Paul O'Malley | New MD & CEO Mark Vassella |
|---|---|---|
| | month period and, in this circumstance, would have made payment of six months' notice based on annual base pay. | |
| **Fundamental change of employment terms** | Mr O'Malley was able to resign if a fundamental change in his employment terms occurred and within three months of the fundamental change Mr O'Malley gave notice to BlueScope. In this event, the Company would have provided Mr O'Malley with six months' notice, or a payment in lieu of that notice, and a termination payment of 12 months' annual base pay. | Same terms as the current MD & CEO, noting that the Company would have provided 12 months' notice and the total payment must not exceed 12 months' fixed pay. |
| **Change of control** | Mr O'Malley was entitled to early vesting, subject to satisfying performance testing requirements of LTIP awards on a change of control. | Same terms as the current MD & CEO |
| **Non-compete restriction** | Mr O'Malley remains subject to a 12 month non-compete restriction after his employment ceases with BlueScope. Mr O'Malley cannot solicit or entice away from BlueScope any supplier, customer or employee or participate in a business that competes with BlueScope during the 12 month period. | Same terms as the current MD & CEO |

**Remuneration arrangements for Mark Vassella**

The remuneration arrangements described above will commence with effect from 1 January 2018 when Mr Vassella takes up the role of MD & CEO. His current remuneration arrangements will continue to apply until 31 December 2017. Awards of STI and Alignment Rights will be made on a proportionate basis reflecting his current salary for the period from 1 July 2017 to 31 December 2017 and from 1 January 2018 to 30 June 2018 based on the new remuneration arrangements for his time as MD & CEO.

**Ongoing employment arrangements for Paul O'Malley**

Following the ceasing of his role as Managing Director and Chief Executive Officer on 31 December 2017, Mr O'Malley will work out his notice period on a full-time basis to 23 February 2018. During the transition, Mr O'Malley will continue to be paid his current fixed pay of $2,116,496, and will receive no STI or LTI from 1 July 2017. No termination payments will be made.

From 24 February 2018, Mr O'Malley will enter into a part-time employment agreement (up to two days per month) with BlueScope to assist with the transition to the new MD & CEO, and to provide specialist advice to the Company as required. Mr O'Malley will receive a fixed pay of $5,000 per month (inclusive of superannuation), and will not be entitled to any incentives. Unvested LTI share rights granted to Mr O'Malley in prior years will remain on foot with vesting to occur at the originally intended dates, and subject to the original performance conditions. The part-time employment will cease on 28 September 2019. Mr O'Malley will continue to be subject to a non-compete restraint for 12 months after ceasing employment with BlueScope.

**OTHER KMP EXECUTIVES**

Key features of the terms of employment for disclosed KMP Executives (other than the Managing Director and Chief Executive Officer) include the following:

- Employment continues until terminated by either the executive or BlueScope, with six months' notice required of both parties. In the event of termination by the Company other than for cause, a termination payment of 12 months' pay applies. The maximum amount payable on termination will not exceed 12 month's fixed pay.
- Agreements are also in place for KMP Executives detailing the approach the Company will take with respect to payment of their termination payments and with respect to exercising discretion on the vesting of Share Rights in the event of a 'Change of Control' of the organisation.

# 7. RELATED PARTY TRANSACTIONS

## 7.1 LOANS TO KEY MANAGEMENT PERSONNEL

There have been no loans granted to directors and executives or their related entities.

## 7.2 OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

There were no related party transactions with directors and executives or their related entities during the year (2016 Nil). In the normal course of business the Company occasionally enters into transactions with various entities that have directors in common with BlueScope Steel. Transactions with these entities are made on commercial arm's length terms and conditions. The relevant directors do not participate in any decisions regarding these transactions.

# OTHER MATTERS

## ENVIRONMENTAL REGULATION

BlueScope's Australian manufacturing operations are subject to significant environmental reporting. Throughout its Australian operations in the 12 months to 30 June 2017, the Company notified relevant authorities of 9 incidents resulting in non-compliances. One of those incidents, involving the discharge of coke ovens gas condensate into an internal drain at the Port Kembla Steelworks, resulted in the issue of a $15,000 penalty infringement notice by the NSW EPA. The Company has committed to a pollution reduction program to reduce the likelihood of a similar incident occurring in the future.

Boundary remediation has continued at the Company's former Stainless Steel manufacturing site at Port Kembla, which had been previously notified to the NSW EPA and declared by it to be "significantly contaminated". Assessment of additional remediation options for the site continues pursuant to a Voluntary Management Proposal accepted by the EPA. Discussions with the EPA are continuing in relation to other sites at Port Kembla which the Company has previously notified to the EPA as contaminated. Currently contamination at those sites is managed, to the extent required, under the Company's Environment Protection Licence for the Port Kembla Steelworks. Asbestos contamination at the site occupied by the Company in Sunshine, Victoria, has been remediated to the satisfaction of the EPA pursuant to a Clean-Up Notice issued on the landlord by the EPA.

BlueScope submits annual reports under the National Greenhouse Gas and Energy Reporting Scheme (greenhouse gas emissions and energy consumption for all Australian facilities), and the National Pollutant Inventory (substance emissions to air and water for a number of facilities).

Each year BlueScope publishes a Sustainability Report, which is available on our website. The report provides further details of the Company's environmental performance and initiatives.

## INDEMNIFICATION AND INSURANCE OF OFFICERS

BlueScope Steel has entered into directors' and officers' insurance policies and paid an insurance premium in respect of the insurance policies, to the extent permitted by the *Corporations Act 2001*. The insurance policies cover former Directors of BlueScope Steel along with the current Directors of BlueScope Steel (listed on pages 19-20). Executive officers and employees of BlueScope Steel and its related bodies corporate are also covered.

In accordance with Rule 21 of its Constitution, BlueScope Steel to the maximum extent permitted by law:

- must indemnify any current or former Director or Secretary; and
- may indemnify current or former executive officers,

of BlueScope Steel or any of its subsidiaries, against all liabilities (and certain legal costs) incurred in those capacities to a person, including a liability incurred as a result of appointment or nomination by BlueScope Steel or its subsidiaries as a trustee or as a director, officer or employee of another corporation.

Directors of BlueScope Steel, the Chief Financial Officer and the recently retired Chief Legal Officer and Company Secretary have entered into an Access, Insurance and Indemnity Deed with BlueScope Steel. The Deed addresses the matters set out in Rule 21 of the Constitution and includes, among other things, provisions requiring BlueScope Steel to indemnify an officer to the extent to which they are not already indemnified as permitted under law, and to use its best endeavours to maintain an insurance policy covering the period while they are in office and seven years after ceasing to hold office.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contract, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the contract.

## INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit. No payment has been made to indemnify Ernst & Young during or since the financial year.

## PROCEEDINGS ON BEHALF OF BLUESCOPE STEEL

As at the date of this report, there are no leave applications or proceedings brought on behalf of BlueScope Steel under section 237 of the *Corporations Act 2001*.

## ROUNDING OF AMOUNTS

Amounts in the Directors' Report are presented in Australian dollars with values rounded to the nearest hundred thousand dollars, or in certain cases, the nearest dollar, in accordance with the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) instrument 2016/91.

# AUDITOR INDEPENDENCE DECLARATION

Ernst & Young was appointed as auditor for BlueScope Steel at the 2002 Annual General Meeting.

### AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Auditor's Independence Declaration for the year ended 30 June 2017 has been received from Ernst & Young. This is set out at page 46 of the Directors' Report. Ernst & Young provided $873,000 of non-audit services during the year ended 30 June 2017, comprising:

***Assurance Related Services***

$35,000 for accounting standard change assurance services
$26,000 for environmental compliance services

***Taxation Related Services***

$118,000 for taxation compliance services

***Advisory Services***

$390,000 for market research advisory services
$220,000 for vendor due diligence advisory services
$84,000 for sustainability reporting advisory services

The Directors are satisfied that the provision of these non-audit services is compatible with the general standard of independence for auditors in accordance with the *Corporations Act 2001*. The nature, value and scope of each type of non-audit service provided is considered by the Directors not to have compromised auditor independence.

This report is made in accordance with a resolution of the Directors.

**J A BEVAN**
Chairman

Paul O'Malley

**P F O'MALLEY**
Managing Director and Chief Executive Officer

Melbourne
**21 August 2017**

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# Auditor's Independence Declaration to the Directors of BlueScope Steel Limited

As lead auditor for the audit of BlueScope Steel Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of BlueScope Steel Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Glenn Carmody
Partner
21 August 2017

# FINANCIAL REPORT
2016/2017

# BlueScope Steel Limited ABN 16 000 011 058
# Annual Financial Report - 30 June 2017

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# Statement of Comprehensive Income

BLUESCOPE STEEL LIMITED
FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | Consolidated 2017 $M | *Restated 2016 $M |
|---|---|---|---|
| **Revenue from continuing operations** | 2 | **10,648.9** | 9,087.7 |
| Other income | 3 | **92.4** | 762.1 |
| Changes in inventories of finished goods and work in progress | | **180.3** | (186.9) |
| Raw materials and consumables used | | **(6,151.1)** | (4,806.8) |
| Employee benefits expense | | **(1,648.4)** | (1,667.0) |
| Depreciation and amortisation expense | 12, 13 | **(380.4)** | (385.4) |
| Net impairment (expense) of non-current assets | 14(e), 23(e) | **(94.2)** | (372.4) |
| Freight on external despatches | | **(477.1)** | (462.8) |
| External services | | **(897.8)** | (878.6) |
| Net restructuring costs | 10(e) | **(15.2)** | (55.4) |
| Finance costs | 16(f) | **(90.2)** | (103.6) |
| Other expenses | | **(235.5)** | (251.3) |
| Share of net profits of associates and joint venture partnerships accounted for using the equity method | 22(a), 23(a) | **9.1** | 39.9 |
| **Profit before income tax** | | **940.8** | 719.5 |
| Income tax expense | 4(a) | **(181.8)** | (101.5) |
| **Profit from continuing operations** | | **759.0** | 618.0 |
| Profit (loss) from discontinued operations after income tax | 24(b) | **14.9** | (201.7) |
| **Net profit for the year** | | **773.9** | 416.3 |
| *Items that may be reclassified to profit or loss* | | | |
| Net gain (loss) on cash flow hedges | 18(a) | **(4.2)** | 9.2 |
| - Income tax (expense) benefit | | **0.7** | (1.3) |
| Net gain (loss) on net investments in foreign subsidiaries | 18(a) | **(15.8)** | (0.2) |
| Exchange fluctuations on translation of foreign operations attributable to BlueScope Steel Limited | 18(a) | **(48.3)** | (19.5) |
| Exchange fluctuations transferred to profit on translation of foreign operations disposed | 3(a)(ii) | **1.7** | - |
| *Items that will not be reclassified to profit or loss* | | | |
| Actuarial gain (loss) on defined benefit superannuation plans | 11(i) | **118.4** | (160.6) |
| - Income tax (expense) benefit | | **(36.2)** | 48.3 |
| Exchange fluctuations on translation of foreign operations attributable to non-controlling interests | | **(13.0)** | 1.2 |
| **Other comprehensive income (loss) for the year** | | **3.3** | (122.9) |
| **Total comprehensive income for the year** | | **777.2** | 293.4 |
| Profit is attributable to: | | | |
| Owners of BlueScope Steel Limited | | **715.9** | 353.8 |
| Non-controlling interests | 21 | **58.0** | 62.5 |
| | | **773.9** | 416.3 |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of BlueScope Steel Limited | | **733.2** | 230.1 |
| Non-controlling interests | 21 | **44.0** | 63.3 |
| | | **777.2** | 293.4 |

| **Earnings per share for profit attributable to ordinary equity holders of the Company from:** | Notes | 2017 Cents | *Restated 2016 Cents |
|---|---|---|---|
| **Continuing operations:** | | | |
| Basic earnings (loss) per share | 5 | **122.7** | 97.4 |
| Diluted earnings (loss) per share | 5 | **119.1** | 94.4 |
| **Total operations:** | | | |
| Basic earnings (loss) per share | 5 | **125.3** | 62.1 |
| Diluted earnings (loss) per share | 5 | **121.6** | 60.1 |

*Certain amounts shown here have been restated to reflect retrospective changes made to discontinued operations (refer to note 24).

# Statement of Financial Position

BLUESCOPE STEEL LIMITED
AS AT 30 JUNE 2017

| | Notes | Consolidated 2017 $M | 2016 $M |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 15 | **753.0** | 549.8 |
| Trade and other receivables | 6 | **1,331.5** | 1,158.4 |
| Inventories | 7 | **1,658.8** | 1,391.5 |
| Operating intangible assets | 8 | **24.0** | 8.3 |
| Derivative financial instruments | 32(d) | **2.0** | 5.1 |
| Deferred charges and prepayments | | **98.5** | 93.0 |
| | | **3,867.8** | 3,206.1 |
| Non-current assets classified as held for sale | 12(a) | **5.3** | - |
| **Total current assets** | | **3,873.1** | 3,206.1 |
| **Non-current assets** | | | |
| Trade and other receivables | 6 | **32.4** | 35.8 |
| Inventories | 7 | **74.4** | 71.1 |
| Operating intangible assets | 8 | **25.8** | 25.9 |
| Derivative financial instruments | 32(d) | **5.3** | - |
| Investments accounted for using the equity method | 22, 23 | **44.2** | 39.3 |
| Property, plant and equipment | 12 | **3,721.7** | 3,834.1 |
| Intangible assets | 13 | **1,639.9** | 1,736.5 |
| Deferred tax assets | 4(c) | **155.3** | 196.7 |
| Deferred charges and prepayments | | **3.3** | 3.1 |
| **Total non-current assets** | | **5,702.3** | 5,942.5 |
| **Total assets** | | **9,575.4** | 9,148.6 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 9 | **1,802.9** | 1,480.7 |
| Borrowings | 16 | **53.2** | 228.6 |
| Current tax liabilities | | **5.0** | 11.6 |
| Provisions | 10 | **419.0** | 379.1 |
| Deferred income | | **163.1** | 181.8 |
| Derivative financial instruments | 32(d) | **4.8** | 2.2 |
| **Total current liabilities** | | **2,448.0** | 2,284.0 |
| **Non-current liabilities** | | | |
| Trade and other payables | 9 | **44.9** | 32.8 |
| Borrowings | 16 | **932.0** | 1,099.2 |
| Deferred tax liabilities | 4(c) | **175.9** | 162.4 |
| Provisions | 10 | **152.4** | 191.2 |
| Retirement benefit obligations | 11 | **281.0** | 390.8 |
| Deferred income | | **2.5** | 2.9 |
| **Total non-current liabilities** | | **1,588.7** | 1,879.3 |
| **Total liabilities** | | **4,036.7** | 4,163.3 |
| **Net assets** | | **5,538.7** | 4,985.3 |
| **EQUITY** | | | |
| Contributed equity | 17(a) | **4,554.4** | 4,688.1 |
| Reserves | 18 | **174.7** | 224.9 |
| Retained profits (losses) | | **341.3** | (415.8) |
| Parent entity interest | | **5,070.4** | 4,497.2 |
| Non-controlling interests | 21 | **468.3** | 488.1 |
| **Total equity** | | **5,538.7** | 4,985.3 |

# Statement of Changes to Equity

BLUESCOPE STEEL LIMITED
AS AT 30 JUNE 2017

| Consolidated - 30 June 2017 | Notes | Contributed equity $M | Reserves $M | Retained profits $M | Non-controlling interests $M | Total $M |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2016** | | **4,688.1** | **224.9** | **(415.8)** | **488.1** | **4,985.3** |
| Profit for the period | | - | - | 715.9 | 58.0 | 773.9 |
| Other comprehensive income (loss) | | - | (65.0) | 82.4 | (14.1) | 3.3 |
| **Total comprehensive income for the year** | | **-** | **(65.0)** | **798.3** | **43.9** | **777.2** |
| **Transactions with owners in their capacity as owners:** | | | | | | |
| Issue of share awards | 17(b), 18(a) | 10.7 | (10.2) | - | - | 0.5 |
| Share-based payment expense | 18(a) | - | 24.0 | - | - | 24.0 |
| Share buybacks | 17(c) | (150.4) | - | - | - | (150.4) |
| Dividends paid | | - | - | (40.2) | (63.4) | (103.6) |
| Tax credit recognised directly in equity | 17(b) | 6.0 | - | - | - | 6.0 |
| Other | | - | 1.0 | (1.0) | (0.3) | (0.3) |
| | | (133.7) | 14.8 | (41.2) | (63.7) | (223.8) |
| **Balance at 30 June 2017** | | **4,554.4** | **174.7** | **341.3** | **468.3** | **5,538.7** |

| Consolidated - 30 June 2016 | Notes | Contributed equity $M | Reserves $M | Retained losses $M | Non-controlling interests $M | Total $M |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2015** | | **4,673.8** | **225.1** | **(623.3)** | **463.5** | **4,739.1** |
| Profit for the period | | - | - | 353.8 | 62.5 | 416.3 |
| Other comprehensive income (loss) | | - | (12.4) | (111.4) | 0.9 | (122.9) |
| **Total comprehensive income (loss) for the year** | | **-** | **(12.4)** | **242.4** | **63.4** | **293.4** |
| **Transactions with owners in their capacity as owners:** | | | | | | |
| Issue of share awards | 17(b), 18(a) | 12.9 | (11.8) | - | - | 1.1 |
| Share-based payment expense | 18(a) | - | 23.2 | - | - | 23.2 |
| Dividends paid | | - | - | (34.2) | (38.8) | (73.0) |
| Tax credit recognised directly in equity | 17(b) | 1.4 | - | - | - | 1.4 |
| Other | | - | 0.8 | (0.7) | - | 0.1 |
| | | 14.3 | 12.2 | (34.9) | (38.8) | (47.2) |
| **Balance at 30 June 2016** | | **4,688.1** | **224.9** | **(415.8)** | **488.1** | **4,985.3** |

# Statement of Cash Flows

BLUESCOPE STEEL LIMITED
FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | Consolidated 2017 $M | 2016 $M |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **11,149.3** | 9,867.1 |
| Payments to suppliers and employees | | **(9,813.0)** | (8,810.6) |
| | | **1,336.3** | 1,056.5 |
| Associate dividends received | | **4.3** | 3.3 |
| Joint venture partnership distributions received | | **-** | 24.2 |
| Interest received | | **6.1** | 6.5 |
| Other revenue | | **34.8** | 22.7 |
| Finance costs paid | | **(90.8)** | (111.2) |
| Income taxes paid | | **(158.3)** | (50.0) |
| **Net cash inflow from operating activities** | 15(a) | **1,132.4** | 952.0 |
| **Cash flows from investing activities** | | | |
| Payments for purchase of subsidiaries, net of cash acquired | 20(a)(ii) | **-** | (987.7) |
| Payments for purchase of business assets, net of cash acquired | 20(a)(i) | **-** | (33.8) |
| Payments for investments in joint venture partnerships | | **-** | (2.3) |
| Payments for disposal of subsidiary | 3(a)(ii) | **(55.1)** | - |
| Payments for property, plant and equipment | | **(368.7)** | (288.9) |
| Payments for intangibles | | **(14.3)** | (25.0) |
| Proceeds from sale of property, plant and equipment | | **3.2** | 10.1 |
| Proceeds from sale of investments | 3(a)(i) | **26.6** | 38.1 |
| **Net cash (outflow) from investing activities** | | **(408.3)** | (1,289.5) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **1,261.5** | 4,290.7 |
| Repayment of borrowings | | **(1,516.2)** | (3,849.8) |
| Dividends paid to Company's shareholders | 19(a) | **(40.2)** | (34.2) |
| Dividends paid to non-controlling interests in subsidiaries | | **(63.4)** | (38.8) |
| Share buybacks | 17(c) | **(150.4)** | - |
| **Net cash inflow (outflow) from financing activities** | | **(508.7)** | 367.9 |
| **Net increase in cash and cash equivalents** | | **215.4** | 30.4 |
| Cash and cash equivalents at the beginning of the financial year | | **548.9** | 517.9 |
| Effects of exchange rate changes on cash and cash equivalents | | **(12.4)** | 0.6 |
| **Cash and cash equivalents at end of financial year** | 15 | **751.9** | 548.9 |
| Financing arrangements | 16(b) | | |
| Non-cash financing activities | 16(g) | | |

# ABOUT THIS REPORT

BlueScope Steel Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The registered office of the Company is Level 11, 120 Collins Street, Melbourne, Victoria, Australia 3000. The nature of the operations and principal activities of the Group are described in note 1(a) and the Directors' Report.

The financial report of BlueScope Steel Limited for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 21 August 2017.

## Basis of preparation

This financial report is a general purpose financial report, prepared by a for-profit entity, which:

- Has been prepared in accordance with the requirements of the *Australian Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).
- Includes consolidated financial statements, incorporating the assets and liabilities of all subsidiaries of BlueScope Steel Limited ('Company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended. BlueScope Steel Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.
- Has been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value.
- Is presented in Australian dollars with values rounded to the nearest hundred thousand dollars or in certain cases, the nearest dollar, in accordance with the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.
- Presents comparative information where required for consistency with the current year's presentation.
- Adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2016.
- Does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective as disclosed in note 34(a).

## Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is BlueScope Steel Limited's functional and presentation currency.

## Key estimates and judgements

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the following notes:

**Note 4: Income Tax**
**Note 10: Provisions**
**Note 11: Retirement benefit obligations**
**Note 12: Property, plant and equipment**
**Note 14: Carrying value of non-financial assets**
**Note 28: Share-based payments**

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# FINANCIAL PERFORMANCE

This section of the notes includes segment information and provides further information on key line items relevant to financial performance that the Directors consider most relevant, including accounting policies, key judgements and estimates relevant to understanding these items.

## 1 Segment information

### (a) Description of segments

The Group's operating segments are reported in a manner which is materially consistent with the internal reporting provided to the chief operating decision maker. The Managing Director and Chief Executive Officer is responsible for allocating resources and assessing performance of the operating segments.

New Zealand Steel Mining Ltd has been included as part of discontinued operations following the sale of the business on 1 May 2017. Comparatives for June 2016 have been restated for this retrospective change.

| Segment | Description |
|---|---|
| Australian Steel Products | - Produces and markets a range of high valued coated and painted flat steel products for Australian building and construction customers as well as providing a broader offering of commodity flat steel products.<br>- Products are primarily sold to the Australian domestic market, with some volume exported.<br>- Key brands include zinc/aluminium alloy coated - ZINCALUME® steel and galvanised and zinc/aluminium alloy-coated pre-painted COLORBOND® steel.<br>- Main manufacturing facilities are at Port Kembla (NSW) and Western Port (Victoria).<br>- Segment also operates a network of roll-forming and distribution sites throughout Australia, acting as a major steel product supplier to the building and construction, manufacturing, automotive and transport, agriculture and mining industries. |
| New Zealand & Pacific Steel | - Consists of three primary business areas: New Zealand Steel, Pacific Steel and BlueScope Pacific Islands.<br>- New Zealand steel is the only steel producer in New Zealand, producing slab, billet, hot rolled coil and value added coated and painted products for both domestic and export markets across the Pacific Region. Operations include the manufacture and distribution of the LYSAGHT® range of products in Fiji, New Caledonia and Vanuatu.<br>- Pacific Steel is the sole producer of long steel products such as rod, bar, reinforcing coil and wire in New Zealand.<br>- Segment also includes the Waikato North Head iron sands mine which supplies iron sands to the Glenbrook Steelworks and for export. On 1 May 2017, BlueScope sold 100% of its share in New Zealand Steel Mining, its export iron sands business, to Taharoa Mining Investments Limited. |
| BlueScope Buildings | - Leader in engineered building solutions (EBS), servicing the low-rise non-residential construction needs of customers from engineering and manufacturing bases in Asia and North America. EBS plants are located in North America, China, Thailand, Vietnam, Saudi Arabia and India.<br>- The segment also includes BlueScope's metal coating, painting and Lysaght operations in China. |
| Building Products ASEAN, North America & India | - Technology leader in metal coated and painted steel building products, principally focused on the Asia-Pacific region, with a wide range of branded products that include pre-painted COLORBOND® steel, zinc/aluminium alloy-coated ZINCALUME® steel and the LYSAGHT® range of products.<br>- Segment has an extensive footprint of metallic coating, painting and steel building product operations in Thailand, Indonesia, Vietnam, Malaysia, India and North America, primarily servicing the residential and non-residential building and construction industries across Asia, and the non-residential building and construction industry in North America.<br>- BlueScope operates in ASEAN and North America in partnership with Nippon Steel & Sumitomo Metal Corporation (NSSMC) and in India with Tata Steel. Both are 50/50 joint ventures, with BlueScope controlling and therefore consolidating the joint venture with NSSMC, and jointly controlling and therefore equity accounting the joint venture with Tata Steel. |
| North Star BlueScope Steel (Previously named Hot Rolled Products North America) | - North Star BlueScope Steel is a single site electric arc furnace producer of hot rolled coil in Ohio,in US. On 30 October 2015, BlueScope acquired the remaining 50% interest and from the date of acquiring full ownership, North Star has been consolidated in BlueScope's financial statements.<br>- On 8 July 2016, BlueScope Steel Limited sold its 47.5% interest in Castrip LLC (a thin strip casting technology joint venture with Nucor and IHI Ltd) to Nucor.<br>- Prior to the North Star acquisition and Castrip sale, these businesses were jointly controlled and therefore equity accounted in BlueScope's financial statements. |

# 1 Segment information (continued)

## (b) Reportable segments

The segment information provided to the Managing Director and Chief Executive Officer for the reportable segments for the year ended 30 June 2017 is as follows:

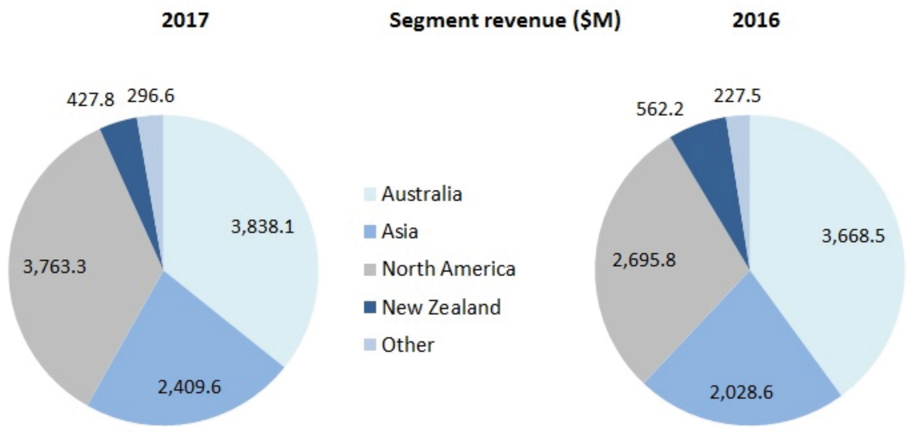
| 30 June 2017 | Australian Steel Products $M | North Star BlueScope Steel $M | Building Products ASEAN, North America & India $M | BlueScope Buildings $M | New Zealand & Pacific Steel $M | Discontinued Operations $M | Total $M |
|---|---|---|---|---|---|---|---|
| Total segment sales revenue | 4,918.7 | 1,700.9 | 1,970.5 | 1,756.8 | 747.5 | 108.6 | 11,203.0 |
| Intersegment revenue | (271.7) | - | (136.2) | (0.3) | (59.5) | - | (467.7) |
| **Revenue from external customers** | **4,647.0** | **1,700.9** | **1,834.3** | **1,756.5** | **688.0** | **108.6** | **10,735.3** |
| **Segment EBIT** | **459.5** | **433.3** | **140.8** | **(3.0)** | **87.2** | **18.9** | **1,136.7** |
| Depreciation and amortisation | 178.2 | 55.0 | 62.3 | 42.3 | 42.1 | - | 379.9 |
| Impairment expense (write-back) of non-current assets | - | - | 55.0 | 43.9 | - | 7.0 | 105.9 |
| Share of profit (loss) from associates and joint venture partnerships | - | - | 5.6 | 1.1 | 2.4 | - | 9.1 |
| **Total segment assets** | **3,342.2** | **2,054.3** | **1,424.5** | **1,189.6** | **725.6** | **0.3** | **8,736.5** |
| Total assets includes: | | | | | | | |
| Investments in associates and joint venture partnerships | - | - | 37.1 | 2.2 | 4.9 | - | 44.2 |
| Additions to non-current assets (other than financial assets and deferred tax) | 206.1 | 37.8 | 65.8 | 30.8 | 34.0 | 15.6 | 390.1 |
| **Total segment liabilities** | **1,201.7** | **318.7** | **391.7** | **658.1** | **389.2** | **3.9** | **2,963.3** |

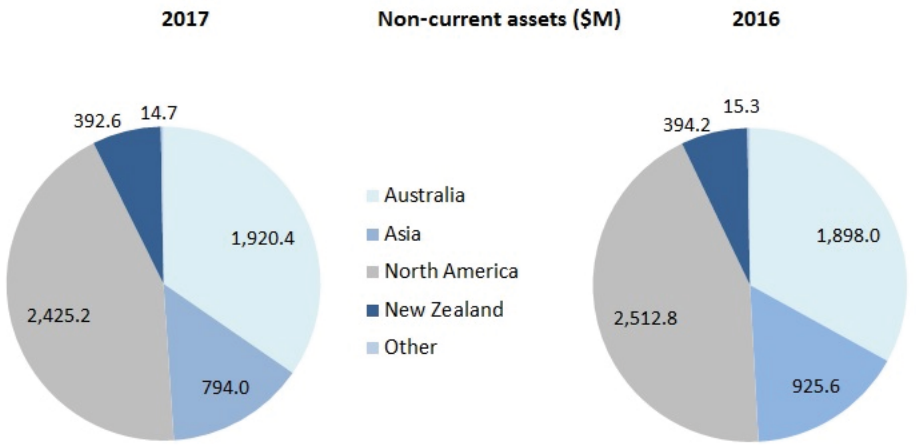
| 30 June 2016 | Australian Steel Products $M | North Star BlueScope Steel $M | Building Products ASEAN, North America & India $M | BlueScope Buildings $M | New Zealand & Pacific Steel $M | (Restated) Discontinued Operations $M | Total $M |
|---|---|---|---|---|---|---|---|
| Total segment sales revenue | 4,437.4 | 847.3 | 1,766.8 | 1,705.9 | 772.4 | 114.9 | 9,644.7 |
| Intersegment revenue | (259.5) | - | (96.1) | (0.1) | (106.3) | - | (462.0) |
| **Revenue from external customers** | **4,177.9** | **847.3** | **1,670.7** | **1,705.8** | **666.1** | **114.9** | **9,182.7** |
| **Segment EBIT** | **77.7** | **847.3** | **149.3** | **39.0** | **(201.6)** | **(196.4)** | **715.3** |
| Depreciation and amortisation | 187.3 | 40.8 | 61.6 | 44.4 | 50.9 | 2.7 | 387.7 |
| Impairment expense (write-back) of non-current assets | 189.0 | 2.3 | - | (1.1) | 182.2 | 182.4 | 554.8 |
| Share of profit (loss) from associates and joint venture partnerships | - | 28.7 | 7.5 | 1.2 | 2.5 | - | 39.9 |
| **Total segment assets** | **3,062.7** | **2,074.5** | **1,266.1** | **1,325.3** | **668.4** | **28.6** | **8,425.6** |
| Total assets includes: | | | | | | | |
| Investments in associates and joint venture partnerships | - | - | 32.0 | 2.5 | 4.8 | - | 39.3 |
| Additions to non-current assets (other than financial assets and deferred tax) | 164.4 | 1,029.4 | 48.3 | 27.4 | 45.3 | 71.1 | 1,385.9 |
| **Total segment liabilities** | **973.9** | **212.2** | **256.5** | **721.9** | **468.9** | **45.3** | **2,678.7** |

# 1 Segment information (continued)

## (c) Geographical information

The Group's geographical regions are based on the location of markets and customers. Segment non-current assets exclude tax assets and are allocated based on where the assets are located.




## (d) Other segment information

*(i) Segment revenue*

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in a manner that is consistent with the statement of comprehensive income.

| | Note | Consolidated<br>2017<br>$M | Consolidated<br>Restated<br>2016<br>$M |
|---|---|---|---|
| **Total segment revenue** | | **11,203.0** | 9,644.7 |
| Intersegment eliminations | | **(467.7)** | (462.0) |
| Discontinued operations | 24(b) | **(108.7)** | (115.0) |
| Other revenue | | **22.3** | 20.0 |
| **Total revenue from continuing operations** | | **10,648.9** | 9,087.7 |

# 1 Segment information (continued)

*(ii) Segment EBIT*

Performance of the operating segments is based on EBIT which excludes the effects of Group financing (including interest expense and interest income) and income taxes as these items are managed on a Group basis.

| | Consolidated 2017 $M | Restated 2016 $M |
|---|---|---|
| **Total segment EBIT** | **1,136.7** | 715.3 |
| Intersegment eliminations | **1.1** | (1.5) |
| Interest income | **6.2** | 5.2 |
| Finance costs | **(90.2)** | (103.6) |
| Discontinued operations | **(18.9)** | 196.4 |
| Corporate operations | **(94.1)** | (92.3) |
| **Profit before income tax from continuing operations** | **940.8** | 719.5 |

*(iii) Segment assets and liabilities*

Segment assets and liabilities are measured in a manner consistent with the financial statements and are allocated based on the operations.

Cash and liabilities arising from borrowing and funding initiatives, including deferred purchase price on business acquisitions, are not considered to be segment assets and liabilities respectively due to these being managed by the Group's centralised treasury function.

| | Consolidated 2017 $M | 2016 $M |
|---|---|---|
| **Segment assets** | **8,736.5** | 8,425.6 |
| Intersegment eliminations | **(256.5)** | (150.7) |
| Unallocated: | | |
| Deferred tax assets | **155.3** | 196.7 |
| Cash | **753.0** | 549.8 |
| Corporate operations | **187.1** | 127.2 |
| **Total assets** | **9,575.4** | 9,148.6 |

| | Consolidated 2017 $M | 2016 $M |
|---|---|---|
| **Segment liabilities** | **2,963.3** | 2,678.7 |
| Intersegment eliminations | **(255.3)** | (148.3) |
| Unallocated: | | |
| Borrowings | **985.2** | 1,327.8 |
| Current tax liabilities | **5.0** | 11.6 |
| Deferred tax liabilities | **175.9** | 162.4 |
| Accrued borrowing costs payable | **7.0** | 9.8 |
| Corporate operations | **155.6** | 121.3 |
| **Total liabilities** | **4,036.7** | 4,163.3 |

## 2 Revenue

| | Note | Consolidated 2017 $M | *Restated 2016 $M |
|---|---|---|---|
| Sales revenue | | **10,626.7** | 9,067.8 |
| *Other revenue* | | | |
| Interest | | **6.2** | 5.2 |
| Other | | **16.0** | 14.7 |
| | | **22.2** | 19.9 |
| **Total revenue from continuing operations** | | **10,648.9** | 9,087.7 |
| **From discontinued operations** | | | |
| Sales revenue | 24(b) | **108.6** | 114.9 |
| Other revenue | | **0.1** | 0.1 |
| **Total revenue from discontinued operations** | | **108.7** | 115.0 |

*Certain amounts shown here have been restated to reflect retrospective changes made to discontinued operations (refer to note 24).

### (a) Recognition and measurement

Sales revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. This is considered to have occurred when legal title of the product is transferred to the customer and the Group is no longer responsible for the product. The point at which title is transferred is dependent upon the specific terms and conditions of the contract of sale. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met.

Contract revenue is recognised using the percentage of completion method.

Advance payments received from customers are recognised as a liability on the Statement of Financial Position as deferred income, until goods have been sold or services rendered.

## 3 Other income

| | Notes | Consolidated 2017 $M | 2016 $M |
|---|---|---|---|
| Net gain on re-measurement of equity investment | 20(a)(ii) | **-** | 706.6 |
| Net gain on sale of investment | 3(a) | **53.3** | 32.9 |
| Carbon permit income | | **18.0** | 8.5 |
| Government grant - other | | **0.6** | 2.1 |
| Insurance recoveries | | **3.6** | 5.7 |
| Foreign exchange gains (net) | | **3.0** | 6.3 |
| Litigation settlement | | **13.9** | - |
| | | **92.4** | 762.1 |

# 3 Other income (continued)

## (a) Net gain on sale of investments

### *(i) Castrip*

On 8 July 2016, the Group sold its 47.5% interest in Castrip for US$20M (A$26.6M). The investment in Castrip was held at $Nil value. Prior period included a net gain of $32.9M (NZ$35.5M) in New Zealand Steel for sale of the 28% equity accounted investment in McDonald's Lime.

### *(ii) New Zealand Steel Mining*

On 1 May 2017, BlueScope sold 100% of its share in New Zealand Steel Mining Limited, its Taharoa export iron sands businesses, to Taharoa Mining Investments Limited (TMIL).

Details of the gain on sale are as follows:

| | NZ$ $M | A$ $M |
|---|---|---|
| Net external liabilities disposed* | 83.5 | 78.2 |
| Fair value of royalty (note 32(d)) | 5.6 | 5.3 |
| | 89.1 | 83.5 |
| Less: | | |
| BlueScope cash contribution | 49.4 | 46.1 |
| Transaction costs | 9.4 | 9.0 |
| Recycling of exchange translation reserve | N/a | 1.7 |
| | 58.8 | 56.8 |
| **Gain on sale** | 30.3 | 26.7 |

*This is an estimated provisional calculation and is subject to final completion with the buyer.

# 4 Income tax

## (a) Income tax expense

| | Consolidated | |
|---|---|---|
| | **2017 $M** | 2016 $M |
| Current tax | **154.0** | 49.1 |
| Deferred tax | **24.9** | 45.7 |
| Adjustments for current tax of prior periods | **2.9** | 6.6 |
| | **181.8** | 101.4 |
| Income tax expense is attributable to: | | |
| Profit from continuing operations | **181.8** | 101.5 |
| Profit (loss) from discontinued operations | **-** | (0.1) |
| **Total income tax expense** | **181.8** | 101.4 |

# 4 Income tax (continued)

## (b) Reconciliation of income tax expense to prima facie tax payable

| | Note | Consolidated 2017 $M | *Restated 2016 $M |
|---|---|---|---|
| Profit from continuing operations before income tax expense | | **940.8** | 719.5 |
| Profit (loss) from discontinuing operations before income tax expense | 24(b) | **14.9** | (201.8) |
| | | **955.7** | 517.7 |
| Tax at the Australian tax rate of 30.0% (2016 - 30.0%) | | **286.7** | 155.3 |
| **Tax effect of amounts which are not deductible/(taxable):** | | | |
| Manufacturing credits | | **(9.9)** | (2.8) |
| Research and development incentive | | **(4.8)** | (4.3) |
| Withholding tax | | **4.6** | 4.1 |
| Non-taxable gains | | **(23.6)** | (261.2) |
| Share of net profits of associates | | **(2.6)** | (3.3) |
| Sundry items | | **6.5** | 5.6 |
| | | **256.9** | (106.6) |
| Difference in overseas tax rates | | **18.4** | 49.0 |
| Adjustments for current tax of prior periods | | **2.9** | 6.6 |
| Temporary differences and tax losses not recognised | | **28.9** | 180.7 |
| Deferred tax restatement | | **(5.2)** | - |
| Previously unrecognised tax losses now recouped | | **(131.4)** | (61.9) |
| Deferred tax assets now derecognised | | **11.3** | 33.6 |
| **Income tax expense** | | **181.8** | 101.4 |

*Certain amounts shown here have been restated to reflect retrospective changes made to discontinued operations (refer to note 24).

## (c) Deferred tax assets (DTA) and liabilities (DTL)

| | Consolidated DTA 2017 $M | DTA 2016 $M | DTL 2017 $M | DTL 2016 $M |
|---|---|---|---|---|
| **The balance comprises temporary differences attributable to:** | | | | |
| Employee benefits provision | **137.8** | 215.6 | **(66.6)** | (2.2) |
| Other provisions | **32.4** | 49.7 | **(6.0)** | (4.5) |
| Depreciation | **(224.2)** | (305.9) | **98.1** | 16.5 |
| Foreign exchange (gains) losses | **(10.5)** | (21.3) | **0.1** | - |
| Intangible assets | **(4.2)** | (20.6) | **167.4** | 155.6 |
| Inventory | **(20.0)** | (14.5) | **(4.3)** | (0.7) |
| Tax losses | **236.4** | 285.9 | **(21.4)** | (3.1) |
| Other | **7.6** | 7.8 | **8.6** | 0.8 |
| | **155.3** | 196.7 | **175.9** | 162.4 |

## 4 Income tax (continued)

| | Consolidated | | | |
|---|---|---|---|---|
| | DTA | | DTL | |
| | **2017 $M** | 2016 $M | **2017 $M** | 2016 $M |
| **Movements:** | | | | |
| Opening balance at 1 July | **196.7** | 196.0 | **162.4** | 24.2 |
| Charged/credited: | | | | |
| Charged (credited) to profit or loss | **(15.6)** | (35.7) | **9.3** | 10.0 |
| Charged (credited) to other comprehensive income | **(25.5)** | 33.0 | **10.1** | (14.0) |
| Acquisitions and disposals (note 20(a) (ii)) | **-** | - | **-** | 146.5 |
| Exchange fluctuation | **(0.3)** | 3.4 | **(5.9)** | (4.3) |
| | **155.3** | 196.7 | **175.9** | 162.4 |

### (d) Tax losses

| | Consolidated | |
|---|---|---|
| | **2017 $M** | 2016 $M |
| Unused tax losses for which no deferred tax asset has been recognised | **1,764.2** | 2,161.3 |
| **Potential tax benefit** | **522.2** | 638.4 |

As at 30 June 2017, $124.2M (2016: $42.2M) of Australian deferred tax liabilities generated during the period have been utilised within tax expense. The Company has deferred the recognition of any further tax asset for the Australian tax Group until a return to taxable profits has been demonstrated. The Australian consolidated tax Group has $2.33 billion of carried forward tax losses of which $1,584.7M have been impaired and are not currently carried as a deferred tax asset. These past losses are able to be booked and used in the future, as Australian tax losses are able to be carried forward indefinitely.

For the year ended 30 June 2017, $4.2M of New Zealand deferred tax assets have been utilised within tax expense. The Company has deferred the recognition of any further New Zealand tax credits until a sustainable return to taxable profits has been demonstrated. New Zealand tax losses, A$116.9M (gross NZ$ 122.9M) are able to be carried forward indefinitely.

During FY17, Buildings China recognised a $11.3M (RMB 57.7M) impairment of carried forward tax losses due to uncertainty of future earnings.

The Group also has unrecognised tax losses arising in China of $43.4M (2016: $31.3M) which are able to be offset against taxable profits within five years of being incurred. Other unrecognised tax losses can be carried forward indefinitely but can only be utilised in the same tax group in which they are generated.

### (e) Unrecognised temporary differences

| | Consolidated | |
|---|---|---|
| | **2017 $M** | 2016 $M |
| Temporary difference relating to investment in subsidiaries for which deferred tax liabilities have not been recognised | **131.3** | 143.9 |
| **Tax effect of the above unrecognised temporary differences** | **18.7** | 20.0 |

Overseas subsidiaries have undistributed earnings, which, if paid out as dividends, would be subject to withholding tax. An assessable temporary difference exists, however no deferred tax liability has been recognised as the parent entity is able to control the timing of distributions from their subsidiaries and is not expected to distribute these profits in the foreseeable future.

Unrecognised deferred tax assets for the Group totalling $210.4M (2016: $241.8M) in respect of temporary differences have not been recognised as they are not probable of realisation.

# 4 Income tax (continued)

## (f) Recognition and measurement

**Current taxes**
The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**Deferred taxes**
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

**Offsetting deferred tax balances**
Deferred tax assets and liabilities are offset when deferred tax balances relate to the same taxation authority and there is a legally enforceable right to offset current tax assets and liabilities.

## (g) Key judgements and estimates

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, these differences will impact the current and deferred tax provisions in the period in which the determination is made.

In addition, deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future forecast taxable profits are available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the relevant tax legislation associated with their recoupment.

The Australian consolidated tax group and New Zealand Steel have recognised a $84.6M and NZ$ 50.4M deferred tax asset at 30 June 2017 respectively (2016: $84.6M, NZ$ 85.8M). The utilisation of the deferred tax asset amount depends upon future taxable amounts in excess of profits arising from the reversal of temporary differences. The Group believes these amounts to be recoverable based on taxable income projections. The Group has deferred the recognition of any further tax credits for both the Australian and New Zealand tax groups until a sustainable return to taxable profits has been demonstrated.

# 5 Earnings (loss) per share

| | Consolidated | | | |
|---|---|---|---|---|
| | Basic | | Diluted | |
| | **2017 Cents** | Restated 2016 Cents | **2017 Cents** | Restated 2016 Cents |
| Continuing operations | **122.7** | 97.4 | **119.1** | 94.4 |
| Discontinued operations | **2.6** | (35.3) | **2.5** | (34.3) |
| **Earnings per share** | **125.3** | 62.1 | **121.6** | 60.1 |

## (a) Earnings used in calculating earnings (loss) per share

| | Consolidated | |
|---|---|---|
| | **2017 $M** | Restated 2016 $M |
| Profit (loss) used in calculating basic earnings (loss) per share: | | |
| Continuing operations | **701.0** | 555.5 |
| Discontinued operations | **14.9** | (201.7) |
| | **715.9** | 353.8 |

## (b) Weighted average number of shares used as denominator

| | Consolidated | |
|---|---|---|
| | **2017 Number** | 2016 Number |
| Weighted average number of ordinary shares (Basic) | **571,146,269** | 570,111,745 |
| Weighted average number of share rights | **17,457,466** | 18,199,977 |
| **Weighted average number of ordinary and potential ordinary shares (Diluted)** | **588,603,735** | 588,311,722 |

## (c) Earnings (loss) per share restated

In accordance with AASB 133 *Earnings per Share*, the comparative earnings (loss) per share calculations have been restated for the retrospective adjustment made to discontinued operations (refer to note 24).

## (d) Calculation of earnings per share

(i) *Basic earnings (loss) per share*
Calculated as net profit (loss) attributable to the ordinary equity holders of the Company divided by the weighted average number of ordinary shares outstanding during the period.

(ii) *Diluted earnings (loss) per share*
Calculated by dividing the net profit (loss) attributable to the ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued upon the conversion of all dilutive potential ordinary shares into ordinary shares.

# WORKING CAPITAL AND PROVISIONS

This section of the notes provides further information about the Group's working capital and provisions, including accounting policies and key judgements and estimates relevant to understanding these items.

## 6 Trade and other receivables

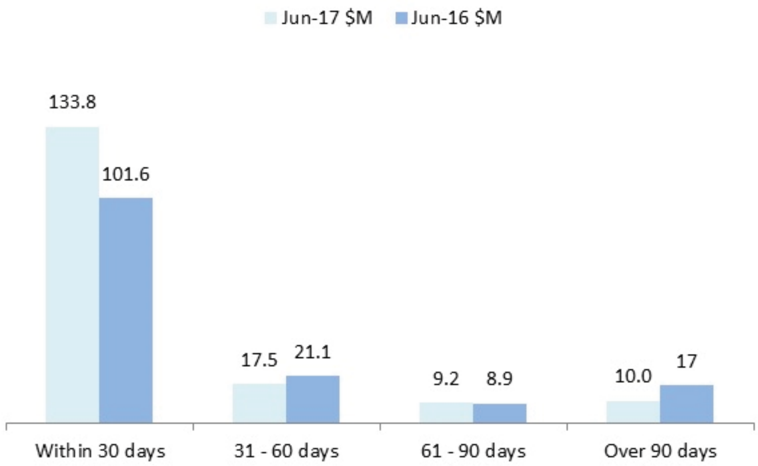
| | Notes | Consolidated 2017 Current $M | 2017 Non-current $M | 2016 Current $M | 2016 Non-current $M |
|---|---|---|---|---|---|
| Trade receivables | | **1,190.4** | **-** | 1,105.1 | - |
| Provision for impairment of receivables | 6(a) | **(19.5)** | **-** | (18.0) | - |
| | | **1,170.9** | **-** | 1,087.1 | - |
| Loans to related parties - associates | 29(d) | **1.3** | **-** | 1.3 | - |
| Workers compensation receivables | 10(g) | **-** | **24.0** | - | 27.4 |
| Sale of receivables | 6(c) | **81.5** | **-** | 6.6 | - |
| Other receivables | | **77.8** | **8.4** | 63.4 | 8.4 |
| | | **160.6** | **32.4** | 71.3 | 35.8 |
| | | **1,331.5** | **32.4** | 1,158.4 | 35.8 |

### (a) Provision for impairment of receivables

| | Note | Consolidated 2017 $M | 2016 $M |
|---|---|---|---|
| At 1 July | | **18.0** | 15.3 |
| Additional provision recognised | | **7.0** | 6.6 |
| Amounts used during the period | | **(4.4)** | (4.7) |
| Business acquisitions | 20 | **-** | 1.3 |
| Unutilised provision written back | | **(0.6)** | (0.4) |
| Exchange fluctuations | | **(0.5)** | (0.1) |
| | | **19.5** | 18.0 |

# 6 Trade and other receivables (continued)

## (b) Past due but not impaired




None of the non-current receivables are impaired or past due.

## (c) Transferred financial assets that are derecognised

The Group has two receivables securitisation programs for $460M in total, maturing in September and December 2018. These programs involve the sale of relevant trade receivables across its Australian businesses, New Zealand Steel and North Star BlueScope Steel. The business acts as a servicer under the programs and continues to collect cash from its customers for which a fee is received.

The receivables securitisation programs qualify for derecognition of trade receivables in their entirety. The Group has transferred the significant risks and rewards of the trade receivables. The Group maintains a continuing involvement in the de-recognised financial assets by virtue of reserving requirements under the programs. The maximum exposure to loss for the Group from its continuing involvement is $81.5M which is determined by the amount of reserves funded by BlueScope, less customer collections during the month. Interest income is earnt on this financial asset. Total net costs from selling the receivables and running the program were $11.1M.

In the event bad or doubtful debts exceed a specified limit, the Group will have to recognise the trade receivables on the balance sheet. Current experience and bad debt history is below this level. The carrying amount of the trade receivables de-recognised in entirety as at 30 June 2017 is $377.4M which is reflected by a decrease in trade receivables of $148.9M, an increase in sundry payables of $310.0M offset by a $81.5M increase in sundry receivables which approximates fair value.

## (d) Recognition and measurement

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 to 90 days.

**Impairment of trade receivables**
Debts which are known to be uncollectible are written off when identified. A provision for impairment is recognised when there is objective evidence that amounts due may not be received. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

## 7 Inventories

| | Consolidated | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| **At lower of cost and net realisable value:** | **Current $M** | **Non-current $M** | Current $M | Non-current $M |
| Raw materials and stores | **409.6** | **-** | 329.7 | - |
| Work in progress | **585.3** | **-** | 466.2 | - |
| Finished goods | **569.0** | **-** | 487.8 | - |
| Spares and other | **94.9** | **74.4** | 107.8 | 71.1 |
| | **1,658.8** | **74.4** | 1,391.5 | 71.1 |

### (a) Inventory expense

During the year, $1.1M (2016: $14.5M write-back) was recognised as a write-back for inventories carried at net realisable value. The write-back has been included in 'raw materials and consumables used' in the profit and loss.

### (b) Recognition and measurement

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials. Costs are assigned to inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to sell.

## 8 Operating intangible assets

| | Consolidated | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | **Current $M** | **Non-current $M** | Current $M | Non-current $M |
| Emission unit permits - not held for trading | **24.0** | **25.8** | 8.3 | 25.9 |

### (a) Recognition and measurement

Emission unit (EU) permits which are not held for trading are classified as intangible assets and are carried at cost. Intangible EU assets are not amortised or subject to impairment as the economic benefits are realised from surrendering the rights to settle obligations arising from the ETS.

## 9 Trade and other payables

| | | Consolidated | | | |
|---|---|---|---|---|---|
| | | **2017** | | 2016 | |
| | Note | **Current $M** | **Non-current $M** | Current $M | Non-current $M |
| Trade payables | | **1,381.7** | **-** | 1,201.6 | - |
| Sale of receivables | 6(c) | **310.0** | **-** | 162.2 | - |
| Other payables | | **111.2** | **44.9** | 116.9 | 32.8 |
| | | **1,802.9** | **44.9** | 1,480.7 | 32.8 |

### (a) Recognition and measurement

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 62 days of recognition.

# 10 Provisions

| | Consolidated | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | **Current $M** | **Non-current $M** | Current $M | Non-current $M |
| Annual leave (d) (i) | **71.2** | **-** | 75.1 | - |
| Long service leave (d) (i) | **120.7** | **16.7** | 122.2 | 19.4 |
| Redundancy (d) (ii) | **4.6** | **-** | 13.3 | - |
| Other employee benefits (d) (iii) | **145.1** | **11.2** | 74.1 | 11.0 |
| Restructure (e) | **15.5** | **16.3** | 21.9 | 26.5 |
| Product claims (f) | **21.5** | **12.0** | 31.2 | 17.2 |
| Workers compensation (g) | **11.3** | **71.6** | 13.6 | 77.2 |
| Restoration and rehabilitation (h) | **8.8** | **23.5** | 7.7 | 37.8 |
| Carbon emissions (i) | **7.0** | **-** | 3.6 | - |
| Other provisions | **13.3** | **1.1** | 16.4 | 2.1 |
| **Total provisions** | **419.0** | **152.4** | 379.1 | 191.2 |

## (a) Movements in provisions

Movement in significant provisions, other than employee benefits, are set out below.

| **Consolidated - 2017 ($M)** | **Restructure** | **Product claims** | **Workers compensation** | **Restoration and rehabilitation** |
|---|---|---|---|---|
| **Current and non-current** | | | | |
| Carrying amount at start of the year | 48.4 | 48.4 | 90.8 | 45.5 |
| Additional provisions recognised | 22.5 | 3.1 | 7.5 | 4.1 |
| Unutilised provisions written back | (7.3) | (8.6) | (2.5) | - |
| Amounts used during the period | (32.0) | (9.2) | (10.5) | (1.9) |
| Business Disposal | - | - | - | (15.6) |
| Exchange fluctuations | (0.1) | (0.5) | (0.3) | (0.4) |
| Transfers | - | (0.3) | (3.2) | - |
| Unwinding of discount | 0.3 | 0.6 | 1.1 | 0.6 |
| **Carrying amount end of year** | 31.8 | 33.5 | 82.9 | 32.3 |

## (b) Recognition and measurement

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## (c) Key judgements and estimates

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

# 10 Provisions (continued)

## (d) Employee benefits

### *(i) Annual leave and long service leave*

The liability for annual leave and long service leave expected to be settled after 12 months is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on high quality corporate bonds other than New Zealand where Government bonds are used, with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Employee benefit on-costs are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

**Amounts not expected to be settled within 12 months for current leave provisions**
The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service. The entire annual leave amount and vested portion of long service leave are presented as current. Since the Group does not have an unconditional right to defer settlement, based on past experience, the Group does not expect all employees to take the full amount of accrued annual leave and long service leave or require payment within the next 12 months. Current annual leave and long service leave obligation expected to be settled after 12 months is $112.9M (2016: $94.1M).

### *(ii) Termination benefits*

Liabilities for termination benefits, not in connection with a business combination or the closure of an operation, are recognised when the Group is demonstrably committed to either terminating the employment of current employees according to a formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

The employee redundancy provision balance reflects a range of internal reorganisations. All redundancies are expected to take effect within 12 months of the reporting date.

### *(iii) Short Term Incentive plans (STI)*

The Group recognises a liability and an expense for STI plan payments made to employees. The Group recognises a provision where past practice and current performance indicates that a probable constructive obligation exists.

## (e) Restructuring costs

Liabilities arising directly from undertaking a restructuring program, defined as the closure of an operating site, are recognised when a detailed plan of the restructuring activity has been developed and implementation of the restructuring program as planned has commenced, by either entering into contracts to undertake the restructuring activities or making a detailed announcement such that affected parties are in no doubt the restructuring program will proceed.

The restructuring provisions relate to Australian Steel Products and BlueScope Buildings segments to cover estimated future costs of announced site closures. The provisions are to be utilised over various terms up to a maximum period of 16 years.

## (f) Product claims

Provision for claims is based on modelled data combining sales volumes with past experiences of repair and replacement levels in conjunction with any specifically identified product faults.

## (g) Workers compensation

In Australia and North America, the Company is a registered self-insurer for workers compensation. Provisions are recognised based on calculations performed by an external actuary in relation to the expectation of future events. A contingent liability exists in relation to guarantees given to various state workers compensation authorities, due to self-insurance prerequisites (refer to note 25(a)(ii)).

For the Group, an actuarially determined asset of $24.0M (2016: $27.4M) has been recognised for expected future reimbursements associated with workers compensation recoveries from third parties. This amount is included in non-current other receivables (refer to note 6) as there is no legal right of offset against the workers compensation provision.

## 10 Provisions (continued)

### (h) Restoration and rehabilitation

Restoration and rehabilitation provisions includes $4.2M (2016: $19.5M) for New Zealand & Pacific Steel segment in relation to its operation of its iron sands mine in Waikato North Head. The provision has been classified as non-current as the timing of payments to remedy the site will not be made until cessation of its operation, which is not expected for many years. The movement in the provision from prior period relates to sale of the Taharoa Mining business on 1 May 2017.

The balance of the provision relates to leased sites that require rectification and restoration work at the end of their respective lease periods.

Recognising restoration, remediation and rehabilitation provisions requires assumptions to be made as to the application of environmental legislation, site closure dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

### (i) Carbon emissions

The Group is a participant in the New Zealand Government's uncapped Emissions Trading Scheme (ETS).

The emissions liability is recognised as a provision for carbon and is measured at the carrying amount of Emission Units (EUs) held with excess units, if any, held for trading measured at the current market value of EUs. ETS costs passed through from suppliers are included as part of the underlying cost of the good or service rendered. The liability is either included within trade creditors or recorded as an emissions liability within the carbon provision account when an agreement has been reached with the supplier to settle the ETS cost by transferring EUs.

When EUs are delivered to the government or a third party, the EU asset along with the corresponding carbon provision is derecognised from the statement of financial position.

## 11 Retirement benefit obligations

### (a) Defined contribution plan

The Group makes superannuation contributions to defined contribution funds in respect of the entity's employees located in Australia and other countries. As at 30 June 2017, the defined contribution expense recognised in the profit and loss amounted to $87.4M (2016: $90.1M).

The defined contribution plans receive fixed contributions from Group companies with the Group's legal obligation limited to these contributions. Contributions to the defined contribution fund are recognised as an expense as they become payable.

### (b) Defined benefit plans

| Country | Fund type | Description |
|---|---|---|
| **New Zealand** | Pension Fund and Retirement Savings Plan (closed to new participants) | New Zealand employees are members of the New Zealand Steel Pension Fund. |
| **North America** | Butler Manufacturing Base Retirement Plan (closed to new participants) | Employees previously belonging to the Butler Manufacturing Company are members of the Butler Manufacturing Base Retirement Plan. |

Defined benefit funds provide defined lump sum benefits based on years of service and final or average salary. Actuarial assessments of the defined benefit funds are made at no more than three-yearly intervals, with summary assessments performed annually. The last formal actuarial investigations were made of the New Zealand Steel Pension Fund as at 30 June 2015, and the Butler Base Retirement Plan as at 1 January 2017.

# 11 Retirement benefit obligations (continued)

## (c) Statement of financial position amounts

| | Consolidated 2017 $M | Consolidated 2016 $M |
|---|---|---|
| Present value of the defined benefit obligation | **(1,011.3)** | (1,109.5) |
| Fair value of defined benefit plan assets | **730.3** | 718.7 |
| **Net (liability) asset in the statement of financial position** | **(281.0)** | (390.8) |

## (d) Defined benefit funds to which BlueScope Steel employees belong

| | New Zealand Pension Fund | | Butler Manufacturing Base Retirement Plan | | Total | |
|---|---|---|---|---|---|---|
| $M | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Present value of the defined benefit obligation | **(588.1)** | (644.0) | **(423.2)** | (465.5) | **(1,011.3)** | (1,109.5) |
| Fair value of defined benefit plan assets | **433.1** | 402.0 | **297.2** | 316.7 | **730.3** | 718.7 |
| Net (liability) asset in the statement of financial position | **(155.0)** | (242.0) | **(126.0)** | (148.8) | **(281.0)** | (390.8) |
| Defined benefit expense | **19.2** | 16.7 | **9.7** | 2.8 | **28.9** | 19.5 |
| Employer contribution | **14.6** | 16.2 | **2.3** | 0.9 | **16.9** | 17.1 |
| Average duration of defined benefit plan obligation (years) | **13.5** | 14.1 | **12.3** | 13.1 | | |
| *Significant actuarial assumptions* | % | | % | | | |
| Discount rate (gross of tax) | **3.3** | 2.9 | **3.7** | 3.5 | | |
| Future salary increases (i) | **2.0** | 2.0 | **-** | - | | |

(i) Building Products North America has frozen future salary increases for the purpose of contributions to the superannuation fund as at 30 June 2013.

The net liability is not immediately payable. Any plan surplus will be realised through reduced future Group contributions.

## (e) Categories of plan assets

| | Consolidated 2017 $M | Consolidated 2016 $M |
|---|---|---|
| Cash | **8.2** | 2.8 |
| Equity instruments | **242.4** | 219.9 |
| Debt instruments | **419.9** | 441.9 |
| Property | **51.4** | 9.6 |
| Other assets | **8.4** | 44.5 |
| | **730.3** | 718.7 |

## (f) Actuarial assumptions and sensitivity

| | Change in assumption | Impact on defined benefit obligation: Increase in assumption $M | Impact on defined benefit obligation: Decrease in assumption $M |
|---|---|---|---|
| Discount rate | +/-1% | (149.8) | 171.7 |
| Salary growth rate | +/-1% | 19.7 | (18.9) |

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the net defined benefit obligation as a result of reasonable changes in key assumptions for the year ended 30 June 2017.

# 11 Retirement benefit obligations (continued)

## (g) Reconciliations

| | Consolidated | | | |
|---|---|---|---|---|
| | Plan assets | | Defined benefit obligation | |
| | **2017 $M** | 2016 $M | **2017 $M** | 2016 $M |
| Balance at the beginning of the year | **718.7** | 708.6 | **1,109.5** | 926.5 |
| Current service cost | **-** | - | **11.1** | 10.9 |
| Interest income (net of tax paid) | **18.8** | 26.6 | **-** | - |
| Interest cost | **-** | - | **27.6** | 34.1 |
| Actuarial losses (gains) arising from changes in demographic assumptions | **-** | - | **1.6** | 13.6 |
| Actuarial losses (gains) arising from changes in financial assumptions | **41.9** | 6.6 | **(78.1)** | 152.6 |
| Foreign currency exchange rate changes | **(9.9)** | 36.0 | **(13.2)** | 46.9 |
| Benefits paid | **(48.7)** | (44.8) | **(48.7)** | (44.8) |
| Allowance for contributions tax on net liability | **-** | - | **1.5** | 0.2 |
| Contributions by the Group | **16.9** | 17.1 | **-** | - |
| Tax on employer contributions | **(4.8)** | (5.3) | **-** | - |
| Contributions by plan participants | **2.3** | 2.7 | **-** | - |
| Settlements | **-** | (25.6) | **-** | (25.6) |
| Plan expenses | **(4.9)** | (3.2) | **-** | - |
| Gain on curtailment - North America | **-** | - | **-** | (4.9) |
| **Balance at the end of the year** | **730.3** | 718.7 | **1,011.3** | 1,109.5 |

## (h) Amounts recognised in profit or loss

| | Consolidated | |
|---|---|---|
| | **2017 $M** | 2016 $M |
| Current service cost | **11.1** | 10.9 |
| Contributions by plan participants | **(2.3)** | (2.7) |
| Net interest | **8.8** | 7.5 |
| Plan expenses | **4.9** | 3.2 |
| Allowance for contributions tax on net liability | **6.4** | 5.5 |
| Gain on curtailment - North America | **-** | (4.9) |
| **Total included in employee benefits expense** | **28.9** | 19.5 |
| Actual return on plan assets | **55.8** | 30.0 |

## (i) Amounts recognised in other comprehensive income

| | Consolidated | |
|---|---|---|
| | **2017 $M** | 2016 $M |
| Actuarial gains (losses) recognised in other comprehensive income during the year - DB plans | **118.4** | (160.6) |
| Cumulative actuarial (losses) recognised in other comprehensive income | **(408.4)** | (526.8) |

## (j) Employer contributions

Employer contributions to the defined benefit section of the Group's plans are based on recommendations by the plan's actuaries. The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable.

Total employer contributions expected to be paid for the year ending 30 June 2018 are $31.0M.

## 11 Retirement benefit obligations (continued)

### (k) Recognition and measurement

A liability or asset in respect of defined benefit superannuation plans is measured as the present value of the defined benefit obligation less the fair value of the superannuation fund's assets. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the end of the reporting period, calculated half yearly by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields on government or corporate bonds where a deep market exists, with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, in other comprehensive income.

Past service costs are recognised in profit or loss, unless the changes to the superannuation plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes that are funded by the entity and are part of the provision of the existing benefit obligation (e.g. taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

## INVESTED CAPITAL

This section of the notes provides further information about property, plant and equipment, non-current intangibles assets and carrying amount of these non-financial assets, including accounting policies, key judgements and estimates relevant to understanding these items.

## 12 Property, plant and equipment

| | Land and Buildings $M | Plant, machinery and equipment $M | Total $M |
|---|---|---|---|
| **Year ended 30 June 2017** | | | |
| Opening net book amount | 804.5 | 3,029.6 | 3,834.1 |
| Additions | 20.4 | 355.3 | 375.7 |
| Depreciation charge | (39.9) | (288.0) | (327.9) |
| Disposals | (0.4) | (4.4) | (4.8) |
| Disposal of subsidiary | (3.1) | (1.4) | (4.5) |
| Impairment charge (note 14(e)) | (16.7) | (69.3) | (86.0) |
| Asset reclassifications | 3.5 | (3.5) | - |
| Assets reclassified to held for sale from PP&E (a) | (5.3) | - | (5.3) |
| Asset reclassifications to computer software | - | (3.5) | (3.5) |
| Exchange fluctuations | (19.1) | (37.0) | (56.1) |
| **Closing net book amount** | 743.9 | 2,977.8 | 3,721.7 |
| | | | |
| **At 30 June 2017** | | | |
| Cost | 1,451.8 | 10,622.4 | 12,074.2 |
| Accumulated depreciation and impairment | (707.9) | (7,644.6) | (8,352.5) |
| **Net book amount** | 743.9 | 2,977.8 | 3,721.7 |
| | | | |
| **Assets under construction included above:** | 0.1 | 297.7 | 297.8 |

## 12 Property, plant and equipment (continued)

| | Land and buildings $M | Plant, machinery and equipment $M | Total $M |
|---|---|---|---|
| **At 1 July 2015** | | | |
| Cost | 1,390.9 | 9,854.2 | 11,245.1 |
| Accumulated depreciation and impairment | (653.7) | (6,858.8) | (7,512.5) |
| **Net book amount** | 737.2 | 2,995.4 | 3,732.6 |
| | | | |
| **Year ended 30 June 2016** | | | |
| Opening net book amount | 737.2 | 2,995.4 | 3,732.6 |
| Additions | 25.7 | 325.5 | 351.2 |
| Business acquisitions | 107.5 | 512.2 | 619.7 |
| Depreciation charge | (38.4) | (304.3) | (342.7) |
| Disposals | (7.2) | (8.7) | (15.9) |
| Impairment charge (note 14(e)) | (24.8) | (489.0) | (513.8) |
| Asset reclassifications | 5.4 | (5.4) | - |
| Asset reclassifications to computer software | - | (5.5) | (5.5) |
| Exchange fluctuations | (0.9) | 9.4 | 8.5 |
| **Closing net book amount** | 804.5 | 3,029.6 | 3,834.1 |
| | | | |
| **At 30 June 2016** | | | |
| Cost | 1,519.0 | 10,681.7 | 12,200.7 |
| Accumulated depreciation and impairment | (714.5) | (7,652.1) | (8,366.6) |
| **Net book amount** | 804.5 | 3,029.6 | 3,834.1 |
| | | | |
| **Assets under construction included above:** | 0.1 | 250.1 | 250.2 |

### (a) Assets held for sale

Buildings China reclassified $5.3M from land and buildings to assets held for sale, associated with the restructuring of the engineered building solutions businesses.

### (b) Leases

Total property, plant and equipment includes the following amounts where the Group is a lessee under a finance lease:

| | **Consolidated** | |
|---|---|---|
| | **2017 $M** | 2016 $M |
| **Leasehold assets** | | |
| Cost | **195.4** | 273.8 |
| Accumulation depreciation and impairment | **(106.7)** | (185.0) |
| **Net book amount** | **88.7** | 88.8 |

### (c) Sale and disposal of property, plant and equipment

| | **Consolidated** | |
|---|---|---|
| | **2017 $M** | 2016 $M |
| Net loss on sale and disposal of property, plant and equipment | **(2.3)** | (5.3) |

## 12 Property, plant and equipment (continued)

### (d) Recognition and measurement

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost also includes transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

**Depreciation**
Property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives or, in the case of leasehold improvements and finance leases, the shorter lease term, unless there is reasonable certainty that the Group will obtain ownership at the end of the lease term.

The useful lives of major categories of property, plant and equipment are as follows:

| Category | Useful Life |
|---|---|
| Land | Not depreciated |
| Buildings | 30-40 years |
| Iron and steel making plant and machinery | 20-40 years |
| Coating lines | 20-30 years |
| Building components plant and equipment | 12-18 years |
| Other plant and equipment | 5-15 years |

**Derecognition**
Property, plant and equipment is derecognised when it is sold or otherwise disposed of, or when its use is expected to bring no future economic benefits.

### (e) Key estimates

The estimation of the useful lives of plant and machinery has been based on historical experience and judgement with respect to technical obsolescence, physical deterioration and usage capacity of the asset in addition to any legal restrictions on usage. The condition of the asset is assessed at least once a year and considered against the remaining useful life.

## 13 Intangible assets

| Consolidated | Goodwill $M | Patents, trademarks and other rights $M | Computer Software $M | Customer relationships $M | Other intangible assets $M | Total $M |
|---|---|---|---|---|---|---|
| **Year 30 June 2017** | | | | | | |
| Opening net book amount | 1,202.5 | 6.9 | 90.8 | 400.9 | 35.4 | 1,736.5 |
| Additions | - | - | 14.4 | - | - | 14.4 |
| Amortisation charge | - | (0.9) | (20.3) | (29.6) | (1.7) | (52.5) |
| Impairment charge (note 14 (e)) | (12.0) | - | (3.2) | - | - | (15.2) |
| Reclassifications from PP&E | - | - | 3.5 | - | - | 3.5 |
| Exchange fluctuations | (33.9) | (0.1) | (1.7) | (10.9) | (0.2) | (46.8) |
| **Closing net book amount** | 1,156.6 | 5.9 | 83.5 | 360.4 | 33.5 | 1,639.9 |
| | | | | | | |
| **At 30 June 2017** | | | | | | |
| Cost | 1,668.3 | 20.8 | 326.6 | 470.1 | 41.9 | 2,527.7 |
| Accumulated amortisation and impairment | (511.7) | (14.9) | (243.1) | (109.7) | (8.4) | (887.8) |
| **Net book amount** | 1,156.6 | 5.9 | 83.5 | 360.4 | 33.5 | 1,639.9 |

## 13 Intangible assets (continued)

| Consolidated | Goodwill $M | Patents, trademarks and other rights $M | Computer software $M | Customer relationships $M | Other intangible assets $M | Total $M |
|---|---|---|---|---|---|---|
| **At 1 July 2015** | | | | | | |
| Cost | 804.1 | 20.8 | 290.4 | 105.1 | 39.8 | 1,260.2 |
| Accumulation amortisation and impairment | (461.7) | (13.2) | (213.6) | (56.8) | (4.9) | (750.2) |
| **Net book amount** | 342.4 | 7.6 | 76.8 | 48.3 | 34.9 | 510.0 |
| | | | | | | |
| **Year 30 June 2016** | | | | | | |
| Opening net book amount | 342.4 | 7.6 | 76.8 | 48.3 | 34.9 | 510.0 |
| Additions | - | - | 25.0 | - | - | 25.0 |
| Business acquisitions (note 20 (a) (ii)) | 923.2 | - | 0.4 | 389.8 | - | 1,313.4 |
| Amortisation charge | - | (0.9) | (17.5) | (25.3) | (1.7) | (45.4) |
| Impairment charge (note 14 (e)) | (38.7) | - | - | - | - | (38.7) |
| Reclassifications from PP&E | - | - | 5.5 | - | - | 5.5 |
| Exchange fluctuations | (24.4) | 0.2 | 0.6 | (11.9) | 2.2 | (33.3) |
| **Closing net book amount** | 1,202.5 | 6.9 | 90.8 | 400.9 | 35.4 | 1,736.5 |
| | | | | | | |
| **At 30 June 2016** | | | | | | |
| Cost | 1,704.6 | 21.3 | 321.6 | 483.4 | 42.2 | 2,573.1 |
| Accumulation amortisation and impairment | (502.1) | (14.4) | (230.8) | (82.5) | (6.8) | (836.6) |
| **Net book amount** | 1,202.5 | 6.9 | 90.8 | 400.9 | 35.4 | 1,736.5 |

### (a) Recognition and measurement

*(i) Goodwill*

Goodwill represents the excess of the cost to purchase a business less the fair market value of the tangible assets, identifiable intangible assets and the liabilities obtained in the purchase. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

*(ii) Intangible assets*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair market value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less amortisation and any impairment losses. Intangible assets with finite lives are amortised on a straight line basis over their useful life. The amortisation period and method is reviewed at each financial year end.

A summary of the useful lives of intangible assets is as follows:

| Category | Useful Life |
|---|---|
| Patents, trademarks and other rights | Indefinite and finite (7-15 years) |
| Computer software | Finite (3-10 years) |
| Customer relationships | Finite (10-20 years) |

*(iii) Research and development*

Research expenditure is recognised as an expense as incurred. For the year ended 30 June 2017, $26.2M (2016: $22.1M) was recognised for research and development expenditure in the profit and loss. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably.

# 14 Carrying value of non-financial assets

The Group tests property, plant and equipment (note 12) and intangible assets with definite useful lives (note 13) when there is an indicator of impairment. Goodwill and other intangible assets with indefinite useful lives are tested at least annually for any impairment.

## (a) Allocation of goodwill and intangible assets with indefinite useful lives to cash generating units

Goodwill is allocated to the Group's cash generating units (CGUs) for impairment testing purposes as follows:

| Cash generating units | Reportable segments | 2017 $M | 2016 $M |
|---|---|---|---|
| Building Products North America | Building Products ASEAN, North America & India | **3.6** | 3.7 |
| Buildings North America | BlueScope Buildings | **284.7** | 293.1 |
| North Star BlueScope Steel LLC | North Star BlueScope Steel | **865.0** | 890.6 |
| Buildings China | BlueScope Buildings | **3.3** | 15.1 |
| **Total goodwill** | | **1,156.6** | 1,202.5 |

The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. In addition to goodwill, the Group has other intangible assets with indefinite useful lives of $3.8M (2016: $3.9M) allocated to the Buildings North America CGU which relate to trade names recognised as part of the IMSA Group business combination acquired in February 2008. All of the above CGUs were tested for impairment at the reporting date.

## (b) Key assumptions and estimates

The recoverable amount of each CGU is determined on the basis of value-in-use (VIU), unless there is evidence to support a higher fair value less cost to sell. The following table describes assumptions on which the Group has based its projections when determining the recoverable amount of each CGU.

| Key assumptions | Basis of estimation |
|---|---|
| **Future cash flows** | - VIU calculations use pre-tax cash flows, inclusive of working capital movements which are based on financial projections approved by the Group covering a three-year period, being the basis of the Group's forecasting and planning processes, or up to five years where circumstances pertaining to a specific CGU support a longer period.<br>- Cash flows beyond the projection period are extrapolated to provide a maximum of 30 years of cash flows with adjustments where necessary to reflect changes in long-term operating conditions. No terminal value is calculated. |
| **Growth rate** | - The growth rate used to extrapolate the cash flows for each CGU beyond the forecast period does not exceed 2.5% (2016:2.5%).<br>- The growth rate represents a steady indexation rate which does not exceed the Group's expectations of the long-term average growth rate for the business in which each CGU operates. |
| **Discount rate** | - The discount rate applied to the cash flow projections has been assessed to reflect the time value of money and the perceived risk profile of the industry in which each CGU operates.<br>- The base post-tax discount rates range from 8.4% to 9.3% (2016: 8.5% to 9.7%).<br>- Given the differing characteristics, currencies and geographical locations of the Group's CGUs, where appropriate the base discount rate is adjusted by a country risk premium (CRP) to reflect country specific risks. Such adjustments do not reflect risks for which cash flow forecasts have already been adjusted. The CRP is derived from a range of externally sourced foreign country risk ratings.<br>- The adjusted post-tax discount rate is translated to a pre-tax rate for each CGU based on the specific tax rate applicable to where the CGU operates.<br>- All foreign currency cash flows are discounted using a discount rate appropriate for that currency. |
| **Raw material costs** | - Based on commodity price forecasts derived from a range of external commodity forecasters. |
| **Selling prices** | - Based on management forecasts, taking into account commodity steel price forecasts derived from a range of external commodity forecasters. |
| **Sales volume** | - Based on management forecasts, taking into account external forecasts of underlying economic activity for the market sectors and geographies in which each CGU operates. |
| **AUD:USD and NZD:USD** | - Based on forecasts derived from a range of external banks. |

# 14 Carrying value of non-financial assets (continued)

## (c) Cash generating units with significant goodwill

**Buildings North America**

Buildings North America is tested for impairment on a VIU basis using three year cash flow projections, followed by a long-term growth rate of 2.5% for a further 27 years. Pre-tax VIU cash flows are discounted utilising a 13.3% pre-tax discount rate (2016: 13.0%).

At 30 June 2017 the recoverable amount of this CGU is 2.1 times (2016:1.6 times) the carrying amount of $452.0M (2016: $465.7M), including non-current assets and net working capital. This CGU is most sensitive to assumptions in relation to North American non-residential building and construction activity. Taking into account external forecasts, the Group expects non-residential building and construction activity to increase 4.4% per annum (2016: 5.8%) from the 2016/17 financial year over the three-year projection period.

However, the timing and extent of this increase is uncertain. To illustrate the sensitivity of these assumptions, if they were to differ such that the expected cash flow forecasts for Buildings North America were to decrease by 51% (2016: 39%) across the forecast period, without implementation of mitigation plans, the recoverable amount would be equal to the carrying amount.

**North Star BlueScope Steel LLC**

The Company acquired a controlling interest in North Star BlueScope Steel LLC on 30 October 2015. This is tested for impairment on a VIU basis using three year cash flow projections, followed by a long-term growth rate of 2.5% for a further 27 years. Pre-tax VIU cash flows are discounted utilising pre-tax discount rate of 13.6% (2016: 13.7%).

At 30 June 2017 the recoverable amount of the CGU is 1.6 times (2016: 1.2 times) the carrying amount of $1,735.6M (2016:$1,862.4M), including non-current assets and net working capital. This CGU is most sensitive to assumptions in relation to the spread between North American hot rolled coil and purchased scrap prices. Spread increased significantly during the year ended 30 June 2017, and the long-term sustainability of this increase is uncertain. To illustrate the sensitivity of these assumptions, if they were to differ such that the expected cash flow forecasts for North Star BlueScope Steel LLC were to decrease by 37% (2016: 12%) across the forecast period, without implementation of mitigation plans, the recoverable amount would be equal to the carrying amount.

## (d) Sensitivity of carrying amounts

The carrying value of property, plant and equipment of the Group is most sensitive to cash forecasts for the Group's largest CGU, Australian Steel Products (ASP) and New Zealand & Pacific Steel (NZPac) which has a recoverable amount in line with its carrying amount. The carrying amount of these CGUs are determined taking into the key assumptions set out above.

For ASP, recognised external forecasters estimate the US dollar relative to the Australian dollar to remain around the average 2016/17 level and a decrease in global commodity steel prices less than any decrease in iron ore and coal raw material costs. The Group believes that the long term assumptions adopted are appropriate. Earnings before interest, tax and depreciation improved significantly during the year ended 30 June 2017, however, ASP remains exposed to variable macroeconomic factors and to illustrate the sensitivity of these assumptions, if they were to differ such that the expected cash flow forecasts were to decrease by 36% (2016: 10%) across the forecast period, without implementation of mitigation plans, the recoverable amount would be equal to the carrying amount.

For NZPac, recognised external forecasters estimate the US dollar relative to the New Zealand dollar to remain around the average 2016/17 level and a decrease in global commodity steel prices relative to the average 2016/17. The Group believes that the long term assumptions adopted are appropriate. Earnings before interest, tax and depreciation improved significantly during the year ended 30 June 2017, however, NZPac remains exposed to variable macroeconomic factors and to illustrate the sensitivity of these assumptions, if they were to differ such that the expected cash flow forecasts were to decrease by 10% across the forecast period, without implementation of mitigation plans, the recoverable amount would be $46M below the carrying amount.

## 14 Carrying value of non-financial assets (continued)

### (e) Recognised impairment charges (write-backs)

| Segment | 2017 $M | 2016 $M | Discount rates 2017 (%) | Discount rates 2016 (%) |
|---|---|---|---|---|
| Australian Steel Products - PP&E | **-** | 150.3 | **-** | 13.7 |
| Australian Steel Products - Goodwill | **-** | 38.7 | **-** | 13.7 |
| New Zealand Steel - PP&E | **-** | 182.2 | **-** | 13.4 |
| BlueScope Buildings impairment write-back | **-** | (1.1) | **-** | - |
| Building Products Indonesia - PP&E impairment | **50.3** | - | **14.8** | - |
| Buildings China - PP&E, goodwill and intangibles | **43.9** | - | **13.0** | - |
| Castrip investment (note 23(e)) | **-** | 2.3 | **-** | - |
| Building Products India PP&E (note 23(e)) | **4.7** | - | **-** | - |
| Net impairment expense of non-financial assets from continuing operations | **98.9** | 372.4 | **-** | - |
| Discontinued operations: New Zealand Steel Mining Ltd | **7.0** | 182.4 | **13.5** | 13.4 |
| **Total impairment expense recognised** | **105.9** | 554.8 | **-** | - |

Current period impairments recognised in Building Products Indonesia is a result of an uncertain regulatory environment including tariffs, import quotas and other regulatory measures and ongoing margin compression. The impairment was based on a recoverable amount of $190.0M. Additionally, for the six months ended 31 December 2016, Buildings China recognised impairments in relation to engineered building solutions for $28.6M of property, plant and equipment no longer required, and $12.0M of goodwill and $3.3M of other intangibles assets as a result of uncertainty regarding future earnings. The impairment was based on a recoverable amount of $12.9M.

Prior period impairments recognised were against assets in the Australian Steel Products and New Zealand and Pacific Steel Products segments. The impairments followed the review of steel and iron ore price assumptions and discount rates in light of macroeconomic and global steel market challenges. A subsequent review in December 2016 resulted in a further $7.0M of property, plant and equipment being impaired in relation to Taharoa iron sand mining assets within the New Zealand and Pacific Steel segment. The Taharoa iron sand mining business was subsequently sold on 1 May 2017.

## CAPITAL STRUCTURE AND FINANCING ACTIVITIES

This section of the notes provides further information about the Group's cash, borrowings, contributed equity, reserves and dividends, including accounting policies relevant to understanding these items.

## 15 Cash and cash equivalents

| | Consolidated 2017 $M | Consolidated 2016 $M |
|---|---|---|
| Cash at bank and on hand | **750.1** | 547.3 |
| Deposits at call | **2.9** | 2.5 |
| | **753.0** | 549.8 |
| Bank overdrafts | **(1.1)** | (0.9) |
| **Balance per statement of cash flows** | **751.9** | 548.9 |

## 15 Cash and cash equivalents (continued)

### (a) Reconciliation of profit after income tax to net cash inflow from operating activities

| | Consolidated 2017 $M | Consolidated 2016 $M |
|---|---|---|
| Profit for the year | **773.9** | 416.3 |
| Depreciation and amortisation | **380.4** | 388.1 |
| Net impairment charge of non-current assets | **101.2** | 554.8 |
| Non-cash employee benefits expense - share-based payments | **24.0** | 23.2 |
| Net (gain) on disposal of non-current assets | **(51.0)** | (734.3) |
| Share of net profits of associates and joint venture partnership | **(9.1)** | (39.9) |
| Associate and joint venture partnership dividends received | **4.3** | 27.5 |
| **Change in operating assets and liabilities:** | | |
| Decrease (increase) in trade receivables | **(105.1)** | 68.3 |
| Decrease (increase) in other receivables | **(80.6)** | (1.1) |
| Decrease (increase) in other operating assets | **6.0** | (44.2) |
| Decrease (increase) in inventories | **(322.3)** | 213.2 |
| Increase (decrease) in trade payables | **228.6** | (102.5) |
| Increase (decrease) in other payables | **130.0** | 170.1 |
| Increase (decrease) in borrowing costs payable | **1.6** | (5.8) |
| Increase (decrease) in income taxes payable | **(7.5)** | 4.3 |
| Increase (decrease) in deferred tax balances | **31.0** | 47.2 |
| Increase (decrease) in other provisions and liabilities | **23.5** | (24.6) |
| Other variations | **3.5** | (8.6) |
| **Net cash inflow from operating activities** | **1,132.4** | 952.0 |

### (b) Recognition and measurement

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

## 16 Borrowings

| | Consolidated 2017 Current $M | 2017 Non-current $M | 2016 Current $M | 2016 Non-current $M |
|---|---|---|---|---|
| **Secured** | | | | |
| Bank loans | **-** | **-** | 114.0 | - |
| Lease liabilities | **14.2** | **130.6** | 13.1 | 210.6 |
| Other loans | **7.8** | **-** | 0.9 | - |
| **Total secured borrowings** | **22.0** | **130.6** | 128.0 | 210.6 |
| **Unsecured** | | | | |
| Bank loans | **34.3** | **161.1** | 104.6 | 86.1 |
| Other loans | **-** | **650.3** | - | 816.8 |
| Bank overdrafts | **1.1** | **-** | 0.9 | - |
| Deferred borrowing costs | **(4.2)** | **(10.0)** | (4.9) | (14.3) |
| **Total unsecured borrowings** | **31.2** | **801.4** | 100.6 | 888.6 |
| **Total borrowings** | **53.2** | **932.0** | 228.6 | 1,099.2 |

# 16 Borrowings (continued)

## (a) Secured liabilities and assets pledged as security

The carrying amounts of assets pledged as security for current and non-current borrowings are:

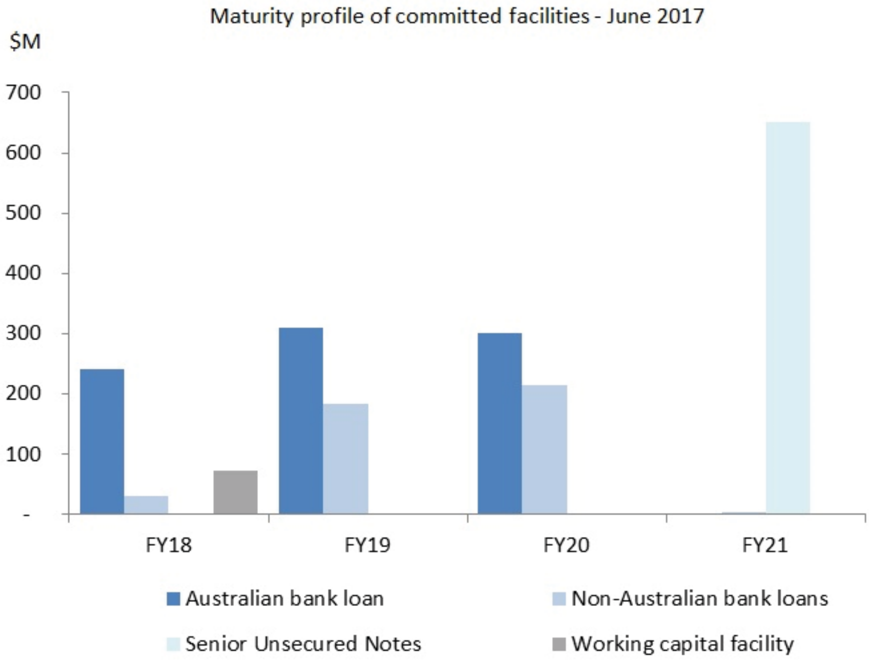
| | Consolidated 2017 $M | Consolidated 2016 $M |
|---|---|---|
| *Bank loans* | | |
| Trade receivables | **505.5** | 380.8 |
| Inventories | **1,113.8** | 971.6 |
| | **1,619.3** | 1,352.4 |
| *Lease liabilities* | | |
| Property, plant and equipment | **88.7** | 88.8 |
| **Total assets pledged as security** | **1,708.0** | 1,441.2 |

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

## (b) Financing arrangements

| Financing facilities available | Description |
|---|---|
| **Australian bank loan** | - $850M syndicated bank facility with a syndicate of banks. The facility is currently undrawn.<br>- Comprises three tranches, maturing in November 2017, December 2018 and November 2019.<br>- Facility is secured against specific trade receivables and inventories of the Australian, New Zealand and North American businesses, excluding Building Products North America and North Star. |
| **Non-Australian bank loans** | - Three facilities totalling THB 1,300M ($50M), maturing December 2017, March 2019 and January 2020, available for NS BlueScope Steel (Thailand) Ltd cash requirements.<br>- One facility totalling MYR 30M ($9M), maturing April 2018, to support working capital and other short-term cash requirements for NS BlueScope Steel (Malaysia) Sdn Bhd.<br>- One US$15M term facility maturing March 2021 and one US$25M revolving facility maturing March 2019, available for NS BlueScope Steel (Indonesia) cash requirements.<br>- Two US$100M revolving facilities maturing March 2019 and March 2020 for NS BlueScope Coated Products joint venture.<br>- One US$45M term facility maturing July 2019 for NS BlueScope Coated Products joint venture. |
| **Senior Unsecured Notes** | - In November 2016, remaining US$110M senior unsecured notes were repaid prior to maturity date and US$2.0M premium paid on early redemption.<br>- US$500M senior unsecured notes offered to qualified institutional buyers in the United States of America, issued in May 2016, which mature May 2021. Interest of 6.5% on the Notes will be paid semi-annually on 15 May and 15 November of each year. |
| **Working capital facility** | An inventory financing facility for BlueScope Steel (AIS) operates as a sale and repurchase facility whereby the inventory is sold upon shipment and repurchased by BSL at the point of consumption. The facility limit is US$55M (inclusive of GST) and matures February 2018. The facility is currently undrawn. |

# 16 Borrowings (continued)




## (c) Bank overdrafts

Bank overdraft facilities are arranged with a number of banks with the general terms and conditions agreed to on a periodic basis.

## (d) Lines of credit

Unrestricted access was available at balance date to the following lines of credit:

| | Consolidated | |
|---|---|---|
| | **2017** | 2016 |
| | **$M** | $M |
| Bank overdrafts | **48.9** | 50.8 |
| Bank loan facilities | **1,374.8** | 1,568.0 |
| **Total facilities** | **1,423.7** | 1,618.8 |
| | | |
| Bank overdrafts | **1.1** | 0.9 |
| Bank loan facilities | **195.4** | 304.7 |
| **Used at balance date** | **196.5** | 305.6 |
| | | |
| Bank overdrafts | **47.8** | 49.9 |
| Bank loan facilities | **1,179.4** | 1,263.3 |
| **Unused at balance date** | **1,227.2** | 1,313.2 |

## 16 Borrowings (continued)

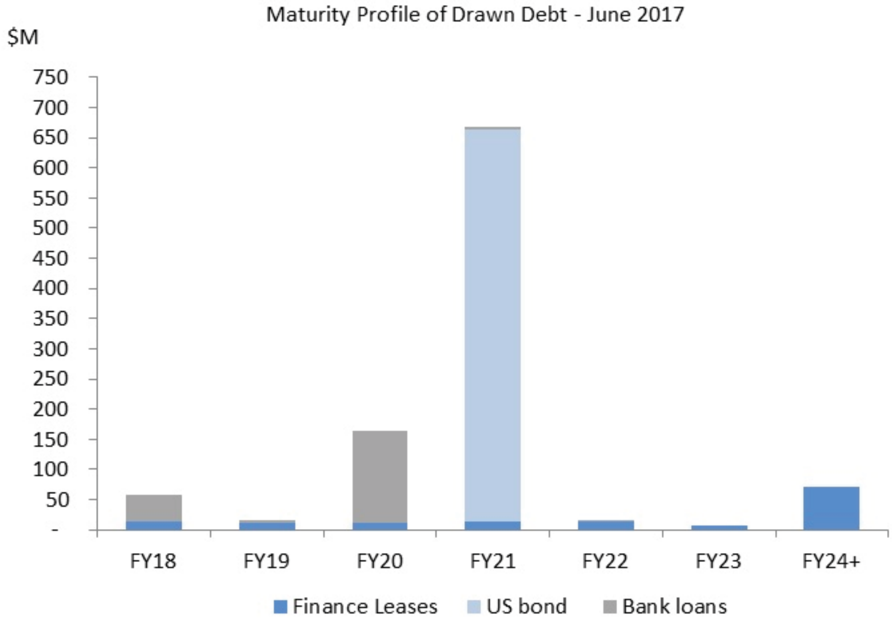
### (e) Contractual maturity analysis

The table below reflects all contractual repayments of principal and interest resulting from recognised financial liabilities. The amounts disclosed represent undiscounted, contractual cash flows for the respective obligations in respect of upcoming fiscal years and therefore do not equate to the values shown in the statement of financial position.

| | | Contractually maturing in: | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | < 1 year $M | 1 - 2 years $M | 2 - 3 years $M | 3 - 4 years $M | 4 - 5 years $M | > 5 years $M | Total $M |
| **30 June 2017** | Notes | | | | | | | |
| Payables | 9 | 1,802.9 | - | 3.0 | 6.0 | 6.0 | 29.9 | 1,847.8 |
| Derivative financial instruments | 32(d) | 4.8 | - | - | - | - | - | 4.8 |
| Borrowings | | | | | | | | |
| -Principal | | 57.4 | 16.8 | 163.5 | 666.8 | 14.6 | 80.3 | 999.4 |
| -Interest | | 59.6 | 58.1 | 55.0 | 47.1 | 8.7 | 49.1 | 277.6 |
| | | 117.0 | 74.9 | 218.5 | 713.9 | 23.3 | 129.4 | 1,277.0 |

| | | Contractually maturing in: | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | < 1 year $M | 1 - 2 years $M | 2 - 3 years $M | 3 - 4 years $M | 4 - 5 years $M | > 5 years $M | Total $M |
| 30 June 2016 | Notes | | | | | | | |
| Payables | 9 | 1,480.7 | 7.3 | - | 3.0 | 6.0 | 16.5 | 1,513.5 |
| Derivative financial instruments | 32(d) | 2.2 | - | - | - | - | - | 2.2 |
| Borrowings | | | | | | | | |
| -Principal | | 233.5 | 209.3 | 48.0 | 22.6 | 691.7 | 141.9 | 1,347.0 |
| -Interest | | 75.4 | 71.3 | 60.8 | 59.0 | 51.9 | 71.0 | 389.4 |
| | | 308.9 | 280.6 | 108.8 | 81.6 | 743.6 | 212.9 | 1,736.4 |

## 16 Borrowings (continued)




### (f) Finance costs

| | Consolidated | |
|---|---|---|
| | | *Restated |
| | **2017** | 2016 |
| | **$M** | $M |
| Interest and finance charges paid/payable | **71.2** | 78.6 |
| Ancillary finance charges | **16.9** | 22.4 |
| Provisions: unwinding of discount | **2.1** | 2.6 |
| | **90.2** | 103.6 |

*Certain amounts shown here have been restated to reflect retrospective changes made to discontinued operations (refer to note 24).

### (g) Non-cash financing activities

| | Consolidated | |
|---|---|---|
| | **2017** | 2016 |
| | **$M** | $M |
| Acquisition of plant and equipment by means of finance leases | **6.8** | 40.9 |

Current period represents a US$4.3M finance lease addition in North America Building Products segment for a warehouse lease. Prior period related to a US$29M finance lease addition in New Zealand steel for the use of equipment associated with the transport of iron sands, fully disposed as part of the sale of the investment on 1 May 2017.

### (h) Recognition and measurement

Borrowings are initially recognised at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are consequently recognised in profit or loss over the term.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

# 17 Contributed equity

## (a) Share capital

| | Parent Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2017 Shares** | 2016 Shares | **2017 $M** | 2016 $M |
| Issued fully paid ordinary shares | **561,111,434** | 571,346,300 | **4,554.4** | 4,688.1 |

## (b) Movements in ordinary share capital

| Date | Details | Number of shares | Issue Price | $M |
|---|---|---|---|---|
| **1 July 2016** | **Opening balance** | **571,346,300** | | **4,688.1** |
| | FY15 KMP STI share awards | 129,621 | $4.12 | 0.5 |
| | FY13 LTIP share award | 393,362 | $3.30 | 1.3 |
| | FY13 CEO LTIP share award | 323,547 | $3.51 | 1.1 |
| | FY13 Retention share award | 1,700,497 | $4.57 | 7.8 |
| | FY15 KMP STI share buy-back | - | - | (0.3) |
| | Share buybacks (c) | (12,781,893) | ($11.74) | (150.1) |
| | Share rights - Tax deduction (d) | - | - | 6.0 |
| **30 June 2017** | **Balance** | **561,111,434** | | **4,554.4** |

| Date | Details | Number of shares | Issue Price | $M |
|---|---|---|---|---|
| **1 July 2015** | **Opening balance** | **565,225,282** | | **4,673.8** |
| | FY14 KMP STI share awards | 154,730 | $5.48 | 0.8 |
| | FY12 KMP LTIP share award | 569,918 | $1.01 | 0.6 |
| | FY12 CEO LTIP share award | 1,367,464 | $1.32 | 1.8 |
| | FY12 KMP Retention share award | 521,585 | $1.06 | 0.6 |
| | FY12 Retention share award | 3,507,321 | $2.52 | 8.8 |
| | Forfeited shares utilised | - | - | 0.3 |
| | Share rights - Tax deduction (d) | - | - | 1.4 |
| **30 June 2016** | **Balance** | **571,346,300** | | **4,688.1** |

## (c) Share buybacks

On 20 February 2017, the Company announced an on-market share buyback program of up to $150M. At 30 June 2017, 12,781,893 shares had been bought back at an average cost of $11.74 (transaction costs of $150,000).

## (d) Share rights- tax deduction

The tax deduction recorded in share capital represents the estimated tax deduction in excess of accounting expense recognised for share right awards issued to employees in North America.

## (e) Capital risk management

Management monitors its capital structure through various key financial ratios with emphasis on the gearing ratio (net debt/total capital). The Group's gearing ratio is managed through the economic price cycle to ensure access to finance at reasonable cost regardless of the point in the cycle. On occasions, the Group will take advantage of certain investment opportunities where an increased level of gearing will be tolerated, provided there is sufficient future cash flow strength and flexibility to be confident of credit strengthening rather than uncertainty and risk of credit weakening.

In managing equity, all methods of returning funds to shareholders outside of dividend payments or raising funds are considered within the context of its balance sheet objectives. In managing debt, the Group seeks a diversified range of funding sources and maturity profiles. Sufficient flexibility is maintained within committed facilities in order to provide the business with the desired liquidity support for operations and to pursue its strategic objectives.

## 17 Contributed equity (continued)

| | Notes | Consolidated 2017 $M | Consolidated 2016 $M |
|---|---|---|---|
| Total borrowings | 16 | **985.2** | 1,327.8 |
| Less: Cash and cash equivalents | 15 | **(753.0)** | (549.8) |
| **Net debt** | | **232.2** | 778.0 |
| **Total equity** | | **5,538.7** | 4,985.3 |
| **Total capital** | | **5,770.9** | 5,763.3 |
| **Gearing ratio** | | **4.0%** | 13.5% |

### (f) Recognition and measurement

**Ordinary shares**
Ordinary shares are classified as equity and have no par value. Ordinary shares carry one vote per share, the right to participate in dividends and entitle the holder to the proceeds on winding up of the Group in proportion to the number of shares held.

The proceeds of share buybacks are deducted from equity, including directly attributable incremental costs (net of income taxes). No gain or loss is recognised in profit and loss.

## 18 Reserves

| | Consolidated 2017 $M | Consolidated 2016 $M |
|---|---|---|
| Hedging (b) (i) | **(1.0)** | 1.6 |
| Share-based payments (b) (ii) | **73.3** | 59.5 |
| Foreign currency translation (b) (iii) | **(81.8)** | (19.4) |
| Non-distributable profits (b) (iv) | **17.3** | 16.3 |
| Asset realisation (b) (v) | **188.8** | 188.8 |
| Controlled entity acquisition (b) (vi) | **(21.9)** | (21.9) |
| | **174.7** | 224.9 |

### (a) Movements in reserves

| Consolidated - June 2017 ($M) | Hedging | Share-based payments | Foreign currency translation | Non-Distributable profits | Asset realisation | Controlled entity acquisition | Total |
|---|---|---|---|---|---|---|---|
| Opening balance | 1.6 | 59.5 | (19.4) | 16.3 | 188.8 | (21.9) | 224.9 |
| Net gain (loss) on cash flow hedges | 1.9 | - | - | - | - | - | 1.9 |
| Net gain (loss) on net investments in foreign subsidiaries | - | - | (15.8) | - | - | - | (15.8) |
| Share-based payments expense | - | 24.0 | - | - | - | - | 24.0 |
| Vesting of share awards | - | (10.2) | - | - | - | - | (10.2) |
| Deferred tax | 0.7 | - | - | - | - | - | 0.7 |
| Transfer to inventory | (5.2) | - | - | - | - | - | (5.2) |
| Transfer to profit and loss | - | - | 1.7 | - | - | - | 1.7 |
| Transfers from retained profits | - | - | - | 1.0 | - | - | 1.0 |
| Exchange fluctuations | - | - | (48.3) | - | - | - | (48.3) |
| **Closing balance** | (1.0) | 73.3 | (81.8) | 17.3 | 188.8 | (21.9) | 174.7 |

## 18 Reserves (continued)

| Consolidated - June 2016 ($M) | Hedging | Share-based payments | Foreign currency translation | Non-Distributable profits | Asset realisation | Controlled entity acquisition | Total |
|---|---|---|---|---|---|---|---|
| Opening balance | (5.7) | 48.1 | 0.3 | 15.5 | 188.8 | (21.9) | 225.1 |
| Net gain (loss) on cash flow hedges | (11.6) | - | - | - | - | - | (11.6) |
| Net gain (loss) on net investments in foreign subsidiaries | - | - | (0.2) | - | - | - | (0.2) |
| Share-based payments expense | - | 23.2 | - | - | - | - | 23.2 |
| Vesting of share awards | - | (11.8) | - | - | - | - | (11.8) |
| Deferred tax | (1.3) | - | - | - | - | - | (1.3) |
| Transfer to inventory | 19.6 | - | - | - | - | - | 19.6 |
| Transfer to PP&E | 0.6 | - | - | - | - | - | 0.6 |
| Transfers from retained profits | - | - | - | 0.8 | - | - | 0.8 |
| Exchange fluctuations | - | - | (19.5) | - | - | - | (19.5) |
| **Closing balance** | 1.6 | 59.5 | (19.4) | 16.3 | 188.8 | (21.9) | 224.9 |

### (b) Nature and purpose of reserves

#### *(i) Hedging reserve*

Records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge relationship.

#### *(ii) Share-based payments reserve*

Recognises the value of equity-settled share-based payments provided to employees, including Key Management Personnel, as part of their remuneration.

#### *(iii) Foreign currency translation reserve*

Records exchange fluctuations arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of the translation of the net investments in foreign operations. The cumulative amount is reclassified to profit and loss when the net investment is disposed of.

#### *(iv) Non-distributable profit reserve*

In certain overseas operations local regulations require a set amount of retained profit to be set aside and not be distributed as a dividend.

#### *(v) Asset realisation reserve*

Arises from the disposal of 50% interest in BlueScope's ASEAN and North American building product businesses.

#### *(vi) Controlled entity acquisition reserve*

Arises from the Group's acquisition of the remaining 40% non-controlling interest in BlueScope Steel (Malaysia) Sdn Bhd and 5% of Lysaght Thailand Ltd and BlueScope Steel Thailand Ltd, adjusted for the subsequent 50% disposal of their additional interests into BlueScope and Nippon Steel and Sumitomo Metal Corporation joint venture. This item represents the difference between the amount paid and the balance of the non-controlling interest acquired.

# 19 Dividends

## (a) Ordinary shares

| | Parent entity | |
|---|---|---|
| | **2017** | 2016 |
| | **$M** | $M |
| Final dividend for 30 June 2016 of 3 cents per fully paid ordinary share paid on 10 October 2016 (2016: 3 cents). | | |
| Fully franked based on tax paid at 30% | **17.2** | 17.1 |
| Interim dividend of 4 cents per fully paid ordinary share was paid on 31 March 2017 in relation to the year ended 30 June 2017 (2016: 3 cents). | | |
| Fully franked based on tax paid at 30% | **23.0** | 17.1 |
| **Total dividends paid** | **40.2** | 34.2 |

## (b) Dividends not recognised at year-end

For the year ended 30 June 2017, the Directors have approved the payment of a final dividend of 5 cents per fully paid ordinary share, fully franked based on tax paid at 30%.

## (c) Franked dividends

| | Parent entity | |
|---|---|---|
| | **2017** | 2016 |
| | **$M** | $M |
| Actual franking account balance as at the reporting date | **14.1** | 31.3 |
| **Franking credits available for subsequent financial years based on a tax rate of 30%** | **14.1** | 31.3 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits (debits) that will arise from the payment (receipt) of the amount of the provision for income tax;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

## (d) Recognition and measurement

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the balance sheet date.

# GROUP STRUCTURE

This section of the notes provides information which will help users understand how the group structure affects the financial position and performance of the Group.

# 20 Business combinations

## (a) Summary of acquisitions of prior years

(i) In June 2014, BlueScope acquired the Auckland long products rolling mill and wire drawing facility from Pacific Steel Group (PSG), a division of Fletcher Steel Limited, for a total purchase price of $107.2M, of which $82.2M was deferred as at 30 June 2014. The billet caster was commissioned in December 2015 and a final acquisition payment of $33.8M was paid by June 2016.

## 20 Business combinations (continued)

(ii) On 30 October 2015, BlueScope acquired the remaining 50% share of North Star BlueScope Steel LLC for a purchase consideration of $999.5M ($987.7M net of transaction costs and cash balances acquired). The business is a high quality steel mini mill in the United States which BlueScope has had a 50% interest in since inception.

The existing 50% equity accounted investment share has been derecognised with a fair value net gain of $706.6M (US$509.3M) recognised in the profit and loss after taking into account the carrying value of the investment and carried forward translation reserves relating to the translation of the equity investment to AUD. The 100% share of net assets has been recognised at fair value.

### (b) Recognition and measurement

The Group applies the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a discount on acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity’s incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit and loss.

## 21 Subsidiaries and non-controlling interests

### (a) Investments in subsidiaries

| Name of entity | Note | Principal place of business | Equity holding 2017 % | Equity holding 2016 % |
|---|---|---|---|---|
| Amari Wolff Steel Pty Ltd | (a) | Australia | **100** | 100 |
| Australian Iron & Steel Pty Ltd | | Australia | **100** | 100 |
| BlueScope Distribution Pty Ltd | (a) | Australia | **100** | 100 |
| BlueScope Steel Asia Holdings Pty Ltd | | Australia | **100** | 100 |
| BlueScope Steel (AIS) Pty Ltd | | Australia | **100** | 100 |
| BlueScope Steel Employee Share Plan Pty Ltd | | Australia | **100** | 100 |
| BlueScope Steel (Finance) Ltd | | Australia | **100** | 100 |
| BlueScope Pacific Steel (Fiji) Pty Limited | (a) | Australia | **100** | 100 |
| BlueScope Steel Americas Holdings Pty Ltd | | Australia | **100** | 100 |
| BlueScope Pty Ltd | | Australia | **100** | 100 |
| BlueScope Solutions Holdings Pty Ltd | (a) | Australia | **100** | 100 |
| BlueScope Water Australia Pty Ltd | (a) | Australia | **100** | 100 |
| BlueScope Building and Construction Ltd | (a) | Australia | **100** | 100 |
| Permalite Aluminium Building Solutions Pty Ltd | | Australia | **100** | 100 |
| Glenbrook Holdings Pty Ltd | | Australia | **100** | 100 |
| Fielders Manufacturing Pty Ltd | | Australia | **100** | 100 |
| John Lysaght (Australia) Pty Ltd | | Australia | **100** | 100 |
| Laser Dynamics Australia Pty Ltd | (a) | Australia | **100** | 100 |
| Lysaght Building Solutions Pty Ltd | (a) | Australia | **100** | 100 |
| Orrcon Distribution Pty Ltd | (a) | Australia | **100** | 100 |
| Orrcon Manufacturing Pty Ltd | (a) | Australia | **100** | 100 |
| Metalcorp Steel Pty Ltd | (a) | Australia | **100** | 100 |
| New Zealand Steel (Aust) Pty Ltd | (a) | Australia | **100** | 100 |

## 21 Subsidiaries and non-controlling interests (continued)

| Name of entity | Note | Principal place of business | Equity holding 2017 % | Equity holding 2016 % |
|---|---|---|---|---|
| The Roofing Centre (Tasmania) Pty Ltd | (a) | Australia | **100** | 100 |
| Butler do Brazil Limitada | (g) | Brazil | **100** | 100 |
| NS BlueScope Lysaght (Brunei) Sdn Bhd | (b) | Brunei | **30** | 30 |
| BlueScope Buildings (Guangzhou) Ltd | | China | **100** | 100 |
| BlueScope Lysaght (Shanghai) Ltd | | China | **100** | 100 |
| BlueScope Steel (Shanghai) Co Ltd | | China | **100** | 100 |
| BlueScope Steel Investment Management (Shanghai) Co Ltd | | China | **100** | 100 |
| BlueScope Lysaght (Langfang) Ltd | | China | **100** | 100 |
| BlueScope Lysaght (Chengdu) Ltd | | China | **100** | 100 |
| BlueScope Building Systems (Xi'an) Co Ltd | | China | **100** | 100 |
| BlueScope Steel (Suzhou) Ltd | | China | **100** | 100 |
| Butler (Shanghai) Inc | | China | **100** | 100 |
| Butler (Tianjin) Inc | | China | **100** | 100 |
| Shanghai BlueScope Butler Construction Engineering Co. Ltd | | China | **100** | 100 |
| BlueScope Lysaght Fiji Ltd | | Fiji | **64** | 64 |
| BlueScope Steel North Asia Ltd | | Hong Kong | **100** | 100 |
| BlueScope Steel India (Private) Ltd | | India | **100** | 100 |
| PT NS BlueScope Indonesia | (b) | Indonesia | **50** | 50 |
| PT NS BlueScope Lysaght Indonesia | (b) | Indonesia | **50** | 50 |
| PT BlueScope Distribution Indonesia | | Indonesia | **100** | 100 |
| PT NS BlueScope Service Center Indonesia | (b) | Indonesia | **50** | 50 |
| PT BlueScope Buildings Indonesia | | Indonesia | **100** | 100 |
| BlueScope Buildings (Malaysia) Sdn Bhd | | Malaysia | **60** | 100 |
| BlueScope Steel Transport (Malaysia) Sdn Bhd | (g) | Malaysia | **100** | 100 |
| NS BlueScope Engineering Systems Sdn Bhd (Malaysia) | (b) (g) | Malaysia | **50** | 50 |
| NS BlueScope (Malaysia) Sdn Bhd | (b) | Malaysia | **50** | 50 |
| NS BlueScope Lysaght (Malaysia) Sdn Bhd | (b) | Malaysia | **30** | 30 |
| NS BlueScope Lysaght (Sabah) Sdn Bhd | (b) | Malaysia | **25** | 25 |
| NS BlueScope Asia Sdn Bhd | (b) | Malaysia | **50** | 50 |
| NS BlueScope Lysaght Myanmar Limited | | Myanmar | **100** | 100 |
| Global BMC (Mauritius) Holdings Ltd | | Mauritius | **100** | 100 |
| Butler Manufacturas S de R.L. de C.V. | | Mexico | **100** | 100 |
| Butler de Mexico S. de R.L. de C.V. | | Mexico | **100** | 100 |
| BlueScope Acier Nouvelle Caledonie SA | (c) | New Caledonia | **65** | 65 |
| BlueScope Steel Finance NZ Ltd | | New Zealand | **100** | 100 |
| Tasman Steel Holdings Ltd | | New Zealand | **100** | 100 |
| New Zealand Steel Holdings Ltd | | New Zealand | **100** | 100 |
| New Zealand Steel Ltd | | New Zealand | **100** | 100 |
| Pacific Steel (NZ) Limited | | New Zealand | **100** | 100 |
| New Zealand Steel Development Ltd | | New Zealand | **100** | 100 |
| Toward Industries Ltd | | New Zealand | **100** | 100 |
| Steltech Structural Ltd | | New Zealand | **100** | 100 |
| BlueScope Steel Trading NZ Ltd | | New Zealand | **100** | 100 |
| New Zealand Steel Mining Ltd | (e) | New Zealand | **-** | 100 |
| Waikato North Head Mining Limited | | New Zealand | **100** | 100 |
| BlueScope Steel International Holdings SA | | Panama | **100** | 100 |
| BlueScope Steel Philippines Inc | | Philippines | **100** | 100 |
| BlueScope Buildings (Singapore) Pte Ltd | | Singapore | **100** | 100 |
| Steelcap Insurance Pte Ltd | | Singapore | **100** | 100 |
| NS BlueScope Lysaght Singapore Pte Ltd | (b) | Singapore | **50** | 50 |
| NS BlueScope Pte Ltd | (b) | Singapore | **50** | 50 |
| NS BlueScope Holdings Thailand Pte Ltd | (b) | Singapore | **50** | 50 |
| BlueScope Steel Southern Africa (Pty) Ltd | | South Africa | **100** | 100 |
| BlueScope Lysaght Taiwan Ltd | | Taiwan | **80** | 80 |
| NS BlueScope (Thailand) Ltd | (b) | Thailand | **40** | 40 |
| Steel Holdings Co Ltd | (b) | Thailand | **50** | 50 |
| NS BlueScope Lysaght (Thailand) Ltd | (b) | Thailand | **40** | 40 |
| BlueScope Buildings (Thailand) Ltd | | Thailand | **80** | 80 |
| BlueScope Steel International Ltd | | UK | **100** | 100 |
| ASC Profiles LLC | (b) | USA | **50** | 50 |

## 21 Subsidiaries and non-controlling interests (continued)

| Name of entity | Note | Principal place of business | Equity holding 2017 % | Equity holding 2016 % |
|---|---|---|---|---|
| BlueScope Steel Finance (USA) LLC | | USA | **100** | 100 |
| BlueScope Steel Holdings (USA) Partnership | | USA | **100** | 100 |
| BlueScope Steel North America Corporation | | USA | **100** | 100 |
| BlueScope Steel Technology Inc | | USA | **100** | 100 |
| BlueScope Steel Americas LLC | | USA | **100** | 100 |
| BlueScope Steel Investments Inc | | USA | **100** | 100 |
| BlueScope Steel Investments 2 LLC | | USA | **100** | 100 |
| BlueScope Steel Investments 3 LLC | | USA | **100** | 100 |
| North Star BlueScope Steel LLC | | USA | **100** | 100 |
| VSMA Inc | | USA | **100** | 100 |
| BIEC International Inc | | USA | **100** | 100 |
| BMC Real Estate Inc | | USA | **100** | 100 |
| Butler Holdings Inc | | USA | **100** | 100 |
| BlueScope Construction Inc | | USA | **100** | 100 |
| Butler Pacific Inc | | USA | **100** | 100 |
| Steelscape LLC | (b) | USA | **50** | 50 |
| Steelscape Washington LLC | (b) | USA | **50** | 50 |
| BlueScope Buildings North America Inc | | USA | **100** | 100 |
| NS BlueScope Holdings USA LLC | (b) | USA | **50** | 50 |
| BlueScope Properties Development LLC | | USA | **100** | 100 |
| BlueScope Properties Group LLC | | USA | **100** | 100 |
| BlueScope Properties Holdings LLC | | USA | **100** | 100 |
| BPG Laredo LLC | | USA | **100** | 100 |
| BlueScope Construction Engineering (Michigan) LLC | (f) | USA | **100** | - |
| BPG Ocoee 1 LLC | (f) | USA | **100** | - |
| BlueScope Lysaght (Vanuatu) Ltd | (c) (d) | Vanuatu | **39** | 39 |
| BlueScope Buildings Vietnam Ltd | | Vietnam | **100** | 100 |
| NS BlueScope Lysaght (Vietnam) Ltd | (b) | Vietnam | **50** | 50 |
| NS BlueScope Vietnam Ltd | (b) | Vietnam | **50** | 50 |

All subsidiaries incorporated in Australia are members of the BlueScope Steel Limited tax consolidated group. Refer to note 30(d)(ii).

(a) These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission. For further information refer to note 31.

(b) These entities are part of the joint venture established between BlueScope and Nippon Steel & Sumitomo Metal Corporation and have been classified as controlled entities because of the Group's unilateral right to appoint the CEO (and other Key Management Personnel), approval of the operating budget and retaining significant decision making authority.

(c) These controlled entities are audited by firms other than Ernst & Young and affiliates.

(d) The Group's ownership of the ordinary share capital in this entity represents a beneficial interest of 39% represented by its 65% ownership in BlueScope Acier Nouvelle Caledonie SA, which in turn has 60% ownership of the entity.

(e) On 1 May 2017 the Group sold its 100% interest in New Zealand Steel Mining Ltd to Taharoa Mining Investments Limited.

(f) New entities incorporated during the year.

(g) This entity is in the process of being liquidated and deregistered.

## 21 Subsidiaries and non-controlling interests (continued)

### (b) Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (c) Non-controlling interests (NCI)

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Financial information of subsidiaries that have material non-controlling interests, as determined by reference to the net assets of the Group, are provided below:

| **Proportion of equity interest held by non-controlling interests:** | **Place of business/ country of incorporation** | | |
|---|---|---|---|
| **Name of entity** | | **2017 %** | 2016 % |
| NS BlueScope (Steel) Thailand Ltd | Thailand | **60** | 60 |
| Steelscape LLC | USA | **50** | 50 |

| **Accumulated balances of material non-controlling interest:** | **2017 $M** | 2016 $M |
|---|---|---|
| NS BlueScope (Steel) Thailand Ltd | **155.8** | 160.1 |
| Steelscape LLC | **155.3** | 146.1 |
| **Profit (loss) allocated to material non-controlling interest:** | | |
| NS BlueScope (Steel) Thailand Ltd | **19.2** | 23.6 |
| Steelscape LLC | **39.3** | 12.6 |

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

| | **NS BlueScope (Steel) Thailand Ltd** | | **Steelscape LLC** | |
|---|---|---|---|---|
| **Summarised statement of financial position** | **2017 $M** | 2016 $M | **2017 $M** | 2016 $M |
| Current assets | **173.9** | 172.9 | **295.0** | 212.0 |
| Non-current assets | **191.9** | 179.4 | **131.9** | 134.3 |
| **Total assets** | **365.8** | 352.3 | **426.9** | 346.3 |
| Current liabilities | **102.3** | 81.8 | **94.0** | 37.3 |
| Non-current liabilities | **3.8** | 3.5 | **22.3** | 16.8 |
| **Total liabilities** | **106.1** | 85.3 | **116.3** | 54.1 |
| **Net assets** | **259.7** | 267.0 | **310.6** | 292.2 |
| **Attributable to:** | | | | |
| Owners of BlueScope Steel Limited | **103.9** | 106.9 | **155.3** | 146.1 |
| Non-controlling interests | **155.8** | 160.1 | **155.3** | 146.1 |

## 21 Subsidiaries and non-controlling interests (continued)

| Summarised statement of comprehensive income | NS BlueScope (Steel) Thailand Ltd | | Steelscape LLC | |
|---|---|---|---|---|
| | **2017 $M** | 2016 $M | **2017 $M** | 2016 $M |
| Revenue | **433.5** | 410.0 | **663.5** | 560.5 |
| Expenses | **(395.0)** | (364.9) | **(584.9)** | (535.3) |
| **Profit before tax** | **38.5** | 45.1 | **78.6** | 25.2 |
| Income tax (expense) | **(6.5)** | (5.8) | **-** | - |
| **Profit after tax** | **32.0** | 39.3 | **78.6** | 25.2 |
| Attributable to non-controlling interests | **19.2** | 23.6 | **39.3** | 12.6 |
| Dividends paid to NCI | **23.1** | 21.5 | **25.6** | 2.6 |

| Summarised statement of cash flows | NS BlueScope (Steel) Thailand Ltd | | Steelscape LLC | |
|---|---|---|---|---|
| | **2017 $M** | 2016 $M | **2017 $M** | 2016 $M |
| Cash inflow from operating activities | **26.1** | 52.3 | **61.3** | 23.2 |
| Cash (outflow) inflow from investing activities | **(30.5)** | (23.6) | **(8.3)** | (8.1) |
| Cash (outflow) from financing activities | **(31.6)** | (36.8) | **(48.9)** | 2.4 |
| **Net increases (decrease) in cash and cash equivalents** | **(36.0)** | (8.1) | **4.1** | 17.5 |

## 22 Investment in associates

| | Consolidated | |
|---|---|---|
| | **2017 $M** | 2016 $M |
| Investment in associates | **7.5** | 8.6 |

### Name of company

| | Principal Place of Business | Ownership interest **2017 %** | 2016 % |
|---|---|---|---|
| Saudi Building Systems Manufacturing Company Ltd | Saudi Arabia | **30** | 30 |
| Saudi Building Systems Ltd | Saudi Arabia | **30** | 30 |
| NS BlueScope Lysaght (Sarawak) Sdn Bhd | Malaysia | **25** | 25 |
| SteelServ Limited | New Zealand | **50** | 50 |

### (a) Movements in carrying amounts

| | Consolidated | |
|---|---|---|
| | **2017 $M** | 2016 $M |
| Carrying amount at the beginning of year | **8.6** | 7.3 |
| Share of profits after income tax | **3.4** | 3.9 |
| Dividends received/receivable | **(4.3)** | (3.3) |
| Currency fluctuation | **(0.2)** | 0.7 |
| **Carrying amount at the end of the year** | **7.5** | 8.6 |

### (b) Contingent assets and liabilities relating to associates

There were no contingent assets and liabilities relating to investments in associates.

## 22 Investment in associates (continued)

### (c) Recognition and measurement

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates in the consolidated financial statements reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 23 Investment in joint ventures

| | Consolidated | |
|---|---|---|
| | **2017** | 2016 |
| | **$M** | $M |
| Interest in joint venture partnerships | **36.7** | 30.7 |

The Group also has a 50% interest in Tata BlueScope Steel Ltd, an Indian resident, the principal activity of which is to manufacture metallic coated and painted steel products.

### (a) Movements in carrying amounts

| | North Star BlueScope Steel LLC | | Tata BlueScope Steel | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **$M** | $M | **$M** | $M |
| Carrying amount at beginning of year | **-** | 112.8 | **30.7** | 24.5 |
| Share of profit after income tax | **-** | 28.7 | **5.7** | 7.3 |
| Dividends received/receivable | **-** | (24.2) | **-** | - |
| Disposal of equity investment (i) | **-** | (124.5) | **-** | - |
| Reserve movements | **-** | - | **(0.3)** | (0.3) |
| Exchange fluctuations | **-** | 7.2 | **0.6** | (0.8) |
| **Carrying amount at the end of the year** | **-** | - | **36.7** | 30.7 |

(i) On 30 October 2015, BlueScope acquired the remaining 50% share of North Star BlueScope Steel LLC, resulting in the disposal of the existing 50% equity accounted investment and recognising 100% share at fair value as a controlled entity.

# 23 Investment in joint ventures (continued)

## (b) Summarised financial information

| | Tata BlueScope Steel | |
|---|---|---|
| | **2017 $M** | 2016 $M |
| **Summarised statement of financial position** | | |
| Current assets | | |
| Cash and cash equivalents | **10.4** | 41.9 |
| Receivables | **21.7** | 21.1 |
| Inventories | **55.4** | 43.6 |
| Prepayment and other assets | **11.3** | 13.4 |
| Financial assets held at fair value | **24.4** | - |
| Non-current assets | | |
| Property plant and equipment | **170.2** | 185.9 |
| Other | **3.6** | 2.5 |
| **Total assets** | **297.0** | 308.4 |
| Current liabilities | | |
| Payables | **38.2** | 41.5 |
| Provisions | **1.5** | 1.4 |
| Deferred income | **5.3** | 11.4 |
| Non-current liabilities | | |
| Payables | **-** | 1.7 |
| Borrowings | **175.8** | 187.6 |
| Provisions | **2.8** | 3.3 |
| **Total liabilities** | **223.6** | 246.9 |
| **Net assets** | **73.4** | 61.5 |
| Proportion of the Group's ownership (%) | **50.0** | 50.0 |
| **Carrying amount of the investment** | **36.7** | 30.7 |

| | North Star BlueScope Steel LLC(i) | | Tata BlueScope Steel | |
|---|---|---|---|---|
| | **2017 $M** | 2016 $M | **2017 $M** | 2016 $M |
| **Summarised statement of comprehensive income:** | | | | |
| Revenues | **-** | 470.1 | **344.0** | 340.0 |
| Expenses | **-** | (405.6) | **(300.7)** | (287.9) |
| Depreciation and amortisation expense | **-** | (6.8) | **(11.9)** | (14.8) |
| Finance costs | **-** | (0.3) | **(20.0)** | (22.5) |
| **Profit (loss) before income tax** | **-** | 57.4 | **11.4** | 14.8 |
| **Income tax (expense) benefit** | **-** | - | **-** | - |
| **Group's share of profit (loss) for the year** | **-** | 28.7 | **5.7** | 7.4 |
| **Group's share of capital commitments** | **-** | - | **-** | - |

(i) For the year ended 30 June 2016, North Star BlueScope Steel LLC's results represented four months of the Group's equity accounted share of profit.

# 23 Investment in joint ventures (continued)

## (c) Contingent liabilities relating to joint ventures

**Export Promotion Capital Goods Scheme (EPCG)**
TBSL has imported goods under the Government of India's EPCG scheme at the concessional rates of duty with an obligation to fulfill the specified exports. Failure to meet this export obligation within the stipulated time would result in payment of the aggregate differential duty saved along with interest. TBSL is confident of meeting the obligation. BlueScope's 50% share of this contingent liability is $2.8M (2016: $5.1M).

**Disputed rent**
The Jharkhand Government has been in a land rental dispute with Tata Steel for several years and this matter impacts the rental costs of Tata BlueScope Steel Limited (TBSL) as a sub-tenant of Tata Steel. BlueScope's 50% share of this contingent liability is $5.2M (2016: $4.5M).

**Taxation**
TBSL has direct and indirect tax computations which have been submitted but not agreed by the relevant authorities. TBSL has provided for the amount of tax it expects to pay taking into account professional advice it has received. The matters currently in dispute could result in amendments to the original computations. BlueScope's 50% share of the potential amendments is $5.6M (2016: $3.7M).

## (d) Secured liabilities and assets pledged as security

The Tata BlueScope Steel borrowings are secured against property, plant and equipment.

## (e) Impairment losses

Current period includes fixed asset write-downs of $4.7M within Building Products ASEAN, North America and India segment for the India joint venture in relation to engineered building solutions assets no longer required.

Prior period included $2.3M of impairment losses recognised in relation to the Group's 47.5% investment in Castrip LLC. On 8 July 2016, the Group sold its 47.5% interest in Castrip for US$20M (A$26.6M). The investment in Castrip was held at $Nil value.

## (f) Recognition and measurement

Joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets, and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint venturers") have rights to the net assets of the arrangement.

The interests in joint ventures are accounted for in the financial statements using the equity method. Under the equity method, the share of the profits or losses of the partnerships are recognised in profit or loss, and the share of post-acquisition movements in reserves is recognised in other comprehensive income.

Profits or losses on transactions establishing a joint venture and transactions with a joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

# 24 Discontinued operations

## (a) Description

**New Zealand Steel Mining Ltd**
The Group discontinued its Taharoa New Zealand Steel Mining business upon sale of the business on 1 May 2017, with retrospective changes made to the comparative period results.

## (b) Financial performance of discontinued operations

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Taharoa Mining $M | Other $M | Total $M | Taharoa Mining $M | Other $M | Total $M |
| Revenue | **108.7** | **-** | **108.7** | 115.0 | - | 115.0 |
| Other income | **0.5** | **0.8** | **1.3** | - | - | - |
| Impairment of non-current assets (note 14(e)) | **(7.0)** | **-** | **(7.0)** | (182.4) | - | (182.4) |
| Finance costs | **(4.8)** | **-** | **(4.8)** | (5.5) | - | (5.5) |
| Other expenses | **(82.9)** | **(0.4)** | **(83.3)** | (128.2) | (0.7) | (128.9) |
| Profit (loss) before income tax | **14.5** | **0.4** | **14.9** | (201.1) | (0.7) | (201.8) |
| Income tax benefit | **-** | **-** | **-** | - | 0.1 | 0.1 |
| Profit (loss) after income tax from discontinued operations | **14.5** | **0.4** | **14.9** | (201.1) | (0.6) | (201.7) |

The results from discontinued operations are required to be presented on a consolidated basis. Therefore, the impact of intercompany sales, profit in stock eliminations, intercompany interest income and expense and intercompany funding have been excluded. The profit attributable to the discontinued segment is not affected by these adjustments. As a result of these adjustments the discontinued operations result do not represent the operations as stand-alone entities.

## (c) Cash flow information - discontinued operations

The net cash flows of discontinued operations held are as follows:

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Taharoa Mining $M | Other $M | Total $M | Taharoa Mining $M | Other $M | Total $M |
| Net cash inflow (outflow) from operating activities | **13.0** | **0.1** | **13.1** | (11.1) | (12.0) | (23.1) |
| Net cash inflow (outflow) from investing activities | **(10.5)** | **-** | **(10.5)** | (27.5) | - | (27.5) |
| Net cash inflow (outflow) from financing activities | **(10.3)** | **-** | **(10.3)** | (4.2) | - | (4.2) |
| **Net increase in cash generated by the operation** | **(7.8)** | **0.1** | **(7.7)** | (42.8) | (12.0) | (54.8) |

# UNRECOGNISED ITEMS

This section of the notes provides information about items that are not recognised in the financial statements as they do not yet satisfy the recognition criteria but could potentially have an impact on the Group's financial position and performance.

## 25 Contingencies

### (a) Contingent liabilities

The Group had contingent liabilities at 30 June 2017 in respect of:

*(i) Outstanding legal matters*

BlueScope has initiated legal proceeding against South32 alleging certain coal supply contract non-compliances estimated at approximately $86 million. South32 subsequently initiated legal proceedings against BlueScope alleging certain other coal supply contract non-compliances with a similar value.

In addition, there were a range of immaterial outstanding legal matters that were contingent on court decisions, arbitration rulings and private negotiations to determine amounts required for settlement. The contingent liability for minor legal matters is estimated to be $3.8M (2016: $3.8M).

*(ii) Guarantees*

In Australia, BlueScope Steel Limited has provided $87.6M (2016: $87.6M) in guarantees to various state workers compensation authorities as a prerequisite for self-insurance. An amount, net of recoveries, of $51.5M (2016: $55.6M) has been recognised as recommended by independent actuarial advice.

Bank guarantees have been provided to customers and suppliers in respect of the performance of goods and services provided and purchases of goods and services which are immediately callable by default. Bank guarantees outstanding at 30 June 2017 totalled $93.0M (2016: $88.4M).

*(iii) Taxation*

The Group operates in many countries across the world, each with separate taxation authorities, which results in significant complexity. At any point in time there are tax computations which have been submitted but not agreed by those tax authorities and matters which are under discussion between Group companies and the tax authorities. The Group provides for the amount of tax it expects to pay taking into account those discussions and professional advice it has received. While conclusion of such matters may result in amendments to the original computations, the Group does not believe that such adjustments will have a material adverse effect on its financial position, although such adjustments may be significant to any individual year's income statement.

*(iv) Regulatory*

The Group is subject to extensive government laws and regulation, including environmental, greenhouse gas emissions, tax, occupational health and safety, competition law and trade restrictions in each of the countries in which it operates. The Group is also subject to risks posed by the conduct of our employees and other participants in the supply chain and to the risk of regulatory investigations into compliance with government laws and regulations which could be lengthy and costly.

Over the last financial year, the Australian Competition and Consumer Commission (ACCC) has been investigating potential cartel conduct by BlueScope relating to the supply of steel products in Australia, that involved a small number of BlueScope employees in the period from late 2013 to mid-2014. BlueScope has co-operated, and continues to co-operate, with the ACCC’s investigation.

### (b) Contingent assets

There are no material contingent assets required for disclosure as at 30 June 2017.

# 26 Commitments

## (a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

| | Consolidated 2017 $M | Consolidated 2016 $M |
|---|---|---|
| Property, plant and equipment | | |
| Payable: | | |
| Within one year | **67.9** | 37.5 |
| Later than one year but not later than five years | **-** | 0.4 |
| | **67.9** | 37.9 |

## (b) Lease commitments: Group as lessee

### *(i) Non-cancellable operating leases*

The Group leases various property, plant and equipment under non-cancellable operating leases. The rental expense relating to operating leases for year ended 30 June 2017 was $88.8M (2016: $101.8M). The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. There are no restrictions placed upon the lessee by entering into these leases.

| | Consolidated 2017 $M | Consolidated 2016 $M |
|---|---|---|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | **89.7** | 110.4 |
| Later than one year but not later than five years | **223.4** | 249.0 |
| Later than five years | **153.6** | 209.1 |
| **Total operating lease commitments** | **466.7** | 568.5 |

### *(ii) Finance leases*

The Group leases various property, plant and equipment with a carrying amount of $88.7M (2016: $88.8M).

The terms and conditions of other leases include varying terms, purchase options and escalation clauses. On renewal, the terms of these are renegotiated.

There are no restrictions of use placed upon the lessee by entering into any of these leases.

| | Notes | Consolidated 2017 $M | Consolidated 2016 $M |
|---|---|---|---|
| Commitments in relation to finance leases are payable as follows: | | | |
| Within one year | | **27.9** | 31.9 |
| Later than one year but not later than five years | | **92.7** | 132.6 |
| Later than five years | | **127.3** | 210.8 |
| **Minimum lease payments** | | **247.9** | 375.3 |
| Future finance charges | | **(103.1)** | (151.6) |
| **Recognised as a liability** | | **144.8** | 223.7 |
| Representing lease liabilities: | | | |
| Current | 16 | **14.2** | 13.1 |
| Non-current | 16 | **130.6** | 210.6 |
| **Total finance lease liabilities** | | **144.8** | 223.7 |

## 26 Commitments (continued)

### (c) Recognition and measurement - Lease liabilities

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to control the use of the asset, even if that right is not explicitly specified in an arrangement.

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## 27 Events occurring after balance date

(i) BlueScope announced on 21 August 2017 Mr Mark Vassella as its new Managing Director & CEO from 1 January 2018, after Mr Paul O'Malley announced his retirement effective 31 December 2017 as Managing Director & CEO. The remuneration arrangements for Mr Vassella and the retirement conditions for Mr O'Malley are outlined in the Remuneration Report.

(ii) BlueScope announced on 21 August 2017 the appointment of Jennifer Lambert as a non-executive director effective 1 September 2017. Ms Lambert will nominate for election at the Annual General Meeting on 11 October 2017.

# OTHER INFORMATION

This section of the notes includes information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements but are not considered critical in understanding the financial performance or position of the Group.

## 28 Share-based payments

### (a) Share award schemes

*(i) STI share awards - Key Management Personnel*

The Board approved the annual STI plans for FY16 and FY17 for the CEO and Key Management Personnel, being a two year equity STI program. No amount will be paid in cash. Performance was assessed against a range of financial and other measures aligned with the returns delivered to shareholders from the implementation of initiatives under the Group's strategic plan. The shares will be issued in late August 2017.

*(ii) The Long Term Incentive Plan*

The Long Term Incentive Plan (LTIP) is a program determined annually by the Board, which awards share rights to eligible senior management of BlueScope Steel Limited. LTIPs are designed to reward senior management for long-term value creation, and are part of the Group's overall recognition and retention strategy. The share rights give the right to receive an ordinary share at a later date subject to the satisfaction of certain performance criteria and continued employment with the Group.

The share rights available for exercise are contingent on the Group's Total Shareholder Return (TSR) percentile ranking relative to the TSR of companies in the S&P/ASX 100 index at the reward grant date or a compound annual growth rate of Earnings per Share (EPS) condition. Share rights that fail to meet performance vesting conditions will lapse upon the LTIP's expiry date, or sooner upon employee resignation or termination. Plans have been granted to senior management, all at $Nil exercise price.

*(iii) Deferred Equity Award*

The Board awarded deferred equity awards to senior management throughout the Group, with no performance hurdles required to be met. The equity award gives the right to receive an ordinary share at a later date subject to continued employment with the Group.

## 28 Share-based payments (continued)

### (b) Fair value of share rights granted

The fair value of the share rights granted during the year ended 30 June 2017 are as follows:

| Fair Value inputs | KMP FY17 STI awards | Supplementary FY17 KMP LTIP (TSR) | Supplementary FY17 KMP LTIP (EPS) | FY17 LTIP (Senior management) (TSR) | FY17 Deferred Equity Awards (Senior management) |
|---|---|---|---|---|---|
| Grant date | 1 Jul 2016 | 1 Sept 2016 | 1 Jul 2016 | 1 Sept 2016 | 1 Sept 2016 |
| Latest expiry date | 30 Jun 2017 | 31 Aug 2020 | 30 Jun 2019 | 31 Aug 2020 | 31 Aug 2019 |
| Share rights granted | 267,893 | 94,519 | 94,519 | 877,270 | 780,000 |
| Fair value estimate at grant date ($) | 8.47 | 5.88 | 8.22 | 4.88 | 7.42 |
| Cash rights (i) | - | - | - | 38,550 | 50,250 |
| Valuation date share price ($) | 8.59 | 8.59 | 8.59 | 7.75 | 7.75 |
| Expected dividend yield (%) | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| Expected risk-free interest rate (%) | 1.51 | 1.49 | 1.42 | 1.57 | 1.52 |
| Expected share price volatility (%) | 40.00 | 40.00 | 40.00 | 40.00 | 40.00 |

(i) The cash rights have been issued to eligible employees in Asia who are entitled to receive cash bonuses three years from grant date, in place of shares. The fair value of the cash rights is calculated as the sum of the market value of shares and dividends that would have otherwise been received.

### (c) Cash and equity settled awards outstanding

| | STI share awards (CEO & KMP) | LTIP (CEO, KMP & Senior management) | Retention share awards (KMP & Senior management) | Deferred Equity (Senior management) |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 3,532,763 | 10,531,818 | 1,828,354 | 2,728,710 |
| Granted during the year | 267,893 | 1,104,858 | - | 830,250 |
| Exercised during the year | (188,063) | (802,513) | (1,814,011) | - |
| Lapsed during the year | - | (184,750) | (14,343) | (138,526) |
| **Outstanding at the end of the year** | 3,612,593 | 10,649,413 | - | 3,420,434 |
| Exercisable at the end of the year | - | - | - | - |

(i) The average share price for the year ended 30 June 2017 was $9.93 (2016: $4.79).

The weighted average remaining contractual life of share rights outstanding at the end of the period was 1 year (2016:1.6 years).

### (d) Expense arising from share-based payment transactions

| | Consolidated 2017 $M | Consolidated 2016 $M |
|---|---|---|
| Employee share rights expense | **24.0** | 23.2 |
| Employee share awards expense | **3.5** | 2.6 |
| **Total net expense arising from share-based payments** | **27.5** | 25.8 |

The carrying amount of the liability relating to share-based payment plans at 30 June 2017 is $4.3M (30 June 2016: $2.7M). This liability represents the deferred cash amounts payable under LTIPs and Deferred equity awards.

## 28 Share-based payments (continued)

### (e) Recognition and measurement

**Equity settled transactions**
The fair value of equity settled awards are recognised as an employee benefit expense with a corresponding increase to the share based payments reserve within equity. The amount to be expensed is determined by reference to the fair value of the share awards or share rights granted, which includes any market performance conditions but excludes the impact of non-market performance vesting conditions.

The fair value of equity settled awards at grant date is independently determined by an external valuer using Black-Scholes option pricing model that includes a Monte Carlo simulation analysis, which takes into account the exercise price, the term of the share right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share right.

Non-market vesting conditions are included in assumptions about the number of share awards or share rights that are expected to vest. The expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are expected to be satisfied. At the end of each period, the entity revises its estimates of the number of share awards and share rights that are expected to vest based on non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects the extent to which the expected vesting period has expired and the number of rights that are expected to ultimately vest. This number is based on the best available information at the reporting date. No expense is recognised for awards that do not ultimately vest due to a performance condition not being met, except for share rights where vesting is only conditional upon a market condition. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Upon the exercise of equity settled share awards, the balance of the share-based payments reserve relating to those rights and awards is transferred to share capital. The dilutive effect, if any, of outstanding rights is reflected as additional share dilution in the computation of diluted earnings per share.

**Cash settled transactions**
The ultimate expense recognised in relation to cash-settled transactions will be equal to the actual cash paid to the employees, which will be the fair value at settlement date. The expected cash payment is estimated at each reporting date and a liability is recognised to the extent that the vesting period has expired and in proportion to the amount of the awards that are expected to ultimately vest.

## 29 Related party transactions

### (a) Parent entities

The ultimate parent entity within the Group is BlueScope Steel Limited, which is incorporated in Australia.

### (b) Key Management Personnel compensation

| | Consolidated | |
|---|---|---|
| | **2017** | 2016 |
| | **$'000** | $'000 |
| Short-term employee benefits | **7,739.9** | 8,147.4 |
| Post-employment and other long-term benefits | **303.5** | 261.1 |
| Share-based payments | **12,622.0** | 11,528.1 |
| | **20,665.4** | 19,936.6 |

# 29 Related party transactions (continued)

## (c) Transactions with other related parties

The following transactions occurred with related parties other than Key Management Personnel or entities related to them:

| | Consolidated 2017 $M | 2016 $M |
|---|---|---|
| *Sales of goods and services* | | |
| Sales of goods to associates | **3.3** | 2.3 |
| *Interest revenue* | | |
| Interest revenue | **0.1** | 0.1 |
| *Superannuation contributions* | | |
| Contribution to superannuation funds on behalf of employees | **104.4** | 107.2 |

## (d) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties other than key management personnel:

| | Note | Consolidated 2017 $M | 2016 $M |
|---|---|---|---|
| *Current receivables (sales of goods and services)* | | | |
| Associates | | **0.5** | 0.2 |
| Joint ventures | | **1.6** | - |
| *Current receivables (loans)* | | | |
| Associates | 6 | **1.3** | 1.3 |
| *Current payable (purchase of goods and services)* | | | |
| Associates | | **3.3** | 2.9 |

## (e) Terms and conditions

Sales of finished goods and purchases of raw materials from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms. There are no fixed terms for the repayment of loans between the parties.

The terms and conditions of the tax funding agreement are set out in note 30(d)(ii).

Outstanding balances are unsecured and are repayable in cash.

**Other director transactions with Group entities**

Transactions with related parties of directors of wholly owned subsidiaries within the BlueScope Steel Group total $1.2M (2016: $1.3M). These transactions have been made on commercial arm's length terms and conditions.

# 30 Parent entity financial information

## (a) Summary financial information

**Summarised Statement of comprehensive income**

| | 2017 $M | 2016 $M |
|---|---|---|
| Revenue | **2,894.2** | 2,668.0 |
| Other Income | **13.8** | 0.7 |
| Net impairment (expense) write-back of non-current assets | **14.6** | (724.9) |
| Finance costs | **(100.5)** | (111.8) |
| Other expenses | **(2,750.3)** | (2,368.8) |
| **Profit (loss) before income tax** | **71.8** | (536.8) |
| Income tax expense (benefit) | **102.0** | (0.6) |
| **Net profit (loss) for the year** | **173.8** | (537.4) |
| **Other comprehensive income (loss) for the year** | **-** | - |
| **Total comprehensive income (loss) for the year** | **173.8** | (537.4) |
| **Summary of movements in retained losses** | | |
| **Retained losses at the beginning of the year** | **(1,523.4)** | (986.0) |
| Net profit (loss) for the year | **173.8** | (537.4) |
| Transfer to profits reserve | **(173.8)** | - |
| Other | **(0.1)** | - |
| **Retained losses at the end of the year** | **(1,523.5)** | (1,523.4) |

**Summarised Statement of financial position**

| | 2017 $M | 2016 $M |
|---|---|---|
| **Assets** | | |
| Current assets | **4,615.5** | 4,496.3 |
| Non-current assets | **1,542.9** | 1,526.8 |
| **Total assets** | **6,158.4** | 6,023.1 |
| **Liabilities** | | |
| Current liabilities | **2,122.3** | 1,989.0 |
| Non-current liabilities | **62.6** | 68.3 |
| **Total liabilities** | **2,184.9** | 2,057.3 |
| **Net assets** | **3,973.5** | 3,965.8 |
| **Equity** | | |
| Contributed equity | **4,554.4** | 4,688.1 |
| Share-based payments reserve | **67.4** | 59.5 |
| Profits reserve | **875.2** | 741.6 |
| Retained losses | **(1,523.5)** | (1,523.4) |
| **Total equity** | **3,973.5** | 3,965.8 |

**Profits reserve**
Profits reserve represents profits available for distribution to BlueScope Steel Limited shareholders as dividends.

# 30 Parent entity financial information (continued)

## (b) Guarantees entered into by the parent entity

In Australia, the parent entity has given $87.6M (2016: $87.6M) in guarantees to various state workers compensation authorities as a prerequisite for self-insurance and has entered into a deed of cross-guarantee with certain Australian wholly-owned subsidiaries (note 31). Additionally, the parent entity has provided financial guarantees in respect to subsidiaries amounting to:

| | Parent entity | |
|---|---|---|
| | **2017** | 2016 |
| | **$M** | $M |
| Bank overdrafts and loans of subsidiaries | **915.0** | 917.0 |
| Other loans (unsecured) | **650.3** | 816.8 |
| Trade finance facilities | **195.1** | 200.9 |
| | **1,760.4** | 1,934.7 |

## (c) Capital commitments

As at 30 June 2017, the parent entity had capital commitments of $6.6M (June 2016: $5.2M). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

## (d) Recognition and measurement

The financial information for the parent entity BlueScope Steel Limited has been prepared on the same basis as the consolidated financial statements, except as set out below.

### *(i) Investment in subsidiaries*

Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the financial statements of BlueScope Steel Limited.

### *(ii) Tax consolidation legislation*

BlueScope Steel Limited and its wholly-owned Australian controlled entities have entered into a tax sharing and funding agreement in relation to their participation in the tax consolidation regime. Under the terms of this agreement, the wholly-owned entities reimburse BlueScope Steel Limited for any current tax payable assumed and are compensated by BlueScope Steel Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to BlueScope Steel Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from BlueScope Steel Limited, which is issued as soon as practicable after the end of each financial year. BlueScope Steel Limited may require payment of interim funding amounts to assist with its obligations to pay tax instalments.

The tax sharing agreement limits the joint and several liability of the wholly-owned entities in the case of a default by BlueScope Steel Limited. At balance date, the possibility of default is considered remote.

The tax consolidated group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. Intercompany receivables of $108.0M (2016: $90.2M) and intercompany payables of $6.1M (2016: $86.9M) of BlueScope Steel Limited have been recognised as a tax consolidated adjustment.

## 31 Deed of cross - guarantee

BlueScope Steel Limited and certain Australian wholly owned subsidiaries are parties to a deed of cross-guarantee under which each company guarantees the debts of the others. The companies in the deed are as follows:

Amari Wolff Steel Pty Ltd
BlueScope Building and Construction Ltd
BlueScope Distribution Pty Ltd
BlueScope Pacific Steel (Fiji) Pty Limited
BlueScope Steel Limited
BlueScope Solutions Holdings Pty Ltd
BlueScope Water Australia
Fielders Manufacturing Pty Ltd
Glenbrook Holdings Pty Ltd
Lysaght Building Solutions Pty Ltd
Laser Dynamics Australia Pty Ltd
Metalcorp Steel Pty Ltd
New Zealand Steel (Aust) Pty Ltd
Orrcon Distribution Pty Ltd
Permalite Aluminium Building Solutions Pty Ltd
The Roofing Centre (Tasmania) Pty Ltd

By entering into the deed, with the exception of Glenbrook Holdings Pty Ltd, the wholly owned subsidiaries have been relieved from the requirement to prepare a financial report and Directors' report under ASIC (wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission. Glenbrook Holdings Pty Ltd continues to form part of the deed of cross-guarantee and closed group, however is denied ASIC (wholly-owned Companies) Instrument 2016/785 relief due to direct ownership being held from outside of the closed group.

### (a) Consolidated income statement and a summary of movements in consolidated retained losses

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross-guarantee that are controlled by BlueScope Steel Limited, they also represent the 'extended closed group'.

| | **2017 $M** | 2016 $M |
|---|---|---|
| **Statement of comprehensive income** | | |
| **Revenue** | **3,681.1** | 3,519.4 |
| Other income | **14.2** | 88.8 |
| Changes in inventories of finished goods and work in progress | **26.5** | (73.0) |
| Raw materials and consumables used | **(2,409.8)** | (2,004.2) |
| Employee benefits expense | **(523.6)** | (524.9) |
| Depreciation and amortisation expense | **(63.9)** | (61.5) |
| Net impairment (expense) write- back of non-current assets | **18.7** | (720.8) |
| Freight on external despatches | **(215.0)** | (203.1) |
| External services | **(264.5)** | (298.5) |
| Finance costs | **(102.0)** | (116.5) |
| Other expenses from ordinary activities | **(77.2)** | (95.5) |
| **Profit (loss) before income tax** | **84.5** | (489.8) |
| Income tax benefit | **102.7** | 19.8 |
| **Net profit (loss) for the year** | **187.2** | (470.0) |
| Other comprehensive income for the year | **-** | - |
| **Total comprehensive income (loss) for the year** | **187.2** | (470.0) |

# 31 Deed of cross - guarantee (continued)

### Summary of movements in consolidated retained losses

| | 2017 $M | 2016 $M |
|---|---|---|
| **Retained losses at the beginning of the year** | **(1,308.3)** | (838.3) |
| Net profit (loss) for the year | **187.2** | (470.0) |
| Transfer to profits reserve | **(173.8)** | - |
| Other | **(0.1)** | - |
| **Retained losses at the end of the year** | **(1,295.0)** | (1,308.3) |

## (b) Statement of financial position

| | 2017 $M | 2016 $M |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | **69.7** | 69.0 |
| Trade and other receivables | **4,475.5** | 4,352.5 |
| Inventories | **478.2** | 426.8 |
| Deferred charges and prepayments | **18.5** | 16.0 |
| **Total current assets** | **5,041.9** | 4,864.3 |
| **Non-current assets** | | |
| Receivables - external | **8.4** | 8.4 |
| Inventories | **15.7** | 15.6 |
| Other financial assets | **1,012.2** | 993.5 |
| Property, plant and equipment | **584.1** | 572.0 |
| Deferred tax assets | **84.6** | 84.6 |
| Intangible assets | **32.6** | 40.1 |
| Other | **0.3** | - |
| **Total non-current assets** | **1,737.9** | 1,714.2 |
| **Total assets** | **6,779.8** | 6,578.5 |
| **Current liabilities** | | |
| Trade and other payables | **778.0** | 686.9 |
| Borrowings | **1,547.7** | 1,459.1 |
| Provisions | **166.5** | 152.5 |
| Deferred income | **7.5** | 6.2 |
| **Total current liabilities** | **2,499.7** | 2,304.7 |
| **Non-current liabilities** | | |
| Payables | **0.7** | 0.9 |
| Borrowings | **19.5** | 19.7 |
| Provisions | **55.4** | 69.7 |
| Deferred income | **2.6** | 2.9 |
| **Total non-current liabilities** | **78.2** | 93.2 |
| **Total liabilities** | **2,577.9** | 2,397.9 |
| **Net assets** | **4,201.9** | 4,180.6 |
| **Equity** | | |
| Contributed equity | **4,554.4** | 4,688.1 |
| Share-based payments reserve | **67.4** | 59.5 |
| Hedge reserve | **(0.1)** | (0.3) |
| Profits reserve | **875.2** | 741.6 |
| Retained losses | **(1,295.0)** | (1,308.3) |
| **Total equity** | **4,201.9** | 4,180.6 |

# 32 Financial instruments and risk

## (a) Financial assets and liabilities

| | | Loans and receivables $M | Derivative instruments $M | Financial liabilities at amortised cost $M | Total carrying amount $M |
|---|---|---|---|---|---|
| **30 June 2017** | Notes | | | | |
| **Financial assets** | | | | | |
| Receivables | 6 | 1,363.9 | - | - | 1,363.9 |
| Derivative financial instruments | 32(d) | - | 7.3 | - | 7.3 |
| | | 1,363.9 | 7.3 | - | 1,371.2 |
| **Financial liabilities** | | | | | |
| Payables | 9 | - | - | (1,847.8) | (1,847.8) |
| Borrowings | 16 | - | - | (985.4) | (985.4) |
| Derivative financial instruments | 32(d) | - | (4.8) | - | (4.8) |
| | | 1,363.9 | 2.5 | (2,833.2) | (1,466.8) |

| | | Loans and receivables $M | Derivative instruments $M | Financial liabilities at amortised cost $M | Total carrying amount $M |
|---|---|---|---|---|---|
| 30 June 2016 | Notes | | | | |
| **Financial assets** | | | | | |
| Receivables | 6 | 1,194.2 | - | - | 1,194.2 |
| Derivative financial instruments | 32(d) | - | 5.1 | - | 5.1 |
| | | 1,194.2 | 5.1 | - | 1,199.3 |
| **Financial liabilities** | | | | | |
| Payables | 9 | - | - | (1,513.5) | (1,513.5) |
| Borrowings | 16 | - | - | (1,327.8) | (1,327.8) |
| Derivative financial instruments | 32(d) | - | (2.2) | - | (2.2) |
| | | 1,194.2 | 2.9 | (2,841.3) | (1,644.2) |

# 32 Financial instruments and risk (continued)

## (b) Risk management

The Board of Directors has overall responsibility for overseeing the management of financial risks, and approves policies for financial risk management with the objective of supporting the delivery of financial targets while protecting future financial security.

The Group's Audit & Risk Committee regularly reviews the financial risk management framework to ensure it is appropriate when considering any changes in market conditions. It reviews financial risk management controls and procedures and oversees how management monitors compliance with these, and monitors the levels of exposure to fluctuations in commodity prices, interest rates, and foreign exchange rates.

| Risk | Exposure arising from | Measurement | Management |
|---|---|---|---|
| **Foreign exchange risk** | Foreign currency payables and receivables (primarily USD) and net investments in foreign currency. | Sensitivity analysis and cash flow forecasting | Hedged with forward foreign exchange contracts or internal (net investment) of foreign operations as disclosed in note (c). |
| **Interest rate risk** | Floating interest rate bearing liabilities (2017: $203.4M, 2016: $305.2M) and investments in cash and cash equivalents (2017: $753.0M, 2016: $549.8M). | Sensitivity analysis | Given the level of exposure, any impact from reasonably possible movements in interest rates (+/- 50 basis points) will be immaterial. |
| **Commodity price risk** | International steel prices (primarily hot rolled coil and slab), and commodity prices including iron ore, coal, scrap, zinc, aluminium and electricity. | Sensitivity analysis | Forward commodity contracts as disclosed in note (c). Any impact from reasonably possible movements based on an historical basis and market expectations (+/- 20%) in electricity will be immaterial. |
| **Liquidity risk** | Difficulty in meeting obligations associated with financial liabilities. | Rolling cash flow forecasts | The Group's net exposure to liquidity risk is not significant based on available funding facilities and cash flow forecasts. Refer to note 16(b) for a summary of the Group's material financing facilities. When undertaking financing facilities, the Group takes into account a liquidity buffer which is reviewed at least annually. |
| **Credit risk (Counterparties/ Geographical)** | -Possibility that counterparties to the Group's financial assets, including cash, receivables and derivative financial instruments, will fail to settle their obligations under their contracts.<br>- Large number of customers internationally dispersed with trades in several major geographical regions.<br>-Regions in which the Group has a significant credit exposure are Australia, USA, China, South-East Asia and New Zealand.<br>-Significant transactions with major customers, being Arrium Limited and Fletcher Buildings Group within the Australian operations. | Ageing analysis and fair value exposure management | -Establish credit approvals and limits, including the assessment of counterparty creditworthiness.<br>-Undertake monitoring procedures such as periodic assessments of the financial viability of its counterparties and reviewing terms of trade.<br>-Obtain letters of credit from financial institutions to guarantee the underlying payment from trade customers.<br>-Undertake debtor insurance to cover selective receivables for both commercial and sovereign risks. |

# 32 Financial instruments and risk (continued)

## (c) Foreign currency risk exposure and sensitivity analysis (AUD/USD)

| | Consolidated | |
|---|---|---|
| | **2017** | 2016 |
| | **$M** | $M |
| Cash and cash equivalents | **103.9** | 23.4 |
| Trade and other receivables | **35.2** | 44.6 |
| Forward foreign exchange contracts | **1.0** | 4.0 |
| Forward commodity contracts | **-** | 0.1 |
| Commodity option | **5.3** | - |
| **Financial assets** | **145.4** | 72.1 |
| Trade and other payables | **165.5** | 167.7 |
| Borrowings | **72.8** | 77.7 |
| Forward foreign exchange contracts | **2.4** | 0.9 |
| **Financial liabilities** | **240.7** | 246.3 |
| **Net exposure** | **(95.3)** | (174.2) |

This exposure for the Group does not reflect the natural hedge of USD assets against USD liabilities of AUD 183.4M (2016: AUD 70.2M).

| | Post-tax profit higher (lower) | | Equity higher (lower) | |
|---|---|---|---|---|
| **Judgement of reasonably possible movements:** | **2017** | 2016 | **2017** | 2016 |
| | **$M** | $M | **$M** | $M |
| AUD/USD + 10% (2016: +10%) | **4.9** | 12.5 | **4.9** | 12.5 |
| AUD/USD - 10% (2016: -10%) | **(6.0)** | (15.3) | **(6.0)** | (15.3) |

## (d) Commodity price and foreign exchange risk management

The Group uses derivative instruments to manage commodity price risk and foreign exchange risk by entering into forward contracts. Derivatives are used only for the purposes of managing these risks and not for speculative purposes.

| | Consolidated | |
|---|---|---|
| | **2017** | 2016 |
| | **$M** | $M |
| Forward foreign exchange contracts - cash flow hedges (i) | **-** | 3.6 |
| Forward foreign exchange contracts - fair value hedges (i) | **1.0** | 1.4 |
| Forward commodity contracts - cash flow hedges (ii) | **1.0** | 0.1 |
| Commodity option - non-current asset (iii) | **5.3** | - |
| **Financial assets** | **7.3** | 5.1 |
| Forward foreign exchange contracts - cash flow hedges (i) | **2.4** | 2.0 |
| Forward foreign exchange contracts - fair value hedges (i) | **2.4** | 0.2 |
| **Financial liabilities** | **4.8** | 2.2 |
| **Net exposure** | **2.5** | 2.9 |

(i) *Forward foreign exchange contract*
The Group has entered into forward foreign exchange contracts designated as cash flow hedges and fair value hedges relating to foreign currency sales and purchases, plant and equipment purchases and hedging of net working capital exposures. For the cash flow hedges, the effective portion of gains and losses are recognised directly in equity. The fair value hedges are being marked to market through the profit and loss in line with the Group's risk management strategy.

(ii) *Forward commodity contracts*
The Group has entered into forward contracts for the purchase of electricity for its New Zealand Steel business. This forward contract has been designated as a cash flow hedge with the effective portion of gains and losses recognised directly in equity.

# 32 Financial instruments and risk (continued)

(iii) *Commodity option*
As part of the sale agreement of New Zealand Steel Mining Limited to Taharoa Mining Investments Limited (TMIL), BlueScope is eligible to receive future royalties of US$1.66 per DMT when the Platts Index Quotation is equal or greater than US$65 per DMT. The royalty period is for iron sand shipments made between years 2 and 11 from 1 May 2017. The royalty agreement ends on 10 May 2028.

The key model variable inputs impacting the value of the derivative are the Platts index iron ore price, the historical volatility of iron ore prices, the credit worthiness of TMIL and production risk. The June 2017 royalty value has been assessed at US$4M. The royalty value will need to be reassessed at each reporting date with any movement in the fair value of the derivative to be fair valued through the profit and loss and included in discontinued operations.

## (e) Fair values

The carrying amounts and estimated fair values of the Group’s financial instruments recognised in the financial statements are materially the same, with the exception of the following:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying amount $M | Fair value $M | Carrying amount $M | Fair value $M |
| *Non-traded financial liabilities* | | | | |
| Other loans | **650.3** | **682.6** | 816.8 | 897.5 |
| **Net assets (liabilities)** | **(650.3)** | **(682.6)** | (816.8) | (897.5) |

The above financial liability is not readily traded on organised markets in standardised form. The fair value of interest bearing financial liabilities where no market exists is based upon discounting the expected future cash flows by the current market interest rates on liabilities with similar risk profiles that are available to the Group (level 3).

### *Valuation of financial instruments*

(*i*) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
(*ii*) Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (i.e. derived from prices); and
(*iii*) Level 3 - inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Derivatives valued using valuation techniques with market observable inputs are primarily foreign exchange forward contracts and commodity forward contracts. These valuations reference forward pricing using present value calculations. The forward price incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, and forward rate curves of the underlying commodity. The fair value of forward commodity exchange contracts and forward foreign exchange contracts are considered level 2 valuations (note 32(d)) and the commodity royalty option is considered level 3.

## (f) Recognition and measurement of derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- Hedges of a net investment in a foreign operation (net investment hedges).

The relationship between hedging instruments and hedged items, the risk management objective and the strategy for undertaking hedge transactions, is documented at the inception of the hedge transaction. The effectiveness of the derivatives in offsetting changes in fair values or cash flows of hedged items is assessed and documented on an ongoing basis.

*(i) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

## 32 Financial instruments and risk (continued)

*(ii) Cash flow hedges*

Changes in the fair value of derivatives that are designated as cash flow hedges are recognised in other comprehensive income and accumulated in the hedging reserve in equity. The gain or loss relating to the effective portion is recognised in other comprehensive income and accumulated in the hedging reserve, whilst ineffective portions are recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in the hedging reserve are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in the hedging reserve are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

*(iii) Net investment hedges*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses. Gains and losses accumulated in the foreign currency translation reserve are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

*(iv) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

*(v) Discontinuation of hedge accounting*

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedging reserve is immediately reclassified to profit or loss.

## 33 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group, and its related practices:

### (a) Audit services

| | **Consolidated** | |
|---|---|---|
| | **2017** | 2016 |
| | **$** | $ |
| *Audit and review of financial statements and other audit work under the Corporations Act 2001:* | | |
| Ernst & Young (including overseas Ernst & Young firms) | **3,950,000** | 4,096,000 |

## 33 Remuneration of auditors (continued)

### (b) Other services

| | Consolidated | |
|---|---|---|
| | **2017** | 2016 |
| | **$** | $ |
| Other non-audit services | | |
| Ernst & Young Australian firm | | |
| Tax compliance services | **38,000** | 357,000 |
| Advisory services | **694,000** | 106,000 |
| Assurance related | **61,000** | 666,000 |
| Related practices of Ernst & Young Australian firm (including overseas Ernst & Young firms) | | |
| Tax compliance services | **80,000** | 44,000 |
| | **873,000** | 1,173,000 |

## 34 Other accounting policies

### (a) New Accounting Standards and Interpretations not yet adopted by the Group

Certain new Accounting Standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below.

*(i) AASB 9 Financial Instruments (effective from 1 July 2018)*

This standard addresses the classification, measurement and derecognition of financial assets in addition to new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

An assessment of the impact of the amendments to the standard is not expected to result in a material change to the financial statements and disclosures of the Group upon implementation. The new standard will result in an increase in the impairment allowance against trade receivables due to the change to an earlier recognition of the allowance via the use of an expected credit loss model.

*(ii) AASB 15 Revenue from Contracts with Customers (effective 1 July 2018)*

AASB 15 replaces AASB 118 Revenue which covers contracts for goods and services, and AASB 111 Construction Contracts, which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of good or service transfers to a customer, so the notion of control replaces the existing notion of risk and rewards. This standard has the potential to change the timing and in some cases the quantum of revenue recognised.

Management has carried out an assessment of the impact of the new standard and based on the work performed to date, it expects that it will not have a material impact on the Group's recognition and measurement of revenue.

*(iii) AASB 16 Leases (effective 1 July 2019)*

IFRS16, the new lease accounting standard was released in January 2016. The standard eliminates the classification of leases as either operating leases or finance leases as required by the current lease accounting standard and, instead, introduces a single lessee accounting model. A lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and depreciate lease assets separately from interest on lease liabilities in the income statement.

Management has carried out a preliminary assessment of the impact of the new standard and expects that it will have a material impact on the Group's financial statements and disclosures. This will involve an increase in assets and liabilities, change in the timing in which lease expenses are recognised, a switch in earnings categories from operating expense to depreciation and interest expense and an increase in gearing levels. Further assessment of the impact will be carried out as part of the adoption of the new standard.

# 34 Other accounting policies (continued)

*(iv) AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107 (effective 1 July 2017)*

This standard amends AASB 107 *Statement of Cash Flows* to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group will apply this amendment from 1 July 2017.

*(v) IFRS 2 Classification and measurement of share based payment transactions (effective 1 July 2018)*

This standard makes amendments to IFRS 2 *Share based Payments,* clarifying how to account for certain types of share-based payment transactions.

An assessment of the amendments to the standard has been carried out and it is not expected to result in any change to the financial statements and disclosures of the Group.

*(vi) IFRIC Interpretation 23 – Uncertainty over income tax treatments (effective 1 July 2019)*

IFRIC 23 clarifies the application of recognition and measurement requirements in AASB 112 Income Taxes when there is uncertainty over income tax treatments and removes most of the choice about how to reflect uncertain tax positions in the financial statements.

A full assessment of the amendments to the standard is yet to be carried out. However, the amendments are not expected to result in any change to the financial statements of the Group.

## (b) Foreign currency translation

*(i) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

*(ii) Foreign operations*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold, a proportionate share of such exchange differences is reclassified to profit or loss as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets and liabilities of the foreign entities and translated at the closing rate.

## 34 Other accounting policies (continued)

### (c) Other taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

# Directors' Declaration

BLUESCOPE STEEL LIMITED
FOR THE YEAR ENDED 30 JUNE 2017

In the Directors' opinion:

(a) the financial statements and notes set out on pages 1 to 67 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross-guarantee described in note 31.

(d) the financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the Directors.

**J Bevan**
Chairman

Paul O'Malley

**P F O'Malley**
Managing Director & CEO

Melbourne
21 August 2017

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# Independent Auditor's Report to the Members of BlueScope Steel Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of BlueScope Steel Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Carrying value of property, plant & equipment (PPE) and intangible assets (including goodwill)

| Why significant | How our audit addressed the key audit matter |
|---|---|
| As required by Australian Accounting Standards - *AASB 136 Impairment of Assets*, the Group annually tests the amount of goodwill for impairment and tests other non-current assets where indicators of impairment exist using a discounted cash flow model to estimate the recoverable value. This impairment test was significant to our audit because the assessment process is complex and judgmental and is based on assumptions such as foreign exchange, steel product, iron ore and coal pricing that are affected by expected future market or economic conditions.<br><br>The Group recorded impairment charges during the financial year relating to the assets of the Taharoa, Tata BlueScope Steel, BlueScope | The audit procedures we performed included testing the mathematical accuracy of the discounted cash flow model, and evaluation of the assumptions and methodologies used by the Group, in particular those relating to key operating assumptions set out in Note 14 of the consolidated financial report. We involved our valuation specialists to assist in these audit procedures.<br><br>In respect to the Group's forecasts, we:<br>• Assessed key assumptions such as forecast steel product, iron ore and coal pricing, foreign exchange rates and domestic sales volumes in comparison to external independent forecasters where available;<br>• Assessed the Group's current year actual results in comparison to prior year forecasts to assess forecast accuracy; |

| Why significant | How our audit addressed the key audit matter |
|---|---|
| Buildings China and Buildings Products Indonesia cash generating units ("CGUs") totalling $106M. The asset values in the Taharoa CGU had been written down to nil and the CGU was subsequently divested in May 2017, and certain specific assets were written down to nil within the Tata BlueScope Steel CGU. The BlueScope Buildings China and Buildings Products Indonesia CGUs both recorded impairment write downs due to a deterioration in future forecast earnings triggered by current year performance. There remains a risk that any further deterioration in macroeconomic factors could result in additional impairment charges in future periods.<br><br>There are also CGUs with significant goodwill balances. These CGUs include North Star BlueScope Steel (goodwill balance of $865M) and BlueScope Buildings North America (goodwill balance of $285M).<br><br>The Group's disclosures are included in Note 14 which specifically explain the key operating assumptions used; and sensitivity of changes in the key assumptions which could give rise to an impairment of the PPE and intangible assets (including goodwill) balance in the future. | • Assessed the Group's assumptions for growth rates in the impairment model in comparison to economic and industry forecasts;<br>• Considered capital expenditure forecasts;<br>• Assessed discount rates through comparing the cost of capital for the Group with comparable businesses; and<br>• Considered the EBIDTA multiples against comparable companies as a valuation cross check.<br><br>We performed sensitivity analysis in respect of the assumptions noted above, which have been deemed to have the most material impact on carrying values, to ascertain the extent of changes in those assumptions which either individually or collectively would be required for the PPE and intangible assets (including goodwill) to be impaired. We assessed the likelihood of these changes in assumptions arising.<br><br>We assessed the adequacy of the Group's disclosures of those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of PPE and intangible assets (including goodwill). |

2. Accounting for tax positions

| Why significant | How our audit addressed the key audit matter |
|---|---|
| Accounting for tax positions is a key audit matter because the assessment process is complex, includes estimation uncertainty and the amounts involved are material to the financial report as a whole. The Group's operations are subject to income and deferred taxes in various jurisdictions which results in complexities around the applicability of various tax legislations.<br><br>Additionally the recoverability of deferred tax assets is a key audit matter due to the financial significance of the asset ($85M in the Australian Consolidated Tax Group "ACTG"), and the degree of uncertainty associated with the Group's forecast of future taxable profits.<br><br>The Group's disclosures are included in Note 4. | The audit procedures we have performed have covered the completeness and accuracy of the amounts recognised as current and deferred taxes, including the assessment of correspondence with tax authorities and the evaluation of tax exposures. We involved our taxation specialists to assess the tax positions adopted across the Group for each material component. This involved assessing the tax calculations, estimations and assumptions applied by each material component for their relevant jurisdiction.<br><br>In relation to deferred tax assets, we assessed and tested the Group's assumptions that substantiate the probability that deferred tax assets recognised on the consolidated statement of financial position will be recovered through taxable income in future years. These procedures included assessing the board approved budget, forecasts and historical accuracy of the Group's ability to achieve forecasts (our procedures on the forecasts are further detailed in KAM #1 above). In addition, we considered other assumptions such as tax depreciation and assessed the deductibility of expenditure.<br><br>We also assessed the Group's adequacy of disclosures in regards to tax positions applicable in different tax jurisdictions. |

## Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.
As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report
We have audited the Remuneration Report included in pages 23 to 43 of the directors' report for the year ended 30 June 2017.
In our opinion, the Remuneration Report of BlueScope Steel Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities
The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Glenn Carmody
Partner
Melbourne
21 August 2017

# EXTENDED FINANCIAL HISTORY

## 10 Year Financial History

| A$M unless marked; years ended 30 June | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income Statement Key Items** | | | | | | | | | | | | |
| Total Revenue[1] | | 8,913 | 10,495 | 10,329 | 8,624 | 9,134 | 8,622 | 7,290 | 8,007 | 8,572 | 9,203 | 10,758 |
| EBITDA[2] - Reported | | 1,423 | 1,420 | 380 | 590 | (687) | (489) | 339 | 430 | 640 | 1,010 | 1,425 |
| - Underlying | | 1,373 | 1,615 | 511 | 598 | 254 | 106 | 393 | 543 | 667 | 966 | 1,485 |
| EBIT[2] - Reported | | 1,099 | 1,063 | 15 | 240 | (1,043) | (820) | 23 | 102 | 297 | 622 | 1,045 |
| - Underlying | | 1,058 | 1,267 | 160 | 259 | (91) | (215) | 79 | 221 | 329 | 584 | 1,105 |
| NPAT - Reported | | 686 | 596 | (66) | 126 | (1,054) | (1,044) | (107) | (82) | 136 | 354 | 716 |
| - Underlying | | 645 | 812 | 44 | 119 | (110) | (225) | 14 | 81 | 161 | 307 | 651 |
| **Segment underlying EBIT** | | | | | | | | | | | | |
| Australian Steel Products | | 773 | 1,061 | 185 | 109 | (270) | (365) | (55) | 48 | 150 | 361 | 459 |
| New Zealand and Pacific Steel Products | | 90 | 85 | 87 | 73 | 83 | 69 | 34 | 32 | (7) | (40) | 61 |
| Building Products ASEAN, Nth Am & India | | 66 | 110 | (62) | 107 | 82 | 51 | 80 | 89 | 98 | 149 | 202 |
| BlueScope Buildings | | 15 | 62 | 28 | (9) | (2) | 38 | 16 | 27 | 44 | 49 | 64 |
| Hot Rolled Products North America | | 155 | 105 | (58) | 61 | 72 | 62 | 67 | 105 | 107 | 147 | 407 |
| Corporate & Group | | (42) | (64) | (122) | (68) | (68) | (69) | (63) | (80) | (65) | (81) | (89) |
| Inter-segment | | 2 | (93) | 101 | (12) | 11 | (1) | (1) | 2 | 0 | (1) | 1 |
| **Continuing businesses underlying EBIT** | | **1,058** | **1,266** | **160** | **260** | **(91)** | **(215)** | **78** | **221** | **329** | **584** | **1,105** |
| **Financial Performance Measures** | | | | | | | | | | | | |
| Return on invested capital[3] | | 19.6% | 18.2% | 0.2% | 3.8% | -16.2% | -16.0% | 0.5% | 2.1% | 5.8% | 10.2% | 17.5% |
| Return on equity[4] | | 20.3% | 15.7% | -1.4% | 2.3% | -19.6% | -25.5% | -2.9% | -2.0% | 3.2% | 7.7% | 14.9% |
| **Capital, Earnings Per Share & Dividends** | | | | | | | | | | | | |
| Weighted average number of ordinary shares | (millions) | 719.7 | 744.2 | 930.6 | 1,823.3 | 1,836.5 | 2,668.7 | 558.2 | 558.6 | 561.2 | 570.1 | 571.1 |
| Earnings per share (reported)[5] | ¢/s | 95.3 | 80.1 | (7.1) | 6.9 | (57.4) | (39.1) | (19.2) | (14.8) | 24.3 | 62.1 | 125.3 |
| Earnings per share (adjusted)[6] | ¢/s | 399.5 | 335.9 | (36.0) | 35.0 | (291.3) | (234.6) | (19.1) | (14.8) | 24.3 | 62.1 | 125.3 |
| Dividends per share (reported)[5] | ¢/s | 47.0 | 49.0 | 5.0 | 5.0 | 2.0 | 0.0 | 0.0 | 0.0 | 6.0 | 6.0 | 9.0 |
| Dividends per share (adjusted)[7] | ¢/s | 191.5 | 199.6 | 20.4 | 25.4 | 10.2 | 0.0 | 0.0 | 0.0 | 6.0 | 6.0 | 9.0 |

| A$M unless marked; years ended 30 June | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash Flow Summary** | | | | | | | | | | | |
| Net cash inflow (outflow) from operating activities | 964 | 1,304 | 424 | 377 | 28 | 267 | 161 | 407 | 539 | 952 | 1,132 |
| Net cash inflow (outflow) from investing activities | (541) | (1,510) | (728) | (327) | (367) | (80) | (310) | (438) | (411) | (1,290) | (408) |
| Net cash inflow (outflow) from financing activities | (454) | 203 | 639 | (160) | 273 | (148) | 429 | (15) | (115) | 368 | (509) |
| **Net increase (decrease) in cash held** | **(31)** | **(3)** | **336** | **(110)** | **(65)** | **39** | **281** | **(45)** | **13** | **30** | **215** |
| **Financial Position** | | | | | | | | | | | |
| Total assets | 7,506 | 8,466 | 8,865 | 8,998 | 7,793 | 6,734 | 7,331 | 7,519 | 7,878 | 9,149 | 9,575 |
| Total liabilities | 3,641 | 4,524 | 3,201 | 3,242 | 3,397 | 2,955 | 2,871 | 3,062 | 3,138 | 4,163 | 4,037 |
| **Net assets** | **3,865** | **3,942** | **5,663** | **5,756** | **4,396** | **3,779** | **4,460** | **4,457** | **4,739** | **4,985** | **5,539** |
| Net Operating Assets (pre-tax) | 5,598 | 6,025 | 6,480 | 6,559 | 5,399 | 4,047 | 4,441 | 4,664 | 4,888 | 5,750 | 5,803 |
| Net Debt | 1,502 | 1,722 | 756 | 743 | 1,068 | 384 | 148 | 262 | 275 | 778 | 232 |
| **Gearing (net debt / net debt plus equity)** | **28.0%** | **30.4%** | **11.8%** | **11.4%** | **19.5%** | **9.2%** | **3.2%** | **5.5%** | **5.5%** | **13.5%** | **4.0%** |

(1) Excludes the company's 50% share of North Star BlueScope Steel revenue until 30 October 2015. Includes revenue other than sales revenue. Includes revenue from discontinued businesses - that is, total revenue has not been restated for sale or closure of any businesses after that date.

(2) Includes 50% share of net profit from North Star BlueScope Steel until 30 October 2015, and 100% consolidated profit thereafter.

(3) Return on invested capital is defined as earnings before interest and tax (annualised in case of half year comparison) over average monthly capital employed.

(4) Return on equity is defined as net profit after tax attributable to shareholders over average monthly shareholders' equity.

(5) Per share calculation has not been restated for the bonus element of the one-for-one share rights issue undertaken in May and June 2009, and the four-for-five share rights issue undertaken in December 2011, the six for one share consolidation undertaken in December 2012, and adjustments required in applying the revised AASB119 Employee Benefits standard in 2013.

(6) In accordance with AASB 133 Earnings per Share, comparative earnings per share calculations have been restated for the bonus element of the one-for-one share rights issue undertaken in May and June 2009, and the four-for-five share rights issue undertaken in December 2011, the six for one share consolidation undertaken in December 2012, and adjustments required in applying the revised AASB119 Employee Benefits standard in 2013.

(7) Dividends per share adjusted for December 2012 share consolidation, and to reflect deemed 'bonus component' of the May 2009 and November 2011 entitlement offers

Underlying results are re-stated for all periods for re-classifications of any businesses to discontinued.

- businesses re-classified to discontinued - Lysaght Taiwan (2006), Packaging Products (2006), Vistawall (2007), Metl-Span (2012), Building Solutions Australia (2015), Taharoa Export Iron Sands (2017).
- arising from its divestment in May 2017, the Taharoa export iron sands business has been reclassified into Discontinued Operations. Earnings have been restated to exclude the Taharoa export iron sands business from the NZPac segment for the years that Taharoa was reported separately, FY14 to FY17. (Prior to this Taharoa results were integrated in the NZPac results).

# SHAREHOLDER INFORMATION
AND CORPORATE DIRECTORY

## SHAREHOLDER INFORMATION
As at 31 July 2017

### Distribution Schedule

| Range | No of Holders | Securities | % |
|---|---|---|---|
| 1 to 1,000 | 65,228 | 19,442,606 | 3.47 |
| 1,001 to 5,000 | 12,688 | 25,874,949 | 4.61 |
| 5,001 to 10,000 | 1,264 | 8,921,113 | 1.59 |
| 10,001 to 100,000 | 644 | 14,938,607 | 2.66 |
| 100,001 and Over | 62 | 491,934,159 | 87.67 |
| **Total** | **79,886** | **561,111,434** | **100.00** |

Based on a closing share price of $13.180 on 31 July 2017, the number of shareholders holding less than a marketable parcel of 38 shares is 7,725 and they hold 153,221 shares.

### Twenty Largest Registered Shareholders

| Rank | Name | Securities | %IC |
|---|---|---|---|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 202,064,862 | 36.01% |
| 2 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 89,331,020 | 15.92% |
| 3 | CITICORP NOMINEES PTY LIMITED | 77,540,476 | 13.82% |
| 4 | NATIONAL NOMINEES LIMITED | 42,228,653 | 7.53% |
| 5 | BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C> | 17,321,008 | 3.09% |
| 6 | BNP PARIBAS NOMS PTY LTD <DRP> | 15,494,881 | 2.76% |
| 7 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 11,856,616 | 2.11% |
| 8 | CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 7,600,869 | 1.35% |
| 9 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C> | 3,481,375 | 0.62% |
| 10 | AMP LIFE LIMITED | 3,368,546 | 0.60% |
| 11 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA | 2,571,442 | 0.46% |
| 12 | BOND STREET CUSTODIANS LIMITED <MACQ HIGH CONV FUND A/C> | 2,014,996 | 0.36% |
| 13 | RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <VFA A/C> | 1,682,102 | 0.30% |
| 14 | NATIONAL NOMINEES LIMITED <N A/C> | 1,202,740 | 0.21% |
| 15 | NATIONAL NOMINEES LIMITED <DB A/C> | 1,132,530 | 0.20% |
| 16 | BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C> | 900,411 | 0.16% |
| 17 | WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C> | 889,968 | 0.16% |
| 18 | UBS NOMINEES PTY LTD | 715,000 | 0.13% |
| 19 | BOND STREET CUSTODIANS LIMITED <JBWT1 - V31288 A/C> | 620,652 | 0.11% |
| 20 | NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT> | 579,458 | 0.10% |
| | **TOTAL** | **482,597,605** | **86.01%** |
| | **Balance of Register** | **78,513,829** | **13.99%** |
| | **Grand TOTAL** | **561,111,434** | **100.00%** |

### Substantial Shareholders

As at 31 July 2017, BlueScope has been notified of the following substantial shareholdings:

| Name | Number of securities held |
|---|---|
| Ausbil Investment Management Limited | 35,530,219 |
| BlackRock Group | 30,351,491 |

### Voting Rights for Ordinary Shares

The Constitution provides for votes to be cast:
(a) on a show of hands, one vote for each shareholder; and
(b) on a poll, one vote for each fully paid share.

# CORPORATE DIRECTORY

| | |
|---|---|
| **Directors** | J A Bevan<br>*Chairman*<br>P F O'Malley<br>*Managing Director and Chief Executive Officer*<br>D B Grollo<br>K A Dean<br>P Bingham-Hall<br>E G W Crouch AM<br>L H Jones<br>R P Dee-Bradbury<br>J M Lambert (from 1 September 2017) |
| **Secretary** | D J Counsell |
| **Executive Leadership Team** | P F O'Malley<br>*Managing Director and Chief Executive Officer*<br>T J Archibald<br>*Chief Financial Officer, BlueScope Australia and New Zealand and BlueScope Coated Products*<br>D J Counsell<br>*Chief Legal Officer and Company Secretary*<br>S Dayal<br>*Chief Executive, NS BlueScope*<br>S R Elias<br>*Chief Financial Officer*<br>P Finan<br>*Chief Executive, BlueScope Buildings*<br>A Highnam<br>*Executive General Manager, People and Performance*<br>M R Vassella<br>*Chief Executive, BlueScope Australia and New Zealand* |
| **Notice of Annual General Meeting** | The Annual General Meeting of BlueScope Steel Limited will be held at the Grand Hyatt, 123 Collins Street, Melbourne at 10.00am on Wednesday, 11 October 2017 |
| **Corporate Governance Statement** | An overview of BlueScope Steel's corporate governance structures is presented in the 2017 Corporate Governance Statement which is available online at:<br>http://www.bluescope.com/about-us/governance |
| **Registered Office** | Level 11, 120 Collins Street, Melbourne, Victoria 3000<br>Telephone: +61 3 9666 4000<br>Fax: +61 3 9666 4111<br>Email: bluescopesteel@linkmarketservices.com.au<br>Postal Address: PO Box 18207, Collins Street East, Melbourne, Victoria 8003 |
| **Share Registrar** | Link Market Services Limited<br>Level 12, 680 George Street, Sydney, NSW 2000<br>Postal address: Locked Bag A14, Sydney South, NSW 1235<br>Telephone (within Australia): 1300 855 998<br>Telephone (outside Australia): +61 1300 855 998<br>Fax: +61 2 9287 0303<br>Email: bluescopesteel@linkmarketservices.com.au |
| **Auditor** | Ernst & Young<br>8 Exhibition Street, Melbourne, Victoria 3000 |
| **Securities Exchange** | BlueScope Steel Limited shares are quoted on the Australian Securities Exchange (ASX code: BSL) |
| **Website Address** | www.bluescope.com |

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