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Dear Fellow Shareholders

CHANGES TO ANSELL'S EXECUTIVE REMUNERATION FRAMEWORK

The creation of a fair and reasonable remuneration framework is integral to the success of Ansell. Your Board, all of whom are shareholders, see attracting and retaining talented staff at all levels as fundamental to generating attractive returns for shareholders. We are also committed to transparent communication with shareholders regarding the reasons for and the process of, setting our remuneration framework.

At our Annual General Meeting last year, 65% of the total vote received from shareholders approved the adoption of our 2015 Remuneration Report. However, a significant minority voted against that report constituting a 'first strike' under the Australian Corporations Act. Your Board has taken this minority vote very seriously.

Prior to the AGM, we had announced the start of a review of our remuneration structure, as we were concerned that some aspects of our framework were being made ineffective by increased volatility in external markets. As part of this review process, and in order to understand why there was such a large minority of our shareholders voting against our report, we engaged broadly with our stakeholders to seek feedback on our remuneration practices. We spent significant time listening to this feedback as well as taking advice on contemporary market practice to re-examine our remuneration practices.

While there were a number of concerns raised in relation to some specific remuneration practices to which we respond below, it has also become apparent that it is essential to improve our remuneration communications. This is especially important in regards to the principles used to guide our remuneration practices and how these translate into annual remuneration outcomes.

Ansell is ASX listed. However, the vast majority of its operations and all of its senior executives are based outside of Australia – with the majority of them in Europe or the Americas. Our remuneration practices must take account of this and have been developed accordingly, to be competitive in the multiple jurisdictions in which we wish to attract and retain talent.

As many of those practices are different to Australian 'market' practice, we acknowledge that it is incumbent upon us to provide more explanation and context.

Following from our engagement with stakeholders, the Board has decided to implement a number of changes to our executive remuneration framework for FY17 to ensure that remuneration outcomes:

> remain strongly aligned with the generation of shareholder value over the longer term;

> are appropriately balanced between rewarding the execution of short term objectives and sustaining longer term performance; and

> provide appropriate reward for exceeding acceptable minimum levels of performance in the current low growth environment facing many of the markets in which we operate and sell our products.

In order to ensure that our remuneration practices are consistent and aligned with our strategies, we are in the process of updating our Remuneration Policy and Strategy, which will be available for shareholders to review on our website a little closer to the release of the 2016 Remuneration Report.

To achieve this your Board appointed external advisers to provide an independent view. AON Hewitt was engaged to provide market data on remuneration levels to assist in assessing the competitiveness of our remuneration packages in the key markets in which we employ executives. Additionally, 3 degrees consulting was appointed to provide strategic, communications and stakeholder engagement advice in reviewing our Remuneration Policy, incentive programs and to assist in communicating the reasons for the agreed changes.

Set out below is a summary of the feedback we received and the changes we are implementing in response:

Short term incentive (STI)	
Setting of targets	The selection of financial metrics used in STI targets will generally include a revenue measure, a profit measure and in some cases a measure of asset efficiency or cashflow depending on priorities set for the coming year. Incentives will be calculated based on total Ansell performance for the Executive Leadership Team (ELT), and for all others on a combination of total Ansell and individual business unit or regional performance. Incentive outcomes will be calculated in a straight line from zero to maximum, similar to the new LTI plan. Incentive payments will therefore incorporate a lower threshold and lower starting incentive amount, as against the current plan, where the lowest incentive payment is at 50% of target.
Performance conditions – use of non-financial measures	In recognition of the importance of measures other than financial targets to our longer term prosperity as a company, we are continuing our practice of having non-financial performance measures as a portion of the STI scorecard for our Executive Leadership Team (ELT). In this regard, non-financial measures will comprise a maximum of 20% of the total scorecard.

	In FY17 these non-financial measures will make up 10% of the scorecard for our ELT and include metrics on safety and customer satisfaction. These measures are intended to augment our strong financial measures and will be clearly defined and measurable in order to deliver results that are consistent with the Group's strategic priorities and relevant to the particular role of the ELT member.
Payment of reward – incentive deferral	There was concern that our STI plan incentives are paid entirely in cash following the determination of results each year, which may encourage management to pursue short term objectives at the expense of longer term value. While we believe our short term and long term remuneration arrangements complement and counterbalance each other, from FY17 onwards, a part of our STI awards will be deferred in the form of restricted shares (determined with reference to the extent that performance is at or above the midpoint between threshold and stretch to a maximum of 50% of the overall STI opportunity). The restriction will see the shares held for a period of two years from award. This change is being made in recognition of the sizeable short term rewards that may be earned for exceptional performance and a desire to ensure those short term targets are exceeded in a manner that is sustainable over the longer term. Restricted shares will be awarded in place of cash to place a part of the reward at continued risk against future share prices.
Long term incentive (LTI)	
Setting of targets	The vesting schedules for the LTI performance conditions will be finalised in August and communicated ahead of the AGM. The vesting schedule will be a straight line from zero to maximum, a change from the current plan where separate threshold, target and maximum levels are set. The low end of the target performance range will be lower compared to the current plan as payout will begin in a straight line from zero, versus today's minimum payout at 50% of target. Target performance ranges setting the minimum to maximum incentive range for EPS, Organic Growth and ROCE may vary from year to year and will be set after taking account of expected economic conditions and strategic priorities of the business. Achieving the upper end of incentive targets where excellent performance is now required against three measures over three years is more challenging than a plan focused on one measure.
Performance conditions – three performance measures	As Ansell has continued to invest capital in acquiring businesses that we believe complement or augment our existing business, some stakeholders expressed concern at our single LTI plan performance condition relating to growth in earnings per share (**EPS**). The Board has therefore decided to introduce two *additional* performance measures – Group EBIT return on capital employed (**ROCE**) and long term organic growth in revenue (**Organic Growth**).

	Using these measures in combination should improve the alignment between incentive outcomes and long term value creation. The Board considered the introduction of a relative total shareholder return measure (**TSR**), which was favoured by some of our shareholders. Given Ansell's specific characteristics (in terms of being Australian listed but a global company, not having many global competitors and being of a different size to many of them), we were unable to identify an appropriate comparator group (globally or regionally). While we considered having multiple TSR comparator groups across the US, Europe and Asia Pacific, this did not meet our key criteria of simplicity and transparency and so the Board determined that relative TSR would not be an appropriate performance measure for the LTI plan.
Gateway return measure	Traditionally our return gate for the LTI has been based on return on equity (**ROE**). As our investments are funded by both equity and debt, we considered that it would be more appropriate to use a return on capital employed (**ROCE**) measure which measures our returns against both equity and debt in the business rather than the ROE measure used previously which only takes into account equity capital. Achieving at least the minimum ROCE threshold set for the ROCE performance condition will be required as the gateway condition to achieve any incentive against the EPS measure. That is, if the ROCE measure does not vest, the EPS measure cannot vest either.
Payment of reward – equity not cash	Awards under our LTI plan have, other than for the CEO (who receives only performance share rights (**PSRs**)), comprised part cash and part PSRs. This reflected the international dispersal of LTI plan participants and global practice with respect to incentive awards. From FY17, all of our LTI plan awards will be granted entirely in the form of PSRs (i.e. with no cash element) to further strengthen the alignment with our shareholders.
Other Matters	
Constant currency measurement	As Ansell's operations (whether sales or manufacture) occur in many countries in many currencies, and our financial reporting translates all of these results in to a single currency (US dollars) for reporting purposes, the fluctuations in exchange rates can cause significant distortion to reported performance. Accordingly, the performance measures will be tested on a constant currency basis (which will remove foreign exchange fluctuations for the period which may either favour or penalise management). In the interest of transparency, Ansell will include details of its performance in constant currency terms in addition to its statutory reporting requirements going forward.
Mandatory shareholding requirements	Ansell has, for some years, been committed to encouraging strong alignment between our executives and shareholders through a mandatory shareholding requirement. After reviewing international

	practice, noting that our requirements were significantly higher than many of our peers and considering the shift to a much larger emphasis on equity in our short and long term incentives, we determined to reset the level of mandatory shareholding requirements to: > CEO – 3 x base salary (previously 4 x base salary) > ELT – 1 x base salary (previously 2 x base salary) These adjusted mandatory shareholding requirements remain market leading.
Board Discretion	Our remuneration policy aims to link management incentive outcomes to performance against strategic objectives that drive long term shareholder value creation. In certain circumstances, accounting rules can create favourable or unfavourable effects on earnings for a single year that may cause a misalignment between incentive outcomes and shareholder value creation. In these circumstances the Board retains its discretion to incorporate adjustments to the calculation of incentive outcomes. The Board has developed a detailed policy that will guide it in applying this discretion and that will be applied consistently. The policy covers items including individual material items, restructuring charges, acquisitions and divestments and equity capital issuance and repurchase. The Board will continue its practice of clearly explaining in its annual remuneration report the basis and calculation of any adjustments made that have influenced incentive outcomes.

We encourage an open dialogue with our shareholders and we welcome any feedback you may have.

Yours sincerely

Ronald Bell
Chairman of the Human Resources Committee