



Build something great™

2018 ANNUAL GENERAL MEETING TUESDAY, 30 OCTOBER 2018

Chairman's Address

by Kathryn Fagg

It is a great honour to address you today at Boral's 2018 Annual General Meeting.

This is my fifth AGM as a Director of Boral, but my first as Chairman.

In my address I will provide an overview of our achievements and results in FY2018 – touching on financial and safety performance.

I will then talk about our Remuneration Report, putting on my hat as Chairman of the Remuneration & Nomination Committee.

Finally, I will make some comments about how we are building a sustainable business for the future, before handing over to Mike Kane to deliver his CEO's Address.

Let me start by making some comments in relation to the Board.

THE BOARD

I took over from Dr Brian Clark on the 1st of July this year, after he retired due to health reasons. Brian served 11 years on the Board – including two years as Chairman.

His contribution to Boral has been invaluable. On behalf of my fellow Directors and the company, I acknowledge Brian's leadership, dedication and support, and wish him and his wife Sandy, a long and happy retirement.

Brian's retirement came a little earlier than expected, but we were well positioned for me to step into the role.

In line with good corporate governance, Board succession planning and identifying opportunities to strengthen certain board skills and experience over time remains an important focus. That is why in June 2018 we announced the appointment of our first North American-based Non-executive Director, Peter Alexander.

Peter joined the board in September and is offering himself for election today.

Peter is a seasoned former chief executive with more than 28 years of senior executive experience in US building materials and distribution, technology products and services. His experience and knowledge of the North American building and construction markets, combined with his experience in business integration, operations, capital allocation and technology, will serve us well.

We want Boral's directors to have deep industry perspectives and sector knowledge, either in construction materials or building products, as well as financial management, including capital markets experience, and we want them to bring experience from different regions in which we operate.

We have a good level of diversity and skills across our current Board, but we monitor potential skills gaps and seek to fill those gaps with new appointments. For example, we recognise that there would be value in having an Asia-based director with industry experience on the Board, and as such we continue to consider potential candidates.

At today's Annual General Meeting, Catherine Brenner retires by rotation, and after eight years as a Director, Catherine has decided not to stand for re-election. On behalf of the Board, I would like to acknowledge her outstanding contribution to the company. She leaves Boral with our thanks, enormous respect and best wishes.

John Marlay also retires by rotation as a Director and John is standing for re-election at today's meeting. Both John and Peter will address the meeting on their candidacies later in proceedings.

FY2018 ACHIEVEMENTS

It has been, and remains, an exciting time at Boral.

The past year marked a significant milestone in the Company's transformation. We saw a substantial lift in earnings from Boral North America as a result of the first full year of ownership of Headwaters, as well as higher earnings from Boral Australia and a solid result from USG Boral.

Boral's earnings before interest, tax, depreciation and amortisation grew by 47% to more than \$1 billion. Our net profit before tax and amortisation and significant items also increased by 47%, to \$514 million.

The strength of this earnings performance enabled the Board to declare a 14 cent final dividend, representing a payout ratio of 66%, in line with our policy. This brings the full year dividend to 26.5 cents per share which was 50% franked.

Our return on funds employed, also known as ROFE, was 8.4%, and we are determined to improve that outcome and in fact, to exceed the cost of capital through the cycle.

Boral's balance sheet is robust and we remain well within our funding covenants.

Following the sale of the Denver Construction Materials business, which was completed in July, our net debt was down to around \$2.28 billion, which compares to \$2.33 billion in the prior period.

The more recent divestment of the Texas-based Block business, which is expected to close in the next few weeks, will deliver US\$156 million of proceeds, further improving our cash position and strengthening Boral's gearing ratios.

The compelling opportunity that we saw in the Headwaters acquisition is reflected in the significant earnings growth from Boral North America including outperformance of year 1 acquisition synergies. We delivered US\$39 million, which was well ahead of our initial US\$30-35 million target. We also increased our four year synergy target to US\$115 million, up from US\$100 million.

The Board remains very positive about the Headwaters acquisition. The acquisition has doubled our US footprint and diversified our end market exposures, positioning us well to supply US construction markets as they grow over time.

In Boral Australia, we are a clear beneficiary of current and future infrastructure investments. Our strategy to strengthen our integrated construction materials position, including capital investments in quarries and downstream concrete and asphalt networks, is aligning well with the multi-year pipeline of roads, rail, airport and commercial construction work across Australia.

Our **USG Boral joint venture** in Australia, Asia and the Middle East remains a long-term organic growth platform for Boral. USG Boral continues to deliver innovative solutions for our customers and is growing plasterboard capacity in attractive high growth markets.

Following the announced acquisition of our joint venture partner USG Corporation by Knauf in June, we are considering several options for USG Boral. These include returning to 100% ownership by exercising our call option to acquire USG's interest or continuing in an expanded joint venture.

The Board is committed to ensuring capital investments in this business, and all of our businesses, are value-creating for shareholders and make sense for Boral in the longer term. Our preference is to fund any investment in relation to USG Boral with debt and proceeds from divestments, and the Board is committed to maintaining a strong balance sheet. We are focused on maintaining our credit ratings and we do not intend to be highly geared.

Mike will talk a little more about these opportunities including where we are in the process of assessing options.

SAFETY PERFORMANCE

Turning to safety – a key focus of the Board, management and everyone at Boral.

Boral's safety performance has improved significantly in recent years and it remains strong.

This year, our safety statistics reflect the expanded business, and to show a more accurate year-on-year comparison we have restated our FY2017 safety numbers to include Headwaters retrospectively and all joint ventures.

On this basis, Boral's recordable injury frequency rate (RIFR¹) of 8.7 reduced by 6% during the financial year, and lost time injury frequency rate of 1.6 was down from 1.9 last year.

At last year's Annual General Meeting, we talked about the devastatingly sad event that occurred at one of our Sydney concrete plants when a delivery driver was struck by a concrete agitator and later died in hospital.

Prompted by this incident, the Board undertook a review of the organisation's response as well as a review of our long-standing practice to keep **safety and remuneration outcomes** separate.

The Board's review of management's actions in response to the fatality found that site management, operational management and senior executives responded appropriately with urgency and transparency. The Board is encouraged by management's conviction to continually drive improved safety in all of our workplaces.

¹ Per million hours worked for employees and contractors in 100%-owned and all joint venture businesses.

As part of our broader review of safety and remuneration, the Board looked at 10 years of safety and short-term incentive (STI) data – from 2008 to 2017, which included a three-year period when safety was used as an additional determinant for short-term bonuses.

The data showed that Boral's safety performance has improved dramatically over the past 10 years. Importantly, it showed that removing safety as an STI metric had no negative impact on our safety record. In other words, safety continued to improve even when STI payouts were not linked to safety performance.

Managing safety well is considered a fundamental part of everyone's role at Boral, and there is a strong safety culture and a commitment across the company to Zero Harm Today.

The Board takes safety extremely seriously. Every member of our Health, Safety & Environment (HSE) Committee has deep operational and industrial experience. We understand the challenges and the risks and we know what it feels like when our people are injured. The Board's HSE Committee spends time reviewing safety outcomes, investigating incidents and near misses, and reviewing what is being done to improve safety, particularly in terms of leadership and behavioural safety management.

The entire Board spends time in our operations to see how they are being managed, to inspect our plants and to talk to our people, to see progress and understand the issues and opportunities our businesses face in terms of safety and other aspects more broadly.

In September 2017, for example, the Board spent time in North America visiting Light Building Products, Block and Windows plants. We returned to the US in September this year spending time in the Roofing, Stone and Fly Ash businesses, and meeting with key customers.

We also travelled to Singapore and South Korea during this past financial year to spend time with USG Boral's executives and local teams, and in Australia, we visited one of our concrete plants in Queensland, the Berrima cement operations in NSW and more recently we spent time with our NSW construction materials and Digital Solutions teams in North Ryde.

These visits are critically important from the Board's perspective, allowing us to engage directly with our people on safety as well as operational, strategic and market aspects.

We remain of the view that we are better served by continuing to exclude safety as a measure of short-term financial incentives for our executives.

I have explained this position to larger institutional shareholders and proxy advisory firms, and there has been a positive response and broad support.

REMUNERATION REPORT

Boral's position on safety and remuneration is clearly communicated in our Remuneration Report, which will be considered under Resolution 3 in today's meeting.

Also detailed in the Remuneration Report is the Board's review of the **ROFE component of the long-term incentives (LTIs) in FY2018**. The review was undertaken to ensure ROFE remains relevant and to assess the way we set three-year ROFE-based targets for LTIs.

Following the review and consultation with stakeholders, we determined that LTIs should continue to be divided into two components that are subject to separate performance hurdles. Two-thirds will remain subject to relative total shareholder returns (or TSR) and one-third subject to ROFE (which is EBIT divided by funds employed).

The Board determined that ROFE remains an appropriate returns measure going forward but that ROFE targets will now be set relative to Boral's weighted average cost of capital for the relevant testing period, rather than three-year forward ROFE targets underpinned by market forecasts.

This new approach aligns with Boral's stated objective to deliver returns above our weighted average cost of capital through the cycle. It focuses management on the delivery of shareholder value, while recognising that we operate in cyclical markets.

We have also responded to feedback from shareholders and proxy advisors, who prefer a broader vesting range for returns-based long-term incentives, with a broader vesting range of 2.0% introduced. This means that management has an incentive to improve performance in a broader set of circumstances.

These changes will not impact the current LTI grants and targets in place but they come into effect for the grants issued in September 2018 and measured in the 2021 financial year.

From then on, 50% of the one-third of LTIs that are based on ROFE outcomes, will pay out if the weighted average cost of capital or WACC is achieved, and 100% of the LTIs will vest for achieving a ROFE equivalent of WACC plus 2.0%.

These hurdles are intended to drive sustainable value creation for shareholders and attract and retain high calibre employees.

The reasonableness of the hurdles was tested over a 17-year history. It was found that Boral's ROFE performance would have exceeded WACC seven times or 41% of the time, and would have exceeded the stretch target five times or 29% of the time, which seems reasonable.

The other area of remuneration that I wish to cover is the **treatment of property earnings in Boral's short-term incentive** outcomes.

Some proxy advisors and investors have raised a concern this year that the contribution from the sale of the Prospect Masonry site that occurred earlier than expected and delivered higher than anticipated earnings for the Group, contributed to higher STI outcomes for executives.

In FY2018, above target STI payouts were reported for Boral Australia, and I can confirm that this would have been the case both with and without the inclusion of the higher than expected earnings from the Prospect Masonry land sale.

The strength of Boral's overall earnings at Group level meant that even without the higher earnings associated with the Prospect Masonry property transaction, short-term incentives would still have been paid based on the performance of the Boral Group, although the result would have been closer to threshold, being 90% of the EBIT target.

The rationale for awarding of the incentives at the level determined was twofold. First, property earnings are an important ongoing annual feature of the business and the treatment of the property earnings is entirely consistent with our practice of many years, and second, it is a reasonable result given the overall performance of the business.

Property earnings are an ongoing feature of Boral's business that contribute to EBIT every year, and we have been consistent in the treatment of property earnings both for budgeting and STI purposes for many years. Since FY2001, when a separate property and land management business unit within Boral was formed, Boral has recorded an average EBIT contribution from property of \$34 million per annum.

Delivery of strong, value-creating earnings from our property portfolio requires significant management effort – sometimes over several years – to achieve necessary approvals, and negotiate sale prices and conditions for the benefit of the business, cash generation and shareholder returns.

At a Group level, Boral's CEO and CFO received 75% of their target STI (for achieving 96% of the Group STI EBIT target). This outcome reflects a strong, above target EBIT result from Boral Australia, and a below threshold outcome from Boral North America.

The Board recognises the need to ensure an alignment between financial performance and bonus outcomes and considers that the outcomes in FY2018 are consistent with that objective.

BUILDING A SUSTAINABLE BUSINESS

Across each of our three divisions our people are focused on maximising performance and delivering targeted results. Naturally, we continue to focus on our customers and building a more sustainable business in a social and environmental sense. This includes a commitment to build and maintain productive relationships with our customers and communities, helping to ensure Boral is a Company they can rely on and trust.

Our ongoing investment in innovation is responding to the needs of our customers and continues to directly benefit them. This year, we invested \$17 million in **research and development** across our three divisions.

At our Australian Innovation factory at Maldon in NSW, we are focused on research and technology in cement, concrete and advanced binders including fly ash. Developing the next generation of poly-ash composite materials to support the Light Weight Building Products business in North America continues to be a focus at our Innovation Factory in San Antonio, Texas. And the USG Boral R&D centre in Saraburi Thailand continues to drive innovation in gypsum-based products and systems, including products that have superior performance qualities such as energy efficiency and fire protection.

It's important for us to respond **to external changes** in terms of both managing the risks and embracing the opportunities.

In our business, investment decisions are for the long-term so, we need to consider the disruptive changes that are down the road and factor them into our decision-making today.

We are preparing for disruption and change. Whether it's digital disruption and cyber security, climate, or changing demographics, we cannot afford to sit passively and do nothing.

Our **Digital Solutions** Team is now operating in an 'agile' environment, working closely with our businesses to more quickly adapt and find digital solutions for our customers and operations, such as our recently developed Concrete Deliveries App. This mobile App allows customers to monitor their deliveries with near real-time information. In the first week after launch, more than 5,000 concrete deliveries were completed with the App, helping to improve the experience of our customers nationwide.

On the energy front, we have been **shifting our portfolio** for some time to lighter weight building products – products that have more scalable manufacturing, more variable costs and are less energy-intensive to produce.

As a result of this shift, we have witnessed a 27% reduction in our absolute greenhouse gas emissions and 44% reduction in our emissions intensity over the past six years.

Mike will talk further about activities in place that are delivering reduced emissions and improved efficiencies and talk through our goals and objectives.

But let me say that managing our **transition to a lower carbon economy** and managing the **physical risks of climate change** are important priorities for the Board and management.

We have been adopting the recommendations of the Financial Stability Board's Task Force on Climate Related Financial Disclosures, more commonly known as the **TCFD**.

During the past year we have been developing and using scenario analysis to assess the implications of a transition to a lower carbon economy in Boral's Cement business. This work involves testing the resilience of our Cement business over three future climate transition scenarios. We have disclosed our progress to date in this year's Sustainability Report, and the business is using the outputs of this work to inform our short-, medium- and longer-term business plans.

We will continue to progress the TCFD as a framework to help the business fully consider future risks and actions required to address potential physical and transitional climate-related impacts.

CLOSING

Before closing, let me highlight what I see as the current priorities and challenges for Boral.

Safety remains our first priority, everywhere across Boral.

Given we made a major acquisition in our North American business just over a year ago – one of the largest acquisitions made by an Australian company in North America – our focus remains on delivering the benefits from this transaction.

Beyond the Headwaters acquisition, we are focused on delivering the best solution for Boral's shareholders in relation to USG Boral – whether we return to 100% ownership or move into an expanded joint venture.

And more broadly, we are leading and embracing change. We are focused on increasing productivity, doing things more efficiently in the future, doing things in a less energy-intensive way, being more sustainable in a social and environmental sense, and being responsive to a changing world.

We are focused on having a better gender balance and broader **diversity** in the Company, which is good for Boral and good for our employees.

The Board recognises that delivery of what has already been achieved and delivery of our current goals is only possible with a strong and committed leader, and the tireless dedication of our people.

The Board maintains absolute confidence in Mike Kane's leadership to deliver on our strategic priorities.

Last year we said that the Board, following consultation with Mike, expects he will continue in the role for another three to five years, from that time. As such, CEO succession and succession development is an important priority for the Board for the coming years.

On behalf of the Board, I thank Mike and all of Boral's people for their unwavering focus on safety, for going the extra mile to be number one when it comes to our customers, and for making significant progress to transform Boral into a higher performing and more sustainable company.

To all of Boral's shareholders, I also thank you for your continued support.

I now welcome Mike Kane to the microphone to provide his address including some comments on the first quarter performance.

Kathryn Fagg