

Boral 2021 Annual General Meeting

Thursday 28 October 2021

Chairman's Address

by Ryan Stokes

Chairman's Address

Good morning.

I am Ryan Stokes and it's a pleasure to address you today for the first time as Chairman of Boral Limited.

I joined the Board in September 2020.

At that time, Seven Group Holdings or SGH, of which I am Managing Director and CEO, had an ownership interest in Boral of 19.9%.

As a diversified operating and investment group, SGH is all about investing in organisations with great assets and outstanding market positions, organisations with a clear strategy and a clear purpose, and with opportunities to create value.

And that is exactly why we were attracted to Boral in the first place.

This is a great company, with a proud heritage, strong leadership team, a committed workforce, and a leading competitive position in building and construction materials in Australia.

The global pandemic presented challenges for all companies, including Boral, but we knew that through periods of challenge, opportunities often emerge.

Boral presented such an opportunity for SGH, and in early 2020 we began acquiring shares in the Company.

With confidence in Boral's new leadership, as the strategy unfolded, SGH's support and belief in Boral strengthened.

On the 10th of May this year, SGH announced a takeover offer for Boral, at which time I recused myself from Boral's Board until the offer period closed.

Following the close of the offer on 29 July, SGH had increased its holding to 69.6%, which is where our ownership is today.

This strong position in Boral reflects our level of confidence in Boral's ability to deliver substantial value creation. We see a real opportunity to drive business improvement, deliver an uplift in earnings and create shareholder value, not just for SGH but **for all of Boral's shareholders.**

In recent years Boral's Australian business has not performed to its potential. The potential we know it can achieve and the potential we are committed to realising.

You as shareholders have told us as much – the returns on investment have been unacceptably low.

That is changing.

Over the past 12 months, Boral has commenced a significant transformation program with the long-term objective of improving return on capital employed.

With a disciplined approach to operational performance and capital, I am confident that Boral can deliver improved returns on funds employed exceeding its cost of capital throughout the cycle, as well as industry competitive EBIT and EBITDA margins.

So, as Boral's Chairman, let me talk you through the progress to date and our key priorities before handing over to Zlatko Todorovski for his CEO address.

The four topics I will cover are:

1. Boral's results for FY2021, including safety performance
2. Our divestment program and returning surplus capital to shareholders
3. Boral's strategy and priorities, which Zlatko will expand on, and
4. Board renewal and governance, including the importance I place on having a majority of Independent Directors on the Board.

FY2021 RESULTS

Turning first to safety.

In FY2021, Boral broadened its safety metrics to include two additional indicators – actual serious harm incident frequency rate, and potential serious harm incident frequency rate. This reflects a focus on critical controls as well as identifying and preventing incidents that cause serious harm.

Pleasingly, both of these measures improved, demonstrating our success in further preventing serious harm through standardisation and critical controls. However, there is more we need to do.

While Boral's serious harm indicators improved, recordable injury frequency rate (RIFR) for employees and contractors was slightly higher than in FY2020.

We have substantial opportunity for improvement, and I would like to see Boral's safety performance strengthen further.

The company's strong commitment and focus on safety is a great base on which to build.

Turning to financial results.

FY2021 was an extraordinary year in many ways.

Against the backdrop of the continuing COVID-19 pandemic and the mixed and uncertain market conditions, significant progress was made by Boral's Board and management to reposition the Company back to the core construction materials business in Australia. Early improvements in the underlying performance of the business were also delivered.

In Australia, the total value of construction work done was down around 3% in FY2021 relative to FY2020. In NSW, where Boral has a significant geographical footprint and earnings exposure, we saw the biggest impact with value of construction work done down 9%.

For Boral's continuing operations, revenue declined 6%, reflecting lower volumes and pricing. However, EBIT (excluding Property) increased 11% to \$157 million, with Transformation initiatives helping to improve underlying earnings.

The Transformation program unveiled almost a year ago has already delivered \$75 million in benefits, including \$69 million for continuing operations in FY2021.

By the end of FY2021, these initiatives were delivering an annualised run rate benefit after inflation of ~\$94 million against the \$200 million to \$250 million five-year target.

The reported statutory net profit after tax (NPAT) of \$640 million for the year included a post-tax gain of \$389 million for significant items. Net profit after tax (NPAT) before significant items was \$251 million, which was up 44% on the prior year.

Net debt reduced to \$899 million as at 30 June 2021, which was down from \$2.58 billion at 30 June 2020.

At \$899 million, net debt was in line with our targeted net debt levels as articulated in our Financial Framework.

Hence, there was no surplus capital available to return to shareholders at year end and as you are aware, no final dividend was paid.

RETURNING CAPITAL TO SHAREHOLDERS

Importantly, following receipt of proceeds from the divestments of Boral North America Building Products, the Meridian Brick joint venture and the Australian Timber business, the Company now has a significant surplus.

Let me remind you of the divestment program and our approach to returning capital to shareholders.

Completion of the sale of Boral's 50% interest in USG Boral was announced on 1 April 2021, delivering US\$1.015 billion or around A\$1.33 billion, which was a compelling price for shareholders.

Some of these proceeds were used to reduce debt, with surplus capital returned to shareholders through a \$859 million share buy-back of 10% of Boral's issued capital.

The buy-back completed in July 2021 for an average price of \$7.01 per share. Following completion of the buy-back, proforma net debt was around \$1.3 billion, back to the higher end of our target net debt range.

Earlier this month we announced the completion of our divestments of the North American Building Products business, the Meridian Brick joint venture and the Australian Timber business.

Combined, we have now received proceeds of almost \$3.2 billion from these divestments. The sale of the North American Building Products business to Westlake for US\$2.15 billion or around A\$2.9 billion exceeded expectations.

Of the \$3.2 billion in proceeds received, we will use some to reduce debt back to the lower end of the target range at around \$900 million, which means **we have significant surplus capital available to return to shareholders.**

For this reason, at today's meeting we are seeking shareholder approval to return up to \$3 billion of surplus capital to shareholders.

The Board has determined that this is the most effective method to distribute surplus capital.

This return of surplus capital by way of an equal capital reduction, remains subject to the Australian Taxation Office confirming that any such payment will not be treated as a dividend for Australian income tax purposes. On this basis the capital return provides all shareholders a benefit with the surplus capital being directly paid back to shareholders. The capital will reduce your cost base for your Boral shares and so long as your cost base is higher than the amount of the return it should not be taxed at this time.

We have also announced the intended divestment of our North America Fly ash business, which on completion, will generate further capital.

When that transaction completes, we will make a decision on the quantum and form of returning surplus capital to shareholders.

Before making any capital return, we will consider Boral's requirements in light of all the circumstances that exist at the time.

BORAL'S STRATEGY

Turning to Boral's strategy.

The divestment program as part of Boral's portfolio realignment has been undertaken in a disciplined and considered way. It has **created value for Boral shareholders, resulted in a substantially strengthened balance sheet, and positioned Boral for future success.**

In FY2021, Boral's continuing operations in Australia delivered a return on funds employed of 7.2% excluding property earnings and 8.3%, including property. These returns are below Boral's cost of capital.

The Transformation program, which targets \$200 million to \$250 million of EBIT uplift, is essential to delivering acceptable returns throughout the cycle.

The Transformation program is supported by a new operating model that has transitioned Boral Australia from a regional model to an integrated operating company organised along national product lines.

Other Transformation initiatives include cost reductions, network and supply chain optimisation, and opportunities for profitable growth related to sustainability and the circular economy.

Importantly, it is not just about cutting costs, but about becoming a more efficient and more responsive organisation.

A case in point is our strategy to pursue opportunities to realise latent value within the existing property portfolio, which is in development.

We expect to provide an update on our property strategy during FY2022.

A SUSTAINABLE FUTURE

An element of our strategy is to redefine the company through decarbonisation and adjacent growth strategies.

Zlatko will talk further about Boral's sector-leading science-based carbon emissions reduction targets¹, which are aligned with limiting global warming to 1.5°C.

I am extremely encouraged by the work that has been undertaken in this area and the direction that Boral is heading. This plays to some of Boral's market leading products including the proprietary, world-class low carbon concrete ENVISIA®.

BOARD RENEWAL AND GOVERNANCE

Before handing to Zlatko, let me comment on Board composition and governance.

On the 30th of July, a number of Board changes were announced following the close of the SGH offer period. It was at that point I took over as Chairman, and Kathryn Fagg retired from the Board.

On behalf of my fellow directors and shareholders, I thank Kathryn for her contribution to Boral. She served as a Director and Chairman over multiple terms, overseeing significant changes and challenges in that time. She left Boral in a strong position, with an actionable transformation strategy, including a well-progressed divestment program.

At the same time as I returned to the Board and was appointed Chairman, Richard Richards also returned to the Board as an SGH nominated Director. Richard will seek election from shareholders at today's meeting.

Deborah O'Toole and Peter Alexander will retire at the conclusion of today's meeting. I thank both Deborah and Peter for their contributions to the Board.

¹ Based on construction materials, including cement, companies taking action through Science Based Targets initiative.

Peter, who has been on the Board for the past three years, has played an important role in providing local experience and knowledge of the US building products market, which has been helpful during the divestment process particularly as it was not possible for other Directors, including Zlatko, to travel to the US.

Deborah joined the Board in September 2020 and has been a valued contributor over the past 12 months including on the Audit and Risk Committee.

I thank both Peter and Deborah for their service to Boral.

We are currently focused on recruiting two new independent Directors and looking in particular to ensure we maintain Australian industry experience among Board members.

As majority shareholder, we have made a public commitment to have a majority of independent Directors and an appropriate governance framework.

We are convinced that this is in the best interest of all shareholders.

As part of this framework, I am pleased to confirm that Rob Sindel will chair the Independent and Related Party Committee and has taken on the role of Lead Independent Director.

As SGH nominee directors, Richard and I acknowledge the importance of maintaining an Independent and Related Party Committee of the Board. We recognise there may be some circumstances where decisions are best referred to that Committee to avoid any potential conflicts.

All of your Directors are committed to best practice governance and determined to ensure Boral continues to thrive – for the benefit of all shareholders.

CLOSING

On behalf of the Board, I would like to thank you – Boral's shareholders – for your ongoing support.

I also would like to congratulate Zlatko, Boral's leadership team, and Boral's people for what has already been achieved, especially in such challenging global circumstances.

I look forward to working with the Board and Management to further drive the Company's renewed strategy and maximise value for all shareholders.

I now welcome Zlatko Todorcevski to provide his address as CEO of Boral.

Ryan Stokes, AO