Progressing Boral’s Fix, Execute, Transform Program
Mike Kane, CEO & Managing Director, Boral Limited
JPMorgan Building Forum, 10 April 2014

Our goal is to transform Boral into a global building and construction materials company that is known for its world-leading safety performance, innovative product platform and superior returns on shareholders’ funds.

**FIX**

- Fixing things that are holding us back

**EXECUTE**

- Improving the way we operate to be more efficient, disciplined and profitable

**TRANSFORM**

- Transforming Boral for performance excellence and sustainable growth through innovation

FY2013

2 years

4 years

6 years +
Focus is on improving ROFE to 15%

**EBIT to average funds employed (ROFE)**

<table>
<thead>
<tr>
<th>Year</th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>1H FY13</th>
<th>1H FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>19.3</td>
<td>17</td>
<td>15.1</td>
<td>12.1</td>
<td>10.1</td>
<td>6.3</td>
<td>6.2</td>
<td>7.4</td>
<td>4.7</td>
<td>4.7</td>
<td>4.2</td>
<td>5.9</td>
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1. Excludes significant items
2. 1H FY2013 and 1H FY2014 on a moving annual total (MAT) basis

Solid progress has been made

**FIX**

- Streamlined organisation
- $150m costs out
- Cash up and capex down
- Net debt from ~$1.5b to ~$0.9m
- Portfolio realignment

**EXECUTE**

- People engagement and safety first
- Levers of change – LEAN, Sales & marketing, Innovation
- Capacity utilisation up
- Responding to external challenges

**TRANSFORM**

- Product innovation
- Gypsum technology platform secured
- Lowering fixed cost exposures
**Solid progress made in delivering immediate FIX priorities**

### OBJECTIVES

<table>
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<tr>
<th>Manage costs down</th>
<th>Maximise cash generation</th>
<th>Reshape the portfolio</th>
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| • In FY2014 reduce costs by:  
  – $105m through prior period headcount reductions & rationalisation initiatives  
  – further $25m through new initiatives largely in contractor spend | • Generate $200-$300m from divestments and land sales in FY2013 & FY2014  
  • Apply disciplined approach to capex and manage capital assets to improve returns | • Simplify structures & reduce overheads  
  • Rationalise portfolio to core essentials |

### PROGRESS

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<tr>
<td>✓ Realised $60m in cost reductions from cost down programs in 1H FY2014</td>
<td>✓ $212m in cash proceeds from divestments &amp; land sales in 18 months to Dec-13</td>
<td>✓ Sold Windows business</td>
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<tr>
<td>✓ Expect to deliver $130m in savings in FY2014 (annualised to $150m in FY2015)</td>
<td>✓ US$500m upfront payment from USG in Feb-14</td>
<td>✓ Ceased production at Berrima Colliery</td>
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<tr>
<td>✓ Capex down 31% in 1H FY2014</td>
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<td>✓ Proposed JV with CSR aims to achieve sustainable returns for East Coast Bricks business</td>
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**Execute**: Safety continues to be a key lever of change to improve the way we operate

![Employee and Contractor LTIFR](image)

- Continued drive to change behaviours and increase use of Boral Production System tools
- Intervention programs implemented at sites with unsatisfactory safety performance
  - executives visit sites and engage each employee individually
  - complemented by health and safety experts addressing issues with site managers

*Lost Time Injury Frequency Rate per million hours worked*
Execute: Improving the way we operate… to help respond to external challenges

External challenges

Australia
- Low economies of scale
- High costs – labour, energy, transport
- Immature energy markets
- High land costs & housing affordability leading to trend away from detached housing
- Level and type of government intervention
- High A$
- Industrial relations

USA
- Shape and pace of recovery

Asia
- Exchange rate impacts
- In-country volatility

Transform: Longer term Boral will be more geographically balanced
with a more flexible cost structure and balance of traditional and innovative products

from ~20% offshore revenue to ~50% or more

from ~80% domestic revenue to ~50% or less
1. As at 8 April 2014
2. Includes USG Boral joint venture operations. As at 28 February 2014
3. Comprised of ~12% from detached housing, ~6% from multi-dwellings and ~9% from alterations and additions
4. For the half year ended 31 December 2013; revenue of A$2.8b for continuing operations only

Boral is an international building and construction materials group with operations in Australia, the USA and Asia

- A$4.5b market cap
- S&P/ASX 100 company
- Operations across 13 countries
- ~12,000 employees

1H FY2014 Revenue

by division
- USA 12%
- Gypsum 19%
- Building Products 9%
- Construction Materials & Cement 60%

by end-market
- USA non-dwellings & engineering 2%
- USA dwellings 9%
- Asia 13%
- Australian dwellings 27%
- Australian non-dwellings 13%
- Other 5%
- RHS&B & engineering 31%
Fix: Cost reduction programs essential to offsetting inflationary cost pressures

- Jan-13 – announced rationalisation and overhead cost reductions with expected full year benefit of $105m from FY2014
- Oct-13 – announced second phase of cost reductions focused on contractor spend with expected benefit of $25m in FY2014 and $45m from FY2015
- $60m cost reductions realised in 1H FY2014
  - $52.5m from overhead & rationalisation
  - $7.5m from contractor spend and other

Each year, Boral faces inflationary cost pressures of $100m in Australia alone
Fix & Transform: A combination of cost factors led Boral to cease clinker manufacturing in Vic

- Manufacturing of clinker Waurn Ponds, Victoria ceased in April 2013
- Decision driven by high A$, low shipping costs from Asia, high production costs and sub-scale plant size
- Moved to importing clinker from Port of Geelong
- Boral now importing in line with industry at around 30% of demand
- Asian spare capacity likely to be available at marginal cost over the long-term

1. Imports include cement, clinker and slag (GBFS). Domestic includes clinker manufactured in domestic kilns and slag ex-Port Kembla. Assumes 1 t clinker = 1.1 t cement

Transform: Boral Gypsum through strategic joint venture with USG

Delivering Boral Gypsum an enhanced future growth platform

- Immediate access to gypsum technology
  - Deliver customers stronger and lighter board
  - Exclusive royalty-free rights to current USG IP, including improvements to current technology

- Future access to innovation
  - Strengthens industry leading position
  - Exclusive option to licence future "breakthrough IP" developed by USG

- Significant synergies
  - Synergies expected to exceed US$50m p.a. within 3 years of technology roll-out (roll-out to be completed within 2 years)
  - Exclusive distribution rights to USG’s complementary products

- Upfront cash payment
  - Boral received upfront cash payment of US$500m & will reduce debt up to A$450m
  - Further potential earn out of up to US$75m

Boral USG JV provides an enhanced platform to leverage growth across Asia

- Asia expected to become world’s largest plasterboard market by 2015\(^1\)
- Size of plasterboard market in JV region is >2,250m\(^2\)
  - Asia market size ~2,100m\(^2\)
  - Excluding China, Asia market size ~500m\(^2\)
- Strong economic growth forecast across most Asian markets
  - real GDP growth of 4 to 7%\(^2\)
- Increasing commercial projects expected to drive growth in non-residential construction
- Increasing urbanisation will drive growth in residential new build

\(^1\) Based on management estimates
\(^2\) Source: IMF data at October 2013

Fix: Proposed East Coast Bricks JV with CSR
Provides structural solution for Boral’s bricks business

Rationale
- **Substantial reduction in industry brick capacity** made in recent years to reflect reduced demand for bricks
- Profitability of Boral’s Australian brick business remains unacceptably low
- JV with CSR positions business to recover cost of capital from East Coast brick business through the cycle

Brick Industry challenged
- Brick industry impacted by sustained **structural decline in demand** over past 30 years
- Bricks becoming an increasingly smaller component of broader cladding market
- Brick production has declined by 46% since 1981
  - decline more pronounced on East Coast of Australia
- Structural decline compounded by high input costs, including high energy costs
East Coast Bricks JV aims to create a sustainable competitive bricks business

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<tr>
<th>East Coast Bricks JV</th>
<th>Combined business</th>
<th>Benefits</th>
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| • Owned 60% by CSR, 40% by Boral | • ~$230m annualised revenue  
• 12 manufacturing operations (including mothballed plants)  
• 606m SBE brick manufacturing capacity | • Cost synergies  
– Initial overhead savings of $7 - $10m p.a.  
– Longer term consolidation of selected manufacturing sites  
• Optimise operations  
• Reinvestment opportunities  
– Release high value land assets without impacting product range and operational capability |
| • Combines brick operations in NSW, Vic, Qld, SA, TAS & ACT¹ | | |
| • Ownership based on relative valuations of the businesses | | |
| • Transaction subject to ACCC review | | |

¹. Excludes certain land assets owned by CSR and Boral; Schofields, NSW and Scoresby, Vic sites used for the term of an agreed lease period