Fixing and reshaping Boral to deliver long-term value

Mike Kane, CEO & Managing Director, Boral Limited
Macquarie Australia Conference, 7-8 May 2014

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

- A$4.4b market cap
- S&P/ASX 100 company
- Operations across 13 countries
- ~12,000 employees

Business overview

1H FY2014 Revenue

by division

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

by end-market

- USA dwellings 9%
- USA non-dwellings & engineering 2%
- Australian dwellings 27%
- Australian non-dwellings 13%
- Asian 13%

1. As at 5 May 2014
2. Includes USG Boral joint venture operations. As at 28 February 2014
3. Composed 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’s Fix, Execute, Transform program

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

Fixing things that are holding us back
Improving the way we operate to be more efficient, disciplined and profitable
Transforming Boral for performance excellence and sustainable growth through innovation

Focus is on improving ROFE to 15% over the long-term

EBIT to average funds employed (ROFE1)

<table>
<thead>
<tr>
<th></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>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>
</tr>
</tbody>
</table>

1. Excludes significant items
2. 1H FY2013 and 1H FY2014 on a moving annual total (MAT) basis
Focus is on improving ROFE to 15% over the long-term

EBIT return on funds employed (ROFE), %

<table>
<thead>
<tr>
<th>Construction Materials &amp; Cement</th>
<th>Building Products</th>
<th>Boral USA</th>
<th>Boral Gypsum</th>
</tr>
</thead>
<tbody>
<tr>
<td>expect to deliver 15% ROFE through the cycle</td>
<td>not expected to deliver required ROFE without re-structuring</td>
<td>expect to deliver 15% ROFE through the cycle</td>
<td>expect to deliver underlying 15% ROFE through the cycle</td>
</tr>
<tr>
<td>11 13</td>
<td>15 (4)</td>
<td>11 (7)</td>
<td>5 7</td>
</tr>
</tbody>
</table>

1. Moving Annual Total EBIT return on divisional funds employed (segment assets less segment liabilities). EBIT excludes significant items.
2. Gypsum reported ROFE for Boral will be lower due to equity accounting impacts of reporting post tax EBIT due to commencement of the USG Boral joint venture.

Construction Materials & Cement

1H FY2014 Revenue

- ~$3.4b annualised revenue (60% of Group)
- Leading integrated, resource and market positions
- ~5,080 employees

by business

- Concrete Placing, 4%
- Other, 6%
- Concrete, 41%
- Asphalt, 24%
- Quarries, 16%

by end-market in Australia

- Dwellings, 24%
- Non-dwellings, 18%
- Other, 7%
- RHS&B, 40%
- Other engineering, 11%

1. For the half year ended 31 December 2013 for continuing operations only
2. Comprised of ~8% from detached housing, ~7% from multi-dwellings and ~9% from alterations & additions
Solid progress has been made in Construction Materials & Cement

- **FIT**
  - Fit for purpose integrated organisational structure
  - Better management of contractor costs
  - Wise deployment of capex – SIB capex will increase as growth capex reduces with completion of Peppertree investment

- **EXECUTE**
  - People engagement and safety first
  - Excellence in major projects
  - Focus on pricing to recover costs plus margin enhancement
  - Leverage Peppertree investment
  - Use business partnerships

- **TRANSFORM**
  - Transforming to import cement model – closed Waurn Ponds clinker manufacturing; ceased production at Berrima Colliery; reviewing clinker production at Maldon
  - Product innovation eg. Envisia®

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**Building Products**

1H FY2014 Revenue

- ~$0.5b annualised revenue (9% of Group)
- Significant restructuring taken place with further structural changes needed to deliver required returns
- ~1,280 employees

**by business**

- Building Products, 9%
- Bricks & Roofing, 69%
- Timber, 31%

**by end-market in Australia**

- Detached dwellings, 54%
- Non-dwellings, 7%
- Multi-residential, 10%
- Alterations & Additions, 24%
- Other 5%

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1. For the half year ended 31 December 2013 for continuing operations only
Building Products is delivering on its immediate FIX priorities

**FIX**

- 2 years
- Streamlined organisation to remove centralised overhead structures
- Portfolio realignment – exited Masonry, Windows, Woodchips, Plywood businesses

**EXECUTE**

- 4 years
- People engagement and safety first
- Boral Production System in place and capacity utilisation up
- Smaller production footprint to deliver better returns
- Optimise Timber supply chain

**TRANSFORM**

- 6 years +
- Lowering fixed cost exposures (global bricks review underway)
- East Coast Bricks JV with CSR proposed
- Seeking solutions for underperforming businesses

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**Boral Gypsum**

**1H FY2014 Revenue**

- Gypsum, 19%
- ~$1.1b annualised revenue (19% of Group)
- USG Boral JV completed end of Feb-14, 50% share of business going forward
- ~3,100 employees

**by country**

- Australia, 34%
- Korea, 21%
- China, 14%
- Thailand, 13%
- Indonesia, 7%
- Other, 11%

**Australian business - by end-market**

- Detached dwellings, 40%
- Multi-residential, 16%
- Alterations & Additions, 22%
- Non-dwellings, 22%

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1. For the half year ended 31 December 2013 for continuing operations only
Boral Gypsum positioned well to TRANSFORM

- Asia and Australian operations combined to create focused division
- Secured access to world-class IP and future technology development
- Constrained further capital investment until utilisation lifts

FIX

EXECUTE

TRANSFORM

FY2013

2 years

4 years

6 years +

- People engagement and safety first
- Capacity utilisation improving
- Roll-out new technologies
- Deliver cost synergies
- Deliver revenue synergies through adjacent products
- USG BORAL JV to deliver sustainable growth through innovation and adjacent products

Boral USA

1H FY2014 Revenue

by business

USA, 12%

Flyash and Construction Materials, 26%

Cladding, 51%

Roofing, 23%

by end-market in the USA

- ~$0.7b annualised revenue (12% of Group)
- Leading market positions, significant opportunity for market-led growth
- ~2,280 employees

1. For the half year ended 31 December 2013 for continuing operations only
Boral USA is positioned well for **EXECUTION** excellence as market continues recovery

**FIX**
- Streamlined organisation
- Rationalised capacity
- Portfolio realignment

**EXECUTE**
- People engagement and safety first
- Smaller production footprint plus Boral Production System
- Diversify end market exposures – eg. Trim, Versetta, Commercial
- Leverage distribution – stucco, components, other resale

**TRANSFORM**
- Lowering fixed cost exposures through the cycle (global bricks review underway)
- Innovation through lightweight, composite/polymer based building products
- Boral’s geographic balance will improve through US market recovery

Overall, solid progress is being made across the Group

**FIX**
- Streamlined organisation
- $150m costs out by FY2015
- Cash up and capex down
- Net debt from ~$1.5b to ~$0.9b
- Portfolio realignment

**EXECUTE**
- Improving the way we operate to be more efficient, disciplined and profitable
- 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
Outlook for FY2014
At the half year results announcement we said…….

Expected skew of earnings to first half compared to second half of FY2014 due to:
higher major project volumes and dry weather conditions in the first half; the impact of moving from a 100%-owned Gypsum division to a 50% joint venture interest in the second half; and significantly lower property earnings in the second half relative to prior years.

- **Underlying performance expected to improve** in FY2014 but will be offset by significant reduction in Property earnings
- Underlying earnings\(^1\) in 2H FY2014 anticipated to be up on the prior year but down from 1H FY2014 due to seasonality and lower large project volumes

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<th>Construction Materials &amp; Cement</th>
<th>• Underlying performance expected to improve in FY2014 but will be offset by significant reduction in Property earnings • Underlying earnings(^1) in 2H FY2014 anticipated to be up on the prior year but down from 1H FY2014 due to seasonality and lower large project volumes</th>
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<tr>
<td>Building Products</td>
<td>• Expect to deliver <strong>small profit in FY2014</strong> driven by sustained cost improvement and stronger market demand with 2H FY2014 seasonally weaker than 1H FY2014</td>
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<tr>
<td>Boral Gypsum</td>
<td>• Expect <strong>underlying earnings growth</strong> in Australia and Asia in FY2014 but in 2H FY2014 growth will be largely offset by joint venture integration costs • Lower 2H FY2014 contribution based on two months trading earnings and four months 50% equity accounted contribution following completion of JV</td>
</tr>
<tr>
<td>Boral USA</td>
<td>• Expect <strong>improved result</strong> in 2H FY2014 with break through to profitability in 4Q FY2014 assuming housing starts annualised run rate &gt;1.1m for 4Q FY2014</td>
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\(^1\) Underlying earnings defined as excluding Property earnings

Additional factors to consider
Based on what we have seen so far in the second half of the year…….

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<th>• Some delays in major project revenues eg. fire at Barangaroo, Gateway ramp up • Ongoing unlawful <strong>secondary boycotts by CFMEU</strong> in Melbourne market • <strong>Difficult pricing environment</strong> in some markets • <strong>Rain has returned</strong> to Eastern States, supporting 1H earnings skew • <strong>Asphalt margins</strong> remain under pressure</th>
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<td>Building Products</td>
<td>• Continuing to benefit from restructuring activities but ongoing lag in translating benefits of <strong>higher housing activity</strong></td>
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<tr>
<td>Boral Gypsum</td>
<td>• USG Boral JV <strong>commenced</strong> 1 March 2014 • <strong>Roll-out plans on schedule</strong> with good team engagement • Integration <strong>plans and costs in line with expectation</strong></td>
</tr>
<tr>
<td>Boral USA</td>
<td>• <strong>Extreme winter weather conditions in Mar 2014 quarter</strong> • Rate of housing <strong>recovery is slower than anticipated</strong></td>
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Expected skew of earnings to first half compared to second half of FY2014 clearly remains
### Longer-term Strategic Direction

| Construction Materials & Cement | • Protect and strengthen leading integrated positions  
| Building Products | • Grow major project capability for long-term value |
| Building Products | • Harvest assets to maximise returns  
| | • Further restructuring required to deliver acceptable returns |
| Boral Gypsum | • Deliver USG Boral synergies  
| | • Long-term growth platform leveraging market growth, increasing product penetration, innovation and adjacent products |
| Boral USA | • Significant growth through market recovery  
| | • Portfolio refinement as cycle strengthens |
| GROUP | • Relentless focus on costs, margins & cash generation  
| | • Maintain strong balance sheet  
| | • Targeting 15% ROFE through cycle |