



Build something great™

2015 ANNUAL GENERAL MEETING THURSDAY, 5 NOVEMBER 2015

CEO & Managing Director's Address

by Mike Kane

Thank you, Brian.

Fix, Execute, Transform

Three years ago I shared with you my vision to transform Boral into a global building products and construction materials company recognised for its world-class safety performance and for delivering strong returns for shareholders.

As I said at the time, our plan was divided into three phases – *Fix, Execute and Transform*.

The aim was clear: to see Boral deliver performance excellence and sustainable growth with innovation at its core.

I can report to you today that with a strong and sustained effort, we have been successfully moving through the *Fix* phase of our program into the *Execute* and *Transform* phases.

We have improved Boral's cost base, strengthened the balance sheet and we are building a more responsive and nimble portfolio of businesses. Now, with a more efficient platform, we can take advantage of upturns in demand, respond more quickly to shortfalls in volumes as markets slow and ensure that improvement programs offset inflationary cost pressures.

For example, in the Australian market this year, while we took advantage of the peak demand in housing construction, we experienced lower demand from roads, engineering and major infrastructure projects. However, we were able to respond quickly to minimise the negative impact by taking costs out, realigning our Asphalt operations in Queensland and Victoria, and expediting a number of surplus property sales to take advantage of the strong property market.

Meanwhile in the USA, the rate of recovery in the housing market was slower than originally expected reaching only 1.05 million housing starts in FY2015. We responded by taking further costs out of the business and reducing expenditure. This delivered US\$20 million of benefits in FY2015 and ensured a return to profitability for our US operations despite lower than expected volumes.

As we progress further into the *Execute* and *Transform* phases of our plan, portfolio realignment continues to strengthen Boral's current performance and future potential.

During the year, we sold our Western Landfill business in Melbourne and formed the Boral CSR Bricks joint venture. These initiatives have strengthened the future earnings potential for Boral and in the case of the landfill sale to TPI, in addition to receiving royalty payments that will grow over time, we benefited from a \$165 million cash payment in May 2015.

We are also growing through innovation. We compete in industries in which improving the materials and products we sell can create access to new markets and broaden our offering in existing segments.

The formation of USG Boral in February 2014 provided access to world leading gypsum technologies, which is strengthening our product offering, growing our competitive advantage and improving our growth trajectory in Asia.

Through our Boral Innovation Factory, we are continuing to develop lightweight composite flyash-based products, enabling Boral to be at the forefront and drive new business through the commercialisation of materials technology through new trim and siding products in the USA.

Our priority over the long-term is to grow our businesses and brand presence in Asia and the USA through market growth and innovation. Our strengthened balance sheet provides us with the option to consider value-creating bolt-on acquisitions in the coming years but only where the business case is the right fit for Boral and our strategic roadmap. Capital management remains an option if growth opportunities do not present themselves.

In Australia, our objective is to strengthen the Construction Materials & Cement division by growing margins and continuing to develop Boral's major project capability, as well as maximising returns from our Building Products business.

My obligation to our shareholders, our employees, and our customers is to bring strategic perspective to our business and the markets in which we operate to drive the transformation of Boral for sustainable performance over the long-term.

It will take several years before we complete the transformation we are striving towards but we are well on our way.

Safety performance and sustainability

I remain resolutely focused on creating a culture within Boral of Zero Harm where safety always comes before production.

To deliver on this requires commitment and trust in Boral's people. I need to know they share the same obligation so that we are all fully engaged in ensuring that everyone is safe – always. I expect senior leaders to inspire and require change, and I am pleased to report that I am seeing this throughout the organisation.

Over the past three years Boral's medical treatment injuries have reduced from 17 per million hours worked to 10. We are reducing these incidents on average by around 15% per year every year. Just as significantly the severity of these medical treatment cases has been cut in half.

Boral's lost time injuries of 1.8 per million hours worked by employees and contractors in FY2015 was a 5% improvement on the prior year.

We continue to take pride in the fact that our safety performance is much better than industry averages in the materials manufacturing, mining, road freight transport, forestry and general construction sectors.

As at 30 June 2015, Boral had 8,356 full-time equivalent employees and an estimated 4,400 contractors. In our joint venture operations we have an additional 3,676 employees and around 3,000 contractors. Our commitment to Zero Harm encompasses all 12,000 Boral and joint venture employees and 7,400 contractors, and we manage this responsibility as our top priority.

As a Company with 565 operating sites and more than 170 distribution sites globally, we are committed to minimising our environmental impacts, working with our neighbours and giving back to our communities where we can.

We are also committed to ensuring our people act with mutual respect and integrity, and operate within the spirit and letter of the law – and we support this through appropriate training programs and governance processes.

Our determination to support our customers and stand up to the illegal behaviour within the Construction and General Division of the CFMEU in Melbourne, which saw the CFMEU black-ban Boral for two and a half years, has seen us re-establish the rule of law on Melbourne construction sites through a ground-breaking settlement agreement.

On 18 September we signed the comprehensive settlement with the CFMEU covering damages, injunctions and contempt claims, and ending the union's black ban against Boral. The agreement includes the payment to Boral of between \$7 million and \$9 million in damages and legal expenses that have already been incurred and will protect Boral against illegal interference in serving our customers.

FY2015 Divisional performance and FY2016 outlook

Let me now comment on Boral's divisional performance in FY2015 and the outlook for the remainder of FY2016.

Boral's Construction Materials & Cement division, which accounted for just over 60% of Boral's revenues in FY2015¹, reported a 6% decline in revenues on the prior year to \$3.1 billion, but a 9% increase in EBIT to \$301 million.

The higher margins we achieved in Asphalt, Cement and Concrete Placing due to operational and cost improvements, and \$46 million of Property earnings more than offset the impact of fewer engineering, roads and infrastructure projects.

In Australia, 36% of Boral's revenues in FY2015 were derived from the construction of Australian roads, highways, subdivisions, bridges and other engineering work – including major LNG projects at Curtis Island, Ichthys and Wheatstone. Our expectations for materials demand from these two market segments in FY2016 remain unchanged. A multi-year

¹ Including Boral's 50% share of underlying revenue from USG Boral, which does not appear in Boral's consolidated accounts.

recovery, led by major road projects, is expected to benefit Boral as a materials supplier from late FY2016 and more so from FY2017.

Therefore, we expect FY2016 will be a transition year for Construction Materials & Cement before an expected lift in our largest market segment next year.

Excluding Property earnings, which I will comment on in detail later, we expect to maintain similar high levels of EBIT in Construction Materials & Cement this year as delivered in FY2015.

We expect to deliver benefits from restructuring and productivity improvement initiatives together with continued strength in the Sydney construction market. This is needed in FY2016 to offset the subdued roads and engineering activity as well as reduced earnings from the Western Landfill business as a result of its divestment last year.

Royalty payments that are now coming to Boral from TPI, following the sale of the landfill business, will grow over time, starting around \$15 million per annum. This compares with the \$20- to \$25-million annual EBIT contribution from the landfill business prior to its sale, which saw us receive \$165 million of cash in FY2015.

Boral has strong internal capability and a solid track record of maximising the returns from our property assets, and the landfill business is a perfect example of this.

Property sales more broadly are a normal part of the business lifecycle of Boral's operations. That is, as quarries, concrete, asphalt and other operations come to the end of their economic life they are replaced with alternate plants at alternate sites, and the land, which generally becomes more valuable as a result of urban encroachment, is liberated. With high volumes from our quarries due to both asphalt and concrete outlets, and the movements of growth corridors, which obsoletes batching operations before the end of their useful life, we are continuously moving our network.

Historically, we have averaged \$36 million per year in Property earnings over the past ten years and \$24 million over the past five years following completion of the major, multi-year developments of an old brick site at Moorebank and our old Greystanes Quarry which incorporated the Nelsons Ridge residential development in Sydney.

Property resides in our Construction Materials & Cement division because it has the largest land bank and harvests property on a continual basis.

Examples of land ready for realisation include our 40% interest in the 2,000-hectare Penrith Lakes site, where quarry operations ceased in September 2015, a 92-hectare depleted Quarry operation in Queensland, and eight retired Concrete plant sites throughout New South Wales. Value for these properties varies due to the uniqueness of the property itself and the possible development opportunities, which are site specific. Suffice it to say that our long track record of liberating value from our end-of-life land holdings shows that our business lines in Australia continue to produce profitable opportunities for harvesting property.

So while earnings from Property sales are an ongoing feature of our business, the exact timing and level of contribution is difficult to predict and earnings can be lumpy, ranging between \$8m and \$46m of annual EBIT over the past five years.

Boral's smaller **Building Products division** delivered \$30 million of EBIT in FY2015 – a \$70 million turnaround in only two years. Restructuring and improvement initiatives have positioned the business well to take advantage of higher housing-related volumes.

With Australian brick manufacturing being challenged as a result of a reduction in brick usage and high input costs, the formation of the Boral CSR Bricks joint venture in May 2015 is allowing us to drive efficiencies across the combined network of East Coast operations, creating a more sustainable business.

Boral's Building Products division is expected to improve its underlying earnings in FY2016. However, due to the impact on earnings as a result of the Bricks East business moving from 100% consolidated results to a 40% post-tax equity accounted share of earnings from the Boral CSR Bricks JV, we expect to maintain a similar reported EBIT in FY2016 for Building Products to the reported EBIT for FY2015. This is despite housing activity expected to come of its peak during the year.

Turning now to our **Gypsum division**. Our 50%-owned USG Boral gypsum joint venture delivered a 38% increase in underlying EBIT to \$141 million, resulting in a post-tax profit contribution of \$49 million for Boral in FY2015. The business continued to leverage underlying market growth at the same time as increasing product penetration in maturing markets, including our new world leading Sheetrock® technology products.

Boral Gypsum is expected to deliver further underlying performance improvements. Volumes of new Sheetrock® products should continue to grow and synergies should also strengthen in FY2016. Synergies are expected to exceed the cash costs associated with the expanded product portfolio and technology roll-out this year.

We continue to expect construction activity to grow in FY2016 across most countries in Asia, with some uncertainty in Thailand and Indonesia, and continued subdued activity in the high end market in China.

Perhaps the best news for Boral in FY2015 was that **Boral USA** returned to profitability with a positive A\$6 million of EBIT. This is the first profitable outcome since the global financial crisis impacted in FY2007. The A\$45 million year-on-year turnaround was underpinned by a 10% increase in housing starts to 1.05 million together with a US\$20 million cost saving program.

Market forecasters are expecting total housing starts to lift to ~1.2 million starts² in FY2016, and we think this is about right. In FY2016, EBIT from Boral's USA division is expected to lift in line with this projected increase of around 150,000 housing starts.

The US business is more efficient, with a lower cost manufacturing base than at the peak of the last housing cycle. This means we will be in a very strong position to exceed our previous earnings performance at the next market peak. The US housing market could peak between 1.8-2.2 million housing starts and could take another 5-7 years before it is there.

² Analysts average (Dodge, Wells Fargo, NAR, NAHB, Fannie Mae, Freddie Mac, MBA) between May & July 2015

Divisional performance summary

In summary, in FY2016 we continue to expect ongoing strong results from our businesses in Australia – both Construction Materials & Cement and Building Products. Beyond FY2016, benefits are expected from a multi-year upcycle in major roads and infrastructure, which should more than offset the impacts of any decline in residential activity.

Longer-term, the aim in Australia is to strengthen and protect Boral's leading integrated positions in Construction Materials & Cement, grow margins and build on Boral's major project capability. In the Building Products division, we are continuing to improve the portfolio and business performance.

Boral's USA division and the USG Boral Gypsum JV should continue to deliver improved results in FY2016. Substantial medium- and longer-term earnings growth are expected to come from the continuing major market recovery in the USA and significant long-term market and product penetration growth in Asia.

Trading in the first quarter of FY2016

Before I conclude my address, I would like to provide some comments on the trading conditions in the first quarter of FY2016.

First quarter results from **Construction Materials & Cement** are in line with our expectations.

Pricing is stronger in metro New South Wales and South East Queensland compared to the prior corresponding period, however, prices are broadly steady elsewhere including in Victoria.

Improvement programs that are underway are encouraging and expected to offset the impact of inflationary cost increases.

As is often the case at this point in the year, it is still too early to provide guidance on the expected earnings from Property this year. However, at this stage it is expected to be skewed to the second half of the year.

Looking now at the first quarter results from **Building Products**.

In the September quarter, Building Products delivered an overall improved result on the prior corresponding period, with earnings in line with our expectations for the first quarter. Residential activity continued at strong levels during the first quarter of the year and pricing outcomes continued to deliver benefits.

The underlying Bricks East business, which is now part of the Boral CSR Bricks JV – and now operating under the PGH brand – delivered improved results. However, Boral's reported contribution for the division was impacted by equity accounted earnings from the Bricks JV being on a post-tax basis.

For the first quarter of the year in **USG Boral**, underlying business performance was in line with our expectations, with a solid improvement in first quarter earnings (reported in Australian dollars) compared to the prior year.

Plasterboard volumes were broadly steady overall and non-board volumes were up. While board volumes were higher in Australia, volumes were impacted as a key competitor in Korea has overcome production supply constraints, which delivered a short-term volume benefit in the prior year.

The Sheetrock® technology roll-out continued, with product penetration continuing to lift in the September quarter and price premiums remaining above 5%.

Finally, in the **USA**, total housing starts were running at 1.16 million³ annualised starts in the first quarter of this year on a seasonally adjusted basis, up 13% on the prior corresponding period. Forecasters are expecting the full year outcome to be around 14% up year-on-year, so the market recovery is continuing.

In line with our expectations, US earnings for the quarter were positive and better than last year. Volumes in Cladding and Roofing were higher than the prior corresponding period and small price improvements were delivered in bricks, roofing and composite products.

Thank you

I recognise that any success Boral has is largely attributable to the hard work and dedication of thousands of employees and contractors, some of which I will work closely with, others I will only meet in passing. I thank them all for the results delivered in FY2015.

Before I hand back to the Chairman, I would like to add to Brian's comments acknowledging the legacy that Bob Every will leave us when he steps down from the Board at the conclusion of today's meeting.

On a personal note I have learned a considerable amount from Bob as I moved into the CEO role three years ago. Thank you Bob for your support and mentorship and I look forward to our ongoing friendship.

While your departure from Boral's board will not see you end your working career, it does mean you will have more time to pursue other interests. We wish you and your wife Sheryl all the best for the future and thank you for your service to Boral.

Finally, I am looking forward to a collaboration with Brian Clark – working closely as Chairman and CEO. I am grateful to be a member of Boral's Board and to benefit from the deep experience and skills that all of my fellow Directors bring to the table. I am looking forward to the opportunities and challenges that are ahead of us and to delivering further improvements for our shareholders in the coming years.

Thank you.

³ Seasonally adjusted annualised data from US Census for September 2015 quarter.