2014 ANNUAL GENERAL MEETING
THURSDAY, 6 NOVEMBER 2014

CEO & Managing Director's Address

by Mike Kane

Thank you, Chairman.

Fix, Execute, Transform

It has been approximately two years since I announced the *Fix, Execute and Transform* program at Boral amid the lows of the Australian and US building cycles, with the ultimate aim of delivering a more profitable and efficient business.

Initially, we needed to fix the things that were holding the Company back, and the strategic priorities I highlighted to do this were:

- managing costs down;
- maximising cash generation;
- reducing debt; and
- reshaping the portfolio.

Here today, I can say that we have delivered on our promises over the past two years.

In FY2014 we delivered $130 million of annualised benefits from a group-led overhead reduction program and a review of Boral's contracted expenditure. We realised $251 million of cash proceeds from divestments and surplus land sales in line with our two-year target, which together with $562 million of cash received on completion of the USG Boral joint venture, helped to reduce Boral's net debt from $1.45 billion to $718 million in 12 months.

With the *Fix* phase of the program well advanced and already delivering improved performance across Boral, both financially and operationally, we are now in a strong position to face the future.

As part of the *Execute* phase of the program, Boral's businesses have been applying best practice to improve the way we operate. We are targeting greater efficiency, discipline and profitability across all divisions and all businesses.

We are creating a culture that is more responsive and more decisive on what we need to do to adapt to external market dynamics.

Reshaping the Portfolio

Construction Materials & Cement

In response to external market dynamics, major changes have taken place in the Australian Cement business. We have closed the Waurn Ponds clinker kiln in Victoria and announced the closures of the Maldon specialty off-white cement kiln in New South Wales and the Berrima Colliery in New South Wales. We have replaced these high fixed cost operations with more cost-effective strategies, including third party supplies and imports.

We have also commenced a review of New South Wales cement manufacturing including options to reduce costs at the Berrima cement plant. Further restructuring is considered necessary to ensure that domestic clinker manufacturing remains competitive to imports. As it is our only remaining domestic cement manufacturing plant, significant efforts are underway to extend the productive life of the Berrima asset, cognisant of the pressures from imports and rising costs.

In the Asphalt business, we have restructured in Queensland and Victoria in response to weaker market conditions in those regions over the past 12 months.

Building Products

The Building Products division has seen major restructuring over the past two years and as a result, it delivered an impressive $48 million EBIT turnaround in FY2014. In the last 12 months we have sold the Windows business, exited the Woodchip exports business, ceased manufacturing engineered flooring and exited softwood distribution in Queensland.

Earlier this year we signed a new long-term, more sustainable supply agreement with Forestry Corporation of New South Wales for hardwood supply and we have commenced a strategic review of the Timber business to assess future opportunities for the business.

While significant improvements have been achieved in the Building Products division to date, we recognise that there is still work to do to reach acceptable returns, and so further portfolio realignment will be necessary in FY2015.

In the Australian Brick business we have proposed a structural solution to form a joint venture with CSR on the east coast to help achieve returns that recover the cost of capital through the building cycle.

In response, the ACCC has presented a Statement of Issues, which we are in the process of responding to. While their response is concerning, rest assured that if the ACCC opposes

Gypsum

In Boral Gypsum, the USG Boral plasterboard and ceiling tiles joint venture kicked off earlier this year across Australia, Asia and the Middle East. This is a very exciting time for this business with its strong growth potential and now, world-class gypsum technology that will drive product and industry innovation. USG's adjacent products and our new higher strength, lighter weight, more sag-resistant plasterboard products are currently being rolled out into the Australian marketplace as well as in Korea, Indonesia and Thailand. The technology roll-out, which is ahead of schedule and coming in under budget, will continue over the next 12 to 18 months and will see additional plants across our broader network of plasterboard plants converted to NextGen technology production. We remain confident of delivering the targeted $50 million per annum of synergies within three years of the technology roll-out.

USA

In Boral USA, we have further consolidated capacity in the Roofing and Bricks businesses in response to changing market dynamics. We are making solid inroads into product innovation in the emerging Trim business including leveraging the composite technology to introduce a high-end cladding product to compete with natural wood. As we work towards reducing our

In his submissions, Mr Stoljar identified the series of serious offences relating to the conduct of the CFMEU; including the secondary boycott activity, cartel conduct, and contravention of blackmail offences. Mr Stoljar also identified contravention of the cartel provisions by other industry participants in agreeing with the CFMEU to implement the secondary boycott. We welcome the recognition that the system as it stands does not provide swift protection for the type of conduct that Boral has suffered at the hands of the CFMEU.

Mr Stoljar made the point that a legal system that does not provide swift protection for the type of conduct that Boral has suffered, and which does not have a mechanism for the swift enforcement of court orders, risks losing public confidence and brings the administration of justice into disrepute. We strongly concur with this.

In our case, clearly justice delayed is justice denied. As we sit here today, the secondary boycott against Boral in the Melbourne CBD continues. After 20 months of pursuing enforcement of the law through legal channels, an ACCC investigation and a Royal Commission, the situation on the ground is unchanged.

I assure shareholders that we will continue to assert our legal rights, pursue enforcement options and campaign for reforms that will help to stop the illegality, manipulation and anti-competitive conduct that we have helped to expose. We will not give up and we hope that all sides of government - at state and federal levels - will support the necessary reforms to eliminate this blight on the Australian construction industry.

FY2014 Divisional performance, trading update and outlook

Let me now comment on Boral's divisional performance in FY2014, the trading conditions in the first quarter of FY2015 and the outlook for the remainder of the year.

Construction Materials & Cement

Boral Construction Materials & Cement, which accounted for approximately 64% of Boral's revenues in FY2014, achieved a 5% increase in revenues on the prior year to $3.3 billion, but a 1% decrease in EBIT to $277 million.

This reflects a strong underlying performance from Construction Materials & Cement given Property earnings were down $20 million on the prior year. Underlying earnings strength was driven by Cement and Quarries businesses partially offset by lower earnings in Asphalt, Concrete and Concrete Placing.

While concrete and quarry volumes were higher overall, realised like-for-like selling prices were broadly flat, reflecting competitive pressures particularly in Queensland and Victoria.

In response to a decline in Asphalt results and softer market conditions, the Asphalt business and associated support services were restructured towards the end of FY2014, taking out 118 positions from the business. This is expected to result in $11 million of annual cost savings in FY2015.

In the first quarter of FY2015, Building Products' performance has continued to improve. Earnings have benefited from stronger residential activity in New South Wales and Western Australia, the Timber restructuring announced in June 2013 and the overhead cost reduction program.

The division realised a small profit in the first quarter of FY2015 and we now expect it to more than double the $8 million EBIT reported in FY2014. While we remain confident of delivering this improved result, this level of profitability remains below acceptable levels of long-term returns. We continue to focus on further restructuring options for the Building Products division in FY2015.

Boral Gypsum

As the USG Boral joint venture commenced on 1 March 2014, Boral's Gypsum division now represents our 50% share of USG Boral. For FY2014 however, eight months of the year comprised our 100% consolidated earnings from Boral Gypsum together with four months of 50%-owned equity accounted earnings from the joint venture.

This explains the decrease in both reported revenue and reported EBIT year-on-year. However, if we look at the underlying business, there was growth across both measures. Underlying revenue was up 19% to $1.1 billion and underlying EBIT was up 23% to $102 million.

This was driven by growth in plasterboard volumes and price rises in Australia, as well as strong growth in non-plasterboard revenues such as ceiling tiles, metal stud, compounds, gypsum and contracting. Australian earnings also benefited from lower costs in materials, manufacturing and distribution, as well as prior year headcount reductions.

Revenues from Asia grew strongly as a result of overall market growth and increased product penetration. There were solid gains in Korea and Indonesia, reflecting stronger market conditions in these countries. The highly competitive market in Thailand also grew despite political instability in the prior period. Meanwhile, plasterboard volumes grew in China but pricing was challenged due to ongoing competitive pressures and a shift in sales mix.

The USG Boral joint venture is progressing very well with the operations of the two businesses now fully integrated.

The new lightweight Sheetrock® Brand plasterboard was successfully launched in five plants across four countries from September 2014. The new product is based on world-leading and truly innovative NextGen USG technology, making the product lighter and easier to work with while being more versatile with Sag-Defying Strength™. While still in the early days, the feedback from customers and trade contractors so far has been overwhelmingly positive.

For FY2015 we expect some early benefits from the new technology roll-out and the expanded product portfolio, as well as continued improvements to underlying performance on the back of increasing demand in Australia and Asia, as well as the benefits of restructuring and improvement initiatives, which will help to offset the integration costs and inflationary cost impacts. However, as it will be a full 12 months of 50% equity accounted earnings from the joint venture, the division will contribute lower earnings to the Group compared to FY2014.

We continue to face significant inflationary headwinds, including rising energy and labour costs, so it remains imperative that we continually manage costs down, particularly in Australia. We must also try to capture price in the market place to help offset inflationary pressures, which we have struggled to achieve in some divisions in FY2014. The Group's outlook for FY2015 remains positive and we are working to fill any volume shortfalls with improvement initiatives and additional property sales.

Boral's senior management team has fully embraced the concept that as leaders we must deliver on our commitments when faced with obstacles; we adjust and identify steps to deliver on these commitments by other means. This sounds easy – but it's not. Execution is the hallmark of leadership – and at Boral we are building a new reputation for delivery.

Transforming Boral

We are moving into an exciting phase for Boral. We want to deliver world-class health and safety outcomes. We want to deliver returns on funds employed that exceed the cost of capital through the cycle. In time, our growth markets will generate a more geographically balanced portfolio and we are striving for a more flexible cost structure, with a balance of traditional and innovative products that our global customers want. We are transforming the business for performance excellence and sustainable growth in the long term.

Thank you.