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CEO & Managing Director's Address

by Mike Kane

Ladies and gentlemen.

As you may recall, when I first spoke to you some four years ago as a newly-appointed CEO, I talked about the need to transform Boral.

We had then a good business, with solid foundations, but one that required some significant repair in the first instance and then, a new vision about its future.

We are now well past the fix and repair phase and starting the transformation.

Our vision – one shared by the Board and management – is to transform Boral into a high performing global building products and construction materials company that is recognised for delivering world-class safety performance and excellent value for shareholders.

In the past year, the Group has delivered significantly improved financial and safety outcomes, and we have undertaken a number of successful strategic transactions to further strengthen the business and position Boral for more sustainable growth.

FY2016 RESULTS BY DIVISION

Looking at FY2016 divisional results.

All of Boral's divisions delivered on their promises during the year.

Across the Group there is a clear link between strong leadership, good safety outcomes and financial performance. When safety is managed well, the business is managed well.

During the year we held a two-day safety summit, where zero harm was discussed by 100 Boral leaders, including members of the Board who joined us at various times throughout the forum. Recognising the debate in many industries about whether zero harm is an achievable goal, we tackled the question internally. We asked ourselves – 'can we get through today without hurting anybody?' And the answer was yes. We have done it many times. So that's our objective, to get through the work today without injuring anybody. And we'll do it again tomorrow. That's a very achievable goal, and that's how Boral is embracing zero harm as a safety philosophy.

Striving for Zero Harm Today underpinned a 28% reduction in Lost Time Injury Frequency Rate (LTIFR) in FY2016 to 1.3 and a 27% reduction in the Recordable Injury Frequency Rate (RIFR) to 8.2.

In the broader industries in which we operate in Australia the average LTIFR is around 7.2 to 9.3[1], compared with Boral Australia's LTIFR for FY2016 of 1.1.

These strong safety results are improving across the organisation. As are Boral's financial results.

Construction Materials & Cement (CM&C) – Boral's largest division – reported a solid 4% lift in earnings before interest and tax (or EBIT) and before property earnings. Including property, FY2016 EBIT of $293 million was $8 million lower than the prior year because, as anticipated, earnings from the recycling of our property assets were not as high as FY2015.

Building Products delivered $33 million of EBIT, which was $3 million better than last year.

As the Chairman highlighted in his address, at the end of the year we brought these two Australian divisions together as one Boral Australia division. This is delivering around $2 million of annual cost savings and supporting further cross-business collaboration.

Looking at our Australian markets, the end of the resource boom has had some impacts on Boral's operations. There's been a significant slowdown in Perth, particularly moving into FY2017, and low levels of demand in regional Queensland and Western Australia. The most significant impact for Boral however, has been the lower concrete and quarry volumes as a result of the completion of major LNG projects in Queensland, Western Australia and the Northern Territory.

However, the continued strength in the Australian housing market – particularly multi-residential construction, which remains at historically high levels –has underpinned the strong performance of the Australian businesses. We are also seeing early benefits from the significant multi-year pipeline of infrastructure construction work, which lies ahead.

We have commenced supplying concrete (with the associated quarry products and cement) to Sydney's multi-year NorthConnex road project. We are using mobile concrete plants previously used on the LNG projects in Gladstone to supply NorthConnex, which means we are not placing additional demand on our fixed plant network.

In recent weeks we have secured the supply of asphalt to Northlink Stage 1 in WA, and we are in various stages of tendering and negotiations on several other major infrastructure projects across the country, and there are more in the pre-tendering pipeline.

Boral's diverse market exposure in Australia together with our outstanding position in New South Wales, where conditions remain very strong, means that we are able to deliver strong and steady underlying performance. Because of this broad market exposure we are seeing continued earnings strength and modest growth. In other words, as one market softens another is growing.

[1] Source: Safe Work Australia data 2013-14. Based on Safe Work Australia's definition of Lost Time Injury Frequency Rate using injuries that resulted in five or more days lost time from work. Boral data for Australia only is on the same basis for comparative purposes for FY2016.

As shareholders know, the US brick business has been challenging in recent years and its high fixed cost nature means that it has been a heavy weight dragging Boral's results down through the US recession. In fact, the US brick business was still incurring losses in FY2016. This year, in FY2017, we expect the bricks business to be broadly break-even, and then to grow as the market recovers further and as we deliver joint venture synergies.

The North American bricks joint venture provides the opportunity to create a more efficient and better positioned business to compete long-term. We will be able to optimise Boral's and Forterra's combined manufacturing capacity and distribution network and with greater scale economies and a streamlined selling and marketing operation, the JV is expected to realise significant cost synergies of over US$25 million by year four.

As our focus in the US shifts away from high fixed cost manufacturing to more scalable variable cost products, we see a strong future in light weight, more sustainable building products at the core of the US business.

We are continuing to invest in the development of innovative fly ash based polymer composite products and our patent-protected trim and siding products are gaining further traction in the market.

Boral's TruExterior Trim and Siding, which we are now distributing through over 700 locations in the USA, is setting new standards. This is an innovation that Boral developed from scratch in a laboratory, piloted, commercialised and we are now building scale. We are proud of our achievements in developing this new technology and unique manufacturing process. Unlike alternative products in the market, our composite products do not absorb moisture, they are dimensionally stable and effectively maintenance free for the life of the building.

The most exciting aspect of our composite materials developments in the US, apart from its strong sustainability attributes, is that with relatively minor chemical and physical adjustments the material can be modified to produce a range of products for various applications and conditions. We are currently looking at opportunities to commercialise a low density sheet product that could have applications as a backer-board or in commercial roof structures.

During the year, we completed a US$4 million investment in our new R&D facility in San Antonio in Texas, which we call the Boral Discovery Centre. It is here that the important materials technology and product development work is taking place.

As I have said previously, we continue to explore opportunities to scale our US business and provide a strong platform for growth. We remain committed to increasing our nearly 40 year US investment where there are more opportunities, the market is larger and more diverse and where the economic and construction cycle is coming off historic lows.

In particular we are looking for ways to create scale around our lighter weight products – not only trim and siding but also roofing, manufactured stone, fly ash and related products. Ultimately our goal is to accelerate the repositioning of the business to being more agile and diversified across a range of US construction markets, achieve returns that exceed the cost of capital through the cycle with more sustainable growth.

We continue to maintain a very disciplined approach to assessing strategic M&A. Of course, in the event that we do not find the right opportunities at the right price, capital management remains an option.

So overall, Boral is well-positioned to leverage growth in all of our three major geographies – Australia, the USA and in Asia.

I have talked about growth in the USA through market recovery, innovation and possible M&A. Across USG Boral's geographies of Asia, the Middle East, Australia and New Zealand, we will be growing through further penetration of our plasterboard products as it gains greater traction in maturing construction markets. We will also be growing through product innovation, new adjacent products, and economic development in emerging markets.

Finally, coming back to Australia, while significant top-line growth through cycles is limited by the scale and scope of the market, we have a strong, high performing, well-positioned business to maintain and continue to strengthen.

Three days ago we announced the divestment of our 40% share of the Boral CSR bricks joint venture to CSR for a total cash consideration of $134 million, and a post-tax profit on sale of around $20-$25 million, which will be recognised as a significant item this year.

CSR is the natural owner of the bricks business and it is more sensible for Boral to realise value for the business now that the synergies from the integration of the two businesses has been delivered and re-direct capital to areas of core strength and strategic opportunities for Boral.

Shareholders should note that two Boral-owned land-holdings were excluded from the JV when it was formed in May 2015 – Scoresby in Victoria and surplus land at Bringelly in Sydney's West. The surplus land at Bringelly was sold in FY2015 for $35 million, leaving only Scoresby – a 171 hectare site with potential for 87 hectares of future residential development lands. Boral retains ownership of Scoresby and will continue to lease it to CSR. We retain an option to terminate the lease in 2025 with three years' prior notice.

A few years ago we commenced a quarry reinvestment program to strengthen our leading quarry positions in key Australian markets. To date we have invested over $300 million and we are likely to invest up to a further $100 million over the next two years to complete the reinvestment program.

We have completed the new state of the art Peppertree quarry near Marulan for the Sydney market, we have commenced upgrades at Orange Grove Quarry in Perth and Deer Park Quarry in Melbourne, and we are currently developing plans to upgrade the Ormeau Quarry in Brisbane. These quarry investments are supporting increased yields from our key operations, lowering the cost of our quarry operations and securing Boral's future capacity requirements to cost-effectively supply capital city markets from these privileged reserves.

1Q FY2017 TRADING & OUTLOOK

Let me now give you a brief Trading Update for the first quarter of this year and talk through the Outlook ahead.

BORAL AUSTRALIA

At Boral's full year results announcement in August we commented on the outlook for FY2017. We said Boral Australia would benefit from continued strength in East Coast housing markets and the uplift in roads and infrastructure activity, which will benefit more in the second half of FY2017. We said Construction Materials & Cement is expected to deliver slightly higher EBIT compared with FY2016 (including property in both years), and this earnings growth should more than offset slightly lower earnings from Building Products due to weaker housing markets in Western Australia and South Australia.

Typically, earnings from Construction Materials & Cement (excluding property) are skewed towards the first half of the year reflecting available working days. However, we said in August that in FY2017, earnings are expected to be broadly balanced between the first and second half, due to softer major project activity and lower demand in Western Australia ahead of the expected ramp-up of materials demand for infrastructure projects and the timing of announced price increases.

So what do we know at the end of the first quarter?

We have seen East Coast housing activity remain strong and the uplift in major roads and infrastructure projects is firming, as expected. We have commenced or are about to

In the first quarter, total US housing starts[2] were 2% lower than the prior corresponding period and single-family starts were only up 2%, which was below expectation. As a result we only