2016 ANNUAL GENERAL MEETING
THURSDAY, 3 NOVEMBER 2016

Remuneration & Nomination Committee Chairman's Address

by Kathryn Fagg

Good morning ladies and gentlemen.

It is always pleasing to be able to report a successful year. And 2016 has been a successful year for Boral, with continued improvement in the Group's financial performance.

In turn, this has led to good outcomes for executives when it comes to short- and long-term incentives, including for the Chief Executive Officer, Mike Kane.

The details on remuneration outcomes for our executives, the remuneration elements and the governance framework used to determine those outcomes are detailed in the Remuneration Report, along with the fees paid to Non-executive Directors.

I want to take this opportunity then, to provide shareholders with a brief update on the activities of the Remuneration & Nomination Committee over the past 12 months.

REMUNERATION REVIEW

In 2016, we did not make any significant or material changes to our remuneration framework.

However, as indicated in last year's Remuneration Report, a one-off targeted retention plan was introduced to ensure stable leadership and continuity of Boral's business transformation initiatives, and the details of this plan are included in this year's Report.

We provided the one-off targeted retention incentives or TRI to eight of our key executives, excluding the CEO, in September 2015, comprising a grant of performance rights. The executive must still be working for Boral at the end of year three to receive any benefit.

The decision to introduce the one-off TRI was taken after losing two senior executives to competitors and in the context of the Board becoming aware of recruitment attempts of our top talent by competitors.

In addition, we are investing in these eight executives through the retention incentives together with a multi-year personalised development program, in order to develop and maintain a strong pool of potential internal candidates for senior level succession including CEO succession. While internal succession development is a key focus for us, we note that we expect Mike Kane to remain as CEO for another three to five years.

We have heard the views of the proxy advisors this year and we agree that TRIs should not be an embedded practice. However after careful deliberation, we believe these one-off incentives were the right thing for us to do under these circumstances, and assure shareholders that this was a one-off grant – there were no retention grants made in September 2016 and there will be no retention grants in the coming year.

REMUNERATION ARRANGEMENTS

Overall, our executive remuneration mix is a combination of fixed salary and at risk reward, which are based on the Group's performance in the short-term and the long-term.

For example, at the CEO level, we target one-third of the package to be delivered in fixed remuneration, one-third in short term incentives (STI) and one-third in long-term incentives (LTI).

Fixed remuneration continues to be benchmarked to the median of a comparator group of

In FY2016, the STI scheme continued to deliver the award in two lots: 80 per cent in cash and 20 per cent deferred into equity for two years.

As we said previously, we are of the view that this deferral encourages sustained performance through the building cycle, further supports retention of our most able and committed executives, and encourages our senior leaders to take greater ownership of their responsibilities.

One added advantage – and one we hope we never have to use – is the fact that deferral provides a safety provision, in case we ever need to clawback remuneration as a result of fraud, dishonesty, breach of employment obligations or any material misstatement in Boral's financial reports.

Turning now to the **long-term incentive plan**. We continue to deliver these incentives as performance rights. And for current grants, we continue to use a fair market value methodology for determining the allocation of performance rights.

This is and has been for some time, a sensitive area and one that has resulted in considerable public interest. That is why we gave shareholders an undertaking last year to disclose both the fair AND the face value of the 2016 LTI grants and we have delivered on that promise.

Further, as indicated in this year's Remuneration Report and the Notice of Meeting, in light of investor feedback, the Company will consider moving to LTI allocations based on face value for next year. We do not expect this change to alter the remuneration package of executives that is made up of LTI, nor is it meant to change the value of LTI awards delivered.

However it is important to remember that the actual value that an executive may receive from any LTI award cannot be truly determined until after the end of the three-year performance period, because it is dependent on whether the performance hurdles are achieved and the Company's share price at the time of vesting.

As a further safeguard, these performance rights are tested every three years - with no retesting. This is in line with the three year performance period employed by the majority of ASX 100 companies.

To provide a more direct connection to Boral's long-term strategy, we use a return on funds employed or ROFE performance measure when it comes to the LTI plan. This helps to focus management's attention on the effective use of capital employed.

Given the significant shift in performance required, a three-year ROFE target of 12.0 per cent with 100 per cent vesting at 12.5 per cent has been set for the FY2017 LTI grant with reference to Boral's historical performance over rolling three-year periods.

Over the past three year period, ROFE has tracked on average at around 8.1 per cent[1], and for FY2016 was 9.1 per cent.

This means that a three year target of 12.5 per cent ROFE for 100 per cent to vest is demanding and requires continued substantial effort by all executives – as it should.

Our longer term goal, of course, is to exceed the weighted average cost of capital, which is equivalent to a ROFE of around 12 per cent.

[1] Being the average of 9.1% (2016), 8.5% (2015) and 6.6% (2014)

ALIGNMENT BETWEEN EXECUTIVE AND SHAREHOLDER INTERESTS

For the past two years we have set aside 20 per cent of all STI awards into equity, for a

The increase in the value of these share-based payments is largely as a result of the impact of our earlier changes to LTI. This is reflected in higher amortisation of LTIs due to shorter vesting periods. In addition, the deferred STI component has now built up three years of amortisation, rather than two.