2020 ANNUAL GENERAL MEETING
TUESDAY, 27 OCTOBER 2020

CEO & Managing Director's Address

by Zlatko Todorcevski

Thank you Kathryn. Good morning ladies and gentlemen.

As you know, I joined Boral on 1 July, at the start of this new financial year. As Boral's CEO & Managing Director I recognise the enormous responsibility I have to you, our shareholders.

This is a great company and I am very optimistic about the future of Boral.

Today, in my first Boral AGM Address, I will talk to you about how our business has been trading in the first quarter of the financial year and update you on the portfolio review work we have been conducting, and decisions we are taking, to increase shareholder value.

BORAL SAFETY PERFORMANCE

Let me first focus on safety. I know safety has been important to Boral, and I am equally passionate and committed to a culture of Zero Harm.

Measures to help manage the risk of COVID-19 remain a key focus including strict hygiene, social distancing, cleaning and quarantine protocols, which are now part of how we operate.

Kathryn talked about Boral's recordable injury frequency rate of 7.6 for FY2020 being broadly steady on the prior year. I am pleased to say that for the first quarter of FY2021, this has reduced to 7.0.

We did not have any reportable fatalities in FY2020. However, in June 2020, a contractor driver was involved in a serious incident in Brisbane, sadly resulting in the fatality of a cyclist. A month later, an employee cement tanker driver was involved in a devastating crash that resulted in the death of a young girl and serious harm to several others.

We are deeply saddened by these tragic events, and our heartfelt sympathy remains with those affected. These devastating events reinforce the need to stay vigilant and to continue to improve road safety for all road users.

The organisation's focus on safety is a critical aspect of Boral's culture that I am committed to preserving and continuing to strengthen.

BORAL'S FY2020 FINANCIAL RESULTS

Kathryn has covered Boral's financial results for FY2020. I won't repeat that information, except to say this: a 55% decline in Boral's FY2020 NPAT on a comparable basis[1], excluding significant items, clearly demonstrates that it was a very challenging year for the Company and we have a lot of work to do.

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[1] For continuing operations, excluding significant items, and excluding the impact of AASB 16 leasing standard, net profit after tax (NPAT) of $187 million was 55% below the prior year.

In addition, we recognised a significant non-cash impairment charge of $1.346 billion. A total of $1.22 billion related to the carrying value of assets within Boral North America, which took into account:

- increased demand uncertainty caused by the COVID-19 pandemic and potential longer-term impacts of prevailing economic and operating conditions, and
- recent operating performance of our businesses.

The remaining $123 million of the impairment was in relation to construction materials assets in Western Australia and the Northern Territory, as well as roofing and timber assets in Australia, again reflecting lower market demand including the COVID-related economic downturn and uncertainty.

The FY2020 results were heavily impacted by COVID-19 disruptions as well as the Australian bushfires, several other one-off impacts and cyclical declines in the Australian and South Korean housing markets.

FIRST QUARTER (JUL-SEP 2020) TRADING UPDATE

The first quarter of FY2021 has seen fewer disruptions in most businesses relative to the previous six months, which is encouraging, but it is still not business as usual.

We're not seeing consistency in activity levels from month to month, which reflects ongoing uncertainty and challenges.

For the first quarter, **Group** revenue was down 9%, in part due to unfavourable exchange rate impacts, while EBIT[1] was down 5% on the prior comparable period. EBIT margin for the first quarter, which is typically a seasonally stronger period, was 9.5%, and compares with ~9% in the September quarter last year.

EBIT from **Boral Australia** was broadly steady on lower revenue relative to the September quarter last year, with EBIT margin of 7.5% slightly better than the same period last year.

Earnings benefited from structured improvement programs which included headcount reductions in FY2020 and early FY2021. And last year we had a $10 million adverse impact in the September quarter due to disruptions at our Berrima and Peppertree operations, which were not repeated this year.

Concrete volumes in the September quarter declined 8%, with weaker activity in NSW and Victoria, including the impact of stage 4 lockdowns in Melbourne. Quarry volumes were down 2% and asphalt volumes were also lower, driven by softer activity in NSW and Queensland.

We are continuing to bid for infrastructure projects that come to market but there is a slowdown in major project work moving into the execution phase. The Federal Government's stimulus funding for infrastructure in the budget is encouraging, but it will take time for any benefits to flow through to activity.

There was no earnings contribution from Property during the quarter, and for FY2021 we expect Property earnings to be below the long-term average of around $35 million. We will provide further clarity on the expected full year contribution from Property with our half year results.

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[1] While we previously focused on EBITDA with the acquisition of Headwaters, we are shifting our focus to EBIT, which takes into account depreciation of capital, and aligns with our focus on EBIT return on funds employed (ROFE).

Boral North America underlying US dollar earnings declined on lower revenue, but North America's EBIT margin for the September quarter of ~12% was slightly better than the same period last year, helped by a higher equity contribution from Meridian Brick.

US housing starts and repair & remodel activity have strengthened in the first quarter and there is evidence of positive momentum, with some volume uplift in the month of September in Stone, Light Building Products and Roofing.

However, lead times are stretching out due to continued high levels of COVID related absenteeism, supply chain disruptions and challenges in increasing staffing to support higher production levels. As a result, September quarter volumes in Roofing, Stone and Windows were lower than the prior September quarter. Increased freight costs due to carrier shortages and COVID-related production inefficiencies are also impacting earnings.

Fly Ash volumes were down 11% in the September quarter relative to the September quarter last year, reflecting supply constraints due to COVID-related utility shuts and slowdowns and further closures in the south due to hurricane related disruptions.

In FY2020, we secured 1.3 million tons of additional contracted supply of fly ash, which will be progressively available from FY2021. These volumes more than offset recent contracts that have ended or are not renewing. While we are continuing to work on network optimisation and bringing new supply to market as quickly as possible, FY2021 may be impacted by phasing of volumes rolling off ahead of new contract volumes being available, as well as the continuing utility supply constraints.

In **USG Boral**, we are getting back into a better rhythm with less COVID plant shuts and disruptions. However, general uncertainty and cyclical pressures in Australia and South Korea, and soft trading conditions in Thailand continue to impact demand. We are however, seeing a strong uplift in plasterboard volumes in China.

Underlying revenue for the September quarter was lower than the prior September quarter but underlying EBIT was slightly better. Plasterboard volumes declined by 7% in Australia and 6% in Asia. Prices in Australia were also softer. Earnings benefited from the cost excellence programs which included procurement savings, headcount reductions in late FY2020 and early FY2021, and operating efficiency improvements.

Boral's equity income from the joint venture for the September quarter was steady on the same period last year.

PORTFOLIO REVIEW PROGRESS

Over the past three months we have completed a very thorough review of Boral's portfolio of businesses. The approach was run internally and not by external investment banks. We have assessed every business in every geography, looking at:

- Boral's positions, strengths and the sectors in which we operate
- The future earnings and growth potential for each business, and
- What is needed to drive a sustainable competitive advantage and deliver improved performance in the short, medium and longer-term.

We have also considered requirements for capital, investment opportunities and where management focus is best prioritised for the longer-term.

In many cases, the work we have done has confirmed what we believed.

In other cases, it has shone new light on the challenges and opportunities our businesses face.

What the portfolio review has highlighted is that there are significant opportunities for improvement in almost every business we own, necessitating a considered and measured approach to how we move forward.

USG Boral

Saying that, after an extended period of fully assessing the options available to Boral, we have reached a binding agreement with Knauf to sell our 50% interest in the USG Boral joint venture, subject to typical conditions precedent including in relation to regulatory matters.

This has been a tough decision because USG Boral is a very good business, with strong market positions in mature and emerging markets and growth prospects in Asia particularly. However, the offer from Knauf was compelling and, as such, we believe the sale is an attractive strategic and financial outcome for Boral and our shareholders.

The price agreed of US$1.015 billion, plus cash and working capital adjustments, for Boral's 50% share equates to an implied multiple of 15.1 times USG Boral's underlying normalised FY20 EBITDA[1] and 11.3 times for the joint venture's underlying FY19 EBITDA[1] earnings.

Prior to the transaction closing, Boral will receive a normal dividend of US$32 million. The transaction is expected to complete in FY2021. If the transaction has not closed by 30 September 2021 where Knauf has not completed certain divestments required by regulators, then if either party terminates Knauf must pay Boral a Termination Fee of US$50 million.

Given that Knauf is the global leader in plasterboard with world-leading product technology and innovation capabilities, this is also a very good outcome for USG Boral's employees and customers. Knauf is well placed to leverage the future growth potential of this business.

Boral Australia

In Australia, the portfolio review highlighted the underlying strength of our integrated Quarries, Cement, Concrete and Asphalt businesses, including Boral's excellent vertical integration in key regions, particularly in NSW and along the East Coast.

We have innovative products and a strong brand. We have made recent generational investments in quarries that now need to deliver results and we have good property positions with integrated land assets that can also deliver value when operating sites come to the end of their operational life.

But we also know that our cost base is higher than it should be and that we can deliver much better operating leverage from our assets.

I have been working with the leaders in our businesses to understand how we can better serve our customers, better leverage our assets and operations, and better engage our people to deliver improved outcomes for our shareholders.

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[1] Excluding significant items and the impact of IFRS leasing standard (AASB 16). FY2020 multiple is based on reported EBITDA for USG Boral of A$190m 'normalised' to adjust for A$10m reported COVID related production impacts, and converted at FY2020 AUD/USD exchange rate of 0.6703. FY2019 multiple is based on reported EBITDA for USG Boral of A$252m converted at FY2019 exchange rate of 0.7145.

Where we can roll-out products and initiatives faster for our customers we are focused on doing that. We have accelerated the deployment of our sustainable product solutions including our low carbon, high performance concrete, ENVISIA®. Penetration of ENVISIA® is now very encouraging as we have secured supply on numerous projects across all regions.

Under the leadership of Wayne Manners, we have been prioritising opportunities to improve margins and returns through a leaner, more nimble organisation in Australia. We have more work to do to fully develop these plans in the coming months and we will update the market once the program value and timeframe has been fully developed and defined.

We have also identified adjacent growth opportunities in Australia that are potentially attractive extensions of our existing business and deserve further examination.

Finally, in relation to our Australian business, we have considered our property portfolio. Approximately 90% of our property portfolio is committed to active operations, limiting our ability to unlock that value in the near term. However, we are accelerating work to implement identified opportunities to realise greater value from our property portfolio. This includes expediting activities where work is already underway to generate earnings from property development, divestment, and landfill and recycling opportunities. We are also reviewing our network positions in key regions to make available a number of sites that were previously viewed as essential to our operations.

Boral North America

In North America, we have high-quality building products businesses in attractive sectors – across Roofing, Light Building Products (LBP) and Stone. Our building products businesses have strong brands and good positions in many geographies.

However, the portfolio review has confirmed that we have not yet unlocked the full value of these businesses and they have the potential to earn stronger returns through the cycle.

We have identified operational improvements and ways to enhance go-to-market strategies in order to strengthen returns. Product innovation is also an important area of focus with a series of projects in the pipeline, particularly in Roofing and Stone with some close to launch.

We have also identified cross-business opportunities that we have not yet leveraged. For example, in a small number of geographies we are trialling a new approach with national home builders where we are positioned to provide a single service and product offering. Early outcomes of these trials are positive.

Under the leadership of Darren Schulz, the team has commenced execution on many of these opportunities and we intend to pursue value inherent within these businesses.

It may not be surprising to shareholders that with the industry fully aware that we have been undertaking a global portfolio review, we have been approached directly and indirectly with third-party interest in our US assets.

As would be expected, we intend to explore third-party interest in our North American building products businesses to assess if there are enhanced value creation opportunities. We will only entertain third-party interest where a superior value outcome is achievable for our shareholders.

In addition to our fully owned building products business, we have our 50% owned Meridian Brick business, which is continuing to improve as a result of an effective turnaround program. We are working with our JV partner Lonestar, to consider opportunities for further value-creation and the optimal way forward for the business.

Finally, also in North America, is our Fly Ash business, which is an attractive cash generating business with a leading position, strong returns on capital and a solid customer demand profile. The decline of coal-fired power generation necessitates the development of alternative supply options to sustain the attractive return profile longer term.

We are bolstering resources to fully assess and evaluate import options. We are taking the learnings from our pilot landfill harvesting operation at Montour in Pennsylvania to assess how other harvesting opportunities can add to our fly ash supply. Similarly, we are executing on our Kirkland natural pozzolan project which will confirm the viability of natural pozzolan as an alternative supply stream. While headwinds remain, we are focused to ensure that the business is able to deliver acceptable margins and returns in the future.

BORAL'S LIQUIDITY AND BALANCE SHEET

I'll now touch on Boral's balance sheet.

At 30 June 2020, Boral's net debt of $2.2 billion, was in line with the net debt at 30 June 2019, which, given the COVID-19 crisis, was a good outcome.

Boral's level of debt is higher than I believe is ideal, but we remain well within all of our group funding covenants and have ample liquidity headroom.

Our principal debt gearing covenant was at 41%, up from 30% at June 2019, which remains well within our threshold of less than 60%. About 5% of the increase since June 2019 relates to cash drawn and the other 6% relates to the impact of impairment. Our tangible net worth position at 30 June 2020 was $2.3 billion after the impairment charges, exceeding the covenant of >$1.75 billion.

Following completion of the two-year bilateral loan facilities of about A$359 million in May 2020, as well as a US$200 million US Private Placement, our weighted average debt facility maturity is 4.7 years, up from 4.5 years at June 2019.

Boral's liquidity at 30 June 2020 was A$1.66 billion including cash of around A$900 million.

Since 30 June Boral's liquidity has increased to A$1.76 billion due to the receipt of proceeds from the sale of Midland Brick and strong cash generation in the first quarter of FY21. Net debt has reduced to A$1.956 billion.

We remain focused on balance sheet management, including maintaining an optimal capital structure consistent with investment grade credit metrics.

Once completed, the net proceeds from the sale of our USG Boral assets will be applied to reduce our net debt and fund growth investment in the retained portfolio. To the extent we assess we have capital surplus to our needs in the medium to longer term, we will consider how best to return that surplus capital to shareholders.

We also continue to focus on disciplined cost and capital expenditure management.

SUSTAINABILITY AND CLOSING COMMENTS

Before I close, let me briefly add to the comments made by Kathryn in relation to sustainability.

The 2020 Boral Review & Sustainability Report provides shareholders with information about our sustainability priorities and progress, including health & safety, our people, environment, climate impacts, supply chain management, sustainable products and community impacts. This year we published our first Modern Slavery Statement, which is also available on our website.

There has been some great work done in Boral including around reducing emissions, our reconciliation action plan and the development of high waste-content and lower carbon intensive products.

However, we have more to do. We are focused on setting further sustainability objectives and targets in FY2021, including completing the work to set science-based emission reduction targets that align with the Paris Agreement and that are in the context of our portfolio review.

We are committed to safety while strengthening Boral's culture around innovation and customer solutions and ensuring Boral is a great place to work for our people.

For FY2021, our immediate priority is to maintain a safe and careful response to ongoing COVID developments, including flexing production to align with demand and avoiding unintended inventory builds.

We are focused on recovering and strengthening margins, improving return on capital employed, maintaining strong cash flows, and fully exploring the opportunities and rolling out the improvement actions identified through the portfolio review.

Given the continued uncertainty and lack of visibility around market outlook, we are still not in a position to provide guidance for FY2021.

I thank you, our shareholders for your ongoing support and patience. And I want to also thank our Boral team for their hard work and commitment to supporting our customers.

Zlatko Todorcevski