



# ASX RELEASE

10 February 2020

## Update on Boral's North American Windows business

On 5 December 2019 Boral Limited (ASX:BLD) advised that it had identified certain financial irregularities in its North American Windows business, involving misreporting including in relation to inventory levels and costs associated with raw materials and labour at its Windows plants.

Boral announced today that the privileged and confidential investigation undertaken by lawyers retained by Boral, and forensic accountants engaged to assist the investigation, has now been substantially completed.

The investigation determined that finance personnel within the Windows business manipulated accounts and financial statements primarily to artificially inflate the overall profitability and health of the Windows business. The investigation found no evidence that the manipulations were to hide systematic theft of raw materials or finished goods inventory. The misconduct occurred over an approximately 20-month period to the end of October 2019.

Together with audits and reviews of other businesses in Boral North America, which have also been undertaken, the Company can confirm that the financial misreporting is limited to the Windows business.

Boral's Managing Director and Chief Executive Officer, Mike Kane, said:

*"The Board and management are deeply disappointed at the breach of trust that led to the accounts of the Windows business being misreported to inflate profitability.*

*"Boral has moved quickly to put in place stronger and more transparent reporting and governance mechanisms in the Windows business, in line with the systems in place across Boral's other businesses and divisions. We are also strengthening financial and management capability within the business and in areas of oversight.*

*"We apologise for this failure and assure shareholders that such manipulation of figures will never be tolerated within the Group."*

### Impact on FY2020 and prior year results

Pre-tax earnings were overstated by a total of US\$24.4 million between March 2018 and October 2019. This is in line with Boral's preliminary estimated impact on earnings before interest, tax, depreciation and amortisation (EBITDA) of ~US\$20 million to US\$30 million. In addition, legal and associated investigation costs incurred in the first half are around US\$1 million.

Boral will restate comparative financial information to incorporate the correction of Windows earnings in underlying results. Historic pre-tax earnings will be reduced by US\$22.6 million, of which US\$18.8 million relates to FY2019 and US\$3.8 million relates to FY2018.

As part of the FY2020 interim results to be announced on 20 February, the restated prior period (1H FY2019) pre-tax earnings will be reduced by US\$7m (A\$10m). The accompanying table on page 3 shows these adjustments.

**In a separate ASX release Boral has today issued an update in relation to the Company's results for the six months ended 31 December 2019 (1H FY2020) and its FY2020 full year earnings guidance. This update uses Boral's FY2019 adjusted earnings as a base.**

## **Audit reviews of Boral North America's businesses**

In addition to the investigation carried out in the Windows business, the Board requested KPMG to expand the scope of their interim review procedures for the half year ended 31 December 2019 to include audit procedures over the Boral North America businesses, including a separate audit of the Windows business.

KPMG has reported to the Board that the half year financial report of the Windows business and of Boral North America as a whole were fairly stated at 31 December 2019.

With these findings, and other internal reviews, Boral's Board and management are confident that the accounting manipulations were limited to the Windows business only.

KPMG has been asked to include the Windows business as a full scope component in its audits of Boral North America going forward.

## **Organisational changes and realignment in Boral Windows**

The employment of both the Vice President Finance and the Financial Controller in Windows have been terminated.

A reorganisation of the Windows business has been implemented, with Joel Charlton, President of Light Building Products, now responsible for leading Windows.

David Decker, formerly President Windows, will move from his current role to take carriage of business development focused on sales, marketing, and major accounts for Windows.

Alan Spear, Vice President Corporate Development for Boral North America, is continuing in the role as Acting Vice President Finance for Boral Windows. A search is in progress for a permanent Finance lead at Windows reporting to Joel.

Chris Warner, Vice President Operations of Light Building Products, will take direct leadership of operations and has taken responsibility for operational improvements at Windows reporting to Joel. Recruitment of an Operations lead for the Windows business is in progress.

Under Joel's leadership, the team is establishing a plan for the business to return to acceptable margins. The Windows business is only expected to deliver low single digit EBITDA margins for FY2020. The margin recovery plan is expected to see the business achieve double digit margins in the medium term.

## **Strengthening of finance function in Boral North America**

In addition to strengthening finance capabilities and controls in the Windows business, changes are taking place in the finance function in Boral North America to enhance financial management and controls, and to improve the level of assurance.

A search for a new CFO of Boral North America is currently underway.

## **Contributing factors and actions taken**

The investigations and reviews carried out identified several contributing factors that made the misreporting of accounts in Boral's Windows business possible and help to explain why the issue was not identified earlier.

Together with the organisational changes, strengthening of finance capability, and expanded audits, a number of changes to reporting, governance and HR systems have been introduced in Boral Windows and more broadly.

The key contributing factors and actions taken are summarised on the following page.

Key contributing factor	Actions taken
Windows is a <b>relatively small, non-core business</b> with less sophisticated accounting systems not integrated into shared services	<p>In Windows:</p> <ul style="list-style-type: none"> <li>The roll-out of a new inventory management system is being expedited</li> <li>A full scope internal audit to be undertaken in CY2020</li> <li>Following the expanded external audit procedures undertaken for the half year to 31 December 2019, a full scope external audit will be undertaken in FY2020.</li> </ul> <p>In Boral more broadly:</p> <ul style="list-style-type: none"> <li>Increased scrutiny of personnel, business, and process issues in smaller businesses to re-test 'inherent risk ratings for audits'</li> <li>For small, less sophisticated businesses, senior executives are required to spend more time visiting and supervising these operations</li> <li>For businesses not operating in a shared services environment, additional controls are being implemented to ensure appropriate segregation of duties.</li> </ul>
Finance personnel in Windows who engaged in the manipulations operated in an environment where <b>business processes and culture were not acceptable, creating an opportunity for coordination and cover-up of wrongdoing</b>	<p>In Windows:</p> <ul style="list-style-type: none"> <li>Terminations, organisational changes, and improvements in management oversight implemented (see page 2)</li> <li>Additional processes and controls have been introduced to strengthen segregation of duties and oversight</li> <li>Strengthened HR controls introduced to improve recruitment, training, exit interviews, and comprehensive follow-up on feedback.</li> </ul> <p>In Boral more broadly:</p> <ul style="list-style-type: none"> <li>Management to increase scrutiny and supervision of new finance teams who do not have an internal track record</li> <li>Senior finance executive involvement required in recruitment of all lead finance roles and higher competency standards and qualifications required for senior accounting staff across Boral.</li> </ul>

**Table: Prior Year Adjustments**

A\$ million		FY2019 Reported	FY2019 Restated	1H FY2019 Reported	1H FY2019 Restated
Continuing operations					
<b>EBITDA<sup>1</sup></b>	Boral North America	415 (US\$297m)	388 (US\$278m)	196 (US\$141m)	185 (US\$134m)
	Group	1,033	1,005	481	470
<b>EBIT<sup>1</sup></b>	Boral North America	252 (US\$180m)	225 (US\$161m)	115 (US\$83m)	105 (US\$76m)
	Group	660	633	297	288
<b>NPAT<sup>1</sup></b>	Group	440	420	200	193

1. Excluding significant items.

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