Boral 2021 Annual General Meeting

Thursday 28 October 2021

CEO & Managing Director's Address

by Zlatko Todorcevski

CEO's Address

Thank you, Ryan.

Good morning everyone.

It's a privilege to speak to you about the past year and our vision for Boral's future.

INTRODUCTION – A NEW STRATEGY IN BORAL'S 75TH YEAR

The challenges of responding to the global pandemic continued during FY2021. But despite those challenges, the past year was one of substantial progress for us at Boral.

At a time when we celebrate Boral's proud 75th anniversary, we have reinvigorated our purpose, recalibrated our strategy, and set out in clear terms, our future direction.

It is no accident that our core business and direction reflects the foundations on which Boral's first leaders built this great Australian company.

Out of the bitumen that Boral started producing in the 1940s came roadmaking, around which Boral's asphalt and quarries business was built. The cement and concrete businesses were a natural early extension.

Today, our strategy is focused on these core Australian construction materials businesses – where we are a leader in quarries, cement, concrete, and asphalt.

We are also taking advantage of opportunities created by decarbonisation and growth in recycling.

With outstanding asset positions, built over many decades, we are ensuring our network is optimised and positioned for today and the future.

We are the only Australian-owned major construction materials company supplying the market with cement, concrete, aggregates and asphalt. And we are proud of that fact.

In refocusing Boral's portfolio, we have undertaken a **value-creating divestment program**.

As Ryan noted, we announced completion of the US$1.015 billion divestment of our 50% share of USG Boral in April. And earlier this month we completed the divestment of our North American Building Products business for US$2.15 billion. In both cases, the sale price exceeded expectations.

We have also completed the smaller divestments of the Meridian Brick joint venture in North America as well as the Timber business, and we are completing the sale of our Roofing & Masonry businesses in Australia.

In addition, we have announced plans to divest our North American Fly ash business, and we are at advanced stages of that process.

Ryan has talked about how the proceeds from these divestments have been used to reduce net debt and substantially improve Boral's balance sheet, with surplus capital being returned to shareholders, including the already completed 10% share buy-back for $859 million, and the intended capital return of up to $3 billion.

Returning capital in this way is aligned with **our Financial Framework**, which we articulated in February 2021. Our framework defines Boral's optimal capital structure, including a targeted level of net debt.

FOUR STRATEGIC PILLARS

Our strategy is defined under four pillars – focus, position, redefine and extend.

The **first pillar** – ***focus*** – captures the portfolio realignment as well as our Financial Framework.

The **second pillar** of the strategy is ***position***. We are working hard to position Boral's core business in Australia for improved profitability and to strengthen Boral's competitive advantage.

We have implemented a new operating model, with a new leadership team.

Since 1 July, our Australian business has been operating as an integrated business organised along national product lines rather than autonomous regional businesses. We have elevated sales and marketing, and major projects, to ensure our customers are given the right focus, and to make it easier for our customers to work with us.

Boral's new leadership team has a focused and renewed Executive Committee including our Chief Finance & Strategy Officer – Tino La Spina, Chief People & Culture Officer – Rebelle Moriarty, our Chief Legal Officer – Amy Jackson, Company Secretary – Dominic Millgate, and the new role of Chief Operating Officer. Wayne Manners is currently in the role of COO on an interim basis. In the coming weeks, Darren Schulz, who has led Boral North America since June 2020, will return to Australia and become Boral's COO in a permanent capacity.

Boral's leadership team is energised and excited about the future.

To achieve our objective of delivering returns that exceed the cost of capital throughout the cycle, we need to grow EBIT from our Australian business by $200 million to $250 million from FY2020 levels.

We have started to do this through our Transformation program.

In FY2021, we delivered $75 million of Transformation benefits after inflation, and we are targeting a further $60 million to $75 million this financial year.

We are also developing a strategy to realise value within Boral's existing property portfolio. With surplus property representing a market value of at least $850 million, this part of the strategy is currently under development and we expect to finalise plans this financial year.

The **third pillar** of our strategy aims to ***redefine*** Boral, reshaping our businesses through adjacent growth opportunities and creating a leading position through decarbonisation.

We are working to grow our Recycling business and strengthen Boral's role in the circular economy. In FY2021, we processed more than two million tonnes of construction and demolition materials, selling those recycled products directly to customers or using them instead of quarried products in our downstream concrete and asphalt businesses.

We are also advancing the use of crushed waste glass and plastics in asphalt and pavement applications.

Boral's ability to broaden our offering through the value chain by growing our Recycling business is an attractive opportunity for Boral and our customers. Other adjacent growth opportunities are also being explored including landfill opportunities and waste to energy.

We are proud to be the first company in the cement sector to set science-based targets[1] aligned with limiting global warming to 1.5°C and reaching net-zero emissions by 2050[2].

We are targeting to reduce our absolute Scope 1 and 2 emissions by 46%, and to reduce our relevant[3] Scope 3 emissions by 22% per tonne of cementitious materials produced by FY2030, from a FY2019 baseline.

These are ambitious targets, but we are confident we can meet them. We have a clear line of sight to deliver on our FY2030 targets, and beyond FY2030, we are working on new and emerging technologies.

The near-term opportunities are being actioned. They include transitioning to 100 per cent renewable electricity, increasing alternative fuels at our Berrima Cement kiln and improving energy efficiency.

We are reducing the cement intensity of our materials including by accelerating adoption of our proprietary lower carbon, higher performing concrete solutions of ENVISIA®, Envirocrete® and Envirocrete®Plus.

Our medium-term decarbonisation opportunities, which we are maturing, include optimising our supply chain logistics, and low-carbon and no-carbon alternative fuel options for our transport fleet.

We are exploring and prioritising lower carbon intensity suppliers and sourcing options, and we are proving up longer-term carbon capture use and storage (CCUS) technologies to capture and reuse carbon from our cement operations.

[1] Based on construction materials, including cement, companies taking action through Science Based Targets initiative (SBTi).
[2] While SBTi's methodology permits the use of carbon offsets to achieve net-zero emission post-2030, our decarbonisation pathway post-2030 is focused on achieving absolute emissions reductions for Scope 1, 2 and 3. This pathway remains dependent on further development and commercial viability of new and emerging technologies.
[3] Refers to 68% of our Scope 3 emissions included in our Scope 3 target, consistent with SBTi's methodology.

As a grant recipient from the Australian Government's CCUS Development Fund, we will receive up to $2.4 million towards a pilot-scale carbon capture and storage project. The project will capture carbon from our Berrima Cement plant and permanently store it in recycled concrete, masonry, and steel slag aggregates, improving the quality of recycled materials.

We are investing in R&D and partnering with others – including academia, government and through collaborative industry innovation hubs – to secure access to leading technologies.

We are collaborating with customers and supporting them to make more sustainable choices, including offering Climate Active–certified net carbon neutral concrete. Relative to conventional concrete, our premium product, ENVISIA®, delivers superior performance including in high strength engineering applications, while delivering a reduction in embodied carbon of more than 40%[4] through a cement replacement of 50% or more.

Sustainability, including decarbonisation, is not something we are doing around the edges. It is an integral part of Boral's strategy. It makes good business sense. It gives us a clear competitive advantage, and it is the right thing to do.

The **fourth pillar** of our strategy is to ***extend*** the business by exploring opportunities to commercialise innovations and is likely be realised over a longer time period.

FY2021 – SOLID RESULTS IN A CHALLENGING BUSINESS ENVIRONMENT

Let me comment on the performance of the business in FY2021, starting with safety.

SAFETY PERFORMANCE

In FY2021, Boral Australia reported a 67% reduction in its actual serious harm incident frequency rate and a 53% reduction in potential serious harm incident frequency rate. This reflects a focus on critical controls as well as identifying and preventing incidents that cause serious harm.

While these important indicators showed improvement, Boral Australia's recordable injury frequency rate was 11.9, which compares with 10.0 in FY2020.

We are determined to reduce the incidence of all injuries in Boral.

We maintained our record of not having any reportable employee or contractor fatalities in operations under our operational control in FY2021.

However, you might recall that this time last year I talked about the tragic event in July 2020 when an employee driver of a Boral cement tanker was involved in a devastating accident that caused the death of a young girl and serious harm to several others.

[4] Compared to Infrastructure Sustainability Council reference case.

Later in the year, there were two further separate fatalities on public roads in regional NSW. In each case, a member of the public sadly lost their life when they lost control of their vehicle causing them to collide with a Boral heavy vehicle.

We manage around 3,500 heavy vehicles in Australia – a reminder each and every day, of the importance of upholding the highest safety standards, and prioritising driver training, vehicle safety and awareness campaigns to improve road safety for all road users.

COVID-19

This most global of pandemics has had a devastating impact on millions of people, including, sadly, some of our own people. In North America, six of our employees lost their lives in the past year.

These tragic losses are horrendous ordeals for family members and our local teams, but the sadness and loss reverberate across geographic boundaries.

In Australia, we have had a small number of confirmed cases of COVID-19 amongst employees. The situations have been well-managed, and the affected employees have returned to work.

It is fair to say that managing through the pandemic and responding to government requirements and restrictions has been a resource-intensive, major coordination exercise. We have been determined to maintain best practice when it comes to providing a safe workplace and looking after the wellbeing of our people, our customers – and the public.

In FY2021, our people were affected by shifts in demand due to COVID-19, working from home, particularly during lockdown periods, and changes to work patterns and processes. Despite this, we continued to operate and supply customers with the construction industry deemed an essential industry.

As we started FY2022, however, we have seen lockdowns of large parts of the construction industry in New South Wales, South Australia, and Victoria. This has had an impact on our customers, our people and on Boral's performance.

In some areas we had to stand our people down due to the industry shutdowns. In July, we stood down 633 employees in greater Sydney for several weeks. Just as we were seeing many of those employees vaccinated and returning to work, we had to stand down another 250 employees in Victoria during September.

We have encouraged employees to take annual leave, allowing up to 10 days to be taken in advance, and have offered five days of pandemic leave to supplement this.

We have been working closely with employees, contractors, governments, customers and industry associations to help keep the construction industry safely open for business. We are complying with the requirements of government and our customers, and we are encouraging our people to be vaccinated.

The latest waves of the pandemic have indeed added to ongoing market uncertainty and adversely impacted our September FY2022 quarter results.

Before I talk about the first quarter of FY2022, let me first remind you of the results in FY2021.

SOLID FULL YEAR RESULTS IN CHALLENGING CONDITIONS

Our FY2021 result was delivered against mixed market conditions. For continuing operations in Australia, revenue was down 6% to $2.9 billion, reflecting lower volumes and softer prices.

The value of total construction work done in FY2021 declined compared with the prior year, including in multi-residential, non-residential and infrastructure construction.

Several major projects were completed during the period with others delayed before new projects come online.

While a lift in detached housing provided a boost to activity, Boral's earnings are more exposed to construction activity outside of residential.

Despite this, EBIT for the continuing Australian business, excluding earnings from Property, grew 11% to $157 million. Our Transformation initiatives helped to offset the impacts of lower volumes and lower prices.

Property earnings of $24 million were lower than the prior year.

Statutory NPAT of $640 million for total operations includes a post-tax gain of $389 million for significant items which primarily relates to the profit on sale of Boral's 50% interest in USG Boral as well as the Midland Brick business. This compares with a loss of $1.145 billion in FY2020.

FIRST QUARTER (JUL-SEP 2021) TRADING UPDATE

As we ended FY2021, we saw signs of improved demand and a better start to FY2022. Unfortunately, the pandemic-related lockdowns and restrictions changed that. In the first quarter we saw mixed results from month to month.

In New South Wales, where we derive more than 40% of our Australian revenue, there was a sudden and dramatic impact in the second half of July due to COVID related construction lockdowns in Greater Sydney.

The construction closures continued in multiple Local Government Areas across Greater Sydney in August. September saw a return to work, with good signs of activity rebounding. Relative to last year, Boral's concrete volumes in Sydney were 26% lower in the September quarter, with July and August volumes 36% lower than the prior year, but September volumes only 8% lower as activity returned.

Cement and quarry volumes were also substantially lower in New South Wales in the first quarter, and concrete placing work in Greater Sydney was heavily impacted.

In Victoria, our second largest geographic exposure, we experienced encouraging volumes for most of the period until mid-September when a snap shutdown of construction occurred.

September concrete volumes in Melbourne were down 23% year on year, following a strong July and August where Melbourne concrete volumes were 11% higher than the prior year.

Activity in Queensland and Western Australia was largely unaffected by COVID impacts. Concrete volumes in Queensland were up 15% on the prior year, while WA volumes were broadly steady.

In South Australia, there was a significant impact from COVID lockdowns in late July but a strong rebound in the second half of August resulted in overall steady volumes for the quarter.

Overall, our total concrete volumes nationally for the quarter were 2% lower than the prior year, with a 14% decline in New South Wales offsetting an increase in most other states.

In August, we said the EBIT impact of higher costs and lower volumes due to COVID disruptions and lockdowns in the first quarter may be in the order of around $50 million, including a $16 million impact in July.

We now know that the actual EBIT impact of COVID related costs and lower volumes in the first quarter was around $33 million, which is better news than we originally thought. In addition to the $16 million impact in July, there was a $12 million impact in August and $4 million in September.

We are likely to see some trailing impacts from COVID restrictions in the remainder of FY2022, including some further volume impacts in October, particularly in Victoria. At this stage though we don't expect the adverse EBIT cumulative impact for the year to exceed $50 million, which was the original amount foreshadowed for the first quarter only.

While Concrete volumes were down around 2% in the September quarter, Quarry volumes were up around 3% relative to the prior year. This was driven by revenue in our Asphalt business, which also pulls through quarry products, which increased 3% in the first quarter relative to the same period last year. While this reflected stronger activity in Queensland and Southern Region offsetting lower activity in New South Wales and Western Australia, asphalt margins were softer than the prior September quarter primarily due to the completion of higher margin project work.

In the first quarter, revenue from continuing operations was down around 1% on the prior year. EBIT was down more reflecting the impacts of COVID restrictions particularly in New South Wales where Boral has higher fully integrated margins. The benefits of our Transformation program only partially helped to offset lower EBIT due to COVID lockdowns.

Looking now at the remainder of FY2022.

While the swings in activity levels and COVID impacts continue to create uncertainty and challenges in FY2022, it is pleasing to see the rebound in activity as we are coming out of lockdown.

We continue to bid for infrastructure projects but major project work moving into the execution phase remains slow. However, a return to construction work in all states may see improvement in infrastructure activity in the second half of FY2022, particularly road construction.

Non-residential activity is expected to be broadly steady in FY2022. And while multi-residential activity had been expected to remain weak due to the lack of immigration, there were some positive signs of a future lift in activity as August approvals increased.

Growth in detached housing has been supported by government stimulus measures, and we expect to see continued benefits. While approvals for detached housing also lifted in August, other indicators suggest we could see a softening of demand as stimulus benefits roll off.

In this environment, we remain focused on what we can control in our business, including delivering a further $60 million to $75 million of net Transformation benefits in FY2022.

As communicated in August, we are not expecting any significant Property earnings in FY2022.

RENEWED PURPOSE AND VALUES

As I said at the start of my address, we are not letting the pandemic slow down progress to position Boral for a strong future. There has been a substantial amount of work done to refocus and restructure the business.

I thank those employees who have left or are leaving the business due to divestments and restructuring. I also thank our employees and contractors in our continuing businesses in Australia for their contribution and hard work as we build a stronger Boral.

We are excited by our new Purpose and Values, which we have collectively defined with input from our people.

Our Purpose is to *create a world that future generations will be proud of*.

To reinforce the change, we have refreshed the way we present the Boral brand.

We are not undertaking an expensive rebrand, but have shifted to a more contemporary appearance, while not diluting the well-loved Australian brand that is Boral – especially the green and gold. It's about reinforcing Boral's 75 years of being here for Australia. And being here for generations to come.

Boral is a great company, and I am excited about its future.

Let me close by sharing a short, animated video celebrating our new Purpose and Values.

Thank you.

Zlatko Todorcevski