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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 Australian listed companies in the ASX200 which are of similar size to Boral in terms of revenue and market capitalisation.

Eligibility for STI and LTI continues to be limited to those senior leaders who have influence and accountability over the Group's performance.

So, let me take you through the **short-term incentive plan** first.

Five years ago, we elected to focus the STI totally on annual financial performance using EBIT before significant items as our performance measure.

We continue to believe that EBIT is the most appropriate measure of short-term performance.

In terms of plan design, the link between Boral's overall performance and STI outcomes was strengthened, with those executives taking part in the STI plan having at least half of their STI payment based on the performance of the Group.

For the third consecutive year, we saw an increase in the level of STI payments, reflecting Boral's improved performance and the achievement of financial targets in FY2016.

In the view of the Committee, this confirms that our remuneration arrangements are aligning well with shareholders' interests.

Boral's EBIT before significant items increased by 12 per cent or \$41 million in FY2016 on the prior year, and the payments to executives increased by 9 per cent.

Significant items - whether positive or negative – are typically excluded from our calculations of EBIT for remuneration purposes to align the underlying performance of the business with rewards for our leadership team.

In FY2016 significant items included the favourable resolution of tax matters and the impairment of future receivables due to adverse movements in exchange rates.

While overall, Boral's Senior Executives were rewarded with strong short term incentive outcomes as a result of strong financial outcomes relative to target, and reflecting continued and significant year on year improvement, the CEO's STI was down slightly on last year, demonstrating the challenging targets that were set. The STI payments in the USA were also lower reflecting US performance against targets.

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 cent¹, 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 period of at least two years.

We believe that this best demonstrates the commitment of the Board to align your interests as shareholders, with the interests of our executives. This remains subject to continued service and clawback conditions.

We also have in place a minimum shareholding requirement for executives - a way of ensuring our leaders have some "skin in the game".

In the case of Mike Kane, Mike continues to hold in excess of one year's fixed pay in Boral shares, thereby satisfying the requirements.

As we have said previously, the Board believes that having this very real investment in the Group increases the link between executives and the creation of long term-value to you, the shareholders.

The Board has also established minimum shareholding guidelines to encourage Non-executive Directors to invest in the Group. The guidelines stipulate that Directors accumulate over a period of up to five years a holding of ordinary shares that is equivalent in value to approximately one year's base fees. All Directors are tracking well against these guidelines.

CEO REMUNERATION

At Boral, a safe workplace is not just our number one priority but also an important benchmark for the success of our CEO.

I am pleased to say that in Mike Kane, we have a leader with an exemplary track record in this area.

So, we take safety performance into consideration in reviewing the performance of the CEO and setting the fixed remuneration, rather than it being an additional determinant of STI payments.

In recruiting Mike Kane as Boral's CEO in 2012 the Board undertook an international search to ensure that we employed the best candidate available to implement Boral's strategy for the benefit of our shareholders. Mike Kane was identified as the ideal candidate and his track record since becoming Boral's CEO has been excellent.

Mike Kane is an American working in Australia while his family remains in the US. To attract Mike to assume the position Boral agreed to pay for the CEO's accommodation and also for some family travel costs. The Board believes it is appropriate in the circumstances for the Group to incur these costs on top of Mike's "fixed remuneration" and do not consider, in this unique scenario, that it is a valid comparison to include these costs when benchmarking the CEO's fixed remuneration.

In FY2016, Mike Kane received \$4.13 million of cash and other benefits, an increase of \$119,000 over FY2015. This is due to an increase in Mike's underlying salary, and increases in expatriate insurance premiums provided as part of his contract of employment.

Deferred STI and LTI were also granted to Mike in FY2016 bringing the reported value of his total remuneration to \$6.97 million.

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.

It should be noted, however, that until September 2015 the long-term component of Boral's CEO remuneration had not vested in any year for over four years.

With further improvements in the Group's business performance - together with changes to the plan implemented in 2013 - I can confirm that for two consecutive years, a portion of the LTI component vested, this time in September 2016.

The Board continues to ensure the CEO's remuneration is competitive and we believe the changes introduced in FY2016 reflect the improved alignment of remuneration with Boral's strategy, our business performance and shareholder expectations.

GOVERNANCE

Beyond advising the Board on remuneration policies and practices, the responsibilities of the Remuneration & Nomination Committee include identification and recommendation of suitable candidates for appointment to the Board.

The Committee also advises the Board on succession planning policy and talent management; and recommends strategies to make our Board more representative.

SUMMARY

The Committee believes that our remuneration practices remain sound and competitive; and that the changes we have made in the recent past are rewarding executives for the creation of short-term and long-term shareholder value.

The Committee remains very conscious of the need to ensure an alignment between financial performance, remuneration outcomes and shareholder interests and considers that the outcomes in FY2016 are consistent with that objective.

Irrespective of this view, the Remuneration Committee will continue to review the appropriateness of senior executive performance criteria and on this basis, welcomes feedback from shareholders around any aspects to Boral's current remuneration framework.

I thank you for your continuing support and commend the Remuneration Report for your adoption.

Kathryn Fagg