



2009 ANNUAL GENERAL MEETING

28 OCTOBER 2009

MANAGING DIRECTOR'S ADDRESS (including Trading Update and Outlook)

By Rod Pearse

Ladies and Gentlemen,

Thankyou for joining us at Boral's 2009 Annual General Meeting.

The Chairman has commented on the results and outcomes of the past year and as indicated in his address, I will provide you with an update on the conditions we have experienced in the first quarter of this year.

It's been a tough year for everyone – the most serious economic downturn globally in 70 years.

But we are well positioned for the cyclical downturn and for future growth – we have taken hard decisions and our business will be stronger as a result.

The company is in good shape – and I am confident I leave it in good hands.

At the end of 15 years with Boral – ten years as CEO – I feel that it is appropriate for me to take a little time to reflect on what has been achieved in recent years and what position the company is in looking forward.

Significant cyclical challenges

Boral entered the USA market by acquisition 30 years ago in around 1980 and has grown to be the country's largest brick and roof tile manufacturer. We have made attractive returns in the USA and we are there for the long haul. We are however, experiencing the worst housing downturn since the Great Depression. Housing construction activity in the USA is currently running around 60% below the average of the last fifty years and more than 60% below where it was when I became CEO in 2000. Housing construction in the 2009 financial year was down by 42% on the prior year to 650,000 starts, with the second half run rate at around 535,000 starts per annum.

The downturn has meant that we are operating our plants in the USA at around 20% to 30% of capacity. At these historically low levels of production we are unable to cover our fixed costs. The US business moved from a position of profitability to reporting a loss once the market fell below around 1.1 million housing starts per annum. Through a significant cost reduction program, including reducing the size of our workforce, we have lowered the break-even point of the business so that it should return to an EBIT profit when the market exceeds around 900,000 to 950,000 housing starts per annum. We have worked very hard to strengthen the underlying performance of our US operations in these challenging times. This means that Boral is well positioned to cost-effectively supply the market and to deliver strong returns when the market recovers.

In Australia, new dwelling construction is at the bottom of a five year downturn, with our largest market, New South Wales, being the lowest it has been in well over 40 years. Housing activity in New South Wales is currently running around 55% below where it was when we demerged the Company in 2000. Typically around 40% of our Australian revenues come from New South Wales, so a recovery in this state is very important to Boral.

During financial year 2009, Australian dwelling starts were down by around 18% to an estimated 130,000 starts. Dwelling starts in the first half were running at around 144,000 per annum, and in the second half, activity declined to around 116,000 starts on an annualised basis.

Australia's infrastructure markets have held up better than our other markets, underpinned by solid levels of government investment. The non-dwellings or commercial construction sector however, has been under considerable pressure as privately funded projects have been cancelled or deferred on the back of the global economic downturn. Overall, in financial year 2009, Australian concrete volumes were down by 10% year-on-year and down by 18% in the second half of the year.

Looking back and looking forward

While we are at the bottom of the worst downturn we have experienced in decades, it is nevertheless relevant to look through the cycle at how Boral has performed and how Boral is positioned for the future.

Following the demerger of the company in January 2000 Boral became a more focused building and construction materials company. Our earnings became more volatile as a result.

But despite activity levels in two of our key markets being 55% to 60% below where they were in 2000, EBITDA in FY2009 of \$539 million was only 4% below 2000 levels. In 2000 activity was booming on the back of the Sydney Olympics and the pre-GST construction rush. Boral's underlying profit after tax of \$131 million in FY2009 was 22% below what was delivered in 2000, despite the significant volume differential.

Boral's underlying performance has been strengthened through a focused and comprehensive *Perform & Grow* strategy.

On the perform side, we have achieved positive pricing outcomes in both rising and falling markets, and we have consistently reduced Boral's compressible costs by around 3.5% per annum over the past decade. In FY2009, despite unprecedented market declines, we delivered \$165 million of benefits from price increases and \$195 million of cost reductions which greatly assisted cash flows in a tough trading environment. These are larger increases in prices and the largest reductions in costs than in any other year.

We have also divested around \$500 million worth of non-core and under-performing businesses over the last decade. This has supported Boral's balance sheet and improved earnings.

On the growth side we have grown organically and through acquisition. We have grown more offshore than in Australia. Around \$2.5 billion has been invested in growth over the past decade with around 40% of the spend being offshore. Around 60% of the total growth spend has been on organic growth projects and 40% on acquisitions. Boral's funds employed have grown by around 60% to \$4.27 billion over this period. The bottom line benefits of many of our growth programs, particularly the organic growth programs, will not be fully delivered until we see recovery in Australian and US housing markets.

Boral is a resource based manufacturing company with low cost manufacturing operations. Over the past decade we have strengthened Boral's resource positions to ensure the Company has well located reserves in hard rock, sand, clay, limestone and gypsum for the next 25-45 years. We have also added significantly to our low cost manufacturing position. Boral has expanded into 13 countries from eight countries a decade ago.

Despite significant growth capital expenditure and exposure to exchange rate fluctuations, gearing at June 2009 of around 55% was at the mid-point of our target range and is well below Boral's gearing of around 75% at the time of the demerger.

We have focused a considerable amount of effort identifying and reviewing acquisition opportunities but value-creating acquisitions have been hard to find in recent years. We have not over-paid for assets. We have avoided large, top-of-cycle investments funded by short term debt. Our borrowings have been long term. Between 2002 and 2008 we have raised around US\$1.1 billion of seven to 15 year duration debt from the US private placement markets with covenants that are appropriate for our cyclical businesses. We have reduced our reliance on bank debt where tenures today are only about three years.

We have been able to resist the considerable pressure to go to the equity markets at the bottom of the cycle because we have had no need to raise equity for refinancing, liquidity or debt covenant reasons. So we still have around 600 million shares on issue; we have not diluted shareholder value by raising equity. Of course, we would have come to shareholders for an equity raising if the right acquisition opportunity had been achievable and this remains the situation.

When I became CEO elect in October 1999, I articulated a new strategic intent for the company and set some financial objectives, which remain unchanged. Our strategic intent also remains unchanged; it is to be a value(s) and market driven, focused building and construction materials supplier operating in Australia and increasingly offshore.

Our overarching objective is to deliver superior returns in a sustainable way through the cycle. We have delivered around 16% per annum total shareholder returns on average since demerger. This performance places Boral in the top half of the ASX100 companies over that period. This is despite the fact that Boral is currently supplying USA and New South Wales housing markets that are at 70 and 40 year lows, respectively.

We have also delivered on our other financial objectives through the cycle. We aimed to deliver returns that exceed Boral's weighted average cost of capital (WACC) through the cycle. Over the past decade, Boral's EBIT to funds employed return has averaged 12.7%, which is above Boral's WACC.

We aimed to deliver better financial returns than the competition in comparable markets. Boral is a strong, well recognised Australian brand with market leadership positions in most markets in which we operate. Our returns compare well with competitors in like markets across most businesses.

We have a strong focus on improving our sustainability performance and reporting and have been increasingly recognised as a leader in the area of sustainability.

Since demerger, Boral's safety outcomes have delivered steady year-on-year improvements and compare well with both ASX100 and industry benchmarks. Employee lost time injury frequency rate of 1.8 and percent hours lost of 0.06 have both improved by 80% since 2000 and are better than those of our competitors in like industries and in the top quartile of companies in the ASX100.

Boral has been producing a comprehensive, stand-alone, independently reviewed sustainability report since 2004. We have been setting targets and rigorously measuring our sustainability performance since 2001. In 2009, we had the outcomes from our internal assessment tool, the Boral Sustainability Diagnostic Tool, independently verified; this confirmed that we have reached and maintained a level of industry best practice performance, which was a target we set ourselves in 2001.

Boral's recognition as an industry leader is demonstrated by our inclusion in the Climate Change Leadership Index by the Carbon Disclosure Project and by our membership of the Corporate Responsibility Index Leaders Network. Boral is also a member of the Dow Jones Sustainability Index and the FTSE4Good Index and we have retained our Employer of Choice for Women status from the Federal Government's Equal Opportunity for Women in the Workplace Agency.

All of these things are important for our competitiveness and the bottom line and they also matter when it comes to employee morale, and staff attraction and retention. Having the right people on the team to deliver the strategy has been an important part of our focus and rewarding them appropriately is what underpins the Company's competitive advantage.

Our focus on sustainability has also been important in ensuring that we are ready for a carbon emissions trading regime. We have voluntarily been collecting and reporting energy and emissions data for six years now. This has prepared us for the Government's mandated reporting, which has come into effect this year. In financial year 2009, Boral's emissions totalled 3.62 million tonnes of CO₂, which on a comparable basis was 8% lower than the prior year. This reduction in emissions was largely due to lower production volumes in the USA and Australia. Underlying efficiency improvements have however, also been delivered in some businesses, which will help us to manage our emissions as markets recover.

Understanding what is possible around emissions abatement and the limitations is extremely important for Boral and for the broader community. We have undertaken projects to reduce energy consumption and greenhouse gas emissions. We have also spent time forecasting our future emissions and identifying further abatement opportunities in the areas of energy efficiency, renewable energy, alternate fuels and alternate materials. The implementation of these abatement opportunities is dependent on the anticipated cost of carbon in a trading environment, the costs to Boral of implementing identified abatement initiatives and available technologies.

Boral has been well positioned to participate in the carbon emissions trading debate, which is critically important to our cement business. This has taken a lot of my time and that of senior executives in recent years but it has been very important to the business.

With the exception of the cement business, which competes with imports, we expect that Boral's other businesses will offset the increased costs associated with the proposed Carbon Pollution Reduction Scheme (CPRS) with price increases and cost reduction initiatives. We have however, consistently argued that there is a need for the cement industry to be recognised as an emissions intensive trade exposed (EITE) industry and for EITE operations to receive appropriate transitional assistance ahead of Australia's key trading partners adopting similar carbon trading regimes.

The current form of the CPRS proposed by the Government is a significant improvement over its earlier proposals; it more appropriately recognises EITE industries and through the provision of transitional assistance it better maintains Australia's competitiveness until such time as there is a regional, sectoral and global response. There remain concerns however with the currently proposed CPRS. While assistance provided to the cement industry appears to be broadly sufficient at the start of the scheme in July 2011, over the first five years of the scheme and more significantly thereafter, the level of transitional assistance decays significantly. This ongoing decline in competitiveness in the absence of a global carbon price and of a favourable five year Ministerial review, would have a significantly adverse impact on the cement industry in Australia. We have been continuing to talk to the Government (and opposition) to highlight our concerns and to ensure that the CPRS design is appropriate before it becomes binding.

September 2009 quarter trading update and outlook

Before I close, I want to provide a first quarter trading update and to comment on the outlook for this current financial year.

While the future looks bright for Boral, the 2010 financial year will be another tough year.

Market conditions experienced in the second half of financial year 2009 are broadly continuing during the first half of this year. We expect that calendar year 2009 will be the bottom of the housing cycle in both the USA and in Australia.

Our building products businesses in Australia continued to produce at a rate of around 120,000 starts per annum during the first quarter of FY2010. We have continued a program of temporary and extended plant shutdowns and slowdowns to slow production output to match sales demand and reduce inventory. Production rates are expected to lift progressively with sales as dwelling approvals and starts strengthen.

Dwelling approvals in July and August have lifted with approvals of around 145,500 dwellings annualised, which is 13% higher than the monthly average for the previous six months. Even more positive is a 49% year-on-year lift in finance approvals in July for new dwelling construction which was followed by a 55% year-on-year lift in August. The strength in finance approvals has been supported by the Federal Government's boost to the first home owners grant, which is now starting to flow through into the 'upgrader' market. This bodes well for an Australian housing led recovery in the second half of this financial year. There is currently however, a larger than normal lag between finance and building approvals. This may be because developers are cautious or are having difficulty in accessing project finance. It is also possible that local government approval processes are causing some delays. Nevertheless, we are hopeful that orders will lift in coming months as the higher number of finance approvals flows through into building approvals and activity.

The picture is not as bright for Australia's non-dwelling approvals, which were down by around 20% for the year ended 30 June 2009 and in the second half of the year non-dwelling approvals were down 50% on the prior corresponding period. These lower approvals have started to flow through into reduced activity levels impacting Boral's construction materials businesses. Government stimulus work in the education sector is however, offsetting some of this decline. The Government's Building the Education Revolution program, which is seeing a new library or a classroom being built in every Australian primary school, is starting to have a positive impact on our business although not enough to offset the significant decline in private spending in other non-dwelling sectors.

Fortunately, government spending on roads, highways and bridges project work, remains resilient and is benefiting our construction materials businesses in Australia, particularly our asphalt and aggregates businesses.

Concrete volumes for the year ended 30 June 2009 were down by around 10%, with second half volumes down by 18% year-on-year. For the September quarter of this financial year, both industry volumes and Boral's concrete volumes were down by around 13% year-on-year.

In the September quarter, US housing starts were at around 590,000 starts annualised, which is 10% above the annualised run rate of 535,000 for the June 2009 half year. The market appears to have stabilised with July, August and September activity levels steady. The lead indicator of total building permits also looks to have stabilised. However, monthly permits or approvals for single family housing, which is the main driver of Boral's product demand, were 20% stronger in the September quarter than they were in the six month to June 2009. Whilst we are currently seeing flat levels of demand at the bottom of the cycle we continue to expect that demand will lift in the second half of the 2010 financial year.

In Asia, Boral's key market exposures are in South Korea, Thailand, Indonesia and China. The global economic downturn impacted Asian construction activity from the September 2008 quarter. Various governments in Asia, notably China, have announced major stimulus packages to counter the economic downturn which should be favourable for future construction. In the first quarter of the year, results from our Asian operations were better than expected, with volumes ahead of budget and good price and cost outcomes.

Pricing outcomes in the first quarter were positive across the business and were in line with our expectations. The higher Australian exchange rate however, is putting pressure on cement import parity pricing.

Extensive cost reduction programs are continuing across the business and are delivering benefits in line with expectation.

At our full year results in August we said that we expect the market conditions experienced in the second half of FY2009 to broadly continue during the first half of FY2010, but that second half activity levels are expected to be stronger than the first half. This view is unchanged. Whilst September quarter earnings were above our expectations, market conditions remain uncertain and it is too early to project earnings outcomes for FY2010.

Closing

There is no doubt that 2010 will be another challenging year for everyone in this sector, but after a decade as CEO, I am confident that I will be leaving Boral as a strong, well managed group. Boral's future earnings and dividends will increase strongly as Australian and US housing markets recover from their current depths. As volumes increase the full benefits of Boral's growth investments will further strengthen earnings. Boral's cash flows and balance sheet remain strong and will support further value-creating growth opportunities as these emerge.

In the USA, we have confidence that the long-term underlying demand level is around 1.8 million housing starts per annum supported by solid population growth, particularly in the regions in which we operate. In Australia, stronger than expected population growth forecasts and a related lift in infrastructure spend and housing starts, should underpin a significant future lift in Australian building and construction activity. The Australian Government's third intergenerational report shows that Australia's population is expected to grow by 65% to 35 million by the year 2049. As Australia's Prime Minister Kevin Rudd has said, this is good news for Australia. This is also good news for Boral.

Last night's announcement by the Prime Minister that the Federal Government will, in conjunction with the States, develop national criteria for the future integrated urban planning of Australia's capital cities and that it will tie future infrastructure funding to the embedding of those principles in future strategic growth plans for our capitals is also good news. Active involvement by the Federal Government in strengthening urban planning should lead to an increase in the supply and quality of affordable housing and an improvement in related urban transport systems and amenities, which will support the anticipated growth in the populations of Sydney and Melbourne to seven million people and in Brisbane to four million people by 2050.

I thank Boral's Management Committee and all of Boral's employees for their hard work, their persistence and their support during my time as CEO. I also thank Boral's Chairman Ken Moss and the whole Board for their support and their invaluable counsel.

It has been a pleasure and a privilege to lead Boral over the last decade. I wish Boral's new CEO, Mark Selway, who comes in as my replacement in January 2010, and Boral's management team and all of Boral's employees the very best of success with Boral's future.

ROD PEARSE
CEO AND MANAGING DIRECTOR