

Corporate Governance

Introduction

This section of the Annual Review outlines Boral's governance framework.

Boral is committed to ensuring that its policies and practices reflect a high standard of corporate governance. The Directors consider that Boral's governance framework and adherence to that framework are fundamental in demonstrating that the Directors are accountable to shareholders and are appropriately overseeing the management of risk and the future direction of the Company.

Throughout the 2008/09 financial year, Boral's governance arrangements were consistent in all substantial respects with the Corporate Governance Principles and Recommendations released by the Australian Securities Exchange (ASX) Corporate Governance Council in August 2007, other than as regards the recommendation of the Council that a Nomination Committee be established. Boral has adopted an alternative approach in relation to this recommendation, as explained at page 32 of this Statement.

The table on page 37 indicates where specific ASX Principles and Recommendations are dealt with in this Statement.

In accordance with the ASX Principles and Recommendations, the Boral policies referred to in this Statement have been posted to the corporate governance section of Boral's website: www.boral.com.au.

Principle 1: Lay solid foundations for management and oversight

Responsibilities of the Board and management

The Board of Directors is responsible for setting the strategic direction of the Company and for overseeing and monitoring its businesses and affairs. Directors are accountable to the shareholders for the Company's performance and governance.

Under the Company's Constitution, the business of the Company is managed by or under the direction of the Directors, with the Directors being permitted to delegate any of their powers (including the power to delegate) to the managing director.

The matters that the Board has reserved for its decision include:

- oversight of the Company including its conduct and accountability systems;
- reviewing and approving overall financial goals for the Company;
- approving strategies and plans for Boral's businesses to achieve these goals;
- approving financial plans and annual budgets;
- monitoring implementation of strategy, business performance and results and ensuring appropriate resources are available;
- approving key management recommendations (such as major capital expenditure, acquisitions, divestments, restructuring and funding);
- appointing, rewarding and determining the duration of the appointment of the chief executive officer and ratifying the appointments of senior executives including the Chief Financial Officer and the Company Secretary;
- reviewing the performance of the chief executive officer and senior management;
- reviewing and verifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;

- reviewing sustainability performance and overseeing occupational health and safety and environmental management and performance;
- approving and monitoring financial reporting and reporting to shareholders on the Company's direction and performance, and
- meeting legal requirements and ensuring that the Company acts responsibly and ethically and prudently manages business risks and Boral's assets.

A statement of matters reserved for the Board is available on Boral's website.

Non-executive Directors would spend approximately 30 days each year on Board business and activities including Board and Committee meetings, meeting for two days with senior management to discuss in detail the strategic direction of the Company's businesses, visits to operations and meeting employees, customers, business associates and other stakeholders. During the year, the Directors visited a number of sites, including Boral Timber's hardwood operations on the north coast of New South Wales and softwood operations at Oberon, and Greystanes (Quarry End Use).

Each month, Directors receive a detailed operating review from the Managing Director and Chief Executive Officer (CEO) regardless of whether a Board Meeting is being held that month.

The Board has delegated to the CEO and, through the CEO, to other senior executives, responsibility for the day to day management of the Company's affairs and implementation of the Company's strategy and policy initiatives. The CEO and senior executives operate in accordance with Board-approved policies and delegated limits of authority, as set out in Boral's Management Guidelines.

Senior executives reporting to the CEO have their roles and responsibilities defined in position descriptions, as set out in relevant letters of appointment.

Evaluating the performance of senior executives

The performance of senior executives is reviewed annually against appropriate measures as part of Boral's performance management system, which is in place for all managers and staff. The system includes processes for the setting of objectives and the annual assessment of performance against objectives and workplace style and effectiveness.

On an annual basis, the Remuneration Committee and subsequently the Board formally review the performance of the CEO. The criteria assessed are both qualitative and quantitative and include profit performance and other financial measures, safety performance and strategic actions.

The CEO annually reviews the performance of each of Boral's senior executives, being members of the Management Committee, using criteria consistent with those used for reviewing the CEO. The CEO reports to the Board through the Remuneration Committee on the outcome of those reviews.

A performance evaluation for senior executives took place in the 2008/09 year in accordance with the processes described above.

Further details on the assessment criteria for CEO and senior executive remuneration (including equity-based plans) are set out in the Remuneration Report which forms part of the Annual Review.

Principle 2: Structure the board to add value

Structure of the Board

Together, the Board members have a broad range of financial and other skills, experience and expertise necessary to oversee Boral's business. The Board of Directors comprises seven non-executive Directors (including the Chairman) and one executive Director, the CEO. The roles of Chairman and CEO are not exercised by the same individual. The skills, experience and expertise of each Director are set out on page 30 of the Annual Review.

The Directors determine the size of the Board by reference to the Constitution, which provides that there will be a minimum of three Directors and a maximum of 12 Directors.

Paul Rayner was appointed to the Board in September 2008. In July 2009, it was announced that John Cloney will retire after the 2009 Annual General Meeting.

The period of office held by each current Director is:

	Appointed	Last elected at an Annual General Meeting
Ken Moss, Chairman	1999	27 October 2006
Rod Pearse, CEO	2000	Not applicable
Brian Clark	2007	29 October 2007
John Cloney	1998	27 October 2006
Bob Every	2007	29 October 2007
Richard Longes	2004	29 October 2007
Paul Rayner	September 2008	24 October 2008
Roland Williams	1999	29 October 2007

Details of the number of Board and Committee meetings attended by each Director are set out on page 40 of the Annual Review.

Chairman's appointment and responsibilities

The Board selects the Chairman from the non-executive independent Directors. The Chairman leads the Board and is responsible for the efficient organisation and conduct of the Board's functioning. He ensures that Directors have the opportunity to contribute to Board deliberations. The Chairman regularly communicates with the CEO to review key issues and performance trends. He also represents the Company in the wider community.

Currently, Dr Ken Moss is the Chairman. In July 2009, the Board introduced the new role of Deputy Chairman as part of the Board's succession planning, with Dr Bob Every being appointed Deputy Chairman. Dr Every will assume the role of Chairman in May 2010 when Dr Moss retires from the Board.

Committees

To assist the Board to carry out its responsibilities, the Board has established an Audit Committee and a Remuneration Committee. The qualifications of each Committee member and the number of meetings they attended during the reporting period are set out on pages 30 and 40 of the Annual Review.

These Committees are discussed further below under Principle 4 (Audit Committee) and Principle 8 (Remuneration Committee).

Director independence

The Board has assessed the independence of each of the non-executive Directors (including the Chairman) in light of their interests and relationships and considers each of them to be independent. The criteria considered in assessing the independence of non-executive Directors include that:

- the Director is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder;
- the Director is not employed, or has not previously been employed, in an executive capacity by a Boral company or, if the Director has been previously employed in an executive capacity, there has been a period of at least three years between ceasing such employment and serving on the Board;
- the Director has not within the last three years been a principal of a professional adviser or consultant to a Boral company, or an employee associated with the service provided;
- the Director is not a significant material supplier or customer of a Boral company or an officer of or otherwise associated directly or indirectly with a material supplier or customer, and
- the Director has no material contractual relationship with a Boral company other than as a Director.

The Board considers that none of the interests of Directors with other firms or companies having a business relationship with Boral could materially interfere with the ability of those Directors to act in Boral's best interests. Material in the context of Director independence is, generally speaking, regarded as being 5% of the revenue of the supplier, customer or other entity being attributable to the association with a Boral company or companies.

Accordingly, all of the non-executive Directors (including the Chairman) are considered independent.

Nomination and appointment of Directors

The Board has considered establishing a Nomination Committee and decided, in view of the relatively small number of Directors, that such a Committee would not be a more efficient mechanism than the full Board for detailed selection and appointment practices. The full Board performs the functions that would otherwise be carried out by a Nomination Committee.

The Board's policy for the selection, appointment and re-appointment of Directors is to ensure that the Board possesses an appropriate range of skills, experience and expertise to enable the Board to carry out its responsibilities most effectively. As part of this appointment process, the Directors consider Board renewal and succession plans and whether the Board is of a size and composition that is conducive to making appropriate decisions.

The appointment of Paul Rayner as a new non-executive Director in September 2008 followed a process during which the full Board assessed the necessary and desirable competencies of potential candidates and considered a number of names before deciding on the most suitable candidate for appointment. The selection process includes obtaining assistance from an external consultant to identify suitable candidates and to assess these candidates. Candidates identified as being suitable are interviewed by one or more Directors. Confirmation is sought from prospective directors that they would have sufficient time to fulfil their duties as a Director.

At the time of appointment of a new non-executive Director, the key terms and conditions relative to that person's appointment, the Board's responsibilities and the Company's expectations of a Director are set out in a letter of appointment provided to that new Director.

Induction

Management, with the Board, provides an orientation program for new directors. The program includes discussions with senior executives, the provision to the new director of materials such as the Strategic Plan and the Share Trading Policy, site visits to some of Boral's key operations and discussions with other Directors.

Tenure of Directorships

Under the Company's Constitution, and as required by the ASX Listing Rules, a Director must not hold office (without re-election) past the longer of the third Annual General Meeting and three years following that Director's last election or appointment. Retiring Directors are eligible for re-election. When a vacancy is filled by the Board during a year, the new Director must stand for election at the next Annual General Meeting. The requirements relating to retirement from office do not apply to the Managing Director of the Company.

The Directors believe that limits on tenure may cause loss of experience and expertise that are important contributors to the efficient working of the Board. As a consequence, the Board does not support arbitrary limits on tenure and regards nominations for re-election as not being automatic but based on the individual performance of Directors and the needs of the Company. Before the business to be conducted at the Annual General Meeting is finalised, the Board discusses the tenure of Directors standing for re-election in the absence of those Directors.

Evaluation of Board performance

The Board periodically undertakes an evaluation of the performance of the Board and its Committees. The evaluation encompasses a review of the structure and operation of the Board, the skills and characteristics required by the Board to maximise its effectiveness and whether the blending of skills, experience and expertise and the Board's practices and procedures are appropriate for the present and future needs of the Company. Steps involved in the evaluation include the completion of a questionnaire by each Director, review of responses to the questionnaire at a Board Meeting and a private discussion between the Chairman and each other Director.

An evaluation of the Board's performance was undertaken in September/October 2008 in accordance with the evaluation process described above.

Conflicts of interest

In accordance with Boral's Constitution and the *Corporations Act 2001*, Directors are required to declare the nature of any interest they have in business to be dealt with by the Board. Except as permitted by the *Corporations Act 2001*, Directors with a material personal interest in a matter being considered by the Board may not be present when the matter is being considered and may not vote on the matter.

Access to information, independent advice and indemnification

After consultation with the Chairman, Directors may seek independent professional advice, in furtherance of their duties,

at the Company's expense. The Company Secretary provides advice and support to the Board. Directors also have access to members of senior management at any time to request relevant information.

Under the Company's Constitution and agreements with Directors and to the extent permitted by law, the Company indemnifies Directors against liabilities to third parties incurred in their capacity as officers of the Company and against certain legal costs incurred in defending an action for such liabilities.

Principle 3: Promote ethical and responsible decision-making

Conduct and ethics

The Board's policy is that Boral companies and employees must observe both the letter and spirit of the law, and adhere to high standards of business conduct and strive for best practice. Boral's Management Guidelines contain a Code of Corporate Conduct and other guidelines and policies which set out legal and ethical standards for employees. As part of performance management, employees are assessed against the Boral Values of leadership, respect, focus, performance and persistence.

The Board's policy and the Code guide the Directors, the CEO, the Chief Financial Officer, the Company Secretary and other key executives as to the practices necessary to maintain confidence in the Company's integrity and as to the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. The Code also guides compliance with legal and other obligations to stakeholders.

Boral treats breaches of legal and ethical standards seriously. During the 2008/09 financial year, 66 Boral employees were dismissed for serious breaches of policy.

A copy of Boral's Code of Corporate Conduct is available on Boral's website.

Dealings in Boral shares

Under Boral's Share Trading Policy, trading in Boral shares by Directors, senior executives and other designated employees is restricted to the following trading windows:

- the 30 day period beginning on the second day after the release of Boral's interim results;
- the 30 day period beginning on the second day after the release of Boral's full year results;
- the 30 day period beginning on the second day after the Annual General Meeting, and
- any other period designated by the Board (for example, during a period of enhanced disclosure).

Trading in Boral shares at any time is of course subject to the overriding prohibition on trading while in possession of inside information.

The Policy precludes executives from entering into any hedge or derivative transactions relating to options or share rights granted to them as long term incentives, regardless of whether or not the options or share rights have vested.

Under the Share Trading Policy, Directors and senior executives are required to notify the Company Secretary (or, in the case of trading by Directors, the Chairman) before and after trading.

Breaches of the Policy are treated seriously and may lead to disciplinary action being taken against the executive, including dismissal.

A copy of Boral's Share Trading Policy is available on Boral's website.

Share dealings by Directors are promptly notified to the ASX. Directors must hold a minimum of 1,000 Boral shares.

Principle 4: Safeguard integrity in financial reporting

Audit Committee

Boral has an Audit Committee which assists the effective operation of the Board. The Audit Committee comprises only independent non-executive Directors. Its members are:

Paul Rayner (Chairman)
Richard Longes
Roland Williams

Elizabeth Alexander chaired this Committee until she retired as a director in October 2008.

The Committee met five times during the 2008/09 financial year, and attendance by members at these meetings is shown on page 40 of the Annual Review.

The Audit Committee has a formal Charter which sets out its role and responsibilities, composition, structure and membership requirements. Its responsibilities include review and oversight of:

- the financial information provided to shareholders and the public;
- the integrity and quality of Boral's financial statements and disclosures;
- the systems of internal financial controls that the Board and management have established to identify and manage areas of significant risk; and
- Boral's auditing, accounting and financial reporting processes.

The Committee has the necessary power and resources to meet its responsibilities under its Charter, including rights of access to management and auditors (internal and external) and to seek explanations and additional information.

A copy of the Audit Committee Charter is available on Boral's website.

Accounting and financial control policies and procedures have been established and are monitored by the Committee to ensure the accounts and other records are accurate and reliable. Any new accounting policies are reviewed by the Committee. Compliance with these procedures and policies and limits of authority delegated by the Board to management are subject to review by the external and internal auditors.

When considering the yearly and half yearly financial reports, the Audit Committee reviews the carrying value of assets, provisions and other accounting issues.

Questionnaires completed by divisional management are reviewed by the Committee half yearly.

As required by the *Corporations Act 2001* for year end financial reports, the CEO and the Chief Financial Officer give a declaration to the Directors that the Company's financial records have been properly maintained and that the financial reports give a true and fair view before the Board resolves that the Directors' Declarations accompanying the financial reports be signed.

At each scheduled meeting of the Committee, both external and internal auditors report to the Committee on the outcome of their audits and the quality of controls throughout Boral. As part of its agenda, the Audit Committee meets with the external and internal auditors, in the absence of the CEO and Chief Financial Officer, at least twice during the year.

The Chairman of the Audit Committee reports to the full Board after Committee Meetings. Minutes of Meetings of the Audit Committee are included in the papers for the next Board Meeting after each Committee Meeting.

External auditor

Boral's external auditor is KPMG. The scope of the external audit and the effectiveness, performance and independence of the external auditor are reviewed by the Audit Committee.

If circumstances arise where it becomes necessary to replace the external auditor, the Audit Committee will formalise a process for the selection and appointment of a new auditor and recommend to the Board the external auditor to be appointed to fill the vacancy.

The Audit Committee monitors procedures to ensure the rotation of external audit engagement partners every five years as required by the *Corporations Act 2001*.

The Audit Committee has approved a process for the monitoring and reporting of non-audit work to be undertaken by the external auditor. Services by the external auditor which are prohibited because they have the potential or appear to impair independence include the participation in activities normally undertaken by management, being remunerated on a "success fee" basis and where the external auditor would be required to review their work as part of the audit.

An Independence Declaration by the external auditor forms part of the Directors' Report and is set out on page 42.

Internal audit

The internal audit function is outsourced, with PricewaterhouseCoopers being the Company's internal audit service provider. The internal audit program is approved by the Audit Committee before the start of each year and the effectiveness of the function is kept under review.

Principle 5: Make timely and balanced disclosure

Boral is committed to making timely and balanced disclosure of all material matters and to effective communication with its shareholders and investors so as to give them ready access to balanced and understandable information.

The Company complies with all relevant disclosure laws and ASX Listing Rule requirements and has in place mechanisms designed to ensure compliance with those requirements, including the Continuous Disclosure Policy adopted by the Board. These mechanisms also ensure accountability at a senior executive level for that compliance.

The CEO, the Chief Financial Officer and the Company Secretary are responsible for determining whether or not information is required to be disclosed to the ASX, in appropriate circumstances in consultation with the Chairman and/or the Board.

A copy of Boral's Continuous Disclosure Policy is available on Boral's website.

Principle 6: Respect the rights of shareholders

Communications with shareholders

The Company's policy is to promote effective communication with shareholders and other investors so that they understand how to assess relevant information about Boral and its corporate proposals.

The fundamental review of Boral's remuneration policies and practices undertaken by the Board, as detailed in the Remuneration Report, provides an example of shareholder (and other stakeholder) engagement during the reporting period. As noted in the Remuneration Report, following the concerns expressed by shareholders at the 2008 Annual General Meeting, a comprehensive stakeholder engagement program was undertaken, involving members of the Remuneration Committee, other Directors and members of management meeting with representatives of retail and institutional investors and governance advisory firms. This process allowed a broad range of views to be taken into consideration as part of the review of Boral's remuneration policies and practices.

Annual and half-yearly reports are provided to shareholders (other than those who have requested that they not receive copies). Shareholders may elect to receive annual reports electronically or to receive notifications via email when reports are available online. While companies are not required to send annual reports to shareholders other than those who have elected to receive them, any shareholder who has not made an election is sent an easy-to-read summary of the Annual Report, called the Shareholder Review.

Announcements to the market are placed on Boral's website after they are released to the ASX. These announcements are retained on the website for at least three years. General meetings and briefings to analysts following results and other major announcements are webcast.

Boral encourages shareholders to attend and participate in all general meetings including annual general meetings. Shareholders are entitled to ask questions about the management of the Company and of the auditor as to its conduct of the audit and preparation of its reports.

Notices of Meeting for general meetings are accompanied by explanatory notes to provide shareholders with information to enable them to decide whether to attend and how to vote on the business of the meeting. Full copies of Notices of Meeting and explanatory notes are posted on Boral's website. If shareholders are unable to attend general meetings, they may vote by appointing a proxy, using the form attached to the Notice of Meeting or an online facility.

This year, shareholders will be invited, at the time of receiving notice of the Annual General Meeting, to put forward questions that they would like addressed at the Annual General Meeting.

A copy of Boral's policy on Communications with Shareholders is available on Boral's website.

Principle 7: Recognise and manage risk

Risk identification and management

The managers of Boral's businesses are responsible for identifying and managing risks. The Board (in the case of financial risk as noted above, through the Audit Committee) is responsible for satisfying itself that a sound system of risk

oversight and management exists and that internal controls are effective. In particular, the Board ensures that:

- the principal strategic, operational, financial reporting and compliance risks are identified; and
- systems are in place to assess, manage, monitor and report on these risks.

Under the supervision of the Board, management is responsible for designing and implementing risk management and internal control systems to manage the Company's material business risks. Boral's senior management has reported to the Board on the effectiveness of the management of the material business risks faced by Boral during the 2008/09 financial year.

Risk management matters are analysed and discussed by the Board at least annually and more frequently if required.

In addition to maintaining appropriate insurance and other risk management measures, identified risks are managed through:

- established policies and procedures for the managing of funding, foreign exchange and financial instruments (including derivatives) including the prohibition of speculative transactions. The Board has approved Treasury policies regarding exposures to foreign currencies, interest rates, commodity prices, liquidity and counterparty risks which include limits and authority levels. Compliance with these policies is reported to the Board monthly and certified by Treasury management and the Audit Committee twice yearly;
- key business risks being identified on a Divisional basis and on a corporate-wide basis and reported to the Directors as part of the strategic planning process. Management was assisted by a specialised risk management consultancy in assessing risks corporate-wide during the 2008/09 financial year and this process will provide a continuous approach to risk management;
- policies, standards and procedures in relation to environmental and health and safety matters;
- training programs in relation to legal and compliance issues such as trade practices, intellectual property protection, occupational health and safety and environmental;
- procedures requiring that significant capital and revenue expenditure and other contractual commitments are approved at an appropriate level of management or by the Board; and
- comprehensive management guidelines setting out the standards of behaviour expected of employees in the conduct of the Company's business.

The internal audit function is involved in risk assessment and management and the measurement of effectiveness. The internal and external audit functions are separate and independent of each other.

In addition to an overall risk management policy, Boral has numerous risk management systems and policies that govern the management of risk.

The Board has acknowledged that the material provided to it on risks has enabled it to review the effectiveness of the risk management and internal control system to manage the Company's material business risks.

Compliance

The Company has adopted policies requiring compliance with occupational health and safety, environmental and trade practices laws.

There are also procedures providing employees with alternative means to usual management communication lines through which to raise concerns relating to suspected illegal or unethical conduct. The Company acknowledges that whistleblowing can be an appropriate means to protect Boral and individuals and to ensure that operations and businesses are conducted within the law.

There are ongoing programs for audit of Boral's large number of operating sites. Occupational health and safety, environmental and other risks are covered by these audits. Boral also has staff to monitor and advise on workplace health and safety and environmental issues and, in addition, education programs provide training and information on regulatory issues.

Despite the Company's policies and actions to avoid occurrences which infringe regulations, there have been a small number of prosecutions against subsidiary companies for breach of occupational health and safety legislation.

CEO and Chief Financial Officer declaration

The CEO and the Chief Financial Officer have provided the Directors with a declaration in accordance with section 295A of the *Corporations Act 2001* for the 2008/09 financial year, including confirmation that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results. The Board confirms that it has received assurance from the CEO and the Chief Financial Officer that the above statement was founded on a sound system of risk management and internal control, and that such system is operating effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

Remuneration Committee

The Board has a Remuneration Committee which comprises four independent non-executive Directors. The members of the Committee are:

Brian Clark (Chairman from 27 July 2009)
John Cloney (Chairman until 27 July 2009)
Bob Every
Ken Moss

The Committee met on six occasions during the 2008/09 financial year, and attendance by members at these meetings is shown on page 40 of the Annual Review.

The Remuneration Committee has a formal Charter which sets out its role and responsibilities, composition structure and membership requirements.

A copy of the Remuneration Committee Charter is available on Boral's website.

The Committee makes recommendations to the full Board on remuneration arrangements for the CEO and senior executives and, as appropriate, on other aspects arising from its functions.

Part of the role of the Remuneration Committee is to advise the Board on the remuneration policies and practices for Boral generally and the remuneration arrangements for senior executives.

The Chairman of the Remuneration Committee reports to the full Board after Committee Meetings. Minutes of Meetings of the Remuneration Committee are included in the papers for the next Board Meeting after each Committee Meeting.

Boral's remuneration policy and practices are designed to attract, motivate and retain high quality people. The policy is built around principles that:

- executive rewards be competitive in the markets in which Boral operates;
- executive remuneration has an appropriate balance of fixed and variable reward;
- remuneration be linked to Boral's performance and the creation of shareholder value;
- variable remuneration for executives has both short and long term components, and
- a significant proportion of executive reward be dependent on performance assessed against key business measures, both financial and non-financial.

These principles ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.

Boral's Share Trading Policy, which is referred to on pages 33 and 34 of this Statement under the sub-heading 'Dealings in Boral Shares' under Principle 3, prohibits executives entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements under Boral's equity-based remuneration schemes.

Remuneration of non-executive Directors

The remuneration of the non-executive Directors is fixed and they do not receive any options, variable remuneration or other performance-related incentives. Nor are there any schemes for retirement benefits for non-executive Directors.

Further information relating to the remuneration of the non-executive Directors is set out in the Remuneration Report on page 59. This information includes a summary of the terms of the Non-Executive Directors' Share Plan.

Conclusion

While the Board is satisfied with its level of compliance with governance requirements, it recognises that practices and procedures can always be improved. Accordingly, Boral's corporate governance framework will be kept under review to take account of changing standards and regulations.