

Message from the Managing Director



Rod Pearce

In 2000, at my first Annual General Meeting as Boral's CEO, a shareholder asked the question, "What sort of improvement targets are being set in areas such as ethics and employee relations and how will we know you've improved by next year?" I was also asked, "How is Boral meeting its responsibilities in regard to greenhouse gas emissions?"

These simple questions had quite an impact on what we did next. We had already set clear financial objectives and targets and disclosed them publicly and had started to think about the development of the Boral Sustainability Diagnostic Tool (BSDT) as an internal tool. However, our shareholders' questions and broader interest in Boral's sustainability performance strengthened our resolve to set challenging targets and establish a framework against which to report our performance.

This year, we completed the fifth round of BSDT assessments since its introduction in 2001. With an overall score of 3.1, Boral's businesses are broadly performing at Industry Best Practice (Level 3) across 20 areas of sustainability, which was a target that we had set ourselves eight years ago. We have clearly demonstrated continuous improvement since 2001 when our businesses received an average BSDT score of 1.55. Pleasingly, our 2009 score of 3.1 out of a possible 4.0 (World's Best Practice), has been achieved at the same time as the standards required to reach each BSDT level have been reviewed and increased in line with higher community expectations and global standards.

To demonstrate best practice performance at these levels, our businesses are required to have: data collection systems and measurable targets in place; comprehensive stakeholder programs; integrated risk management systems; formalised sustainability programs; a good understanding of how we are performing relative to our peers; and demonstrated performance improvement.

Safety

Over the past 10 years and in 2008/09, Boral's safety performance has strengthened, with strong improvements in the key performance indicators of lost time injury frequency rate (LTIFR) and percentage hours lost.

Our safety targets are set at a 25% improvement on the last three-year average for each of Boral's divisions. Overall, Boral's performance was again ahead of target in 2008/09. Employee LTIFR of 1.8 compares with an improvement target of 2.5 and percentage hours lost of 0.06 was better than the targeted improvement of 0.07. Contractor LTIFR of 2.4 was a 58% improvement on last year and compares with a targeted improvement of 4.9. All divisions except Timber were broadly in line with or better than their employee safety targets and all divisions except Plasterboard exceeded their contractor safety targets.

The greatest disappointment in our performance in 2008/09 was the tragic transport related death of an employee in Indonesia in November 2008. The employee, a security guard at our Jelambar concrete batching plant in Central Jakarta, was fatally injured in an accident involving two concrete trucks. The incident was immediately investigated and, as a result, a number of changes were made to improve the site traffic management plan including pedestrian and vehicle separation. Lessons learnt

from this tragic incident have been reviewed across Boral and improvements implemented to minimise the risk of similar incidents occurring again.

Climate change performance and targets

In 2008/09, Boral's emissions totalled 3.62 million tonnes of CO₂, which on a comparable basis was 8% lower than 2007/08, largely due to lower production volumes in the USA and Australia. Underlying efficiency improvements have also been delivered in some businesses, which will help us to manage our emissions as markets recover.

Boral has undertaken projects to reduce energy consumption and greenhouse gas emissions, and we have identified further abatement opportunities in the areas of energy efficiency, renewable energy, alternate fuels and alternate materials. These potential projects have been consolidated into an overarching abatement cost curve to assist in prioritising opportunities and capital investments. The implementation of these abatement opportunities is dependent on the anticipated cost of carbon in a trading environment, the costs to Boral for implementing identified abatement initiatives and available technologies.

Through strategic planning processes and the application of longer-term growth rates, we have established a forecast for Boral's future emissions out to 2020. On a business as usual basis, we predict that Boral's total emissions would increase from around 3.93 million tonnes of CO₂ in 2007 to around 4.8 million tonnes per annum by 2020. In Australia, Boral's emissions are projected to grow from 3.45 million tonnes per annum in 2007 to 4.2 million tonnes per annum by 2020.

In 2007, we set a climate change target to at least hold Boral's absolute greenhouse gas emissions steady and to offset any increase in emissions associated with market demand growth by reducing emissions per tonne of production.

The Australian Government has proposed a minimum target for the country of reducing emissions to 5% below 2000 levels by 2020. For Boral's Australian operations, this is approximately 35% below business as usual emissions by 2020, and it is around 20% below the internal target of offsetting future emissions growth that we set ourselves in 2007. This is an extremely challenging target for Boral, requiring the abatement of around 1.4 million tonnes of business as usual emissions per annum from Boral's Australian operations by 2020.

In our current business plans, we have identified emission abatement initiatives for our Australian operations that would deliver around 45% of the 5% below 2000 emissions target, based on known technologies and anticipated carbon prices. Beyond this, we have identified additional potential abatement initiatives that could reduce our annual CO₂ emissions by a further 55% of the targeted reduction, but these projects are not yet justifiable on foreseeable economics or with existing technologies. There is a lot more to be done if we are to achieve the Government's target of a 5% reduction on 2000 emission levels by 2020. We need to see significant advances in the cost effectiveness of emerging technologies such as carbon capture and storage, and we need to consider plant closures and restructuring options. Beyond internal abatement initiatives, we need to consider the cost effectiveness of purchasing carbon permits and of sourcing carbon offsets from the offshore CDM market¹.

Emissions trading

As Australia has worked to develop an emissions trading scheme over the past few years, Boral has 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 pricing regimes.

The current form of the Carbon Pollution Reduction Scheme (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. We are pleased with the most recent modifications, including the delay to the proposed start date to 1 July 2011, the fixing of the carbon price in the first year at \$10/tonne and the 5% increase in initial EITE assistance to recognise the current economic downturn.

While the proposed CPRS is much better in its current form than when originally proposed, there remain concerns. The EITE activity definition should include all affected activities, including cement milling in the case of the cement industry. Assistance provided to the cement industry appears to be broadly sufficient at the start of the scheme, but over the first five years of the scheme, the level of transitional assistance decays significantly. This decline in the absence of a global carbon price will potentially have a significant impact on the industry.

With the exception of the cement business, which competes with imports, we expect that Boral's businesses will offset the increased costs associated with the CPRS with price increases and cost reduction initiatives. However, the estimated incremental costs as a result of the CPRS for Boral's cement business will increase by a factor of around six times from 2012 to 2017 (and will continue to grow) as a result of a decline in EITE assistance of 1.3% per annum, the removal of the 5% "recession buffer" and the increase in the price of carbon. To preserve Australia's competitiveness, in the absence of a global carbon price, sectoral review mechanisms must be a feature of the CPRS legislation. We are continuing to reinforce these issues with the Australian Government.

The USA has introduced a major cap and trade (and energy efficiency) bill, the American Clean Energy and Security Act, which is being debated in Congress. Boral's US CO₂ emissions are typically in the range of 0.4-0.5 million tonnes per annum at longer-term average production levels (they were 0.23 million tonnes in 2008/09, reflecting the significant downturn in US markets and production). We have identified and continue to pursue a number of abatement initiatives in the USA, particularly focused on alternative fuels. These will deliver solid reductions against business as usual emissions as markets recover, with scope for further reductions as additional potential projects become economically viable.

Impacts of the global economic downturn

The past year has been challenging, as the global economic downturn has led to a significant decline in production volumes. In the USA, we are operating our plants at around 20-30% of capacity, with eight of Boral's 23 brick plants mothballed and a further six temporarily closed until market demand recovers. In Australia, we are running our plants at between around 50% and 80% of capacity as a result of the downturn in residential and non-residential demand. We have suspended production at several operations, including at our Walcha timber mill, Galong lime kiln, Kempsey brick plant and Midland Brick's kiln 8.

Boral's 2008/09 profit after tax of \$142 million is a 42% reduction on the prior year. Accelerated cost reduction programs have been implemented across the Company, which has had a notable impact on Boral's labour force. Employee numbers at June 2009 expressed as full-time equivalent (FTE) employees have fallen by around 7% from June 2008. In the USA, around 600 employees or around 28% of the workforce were laid off in 2008/09 and in our Australian operations, the number of FTE employees at June 2009 reduced by around 500 or 5% compared to last year. Across

most operations we are using significantly less contractor labour and overtime has significantly reduced. Overall, Boral's employee and contract labour FTEs reduced by 2,460 or 11% in 2008/09.

Despite the challenging times, and the need to reduce costs, we have not cut expenditure on our sustainability programs. We recognise that our community partners are also facing challenges and broadly speaking we have maintained, or in some cases increased, our level of support through our community programs.

At the end of the year I will retire as Boral's CEO and Managing Director. I am confident and proud of the fact that the Company's sustainability programs are delivering long-lasting benefits to Boral's customers, employees, communities and shareholders. Our systems and approach to managing the business in a sustainable way have evolved and matured and we have worked hard to demonstrate that we are managing our businesses in line with best practice.

The Company is well positioned to deliver further performance improvements, particularly in the areas of reducing greenhouse gas emissions and other environmental impacts, sustainable product development, responsible supply chain management and safety management.

I congratulate and thank Boral's employees for their commitment, teamwork and determination to do things in a more sustainable way, particularly in these challenging times.



Rod Pearse, CEO AND MANAGING DIRECTOR

¹ The Clean Development Mechanism (CDM), an arrangement established under the Kyoto Protocol, allows industrialised countries with a greenhouse gas reduction commitment to invest in abatement and offset projects in developing countries as an alternative to more expensive emission reductions in their own countries.