Boral Limited

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MEDIA RELEASE

Results announcement
for the year ended 30 June 2001

22 August 2001

BORAL ACHIEVES A FULL YEAR PROFIT OF $153 MILLION IN DIFFICULT TRADING CONDITIONS

Major features

- Net profit after tax down by 9.1% to $153.4 million
- Earnings per share down to 27.0 cents from 29.7 cents
- 9.0 cents per share final dividend maintained, franked to 35%
- Sales revenue fell by 18.2% to $3.28 billion due to a sharp cyclic downturn in Australian building and construction markets
- EBITDA declined by 20% to $451 million
- Net profit after tax before profit on disposal of businesses down 33% to $127.0 million
- $26.4 million of profits from disposal of Timber businesses
- EBIT fell by 27.3% to $262 million (up 2% in the USA but down 40% in Australia)
- EBIT of $24.3 million from the new Quarry End Use business
- Asian plasterboard turnaround of $15.4 million; EBIT of $2.8 million
- EBITDA to sales margin down marginally from 14.0% to 13.8%
- $191 million of acquisitions and growth completed in Asia, USA and Australia
- Sound balance sheet – gearing maintained at 53% (35% (D/D+E))

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Results at a glance

Year ending 30 June	2001	2000 proforma	% change
A$ million			
Sales revenue	3280	4012	(18.2)
EBITDA*	451	563	(19.9)
EBIT*	262	361	(27.3)
Net interest	70	90	(22.1)
Profit before tax	232	238	(2.6)
Tax	78	70	11.9
Profit after tax *(excluding profit/ (loss) on disposal and restructure of businesses)*	127	190	(33.0)
Profit after tax and minorities	153	169	(9.1)
Cash flow from operating activities	239	455	
Gross assets	4001	3873	
Funds employed	2837	2738	
Liabilities	2146	2096	
Net debt	983	961	
Capital expenditure (including acquisitions)	295	152	

Employees	11,593	13,572	(14.6)
Sales per employee, $ million	0.28	0.30	(6.6)
Net tangible asset backing, $ per share	2.89	2.78	
EBITDA* margin on sales, %	13.8	14.0	
EBIT* margin on sales, %	8.0	9.0	
EBIT* return on funds employed, %	9.2	13.2	
Return on equity, %	8.3	9.5	
Gearing (net debt:equity), %	53	54	
Gearing (net debt:equity plus net debt), %	35	35	
Interest cover, times	4.3	3.7	
Earnings per share, ¢	27.0	29.7	
Dividend per share, ¢	18.0	18.0	

* excludes profit/(loss) on disposal and restructure of businesses.

Note: Results and commentary in this announcement for prior corresponding period are based on pro forma accounts and have been restated where appropriate to reflect the change in Australian Accounting Standards that requires abnormal items no longer to be shown separately.

Results announcement for the financial year ended 30 June 2001

Overview

Boral Limited today announced a net profit after tax and minorities of $153.4 million for the year ended 30 June 2001, a 9.1% decrease compared with last year.

Earnings per share of 27.0 cents was lower than the 29.7 cents achieved the previous year.

Sales revenue of $3.28 billion fell 18.2% compared with the prior year due to a significant cyclical decline in Australian housing and construction markets, particularly since the September quarter 2000.

Industry activity, as measured by value of work done, fell by 27% in dwellings and 17% in both non-dwellings and roads, highways & subdivisions, compared with the prior year. Overall, there was a reduction in value of work done in the building and construction markets of 22% during the period.

Boral's Australian revenues fell by 20%, with building products sales down 30% and construction materials sales down 13%.

Net profit after tax before profit on disposal of businesses declined by 33.0% to $127.0 million. Profits from disposal of businesses totalled $26.4 million, predominantly made up of profit from the sale of the Tasmanian Woodchip business.

Several positive features of this year's results offset some of the impacts of the volume declines:

- The new Quarry End Use (QEU) business unit delivered a maiden $24.3 million profit predominantly as a result of first year earnings from the Greystanes development project.
- A strong performance from Asian plasterboard in the first year of the joint venture with Lafarge, resulting in a $15.4 million profit turnaround for Boral. Boral's share of profit for FY2001 was $2.8 million.
- Improved earnings from US operations assisted by a positive foreign exchange impact of $15.0 million.
- $19.8 million lower interest costs through reduced debt.
- $75 million reduction in costs across all businesses as a result of operational improvements and overhead reductions (over and above 3% cost savings from the ongoing Performance Enhancement Program (PEP) initiatives).

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) declined by 19.9% to $451.2 million and underlying EBIT fell 27.3% to $262.2 million.

Portfolio reshaping and improved price, cost and capital management enabled Boral to contain its underlying EBITDA to sales margin, which decreased only marginally from 14.0% to 13.8%.

The full year tax expense of $77.8 million resulted in an effective tax rate of 33.6%, compared with 36.2% (before tax rate changes) in the prior year. The lower effective tax rate was predominantly due to lower Australian corporate tax rates and utilisation of previously unrecognised tax losses. This lower effective tax rate should be maintained in the next financial year as corporate tax rates in Australia move to 30%. The prior year tax expense included a once-off gain of $16.5 million as a result of the change in Australian corporate tax rates.

Commenting on the results, Mr Rod Pearse said, “Whilst we had expected and planned for the Australian downturn, we had to respond to a faster and larger than expected fall in housing demand, which experienced a precipitous peak-to-trough decline of 41% in the December half”.

“During the year, we have focused considerable effort on managing the effects of the downturn on our Australian businesses; this has been a key early deliverable of our *perform and grow* strategy. Our strong focus on inventory management, operational improvement, overhead cost reduction, capital management, and portfolio reshaping has allowed us to achieve a sound performance in difficult trading conditions.

“We are pleased with the outcomes of our improvement programs, which have resulted in better returns at the bottom of the cycle, compared with previous cycles. Boral is well placed to deliver improved returns as the cyclic upturn gathers momentum”, Mr Pearse said.

“A rigorous inventory management and capacity rationalisation program has been implemented, involving shift reductions, plant mothballing and plant closures. As a result, Boral has been able to better align production with demand to contain the growth of inventories, and to focus its price and margin management”, said Mr Pearse.

Reporting on Boral’s overseas operations, Mr Pearse said, “In our US operations, revenues in US dollars were down by 3%, predominantly because of the effects of a long and severe winter on US brick sales. Profits from the US were down 13% in US dollars due partly to the decline in sales but more so as a result of substantial increases in gas and electricity prices. Offsetting these negative impacts was a relatively strong underlying market, good price and cost management and a positive exchange rate impact.

“The Asian plasterboard joint venture with Lafarge reported a good result in its first year of operation, with Boral’s share of the profit being $2.8 million. The business benefited from capacity rationalisation and overhead cost reductions in China. Improved operating results in South Korea and Indonesia, and stronger export activities to the Philippines and the Middle East, all contributed to the turnaround in performance”, Mr Pearse said. During the period, Boral’s share of the JV increased from 27% in June 2000 to 43% just prior to year end. Boral will grow its share of the JV to 50% over the next two years.

“Boral has been focusing on delivering a *perform and grow* strategy. We are pleased with the performance of our operating divisions in these difficult market conditions. Also pleasing is the progress we are making on the growth side of our strategy.

“Our balance sheet has improved significantly, moving from a gearing level of 83%, at July 1999, to a low of 47% at December 2000. Gearing subsequently increased to close at 53% at the end of June 2001 as a result of strategic investments undertaken,” Mr Pearse concluded.

For the year ended 30 June 2001, $191 million was spent on expansion and growth capital. Boral undertook several “bolt-on” acquisitions, including Siam Gypsum in Thailand through its Asia Plasterboard JV with Lafarge, and in Australia, Transfield Asphalt and

Alsafe Concrete. At the same time, Boral invested in a range of step-out projects focused on growing its share in key markets, including growth in the Australian lime market .

Boral has committed to additional value-adding investments of around $120 million, including:

- the acquisition of Concrite in NSW,
- three concrete roof tile expansion projects in Mexico, Colorado and Missouri, through the MonierLifetile joint venture with Lafarge, and
- new capacity to supply the growing Korean plasterboard market, through the Asian plasterboard JV.

Market conditions

Market demand for Boral's products fell sharply in Australia due to a decline in housing and construction activity following the surge in building activity preceding the introduction of the Goods and Services Tax (GST) on 1 July 2000. The sharpness of the downturn was unprecedented.

The value of work done in new dwelling construction declined by 27% and alterations and additions also fell by 26% compared with last year. Non-dwelling construction activity fell by 17%.

Boral's US operations are primarily driven by the US single family housing market in the eastern and sun-belt states of the USA. Despite a broad softening of the US economy, particularly in the areas of manufacturing and technology, the residential construction market has proven to be surprisingly resilient.

During the period, US housing starts were down by 7%. Boral's brick volumes however, declined by 11% with the most significant declines occurring during the winter months when severe weather conditions in Boral's key eastern markets slowed construction activity considerably.   The protracted and unseasonable wet weather and snow conditions affected operations from November 2000 through to March 2001, delaying shipments and reducing building activity levels.

Whilst GDP growth in our Asian Plasterboard markets ranged from 2% to 7% during the year, demand for plasterboard experienced higher growth rates due to increased market penetration in the wall and ceiling lining markets.

Operations summary

Boral's safety performance continued to improve during the year, with the frequency of employee lost time injuries (per million work hours) averaging 4, compared with 8 for the prior year.

The dramatic cyclical downturn in housing starts in Australia had a heavy impact on **Building Products'** sales revenues, which decreased by 33% on the prior year. Demand for bricks and roof tiles reduced significantly during the year, whereas masonry volumes were less affected due to the strengthening landscaping sector. Australian plasterboard volumes held up reasonably well for the first half of the year but were adversely impacted in the second half. Timber revenues were 36% down compared with last year due to both the sale of the Tasmanian woodchips operations and a housing related decline in demand in hardwood and softwood markets.

Overall, Building Products' EBIT of $66.2 million was 44% lower than last year and EBITDA to sales margin fell to 11.6% from 12.3% in the prior year. The major driver of the EBIT decline was the reduction in sales volume, which also resulted in increased costs associated with reduced production volumes. Also adversely impacting on EBIT was the loss of earnings of $16 million resulting from the divestment of the Tasmanian woodchips and windows extrusion and lineals operations.

Offsetting some of these negatives was the positive impact of successful cost reduction initiatives and sound price management strategies together with the maiden profits from the Asian plasterboard joint venture. Boral's $2.8 million profit for the first year of operation of the combined Boral/Lafarge plasterboard joint venture in Asia with Lafarge, is a significant turnaround for Boral from the $12.6 million loss in the prior year before the formation of the JV.

The cyclical downturn in construction activity and the fall in activity following the Sydney Olympic Games, resulted in **Construction Materials** revenue falling by 12% on the previous year and EBIT declining by 30.8% to $115.5 million. EBITDA to sales margin fell from 15.1% to 13.5% driven largely by the impact of significantly lower volumes and higher energy costs, but offset somewhat by the first year earnings from QEU. Revenues of $50.6 million were delivered from Boral's QEU activity at Greystanes in the second half of the year. QEU activity in total delivered a pre-tax profit of $24.3 million in FY2001.

Sales revenue from Boral's **USA** operations of US$402 million was 2.8% down on last year, due to a softening of the market and a severe winter, which slowed activity. EBIT of US$53.4 million fell by 13.0%. Unanticipated energy cost increases resulted in a US$15 million negative impact on EBIT. In Australian dollar terms however, sales revenue grew by 14% and EBIT increased by 2% to $99.3 million, which included a positive foreign exchange rate impact of $15.0 million. EBITDA to sales margin for the year of 19.0% was slightly lower than the 19.9% margin for the same period last year. US operations contributed 38% of Boral's operating earnings in FY2001.

Successful cost improvement programs

Boral has successfully delivered on challenging cost reduction targets through a range of PEP (Performance Enhancement Programs) and "step change" initiatives. For the year ending 30 June 2001, Boral delivered PEP savings representing 3.0% of compressible costs throughout its operations, compared with 2.7% last year.

At the time of the demerger, targets were established and plans were put in place to deliver a 2-year "step-change" program of operational improvements and overhead cost reductions over and above the PEP programs. In FY2001 these additional programs delivered benefits to the group of $75m, made up of $48 million in overhead (SG&A) cost savings and $27 million of operational cost improvements. SG&A costs for ongoing businesses were reduced by 19% compared to the prior year.

Boral's worldwide permanent employee numbers fell by 15% to 11,593 at 30 June 2001 from 13,572 at the same date last year.

Fuel and Energy costs

During the year, petroleum based fuel, bitumen and natural gas supplies experienced substantial price increases, which impacted significantly on Boral's Australian Construction Materials and US operations in particular.

Transport-related fuel and bitumen costs in Boral's Australian operations increased by approximately 50%, resulting in a net impact of $25 million in the 2001 financial year.

In the US operations, energy cost increases over last year were US$15 million. Price increases for brick and roof tiles ameliorated some but not all of the unbudgeted cost increases.

A significant increase in energy and fuel-related costs is not anticipated in FY2002 due to the adoption of more comprehensive hedging strategies.

Margin, inventory and capacity management

As a result of sales volume declines of 33% in building products and 15% in construction materials in Australia, there has been a substantial risk of excess production occurring and subsequent pricing pressure. In response to this, initiatives were introduced during the year to better align production with sales and hence, contain the growth of excess inventories.

The pre-GST pull-through in demand, which occurred prior to June last year, took finished goods stock to unprecedented low levels with many businesses incurring "stock outs". As at 30 June 2001, finished goods in Australia increased by only $20 million over June 2000 levels and were 17% below the June 1999 level. Lower closing inventory levels mean that future growth in demand, as the cycle turns up, will be met by increased production and not from excess stock.

Substantial initiatives were taken to reduce production levels, which have significantly contained inventory build-up but caused manufacturing cost inefficiencies in the short-term. These initiatives included:

- Reduction in working shifts and overtime at virtually all Boral operations
- Temporary rolling shutdown or mothballing of 10 out of 20 brick and roof tile kilns in Australia, including the closure of the Moorebank brickworks in Sydney
- Mothballing of the Gillman plasterboard manufacturing plant in Adelaide
- Closure of two timber mills in New South Wales and Queensland
- Restructuring of shift arrangements at the company's plywood operation in Ipswich
- A 50% reduction of operating shifts at the Oberon sawmill
- Plant tolling and production sharing arrangements with Hanson Australia (formerly Pioneer) at Bacchus Marsh quarry in western Melbourne and plans to rationalise plant capacity at Emu Plains quarry in Sydney.

This improved matching of supply and demand levels contributed to better margin outcomes in 2000/2001 than in previous downturns when significant deterioration occurred.

During the year, prices improved or were maintained for cement, bricks, masonry, hardwoods, plywood, aggregates and plasterboard products in Australia. Margins for roof tiles were also maintained. Pre-mix concrete, scaffolding and softwood prices deteriorated. In the US, where volume declines were not as significant, pricing of bricks and roof tiles strengthened.

In Asia, one of two plasterboard plants in Shanghai was closed and will be relocated to supply the growing Korean market. The remaining plant in China is operating with a higher volume throughput and with a substantially lower cost structure.

Indonesian Concrete's volumes and pricing strengthened during the period, resulting in improved margins.

In the USA, inventory is now being held at targeted levels. Throughput rates in US brick operations were reduced in February through to May to contain stock build following the severe winter, however, production rates have increased again to align with the improved spring and summer activity levels.

Quarry End Use (QEU)

Over the past three years, considerable work has been undertaken to develop a new earnings stream, which is focused on a whole of life approach to resource management. The objective of the QEU business unit is to maximise the value inherent in quarry and clay assets as they reach the end of their useful resource life. Major activities that are currently underway or are proposed as part of QEU include:

- Land development of the 334-hectare Greystanes Estate, in western Sydney
- Construction of urban lands on the eastern flank of the Penrith Lakes Development Corporation (PLDC), in western Sydney
- Development of opportunities to maximise value of the Moorebank brick site, in south west Sydney
- A landfill business at Boral's Deer Park quarry site in Victoria

For the year ending 30 June 2001, the QEU business reported a maiden pre-tax profit of $24.3 million. The major component of these earnings came from three separate land transactions contained within the 140-hectare employment-generating precinct of the Greystanes development project.

- A 13 hectare site on the northern part of the Greystanes site, which included a lease back to accommodate the existing Boral masonry plant.
- 13 hectares of land was sold to Macquarie Goodman for $24.5 million which they will further develop into a business park.
- The sale of 5 hectares of land to Trafalgar Corporate. An office facility is currently being constructed on this site and upon completion will accommodate Boral's businesses currently located at Greystanes and Parramatta.

Further land sales in the employment precinct are planned for FY2002 in response to strong interest in the Greystanes Estate. Subject to planning approvals, residential land sales are expected to commence later in the year.

The QEU business unit is expected to deliver a similar profit stream in FY2002 compared with the reported period and is expected to be a strong contributor to Boral's earnings over the next ten years.

Strengthened capital management and balance sheet

Throughout the year all operations have been focussed on tight management of working capital. Boral targeted a reduction in trade receivables and inventory of $40 million during the year and this target has been exceeded.

Boral has completed its planned divestment program of non-core assets, delivering in excess of the targeted $400 million program, more than one year ahead of schedule. Divestments made during the year ending 30 June 2001 were:

- Tasmanian woodchips operation for $72.5 million
- The aluminium extrusion and distribution assets of the Windows business, realising cash proceeds of $55 million
- The remaining assets of the Melocco dimension stone business
- The sale of the softwood mill at Tumbarumba

Capital expenditure, including acquisitions, in the year ending 30 June 2001 totalled $295.1 million, up 94.4% compared with $151.8 million in the previous year.

Stay-in-business (SIB) capital expenditure of $104 million was only 61% of depreciation. As part of Boral's perform and grow strategy, SIB capital expenditure has been targeted to stay below a level of 70% of depreciation for a three-year period following the demerger. On average, since the demerger, SIB capital expenditure has been kept at 59% of depreciation and we expect next year to be less than 70%.

Growth and expansion capital expenditure totalled $191 million.

Net debt increased by $22 million to $983 million at 30 June 2001; this increase incorporated a $31 million unfavourable exchange rate effect.

Boral's gearing (net debt : equity) remained steady at 53% (35% debt : equity plus debt) year on year.

Interest cover increased from 3.7 times to 4.3 times during FY2001.

Disciplined growth strategies

Boral is a focused building and construction materials supplier, with core skills in resource-based manufacturing and with a significant competitive advantage around its strong resource base. Typically Boral holds the #1 or #2 leading market positions. Boral's intention is to grow around its core skills and resource base, to build on its strong market positions, and to grow increasingly offshore in ways that will add value for shareholders.

During the year ending 30 June 2001, growth and acquisition capital expenditure totalled $191 million, compared with $52 million in the prior year. In addition, a further $120 million of investments were committed.

Growth activities completed or committed to during the period include:

- The announced net investment of $50 million for the acquisition of Concrite's twelve concrete plants throughout Sydney and the southern highlands of New South Wales. The purchase has been cleared by the ACCC.
- A $10 million investment in the Marulan lime kiln in New South Wales, which resulted in a 40% increase in lime capacity, together with reduced production costs and improved ongoing market development capabilities.
- The acquisition of Alsafe Concrete's five concrete plants in growth corridors around Melbourne.

- Acquisition of the Transfield asphalt manufacturing operation in western Sydney.
- A $25 million investment in the upgrade program for the Oberon softwood mill, which brings Boral's share of the softwood JV with Carter Holt Harvey to 50%.
- A $5 million investment in capacity and small diameter log technology in the Koolkhan hardwood timber mill.
- In excess of US$20 million, in the US Brick business, including a new clay paver plant in Georgia and an improved moulded brick production line in Alabama.
- MonierLifetile (50% Boral) expansion initiatives of around US$17 million, including acquisition of a plant in Kansas City, Missouri; construction of a new plant in Guadalajara, Mexico; and purchase of land in Denver, Colorado on which a manufacturing site will be erected in 2002.
- Acquisition of 71% of Siam Gypsum's plasterboard operations in Thailand, through the Lafarge/Boral JV. The US$53 million investment required for this acquisition has been fully funded by Boral, bringing Boral's share in the JV up from 27% to 43%.
- A US$57 million investment by the Lafarge/Boral Plasterboard JV in a 30 million m^2 plant to supply growth in the South Korean plasterboard market.
- Launch of a new Home Improvement business. This business is targeted to supply non-structural home improvement products and services to the Australian market.
- Formation of a joint venture with CSR Limited to investigate the establishment of a joint e-commerce hub across the Australian building and construction industry. The JV has completed extensive market research, involving detailed customer interviews, to determine what e-commerce opportunities exist. The team is currently assessing and developing strategies across a selected number of opportunities.

Improved shareholder returns

A final year dividend of 9.0 cents per share has been declared, equal to the final dividend last year. This maintains the full year dividend at 18.0 cents per share. The dividend will be 35% franked, compared with the unfranked dividend last year.

Dividends for the year totalled $102 million, resulting in a payout ratio of 67% from after tax income of $153 million.

Boral's share price has strengthened considerably, increasing by 37%, during the 2001 financial year, compared with the 5% increase in the All Ordinaries Index over the same period.

Boral also returned a strong dividend yield, averaging 8.1% for the twelve months to 30 June 2001.

Based on the first week's trading average share price of $2.28 in February 2000, following the demerger, the combined capital growth, dividend yield and franking benefits resulted in a Total Shareholder Return (TSR) of 32% (to 17 August 2001). This performance ranks the stock in the top half of a benchmark group of 50 Australian listed companies.

Boral will operate a dividend reinvestment plan (DRP), at market values, as part of the final dividend distribution for FY2001. Boral recognises that many shareholders value the opportunity of being able to increase their shareholding by way of reinvestment plans and the DRP will assist in providing capital for future growth.

The final dividend will be paid on 15 October 2001.

Outlook

Boral’s sales volumes to building and construction markets in Australia were substantially lower in the June half of 2001 than in the prior year and appear to represent the bottom of the Australian building cycle.

There are encouraging signs of demand improvements in the Australian housing sector, supported by a lower interest rate environment and the impact of the Government’s $14,000 First Home Owners’ Grant. However, the significant increases in housing approvals experienced in May and June have not yet resulted in a significant lift in trading volumes. If the recovery of new house sales and approvals is sustained this should lead to a significant upturn in Australian Building Products’ sales volumes to the housing sector in the second half of FY2002.

The Australian Construction Materials markets are likely to be flat through FY2002. Sales to housing markets should improve but sales to the non-dwellings and roads, highways & subdivision markets are expected to fall.

The outlook for US residential construction remains tied to the near term performance of the US economy. Continuing declines in capital spending and manufacturing utilisation, and the consequent increases in unemployment have all had a dampening effect on the economy but this has not significantly impacted on residential construction and new home inventories remain at 18-year lows. The prospect of further interest rate reductions combined with tax relief may avert any significant downturn in activity. However, should the US economy slow further it is doubtful that residential construction will remain immune from the slowdown in the rest of the economy.

Overall, Boral’s sales revenues for FY2002 are currently anticipated to be relatively flat compared to FY2001.

Whilst revenues are expected to be flat, Boral’s underlying net profit after tax (ie. before profit from disposal of businesses) for FY2002 is expected to be stronger than in FY2001, particularly in the June half, due to a stronger performance from businesses supplying the Australian housing market, the full year contribution of Boral’s stronger position in Plasterboard in Asia and the benefits flowing from the company’s operational and growth initiatives.

Beyond FY2002, market forecasters have projected good growth in Australian building and construction markets until 2005/06 and our US and Asian markets should remain strong.

Operations review

Building Products

Australian bricks, masonry, roofing, windows, timber, Australian and Asian plasterboard

Year ending 30 June	2001	2000	% change
Sales revenue, $M	963	1438	(33)
EBITDA, $M	111	177	(37)
EBIT, $M	66	118	(44)
Divisional cash flow, $M	59	182	(68)
Capital expenditure*, $M	154	33	374
Funds employed, $M	983	907	8
EBITDA return on sales, %	11.6	12.3	
EBIT return on sales, %	6.9	8.2	
EBIT return on funds employed, %	6.7	13.0	
Employees	3780	5554	(32)
Sales revenue per employee, $M	0.25	0.26	

* *Including acquisitions*

The 27% fall in the value of work done in new residential construction activity in Australia adversely impacted Building Products' results during the period. The downturn in building activity was exacerbated by the surge in demand that preceded the introduction of the GST on 1 July 2000. The precipitous fall in dwelling commencements made this a particularly difficult year for Building Products.

Whilst Boral held its market shares and its position as Australia's largest brick and paver manufacturer, sales revenue from the **Clay and Concrete Products** division declined during the year in line with the downturn in demand. The sharp drop in sales volumes impacted the operating profit result in two principal ways. First, significantly reduced revenues flowed through to the bottom line. Second, a conscious decision to avoid the build-up of excess inventory and the consequent investment in working capital necessitated temporary closures at many plants and reduction in operating shifts. The resulting under-utilisation of capacity has had a significant short-term cost impact of around $7 million.

Pricing discipline, together with the avoidance of pressure from excess inventory, limited to a large extent the negative pricing outcomes typically associated with severe downturns in this industry.

Australian plasterboard sales revenue fell marginally in the first half but more noticeably in the second half, as the full impact of the housing downturn was felt. The business responded quickly to this downturn by mothballing its smaller plant in South Australia and cutting operating rosters in other plants. As a result, stocks of finished goods remained low and output is now well matched to sales.

Plasterboard unit production costs were held close to the level achieved in the prior year, despite the market induced fall in sales volumes. Plant output per production employee has been maintained at high levels in the downturn as a result of a 29% reduction in employee numbers over recent years.

The new **Asian plasterboard joint venture** commenced on 1 July 2000 and produced around 100 million m² of plasterboard during its first year of operation. Boral's share of the

JV moved from 26.7% to 43.0% at year end. Boral's investment yielded a profit after tax and interest of $2.8 million, a dramatic turnaround compared to a loss of $12.6 million in the prior year.

Boral Timber was also adversely affected by the substantial decline in housing and construction activity. Sales revenue declined by 36%, caused by the sale of the Tasmanian woodchips operations in September 2000 and reduced Timber demand. Pricing in the hardwood business remained firm during the period and overhead costs reduced significantly as a result of strong cost containment initiatives. However, reduced volumes lead to higher production costs with the resulting gross margin broadly in line with last year.

During the year, Boral disposed of its lineals and extrusion businesses, which substantially reduced the size of the **Windows** operation. Boral is currently working on restructuring and improving the remaining windows fabrication businesses.

Construction Materials

Australian quarries, concrete, asphalt, cement, transport, scaffolding, concrete placement, recycling, contracting, quarry end use, and Indonesian concrete.

Year ending 30 June	**2001**	**2000**	**% change**
Sales revenue, $M	1556	1769	(12)
EBITDA, $M	211	267	(21)
EBIT, $M	116	167	(31)
Divisional cash flow, $M	151	262	(42)
Capital expenditure*, $M	72	58	22
Funds employed, $M	1286	1221	5
EBITDA return on sales, %	13.5	15.1	
EBIT return on sales, %	7.4	9.4	
EBIT return on funds employed, %	9.0	13.7	
Employees	5326	5521	(4)
Sales revenue per employee, $M	0.29	0.32	

** Including acquisitions*

Market demand for **Australian Construction Materials'** (ACM) products declined sharply last year, caused by cyclical downturns in Boral's three key segments in dwelling construction, non-dwelling construction and roads, highways and sub-divisions. The decline was exacerbated by the slump in activity following the pre-GST rush and the Sydney Olympic Games resulting in decreased volumes in concrete, quarries and asphalt operations.

ACM was severely affected during the year by the escalation of diesel fuel and bitumen costs. These costs were partially recovered through rise and fall contracts and price increases. The net impact of these cost increases was $25 million.

First year pre-tax earnings from the newly formed **Quarry End Use** business unit totalled $24.3 million. However, this new revenue stream together with disciplined pricing management and cost reduction programs did not offset the significant fall in concrete and quarry volumes and earnings, and the impact of fuel and bitumen cost increases.

The **Cement** division implemented a range of successful cost reduction programs, which partially offset the decline in volumes.

Blue Circle Southern Cement performed solidly during the period. As volumes declined, production was concentrated on lowest cost operating units, minimising the impact of price declines and volume impacts on production costs. Cement pricing pressure abated during the period as a result of the Australian dollar having a positive impact on import parity pricing.

Formwork & scaffolding and **concrete placement** continued to take costs out of the operations but results were disappointing due to the decline in activity.

Boral's **Indonesian concrete** business was able to increase production capability to meet the first half demand surge. Operating efficiencies and underlying market conditions have improved and positive earnings were achieved during the period.

USA

Bricks, clay and concrete roof tiles, fly ash, concrete admixtures

Year ending 30 June	2001	2000	% change
Sales revenue, US$M	402	413	(3)
EBITDA, US$M	76	82	(7)
EBIT, US$M	53	61	(13)
Divisional cash flow, US$M	37	51	
Capital expenditure*, US$M	32	34	
Funds employed, US$M	370	342	

** Including acquisitions*

Year ending 30 June	2001	2000	% change
Sales revenue, A$M	756	662	14
EBITDA, AS$M	144	132	9
EBIT, A$M	99	98	2
Divisional cash flow, A$M	69	82	(17)
Capital expenditure*, A$M	60	54	12
Funds employed, A$M	728	572	27
EBITDA return on sales, %	19.0	19.9	
EBIT return on sales, %	13.1	14.7	
EBIT return on funds employed, %	13.6	17.0	
Employees	2305	2331	(1)
Sales revenue per employee, A$M	0.33	0.28	

** Including acquisitions*

The brick and roof tile businesses of the US division are largely dependent on housing starts, which were 7% lower in fiscal 2001 than the previous year. Boral's US volumes were down 11% due to a protracted and severe winter. The modest softening of underlying activity was in contrast to more severe declines in most other sectors of the economy.

The division experienced a significant increase in the cost of natural gas nationwide this year, and gas availability was also an issue at times. Despite price increases, the lower shipment volumes and higher natural gas costs led to modestly reduced profits, in US dollar terms, at **Boral Bricks** and **US Tile**.

MonierLifetile results improved significantly, supported by an 8% volume increase as a result of increased market penetration into the bituminous shingle market and greater product availability as a result of plant improvements. Following a restructure of the organisation, the business made progress addressing several operational issues during the period.

Market conditions for **Boral Material Technologies** were similar to the previous year, although fly ash volumes dropped due to supply issues and the poor winter weather. Admixture volumes continued to grow during the period however, the purchase costs for fly ash rose further, contributing to an overall drop in earnings from the business.

In Australian dollar terms, US earnings increased to a record level of $99 million as a result of a $15.0 million favourable exchange rate impact.