



## **2008 ANNUAL GENERAL MEETING**

**24 OCTOBER 2008**

### **CHAIRMAN'S ADDRESS**

**By Dr Ken Moss**

Ladies and Gentlemen,

The key message that we have communicated to shareholders in this year's Annual Review is that *it's not business as usual* in Boral.

Several extraordinary external factors have coincided to create a particularly challenging business environment.

Many of the challenges are not unique to Boral, and the global financial crisis is bringing with it new and greater challenges for everyone. We believe however, that it is important for our stakeholders to understand how these challenges are impacting Boral and how we are responding.

Boral's results for the twelve months to 30 June 2008 reflect these challenges, including difficult market conditions in several key markets and high fuel-related and other input costs. Whilst the significant decline in housing activity in the USA, the continued housing downturn in Australia, and challenging market conditions in Indonesia and Thailand have reduced selling volumes, we have generally done well with prices and costs.

Rod Pearse, in his address, will expand on the strategies that we have adopted to respond to the extraordinary market conditions and other external drivers.

On the positive side, strong levels of infrastructure and non-dwelling activity in all Australian states, except New South Wales, resulted in record levels of concrete demand and a pleasing result for Boral's construction materials group in Australia.

Boral's non-financial performance also continued to strengthen, including safety and environmental performance. We are preparing for the introduction of an emissions trading scheme in Australia and we are continuing to implement initiatives to reduce carbon emissions from Boral's operations; we are however concerned that there are costs and risks to Australia of acting unilaterally and getting too far ahead of our key trading partners.

## Financial Performance

For the 2007/08 financial year, Boral's sales revenue increased by 6% to \$5.2 billion but Boral's underlying earnings before interest, tax, depreciation & amortisation (or EBITDA<sup>1</sup>) declined by 10% to \$688 million. Boral's reported profit after tax (PAT) of \$243 million was down 19% and underlying PAT of \$247 million (excluding goodwill and tax provision adjustments) was 17% lower. This is similar to the 15% earnings reduction we projected at last year's AGM.

It was a challenging year for many of Boral's businesses, particularly our building products businesses in the USA and construction materials operations in Asia. In Australia, housing activity remained at low levels, especially in New South Wales. However, the overall value of work done in Australian building and construction was up by nearly 5% year-on-year as increased work in Australian non-dwellings and major projects offset the soft housing market.

Boral's Australian sales revenues were up 13% due to solid price gains, volume increases and growth benefits. EBITDA in Construction Materials was up 8% to \$489 million and in Building Products was up 11% to \$168 million. The results were underpinned by strong markets in Queensland and Victoria which offset softer conditions in Western Australian housing and continued weakness in New South Wales.

In the USA, the continued deterioration in the housing market, particularly in the second half of the year, saw a 13% decline in US dollar revenues and a decrease in EBITDA from US\$102 million to US\$10 million.

No-one enjoys reporting a decline in annual earnings or losses from any business, especially those that have historically delivered substantial returns and have very strong manufacturing and market positions. Boral's US business has been a very strong contributor to the Company's earnings for many years. When market conditions were strong in 2005/06 the business delivered an EBIT profit of A\$186 million compared with a loss of A\$27 million in 2007/08. Our focus is on managing as well as we possibly can through the downturn and positioning the business well for the recovery which will inevitably occur.

Total housing starts in the USA were down around 27% year-on-year to 1.1 million starts in 2007/08. This compares with peak levels of demand above 2.0 million starts experienced just a couple of years ago in 2005/06. Market forecasters expect housing starts to be lower again in 2008/09 at around 900,000 starts, which is only around half the underlying level of housing starts in the USA.

In Asia, improvements in housing markets in Indonesia, China and South Korea benefited our joint venture plasterboard business, LBGA. LBGA's earnings in US dollars were up 29% before exchange rate impacts, reflecting volume and price increases as well as benefits from cost reductions and growth initiatives. In Australian dollars, Boral's equity accounted profit from LBGA was up 12% to \$18.1 million. Unfortunately, this was offset by a decline in earnings from Boral's construction materials operations in Indonesia and Thailand. Overall, EBITDA from Asia was down 22% to \$16 million. We continue to face challenging market conditions in our Thailand concrete and quarry business and we have written off the \$31.9 million of goodwill which arose on acquisition of the business in July 2004.

Rod Pearse will provide an update on trading conditions in the first quarter of this year. He will point out that there is some downside risk around housing market conditions in both the US and Australia for the remainder of the year.

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<sup>1</sup> Excluding goodwill and tax provision adjustments.

Boral's underlying earnings per share<sup>2</sup> for the year of 41.4 cents compare with 50.0 cents last year. Return on funds employed<sup>1</sup> reduced to 10.1% compared with 11.9% in the prior year.

Operating cash flows for the year to June 2008 of \$582 million were \$100 million above the prior year. Capital expenditure for the year was around \$496 million made up of \$169 million of stay-in-business and \$327 million of growth and acquisition capital expenditure.

Boral's balance sheet remained strong. Net debt at 30 June 2008 was \$1.52 billion compared with \$1.48 billion at 30 June 2007. Boral's gearing level (debt/equity) of 52% increased marginally compared to the level of gearing at 30 June 2007 (50%) but was well within our 40-70% target range.

During the year, capital management initiatives included a \$114 million off-market share buyback and an issuance of US\$382 million of 10 and 12 year unsecured notes in the US private placement market. Since year end, a US\$600 million note issuance facility expiring in August 2009 was replaced by a US\$700 million facility expiring in August 2011. Given the high cost and tight supply of credit, Boral is in a relatively strong refinancing position.

## **Shareholder Returns**

Despite continued cyclical pressure on Boral's profits, a full year 34.0 cent fully franked dividend was maintained in line with the previous three years. For shareholders, the dividend represented an annualised dividend yield of 7.3% per annum (after franking) on Boral's average share price (of \$6.65) for the year to 30 June 2008.

The interim and final dividends for the year totalled around \$200 million. This represents a payout ratio of 83% of after tax profits and compares with the 68% payout ratio in 2007. The Board regarded it as appropriate to increase the payout ratio in order to maintain the dividend, taking into account Boral's sound underlying performance as well as our desire to provide shareholders with solid dividend returns with maximum franking benefits.

A decline in Boral's share price of 25% since last year's AGM compares with a 41% reduction in the ASX100 over the same period.

Looking through the cycle over the eight and a half years from demerger to 30 June 2008, Boral's total shareholder return (TSR) from share price appreciation and dividends has been 16% per annum, placing the stock in the top half of the ASX 100 companies over the same period. However, Boral's TSR underperformed in 2007/08 with a TSR of -33% compared with the TSR of the ASX 100 Index over the period of -16%.

We have continued to offer a dividend reinvestment plan ("DRP") to shareholders. Approximately 32% of the company's issued capital participated in the DRP for the final dividend paid in September 2008.

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<sup>2</sup> Excluding goodwill and tax provision adjustments.

## **Leadership and People Management**

Boral employs around 16,000 employees and more than 9,000 contractors and joint venture employees. They work across 870 sites in 12 countries. Boral is a large and complex organisation.

I have talked about some of the challenges that Boral has been facing and is continuing to face. These are difficult times for many of Boral's executives, managers and employees. It is times like these when experience delivers considerable value. The Board recognises and values the experience and tenure of Boral's senior executives including Boral's CEO and Managing Director, Rod Pearse.

The Management Committee has been a stable team of senior executives with considerable experience in Boral. In August 2008, however, Boral's long-serving Company Secretary and General Manager of Corporate Services, Michael Scobie, announced his intention to retire. I would like to thank Michael, on behalf of the Board and shareholders, for his valued contribution, and to wish him well in his retirement. Michael joined Boral through the BMI acquisition in 1982 and has 35 years of service with both organisations. Margaret Taylor will take over the role of General Counsel and Company Secretary of Boral Limited next month.

Currently in his ninth year, Boral's CEO, Rod Pearse, continues to provide strong and effective leadership and to deliver Boral's strategy. Rod is moving into the final year of his second five year contract. He has performed well as Boral's CEO and has a solid track record.

In recent weeks I have had several conversations with investors about Boral's remuneration policies and practices, with particular focus on how we remunerate the CEO. Whilst we have provided shareholders with a large amount of detail in the Remuneration Report, I would like to give shareholders some further explanation.

The Board believes that Mr Pearse's current level of remuneration should reflect his capability and experience and therefore should be above the average of the peer group of companies that we use to benchmark remuneration levels. This was not always the case. When Mr Pearse was new into his role he was remunerated well below the median of his peer group. The Board believed that Mr Pearse needed to gain experience and prove himself to shareholders. When a new five-year contract was agreed in 2004, however, the Board's view was that Mr Pearse had proven his ability to effectively lead the Company and that his remuneration should reflect that capability and experience. The Board's view is that Mr Pearse should be paid at the 75th percentile of his peer group.

In 2007 the Remuneration Committee undertook an external market review of the CEO's remuneration. The Remuneration Committee is chaired by John Cloney and also includes Brian Clark, Bob Every and myself as committee members.

The market review that we undertook found that Mr Pearse was amongst the top 15 longest serving CEOs in the list of ASX top 70 companies, with the average CEO tenure being less than 5 years. It also found however, that Mr Pearse had been remunerated at the bottom quartile of the group last year when it came to short term incentives and was around the median of the market when it came to base salary.

Hence, we made a decision to increase Mr Pearse's base remuneration in 2008 and to increase the potential short-term incentive that Mr Pearse could be paid but only if agreed targets and plans were delivered.

About half of the increase in Mr Pearse's remuneration in 2008 is attributed to the market review and subsequent adjustment to base salary and short term incentives. The other half of the increase is due to the Company's stronger financial performance against target.

Because Boral operates in cyclical markets it is not appropriate for executive remuneration to be driven by year-on-year improvement in company profits. Instead, executives are rewarded for performance against pre-approved plans, objectives and budgets. Sometimes budgeted earnings are lower than previous years due to the market cycles. Hence, we have seen short term incentives paid to executives for managing well during challenging market conditions, which is entirely appropriate and is in the interest of shareholders.

In terms of Mr Pearse's long term incentives (LTIs), these are in the form of options and share acquisition rights (SARs), and are subject to an exercise hurdle being attained, based on relative total shareholder returns. The LTIs are designed to align Mr Pearse's interests with those of shareholders.

I will talk more about remuneration later in the meeting when we get to the item of business requiring shareholders to consider the Remuneration Report.

Meanwhile, on behalf of the Board of Directors and Boral's shareholders I wish to thank Rod Pearse, Boral's management team and all of Boral's Australian, US and Asian based employees for the performance delivered during 2007/08. They have performed well and have demonstrated considerable persistence and resilience during these challenging times.

### **Safety and Sustainability**

Boral's management and employees should also be congratulated for the continued improvement in safety performance.

During the year, Boral's lost time injury frequency rate (LTIFR) per million hours worked was 2.5 which was an 11% improvement on the LTIFR of 2.8 for the year ended 30 June 2007 and is an all time low. LTIFR for contractors remained steady at 5.7 (versus 7.3 in 2006).

Whilst the improved performance was pleasing, it was overshadowed by the death of an employee in South Australia in a heavy vehicle accident in December 2007. We deeply regret this tragic accident. Directors of the Board review in detail all employee and contractor fatalities that occur on Boral sites and in related operations, including the corrective actions taken. The Board also reviews all divisional Health and Safety Plans. We approve safety improvement targets and we regularly monitor performance against target for all divisions.

The Board and management remain focused on eliminating all accidents, particularly serious workplace accidents.

Boral's safety performance is expanded on in our Sustainability Report for the year ended 30 June 2008, which can be found on the reverse side of the Annual Review.

Boral's Sustainability Report covers a total of 13 priority areas, which fall under the four broad areas of Human Resources, Environment, Social Responsibility and Marketplace & Supply Chain.

Boral's Sustainability Report has again been independently reviewed under the globally recognised AccountAbility sustainability standard AA1000.

## **The Board**

Boral's Board is continuing to work through a period of Board renewal and succession.

After fourteen years of valued service, Elizabeth Alexander will retire as a non-executive director of Boral Limited at today's meeting.

Ms Alexander joined the Board in 1994 and has chaired the Audit Committee since 2000. Ms Alexander has made a valuable contribution to Boral's governance and direction over that time. On behalf of all directors and shareholders of the Company, I thank Elizabeth for her contribution and wish her all the very best for the future.

Last month, Mr Paul Rayner was appointed as a non-executive Director of Boral Limited, to fill the vacancy left by Elizabeth.

Mr Rayner has strong accounting and finance experience, which together with his experience in international businesses and as a non-executive director, will be valuable to the Boral Board. Mr Rayner will become chair of Boral's Audit Committee.

Assuming Mr Rayner is elected at today's meeting the Board will comprise eight directors, being seven non-executive directors and the Managing Director. All non-executive directors are independent.

The tenure of Boral's Board will range from one month to 10 years, providing a good blend of new and experienced Boral directors.

During these challenging times, the Board's focus has been concentrated on strategic and operating plans to lift the Company's earnings. We have also been giving ongoing attention to Boral's capital expenditure and capital management plans. The Board is keenly focused on ensuring Boral maintains its strong balance sheet position in the face of strong economic headwinds.

Whilst conditions remain challenging in several of Boral's key markets, the Directors believe that the Company is well positioned to deliver long-term shareholder value through the economic cycle.

Boral's *Perform & Grow* strategy has provided an effective management framework through the downturn and has positioned the Company well to deliver considerable benefits when markets recover in New South Wales and in the USA.

We look forward to a recovery in Boral's key markets which will strengthen Boral's ability to deliver improved returns for shareholders.

I now invite Mr Pearse to speak to you about the company's performance and strategy.

KEN MOSS CHAIRMAN