2008 ANNUAL GENERAL MEETING

24 OCTOBER 2008

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

By Rod Pearse

Ladies and Gentlemen,

Thankyou for joining us at Boral's 2008 Annual General Meeting.

As the Chairman has noted in his address, we are experiencing a time of extraordinary market and business conditions. *It is not business as usual.* I find it difficult to recall a time in my working life of such volatility, uncertainty and rapid change.

The spectacular decline in US housing activity *is not business as usual.* The protracted period of under-building of housing in Australia, especially in New South Wales, *is not business as usual.* The significant increase in input costs including energy and fuel-related costs in 2007/08 *is not business as usual.* The global credit crisis *is not business as usual.* The rapid and unexpected decline in the Australian dollar since year end *is not business as usual.* And of course, climate change and the impending introduction of an Australian emissions trading scheme, are adding to the challenges of managing the business.

Whilst conditions are extraordinary, we have strategies in place to respond to these challenges. Our strategies include focused price strategies, comprehensive cost management programs, rationalisation of production to match sales demand, prioritisation and phasing of capital expenditure and disciplined focus on cash and capital management. We are working hard to maintain the right balance between short-term and long-term value creation.

Financial overview

As the Chairman has indicated, Boral's sales revenue for the year ended 30 June 2008 was 6% higher than the prior year at $5.2 billion. The growth in sales was predominantly due to increased volumes in construction materials in Australia. Revenues also benefited from price strength in most businesses and from growth activities including the acquisition of construction materials assets in Oklahoma.

Whilst sales lifted, earnings before interest, tax, depreciation and amortisation or EBITDA[1] of $688 million was down $74 million or 10%.

In Australia, EBITDA of $657 million was 9% higher than the prior year. However, offshore EBITDA decreased by $123 million or 82% to $27 million and accounted for only 4% of Boral's earnings for the year (compared with 20% a year earlier). This significant decline in offshore earnings reflects the dramatic reduction in US housing-related volumes as well as difficult conditions for Boral's construction materials businesses in Indonesia and Thailand.

Managing through a "generational" downturn in the USA

In the USA in 2007/08, dwelling starts were some 45% below peak demand in 2006. Dwelling starts are likely to fall by a further 30% in this current financial year to around 40% of sustainable underlying demand. The USA has not experienced such a severe decline in housing activity for at least 25 years.

Total US housing starts were down 27% in 2007/08 to 1.13 million compared to 1.55 million starts in the prior year. Single family housing starts, which are more important than multi residential construction for our brick and roof tile businesses, were down by a significant 35%.

In 2006/07, Boral's US operations delivered A$95 million of earnings before interest and tax (EBIT). A year later, in 2007/08, the situation deteriorated significantly. The US business delivered a loss of A$27 million, which included a A$37 million loss in the June 2008 half of the year. Significantly lower volumes and increased raw material costs contributed to the severe fall in US earnings. One-off costs associated with a specialty brick plant write-down (US$5 million) and costs to reconfigure our brick and roof tile plants (US$4 million) also impacted the result.

In response to the extreme market conditions, we have implemented a comprehensive program of plant shutdowns and slowdowns to match production with sales demand in an effort to avoid a build up of inventory. In our brick business, we have mothballed ten of our 24 brick plants. Of the remaining 14 plants, all but two are operating at slowed rates of production. Overall, our brick production is currently running around 38% of our capacity; this is down from an average of 56% in 2007/08 and 79% in the previous year. This is a similar situation for all players in the US brick business.

Plant utilisation in concrete roof tiles averaged 27% in 2007/08 compared to 48% in the prior year and around 75% in 2005/06. This month it is running closer to 20% of capacity.

[1] Excluding goodwill and tax provision adjustments.

In addition to the plant network optimisation program, we have been taking costs out of the business. The benefits from cost reduction programs when fully implemented will be US$30 million in the brick business and US$25 million in the MonierLifetile concrete roof tile joint venture. Taking only Boral's 50% share of MonierLifetile benefits, we expect to reduce costs by US$42.5 million, of which US$11 million was delivered in 2007/08 and the remaining US$31.5 million will be delivered in 2008/09. Beyond bricks and roof tiles, we have initiated a step change cost reduction program in our US construction materials businesses, which will bring some US$10 million of benefits, of which around US$3 million will be delivered in 2008/09 and the balance in 2009/10.

We are also focused on maximising price outcomes. Despite significant volume pressures we are pressing ahead with price increases in most businesses.

It is very difficult to predict the course of US new dwelling starts over the 2008/09 year. Three months ago market forecasters were expecting housing starts to be around 900,000 in 2008/09. Subsequently, fears have grown of reduced employment and of a recession which will further reduce US housing starts. Dwelling starts for September were released last week and they came in at 817,000 starts, down 31% on the prior year; dwelling permits were lower. It is possible that the market could experience average starts of around 750,000 to 800,000 starts during financial year 2008/09.

Whilst there is the short-term imperative to streamline the business to reduce costs, we are also mindful of managing the business for the longer term. We have confidence in US markets and we have good positions which have achieved strong returns over many years. We support the views of the Joint Center for Housing Studies of Harvard University, that the underlying level of demand over the next 10 years will average around 1.8 million starts per annum and we are confident that our markets and earnings will recover.

The protracted Australian housing downturn continues to impact, especially in New South Wales

Turning now to Australia. In 2007/08 156,000 new Australian dwellings were commenced. This was 15% to 20% below the required level to meet underlying demand. In New South Wales, new dwelling starts are 40% below underlying demand and are at the lowest level experienced in more than 40 years. For Boral, this has a considerable impact on earnings, because traditionally New South Wales is Boral's largest state market and represents around 40% of our Australian revenues. Detached house construction approvals in New South Wales, Australia's most populous state, are around half the number taking place in both Victoria and Queensland and at similar levels to Western Australia and South Australia; this is *not business as usual*.

Whilst activity in Victoria, Queensland and South Australia increased during the year, dwelling starts in all Australian states were below underlying demand. Further declines in New South Wales in 2007/08 together with continued weakening in the Western Australian detached housing market impacted Boral's building products and construction materials businesses during the year. We have been responding to the challenges of the protracted downturn through disciplined price management and a relentless focus on cost reduction programs. Pleasingly, despite volume pressures, EBIT from Building Products was up 15% to $114 million in 2007/08.

Since year end, we have experienced further deterioration in most Australian housing markets. Whilst market forecasters were expecting around 155,000 starts in 2008/09, increased interest rates have further reduced housing affordability and housing approvals have deteriorated to an estimated annualised rate of 145,000 starts during the September quarter.

A strategy to match production with sales demand continues. During the year, East Coast brick and roof tile plant utilisation was around 70% and inventory growth was contained. Since year end, we have closed our Grafton parquetry plant and suspended production at our Walcha timber mill as a result of the continued New South Wales downturn, softer market conditions in Queensland and increasing input costs.

Growth investments have been directed to higher growth states where there are immediate capacity limitations. Boral's new low-cost, state-of-the-art plasterboard plant on the Port of Brisbane at Pinkenba is needed to supply our current markets. The new masonry plant which is being constructed at Midland Brick in Perth, will enable us to supply market growth and will substantially lower costs and release significant land assets.

Record levels of demand for concrete in Australia

Whilst low levels of housing activity have adversely impacted Boral’s results, a very pleasing feature of the 2007/08 result was the high level of concrete demand in Australia. Boral’s concrete volumes were up by 3% during 2007/08 and Boral's EBIT from its Australian Construction Materials businesses lifted by 10% to $351 million.

National concrete demand has increased by around 40% over the past decade with current levels of demand underpinned by much needed building of infrastructure. With the exception of New South Wales, where current volumes are below where they were ten years ago, all states have been investing in major project work including roads, highways and bridges as well as mining, utility and port projects together with a range of commercial work.

Over the past eight years, around 45% of Boral's total growth spend of around $2.3 billion has gone into construction materials businesses in Australia to strengthen our leading positions and to meet growing demand. Despite this level of investment, we have been capacity constrained in some markets including cement and quarry capacity. We are continuing to invest further in these businesses, including an $85 million investment in Boral's 50% owned Sunstate Cement joint venture, to increase clinker storage and cement grinding capacity by 50% to 1.5 million tonnes per annum.

Mixed conditions across Asia

The performance of our 50%-owned plasterboard joint venture business, LBGA, improved significantly in 2007/08. A 29% increase in results from LBGA (before Australian dollars exchange rate impacts) was better than expected due to volume and price lifts as well as cost reduction and growth benefits. We continue to strengthen LBGA's leading plasterboard position in Asia through value-adding growth initiatives. A total of US$70 million has been invested in new plants in Dangjin (Korea), Chengdu (China) and Rajasthan (India) with commissioning of these plants completed in 2007/08. In August 2008, LBGA announced a further US$48 million investment in Baoshan (China). LBGA is well positioned to take advantage of solid growth in the region of more than 10% per annum in most markets.

Our concrete and quarry businesses in Indonesia and Thailand experienced challenging trading conditions in 2007/08.

In Indonesia, concrete volumes increased by 30% but prices were flat in an environment where cement and diesel costs increased significantly. We have seen significant improvements in the first quarter of this new financial year as a result of both volume and price lifts.

Political instability in Thailand constrained investment in major project work and an oversupply of cement capacity led to substantial concrete margin erosion. Significant input cost increases and a lack of pricing power resulted in a significant price/cost squeeze, which has continued during the September quarter. In Thailand, difficult conditions have continued for some time now and in 2007/08 we wrote off the $31.9 million of goodwill which arose on acquisition of the business in July 2004.

Significant energy, fuel and other cost increases

Across our entire portfolio of businesses in Asia, in the USA and in Australia, we felt the impacts of higher input costs in 2007/08 including record high energy and fuel prices. During the year, our cost base increased by around A$284 million including higher fuel and energy costs, raw materials and labour costs. This increase represents an average 6.5% increase on our compressible costs, which is a higher rate of cost escalation than any year since demerger.

We moved promptly during 2007/08 to recover these cost increases. We lifted prices by around $126 million in 2007/08 and we reduced compressible costs by around $151 million (3.4%). These price and cost initiatives together offset the extraordinary cost increases experienced in 2007/08. To protect and to enhance margins we expect to achieve higher levels of price increases and cost savings in 2008/09.

Initiatives to improve fuel and energy efficiency are continuing. For example, in the USA, a comprehensive alternative fuels strategy is underway to reduce reliance on fossil fuels and importantly to reduce costs. Boral's new Terre Haute brick plant is operating on around 80% landfill gas. Overall, 30% of our energy consumption in the US brick business is expected to be sourced from alternative fuels in 2008/09. In Australia we will increase usage of alternative fuels in our cement kilns and following successful trials we expect to increase usage of CNG in our vehicles which will reduce costs and emissions.

Global credit crisis

In recent weeks and months there has been substantial focus on how the global credit crisis might impact the US, Global and Australian economies, on the viability and behaviour of banks, and on corporate earnings and balance sheets. Boral operates businesses in 12 countries and we are not immune from these pressures.

From our perspective, we see a strong pipeline of largely government funded infrastructure work still coming through in Australia. We think these volumes are fairly secure and that broadly speaking the Federal and State governments are well positioned to maintain spending in this area.

We are however, seeing an increased rate of deferrals for some large non-housing projects in Australia including commercial, industrial, and multi-residential buildings. This is a reflection of tighter credit and higher borrowing costs.

Boral is relatively well positioned in terms of our cash flows and balance sheet. During 2007/08 we focused on improving cash management, with cash flow from operations up by $100 million to $582 million in 2007/08. Stay-in-business capital expenditure was contained to 70% of depreciation and this discipline will be maintained in 2008/09. Growth capital expenditure was $327 million in 2007/08. We will substantially reduce net growth capital spend in 2008/09 and we are tightly managing working capital.

Because of Boral's strong cash flows and balance sheet, we were well positioned to undertake value-adding capital management initiatives during the year. In April 2008, we completed an off-market share buy-back of $114 million, or 3.3% of issued shares, at $5.65 per share.

In April 2008, we completed the issuance of US$382 million of 10 and 12 year unsecured notes in the US private placement market and we utilised the proceeds to retire US commercial paper. In August 2008, we replaced a US$600 million note issuance facility expiring in August 2009 with a US$700 million facility expiring in August 2011. These moves have lengthened Boral's debt maturity and increased our committed facilities to ensure adequate liquidity.

Boral's balance sheet at year end was in good shape, with gearing (debt/equity) of 52% well within our target range of 40% to 70%. Around 75% of Boral’s debt was in US dollars which matched our US dollar assets. The 30% devaluation of the Australian dollar since year end has however increased the value of both our US assets and our US liabilities when translated to Australian dollars and it will also increase our 2008/09 interest expense. Boral’s gearing (debt/equity) has increased because of the Australian dollar devaluation and based on a 70 cent exchange rate, we expect to be around the top end of our target range at 31 December 2008. We are however well placed to meet our debt obligations with no significant refinancing scheduled until August 2011.

Managing the business in a sustainable way

We have maintained momentum around our sustainability agenda despite the external challenges faced in 2007/08.

As the Chairman has said, safety remains the highest of priorities across Boral. In 2007/08, Boral's safety performance as measured by lost time injury frequency rate (LTIFR) and percent hours lost, continued to improve. LTIFR of 2.5 for the year was an 11% improvement on the prior year, and percent hours lost also reduced by 11% to 0.08. This improved performance was pleasing. It was, however, overshadowed by the death of an employee in South Australia in a heavy vehicle accident in December 2007. We deeply regret this tragic accident and remain focused on eliminating all accidents, particularly serious workplace accidents that could risk the lives of employees and contractors.

In July 2008, the Australian Government issued a Green Paper indicating its preferred options for an emissions trading scheme (ETS) or its Carbon Pollution Reduction Scheme. The introduction of a Carbon Pollution Reduction Scheme is *not business as usual.*

We support the introduction of an ETS to reduce greenhouse gas emissions. We are however concerned about the potential unintended economic consequences of a poorly designed scheme, especially on emissions-intensive, trade-exposed (EITE) industries such as the cement industry. It is critical that Australia does not adopt an ETS and an emissions target which will undermine our competitiveness compared to trading partners who have not taken similar initiatives. If this happens it will serve to drive both investment and emissions offshore.

Boral's 2008 Sustainability Report provides shareholders with further detail about our climate change strategy and emission reduction initiatives as well as a range of other sustainability priorities.

I would like to thank Boral's employees for their efforts and for their contribution to the Company's results in 2007/08.

Outlook

I have commented throughout my address on the trading conditions experienced across Boral's portfolio in the first quarter of the year.

Construction materials profits in Australia for the September quarter were above the prior year. We expect this trend to continue during FY2009. The improved construction materials result has been driven by stronger prices and by effective operational improvement initiatives; concrete market volumes are broadly comparable with last year. Concrete and quarry prices have lifted well year-on-year as the April and August 2008 price increases flow through. Cement price increases were effectively implemented on the east coast in August and September and cement and lime volumes are up on the prior year.

Australian dwelling starts weakened to an annualised rate of around 145,000 starts in the September quarter and the performance of our Australian building products businesses was well below the prior year. Reducing interest rates and improvements announced in October 2008 to the First Home Owners Grant will over time significantly improve housing affordability but these initiatives will not favourably affect our Australian businesses until well into 2009. We expect that building product profits for the full year will be significantly below the prior year.

We expect continued growth and competitive market conditions in Asia for the remainder of FY2009. First quarter results were similar to last year and Asian earnings should be better than last year's levels.

Since year end, US housing permits and starts have continued to decline and earnings from our brick and roof tile businesses will be below last year despite the significant step change cost reductions which are being progressively implemented. Construction materials results have been adversely affected by the deterioration in US residential and commercial markets since year end and by adverse weather conditions. Full year US construction materials earnings are expected to be below the prior year.

We indicated in August that forecasters expected around 900,000 US housing starts in FY2009. Increased unemployment and recession fears have subsequently impacted negatively on US housing starts, which we anticipate could fall to around 750,000 to 800,000 starts in FY2009, which is 30% below the prior year and around 60% below the level of long term underlying demand.

Whilst there is considerable uncertainty and assuming that the US dollar exchange rate averages around 70 cents for the year, we expect Boral's profit after tax for the full year to be around $200 million. First half earnings are expected to be around 40% of full year earnings. As foreshadowed in August, QEU earnings will be weighted heavily to the second half. The benefits of significant price and cost improvements are also expected to be greater in the second half.

Thankyou for attending today. We greatly appreciate your interest and support for Boral.

ROD PEARSE
CEO AND MANAGING DIRECTOR