Boral Limited

Shareholder Review 2012

Chairman's Review

Dr Bob Every AO Chairman

The past year has been a difficult one for the Company as it continued to face tough trading conditions at the same time as dealing with significant business and organisational change.

Further adjustments to Boral's portfolio were made throughout the year in response to changed conditions. Divestments of non-core and under-performing assets continued, while a number of acquisitions strengthened Boral's core market positions. This will deliver considerable value when markets recover.

The Board believes the next phase for Boral is one of consolidation to ensure the benefits of recent portfolio restructures and changes implemented in the past two years can be realised as markets recover.

A change in leadership took place towards the end of the financial year. Mark Selway, who had driven valuable change and process improvements, stood down as Chief Executive in May 2012. At that time, Ross Batstone agreed to delay his retirement until July 2013 and to step into the role of CEO giving the Board sufficient time to do a thorough international search for Boral's new CEO. I acknowledge the excellent job Ross has done harmonising the changes that have taken place and the critical role he has played during the transition process.

In September 2012, the Board announced the appointment of Mike Kane to the position of CEO and Managing Director, effective 1 October. With two and a half years of executive experience with Boral running the USA business under extremely difficult market conditions, Mike has shown proven leadership and business improvement skills, and commitment to Boral's strategy. Mike has extensive industry experience in the USA, Europe and Asia, including 24 years in senior executive roles at USG, Pioneer/Hanson and Johns-Manville Corp.

As challenging market conditions continue, management is focused on maximising cash flow, reducing costs and improving operating margins. I look forward to working with Mike to focus on improving business performance and hence returns to shareholders.

Chief Executive's Review

Ross Batstone Chief Executive Officer

We are focused on increasing earnings and the reduction of borrowings through operating cost savings, the divestment of non-core operations and tight management of capital expenditure and working capital.

Boral's profit after tax (PAT)[1] of $101m for FY2012 was 42% below that of the prior year, while Boral's statutory net profit after tax (NPAT) of $177m, including significant items of $75m, was 5% higher.

Sales revenue of $5.0b was 6% ahead of the prior year's revenue, but excluding the impact of the acquisition of Lafarge's 50% of the Asian Plasterboard business, revenues of $4.7b were broadly steady. Price gains, together with improved volumes in the USA, were offset by volume declines across most businesses in Australia.

While the EBIT contribution from our Asian and US operations was in line with expectations, EBIT from Australian operations of $263m was $110m or 29% lower than last year and well below expectation. In the six months to June, our Australian businesses were impacted by very weak housing and non-residential building activity, combined with delays and disruption from sustained rainfall across the east coast, and lower than expected property sales. The positive impact of price increases was more than offset by much weaker sales volumes into these markets and by higher costs, including from the wet weather.

We responded to weak building demand in Australia with permanent and temporary capacity closures in bricks and roof tiles, overhead reductions, and the divestment of the Galong Lime business following the closure of BlueScope Steel's Port Kembla operation.

EBIT losses in the USA reduced by A$15m to A$84m even though housing activity continued at near historically low levels, assisted by restructuring to reduce costs. In Asia, Boral Gypsum Asia performed well, contributing A$41m of EBIT[2].

Construction Materials

Murray Read Divisional Managing Director

Revenue	$2,472m
EBIT	$174m

Boral Construction Materials (BCM) is an integrated business supplying quarry materials, concrete and asphalt across metro and regional areas throughout Australia. BCM also manages a property operation and an integrated transport business.

BCM revenues of $2.47b were up $197m or 9% on FY2011, reflecting contributions from Wagners and Sunshine Coast Quarries as well as increased pricing and participation in major projects and flood recovery work in Queensland and New South Wales. Underlying quarry and concrete volumes were both down by 2% on the prior year, while quarry prices increased by an average 11% and concrete prices were up 7%.

EBIT of $162m before property sales was down $14m or 8%, due to lower volumes in key markets and operational inefficiencies resulting from protracted wet weather across the east coast in the second half.

A combined $14m EBIT fall in Western Australia and South Australia reflected the marked decline in residential demand and a reduction in major metro projects and regional mobile plant work in Western Australia. Earnings from South East Queensland (SEQ) fell because weaker housing and non-residential volumes were replaced by lower margin SEQ infrastructure projects.

Revenue from Asphalt improved although wet weather impacted productivity and project timing.

The acquisitions of Wagners and Sunshine Coast Quarries completed in mid-FY2012, with revenues for the year in line with forecast. EBIT was down due to wet weather impacts.

Property earnings of $12m, which was $16m below the prior year, reflected the sale of surplus land at Donnybrook in Victoria, but anticipated sales elsewhere did not occur prior to 30 June.

A major program of rationalising underperforming sites is underway to lower costs and enhance returns. The business is focused on cash generation, price and margin growth, improving return on assets and building low cost quarry resource positions in high growth markets.

Cement

Mike Beardsell Divisional Managing Director

Boral's Cement division is a leading supplier of cement, lime and fly ash in Australia, and of concrete placing services in New South Wales through De Martin & Gasparini (DMG).

Revenue	$430m
EBIT[1]	$69m

Cement revenues of $430m were $12m or 3% below those of the prior year, reflecting a 40% reduction in New South Wales lime volumes, marginally lower cement volumes, and broadly flat cement prices. Revenue from De Martin & Gasparini was down despite flat volumes, reflecting a reduction in the proportion of concrete and placing package work.

EBIT of $69m was $18m or 21% below last year partly due to the loss of lime and limestone sales volumes. The significant decline in lime sales was due to the permanent closure of BlueScope Steel's Port Kembla blast furnace, which led to the closure and subsequent sale of Boral's Galong Lime plant. The completion of large infrastructure projects in New South Wales resulted in an adverse shift in cement volumes to lower margin segments. Cement margins were also impacted by increases in input costs, particularly electricity and fuel, and import parity pricing that was capped by the high Australian dollar.

The Cement division effectively leveraged LEAN principles to deliver kiln efficiency improvements during the year and is working to deliver further improvements in efficiency and safety outcomes. Lowering the cost of domestic supply to help offset the impact of constrained pricing due to the high Australian dollar and maximising the utilisation of fixed assets are strategic priorities for the Cement division.

Building Products

Bryan Tisher Divisional Managing Director

Revenue	$1,012m
EBIT[1]	$20m

Boral Building Products (BBP) is a leading supplier of plasterboard, bricks, clay and concrete roof tiles, timber and aluminium windows in Australia and masonry products in Western Australia and South Australia. Boral's windows business, Dowell Windows, is now managed under Building Products.

BBP revenue of $1.01b was $185m or 15% below that of the prior year. The decline was primarily driven by the fall in Australian housing which began in FY2011, but fell rapidly again in the second half of FY2012, when wet weather also impacted. Price increases, which averaged around 2-3%, except for softwood and woodchips where prices where softer, were insufficient to offset the significant impact of lower volumes across all products.

Sales volumes declined by 14-16% across all products, except Woodchips, which declined by 26% due to weaker exports. Sales volumes in most product groups have fallen by 25% or more since December 2010.

EBIT of $20m was $62m or 76% lower than FY2011. Approximately $80m year-on-year decline in EBIT was due to the acute decline in volumes and the associated fall in contribution margins. Inventory reductions to lift cash flow reduced earnings by $11m and "one-off" extra distribution costs of $7m during commissioning of the upgraded Port Melbourne Plasterboard plant also impacted EBIT. These factors were partially offset by higher prices and cost savings.

Not all of the benefits associated with rationalisation, restructuring and inventory reductions were captured in the year, but the costs were. After the current program of plant closures, divestments in Masonry and restructuring to lower overhead costs is completed, employee numbers in BBP will reduce by around 800 or 23%. There will also be substantial reductions in labour hire and contractor numbers.

Further initiatives to lift performance include improvement of operating efficiency from LEAN initiatives, maximising cost reductions and network improvements.

Boral USA

Mike Kane President, Boral USA

Revenue	$499m
EBIT[1]	($84m)

Boral has the number one position in clay bricks and manufactured stone veneer (Cladding), and in clay and concrete roof tiles (Roofing) in the USA, has strong market positions in construction materials in Oklahoma and Colorado, and operates a national fly ash business.

The USA operations reported revenue of A$499m, 16% above last year, reflecting the full year inclusion of the Cultured Stone joint venture and a 20% increase in housing starts, albeit from a very low base.

At the EBIT level, the USA reported a loss of A$84m compared to a A$99m loss in the prior year. US dollar losses decreased to US$87m compared with US$99m in FY2011. The year-on-year improvement was due to the modest growth in the housing market, continued head count reductions, LEAN benefits, further plant rationalisations and other cost containments.

Revenue from Cladding (bricks, cultured stone and trim) was up 34% to US$239m due to full year cultured stone revenues as well as volume increases in bricks and cultured stone. Underlying performance improved, but results continued to be impacted by low plant utilisation of 26% in FY2012.

Roofing revenues of US$101m increased by 14%, due to a 12% volume increase. EBIT from Roofing improved but the improvement was partially offset by Ione clay tile plant commissioning costs.

Fly ash and construction materials revenues increased by 7% to US$176m, reflecting a 16% increase in concrete volumes, flat aggregate volumes and lower prices. The termination and settlement of a fly ash contract also contributed to improved results.

Boral USA will continue to prepare for market recovery and growth, leveraging LEAN processes, delivering benefits from the “One Boral” strategy in the Cladding and Roofing businesses, and focusing on innovative product development.

Plasterboard Asia

Frederic de Rougemont Chief Executive Officer, Boral Gypsum Asia

Revenue[2]	$304m
EBIT[1,2]	$41m

Boral Gypsum Asia (BGA) is the leading supplier of plasterboard and internal linings products across Asia, operating 20 manufacturing sites in eight countries, trading in a further two, and exporting to more than 30 countries.

BGA's revenue of $304m incorporates 100% of revenue since 9 December 2011. Revenues in Indonesia grew strongly on the prior year due to strong economic conditions, and Thailand revenue lifted, reflecting organic growth and volumes associated with post-flood reconstruction in Bangkok. Revenues from China grew less than expected due to a slow-down in construction activity, while in Korea revenues lifted on plasterboard penetration in the residential sector, despite some share loss following price competition in the last six months.

EBIT of $41m includes a part year post-tax equity contribution and 100% fully consolidated EBIT since December 2011. Underlying EBIT increased due to improved volumes and sustained margins. Earnings were impacted by market factors in China and Korea and "one-off" costs of integrating the Shandong acquisition. These factors are not expected to have a sustained impact on earnings growth.

Plasterboard capacity lifted in FY2012 both through acquisition and through organic expansion. In China, capacity in Chongqing was increased as the first step towards expanding capacity from 13 to 43 million m^2 by October 2012, and a new 35 million m^2 plant in Shandong was acquired in December 2011, providing increased capability to service the Beijing and Tianjing markets. In Indonesia, an additional 30 million m^2 of capacity currently under construction at the Cilegon plant will be operational by early 2013, enabling increased supply to the Jakarta market. In Vietnam, an additional 30 million m^2 of capacity currently under construction at the Ho Chi Minh City plant is progressing in line with expectations.

The introduction of LEAN will facilitate further capacity increases at all plants with minimal investment and will provide efficiency improvements and cost reductions more broadly across BGA in FY2013.

FINANCIAL RESULTS

Sales revenue of $5.0b was 6% ahead of last year, reflecting Boral's acquisition of Lafarge's 50% interest in the Asian Plasterboard business (BGA). From 9 December 2011, there was a change from equity accounting of Boral's 50% share of BGA to full consolidation of revenues and earnings. Excluding this impact, revenues of $4.7b were broadly steady. Price gains across Australian businesses, contribution from acquisitions and increased volumes in the USA offset Australian volume declines.

Boral's earnings before interest and tax (EBIT)[1] declined by 28% or $77m to $200m, reflecting the fact that while price increases offset higher costs, they could not also offset the impact of significant volume declines.

Profit after tax (PAT)[1] of $101m decreased by 42% on the prior year's PAT of $175m. Boral's net profit after tax (NPAT), after significant items, of $177m was 5% higher than last year, reflecting net significant items of $75m.

Despite the decline in EBIT, EBITDA[1] of $473m was just 9% below last year, reflecting continued strong underlying trading cash flows.

Boral's net debt of $1,518m is $26m lower than at 31 December 2011. Based on Boral's gearing covenant under its bank facilities (debt to debt plus equity less intangibles), Boral's 40% level at 30 June 2012 remains well within the threshold under its bank facilities of less than 60%. Based on Boral's current strategy and plans, the Group does not anticipate any need for additional equity raising in the short to medium term.

At a glance

Revenue	$5.01b	▲	UP 6%
EBITDA[1]	$473m	▼	DOWN 9%
EBIT[1]	$200m	▼	DOWN 28%
Profit after tax[1]	$101m	▼	DOWN 42%
Net profit after tax	$177m	▲	UP 5%
Net debt	$1.518b	▲	UP FROM $0.5b
Gearing, D/(D+E)	31%	▲	UP FROM 14%
Full year dividend	11.0c	▼	DOWN 24%

BORAL LIMITED

ABN 13 008 421 761

The Shareholder Review provides a snapshot of Boral's operations and financial highlights for FY2012. For a more comprehensive analysis of the Company's performance, financial position and future prospects, please consult the full 2012 Annual Report. Information about Boral's sustainability practices and performance is available in the Annual Report.

The report can be downloaded from the Boral website at www.boral.com.au, or printed copies can be ordered from Boral's Share Registry by telephone 02 8280 7133 or international +61 2 8280 7133.

BORAL LIMITED
Level 39, AMP Centre
50 Bridge Street, Sydney
GPO Box 910,
Sydney NSW 2001
Telephone: (02) 9220 6300
Facsimile: (02) 9233 6605

Share Registry
c/- Link Market Services
Level 12, 680 George Street
Sydney NSW 2000
Locked Bag A14,
Sydney South NSW 1235
Telephone: (02) 8280 7133
Facsimile: (02) 9287 0303
Email: boral@linkmarketservices.com.au

1 Excluding significant items. Profit before significant items is a non-IFRS measure reported to provide a greater understanding of the underlying business performance of the Group. Full details of significant items are contained in Note 4 of the Financial Statements.
2 Results and revenue consolidated post 9 December 2011.