

2008 ANNUAL GENERAL MEETING

24 OCTOBER 2008

business conditions. *It is not business as usual.* I find it difficult to manage
such volatility, uncertainty and rapid change.

The spectacular decline in US housing activity *is not business as usual.*

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 EBITDA¹ 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

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.

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

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

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