



Mike joined Boral in February 2010 as President Boral USA, and in that role he has demonstrated excellent leadership and business improvement skills, having substantially improved the underlying US business during extremely difficult market conditions. Mike was a member of the senior leadership team that formulated Boral's strategy in 2010 and has spent the past two and half years realigning Boral's US business, including integrating two key strategic acquisitions, which have strengthened Boral's position for when the US housing market recovers.

With extensive industry experience in the USA, Europe and in Asia, Mike spent 24 years in senior executive roles with US Gypsum, Hanson/ Pioneer and a number of other building construction materials companies. We have confidence in Mike's ability to deliver required improvements and enhanced shareholder returns.

On behalf of the Board, I would like to thank Ross Batstone for his excellent stewardship as Chief Executive Officer during the transition period as well as his contribution in other senior roles at Boral over the past 21 years. Ross stepped into the role of Chief Executive Officer in May 2012 to allow the Board time to undertake a comprehensive search for a new CEO. Ross will continue to work with Mike and assist with projects in the coming months before his planned retirement in July 2013.

Following Ross Batstone's appointment to CEO in May 2012, Bryan Tisher moved into the role of Divisional Managing Director of Boral Building Products. Bryan was Executive General Manager of Timber since 2007 and has 14 years of executive experience with Boral, including seven years as Boral's General Manager Corporate Development.

Rounding out the senior leadership changes, Al Borm has been appointed as Mike Kane's successor in the position of President Boral USA. Having joined Boral in the role of President Boral Roofing in the USA, Al has extensive industry experience in the US building and construction industry including logistics, marketing, sales, business development and general management roles with US Gypsum, Hanson Building Products America and CRH.

## **Financial performance**

Now turning to Boral's financial performance for the year ended 30 June 2012.

Boral was impacted by a significant decline in Australian residential activity, particularly in the second half of the financial year, and sustained rainfall on the east coast of Australia. The business also continued to deal with the sustained deep downturn in the USA.

Boral's sales revenue of \$5.0 billion compares with \$4.7 billion last year. Excluding the impact of the acquisition of Lafarge's 50% of the Asian plasterboard business in December 2011, when Boral began consolidating revenue and earnings, revenues of \$4.7 billion were broadly steady. Price increases in Australia combined with volume improvements in the USA offset volume declines across most Australian businesses.

Profit after tax before significant items (PAT) of \$101 million was down 42% on the prior year. Boral's net profit after tax (NPAT), after \$75 million of significant items, was \$177 million, which was a 5% increase on the prior year.

Earnings before interest and tax (EBIT) of \$200 million before significant items declined by 28%. Operating cash flow of \$133 million was \$218 million below last year due to higher interest payments, prior year tax refunds and higher acquisition and restructuring costs.

A fully franked final dividend of 3.5 cents was paid on 28 September 2012, bringing the full year fully franked dividend to 11.0 cents per share, compared with 14.5 cents in FY2011. This represents a payout ratio at the top end of our historical range of 60-80%.

To help maintain Boral's capital structure the Dividend Reinvestment Plan (DRP) was underwritten in respect of the interim and final dividends, with shares under the DRP issued at a 2.5% discount to the market price. The take-up of the DRP for the interim and final dividend combined was 48%.

I am aware that many shareholders are disappointed by the reduction in Boral's dividend and Boral's performance more broadly. The Board and management agree that Boral's performance needs to improve.

### **Operating results and strategic responses**

While external factors have been significantly impacting Boral's results, with the Australian housing market running at cyclical low levels of demand and US housing starts remaining at historically low levels, we are pursuing longer-term sustainable improvements and more immediate opportunities in the shorter-term to improve our cash generation and reduce debt.

In Australia, Building Products' results declined substantially in the second half of FY2012 as a result of the severe drop in residential construction activity. Housing starts for the year were down 11% to 140,000 starts and in the second half were at an annualised rate of 129,000 starts. This compares to 157,500 last year and 165,500 in the year to 30 June 2010. These may not appear overly large reductions but in high fixed cost businesses like ours, marginal demand can have a large impact on profit.

Building Products revenue of \$1.01 billion was 15% below the prior year, with sales volumes declining between 14% and 16% in plasterboard, bricks, roofing, masonry, hardwood and softwood timber. Sales volumes in most product groups have fallen by 25% or more since December 2010. EBIT from Building Products was \$20 million for the year. This reflects higher fixed unit manufacturing costs as a result of lower volumes, one-off higher distribution costs while the Port Melbourne plasterboard plant upgrade was being commissioned and the impact of de-stocking to lift cash flow.

Decisive action has been taken in Building Products in response to changed market conditions. We have reduced Boral's Australian brick and roof tile production capacities and are exiting underperforming businesses to make Building Products more profitable through the cycle.

Permanent closures and mothballing of high fixed cost and low utilisation plants have resulted in a 37% reduction in installed brick capacity and a 20% reduction in roof tile capacity. The exit of the loss making East Coast Masonry business will reduce Boral's masonry capacity by 70%. As a result of this restructuring, employee numbers in Building Products will have reduced by around 800 or 23% over the past 12 months.

In Boral's largest division, Boral Construction Materials, despite an increase in revenue, EBIT of \$174 million was down \$30 million due to reduced property earnings, lower volumes in key markets and operational inefficiencies resulting from wet weather in the second half of the year.

Boral completed the acquisition of the construction materials assets of Wagners and

