



ANNUAL GENERAL MEETING RESULTS, 31 OCTOBER 2014

Managing Director's Report

by Mike Ka

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Earlier this year I also outlined that securing access to the Gypsum business was a key priority. We believe that investment in this business would eventually make E

Over the last year, we have addressed the following initiatives to achieve \$105 million¹ in annual overhead cost reductions and \$15 million in capital expenditure to below \$300 million. The divestment of the sale of surplus land, the reformatting of the strategic plasterboard and Gypsum business to world-leading technology, and the East and West Australian operations to substantially strengthen Bo

The portfolio remains strong. Key changes implemented over the last year include the construction materials business in Australia, the construction materials agreement to sell its Win product for a consideration cl

Other significant changes in the past year to strengthening at Waurin Ponds in wood distribution in Queensland and South West Australia.

¹ Australian dollars unless stated otherwise

We have streamlined the organisational structure from six to four reporting divisions, which has improved collaboration, reduced costs and duplication, and is supporting more efficient decision-making and accountability.

Addressing these priorities is fundamental to delivering on our “*Fix, Execute, Transform*” program – to transform Boral into a high performing Company that delivers attractive shareholder returns and is known for its world class performance and product innovation.

It will take several years before we achieve the transformation we are planning for Boral but we have started on our path. In addition to fixing the business, we have also been focused on implementing the culture change program required to improve the way we ‘Execute’ our plans and initiatives to deliver best practice performance throughout our operations. This involves engaging our workforce and using what we call the Levers of Change, which encompass the Boral Production System, Sales & Marketing Excellence, Innovation and Safety to continue to improve the way we operate.

USG Boral joint venture

Over the past year Boral considered a range of technology solutions for its Gypsum business, undertaking an independent assessment of all available technologies and competitors to determine the best commercially available options. This undertaking culminated in Boral's announcement two weeks ago to form a strategic plasterboard and ceilings joint venture with USG.

I am very excited about this joint venture which will deliver significant long-term value for Boral shareholders; it combines USG's enviable world-class and game-changing technology platform with Boral's leading manufacturing and distribution position in Australia and Asia, creating a substantial competitive advantage that can't be replicated.

USG is the largest plasterboard manufacturer in North America and has a long history of technological innovation in its product offering with over 2,000 patents lodged in the past decade alone. USG has led every major industry innovation and introduced their technology solutions to a number of mature and developing markets. The joint venture will have exclusive, royalty-free access to USG's technologies across the Middle East, Asia and Australia including its superior performing, lower weight products in plasterboard, joint compounds, mineral fibre ceiling tile and grid. In addition the joint venture has exclusive distribution rights to Fiberock™ gypsum fibre board and Durock® cement board.

The combined business is expected to benefit from substantial synergies which will ramp up over time and are expected to exceed US\$50 million per annum within three years of the new technologies being rolled-out across Boral's operations. The technology upgrades will be implemented over two years and require a capital investment of around US\$50 million which will be funded through cash flows generated by the joint venture. The new technologies will deliver manufacturing and freight cost savings as well as revenue enhancements. Synergies are also expected from sales of USG's complementary products through Boral's existing sales channels.

The market response to USG's superior lightweight, high strength plasterboard has been rapid and positive in both developed and emerging markets, with USG preserving its share and margin gain opportunity. We are confident of replicating this success in Asia, Australia and in the Middle East.

Continuing to manage costs down

Looking now more closely at ongoing improvements and the inflationary headwinds we are facing, particularly in Australia.

It is imperative that Boral continues to improve the management of its cost base, as inflationary cost pressures are significant. Each year we face inflationary cost pressure of approximately \$100 million in Australia alone. For example a 3% wage increase across Boral's Australian employee base represents an annual cost increase of around \$25 million. In addition, we expect that our energy bill in New South Wales and Victoria will increase by around \$7 to \$8 million over the next two years as we renew gas contracts, and other energy and fuel cost increases could add a further \$6 to \$7 million this financial year. These energy cost pressures may be somewhat alleviated by the proposed repeal of the carbon tax in FY2015, which is currently costing Boral \$15 million per annum in unrecovered costs.

The previously mentioned \$105 million in cost reduction initiatives undertaken are only the first phase of a broader cost reduction program. After exhausting the more obvious opportunities of cost savings through overhead reductions, we have now commenced the second phase of our cost cutting initiative which is largely focused on contractor spend, as well as consolidation of office accommodation and back office efficiencies in our Australian operations. This initiative, which is in addition to Boral's ongoing annual procurement programs, is anticipated to deliver cost savings of \$45 million per annum within two years, with cost savings of around \$25 million expected in FY2014.

Identifying and delivering contractor spend savings has involved us scrutinising over 800 supply contracts accounting for around \$300 million of our cost base in Australia to ensure

FY2013 Divisional performance, trading update and outlook

Turning to the performance of our businesses including the trading conditions in the first quarter and the outlook for the remainder of FY2014.

Construction Materials & Cement

Boral Construction Materials & Cement, which accounted for 60% of Boral's revenues in FY2013, achieved an 8% increase in revenues on the prior year, and a 16% increase in EBIT to \$281 million. The division's strong performance benefitted from increased resources and infrastructure work, a full year contribution from prior year acquisitions and \$28 million in property earnings which were up \$16 million on the prior year.

In April 2013 the Cement business ceased clinker manufacturing at Waurin Ponds, with clinker subsequently imported through the Port of Geelong. This is expected to deliver significant rationalisation benefits in the current financial year.

In the Quarries business, significant progress was made in the \$200 million Peppertree Quarry project in New South Wales which encompasses a state of the art quarry, manufactured sand operation and integrated rail network. This 'generational' investment will deliver around 100 years of hard rock and sand into the Sydney market. Practical completion is expected in the March 2014 quarter with full production anticipated in FY2015 to align with the completion of quarrying at Penrith Lakes.

In the first quarter of this financial year we have seen broadly steady overall market demand levels in Australia. Demand in residential construction strengthened in New South Wales and Western Australia, offsetting a modest decline in Victoria and a stagnant market in Queensland. Non-residential and infrastructure demand, including roads and highways, was

is continuing into next year and Barangaroo is a multi-year project. We are currently also at post tender and pre-atly also at

Boral USA

In Boral USA, the continued US housing recovery as well as ongoing cost reduction programs resulted in a 23% improvement in EBIT to a loss of A\$64 million in FY2013. Volume growth however continued to be lower than expected due to an adverse mix shift in the type of housing construction and geographic sales mix.

Boral USA performance in the first quarter of this year was broadly in line with expectations despite lower than expected housing activity. US total housing starts were at 887,000² annualised for July and August 2013, up 19% on the prior corresponding period. Earnings benefited from improved volumes in Cladding and Roofing and continued cost reduction programs.

The housing recovery has more recently taken a slight pause while the US Government negotiated its way through the latest US debt ceiling crisis. A breakthrough to profitability in late second half FY2014 remains contingent on a continued strong growth trajectory in housing starts to around 1.1 million in FY2014 as well as an improvement in the proportion of single family dwelling starts and custom home builder activity.

Group performance and concluding comments

In summary, we continue to expect significantly reduced losses from Building Products and Boral USA, improved underlying earnings from Boral Gypsum and ongoing strong results from Construction Materials & Cement.

We anticipate an improved return on funds employed, despite the shift to equity accounting Boral's 50% in the Gypsum joint venture expected from January 2014.

We are encouraged that the cultural transformation at Boral is well underway with clear signs that our safety culture has embraced the full engagement of the workforce supported by our LEAN manufacturing productivity tools. We are actively pursuing a Sales & Marketing transformation where market metrics and strategic account management are complementing our long-standing deep customer relationships.

We have planted a flag in the innovation space by a far-sighted technology play in the plasterboard business showing that at Boral innovation and technology will play an increasing role in our long term thinking about Boral's place in the built environment.

Finally, our senior management team has fully embraced the concept that as leaders we must deliver on our commitments when faced with obstacles; we adjust and identify steps to deliver on these commitments by other means. This sounds easy – but it is not. Execution is the hallmark of leadership – and at Boral we are building a new reputation for delivery.

I will now hand back to the Chairman who will take us through the formal business of the meeting.

² Seasonally adjusted data from US Census