2009 ANNUAL GENERAL MEETING

28 OCTOBER 2009

CHAIRMAN'S ADDRESS

By Dr Ken Moss

Ladies and Gentlemen,

Thank you for your attendance and for your continuing support.

I don't need to tell you that we have had a challenging 12 months – everyone in the industry has.

The past year has seen major upheaval in global markets, resulting in the worst economic downturn since the Great Depression. And although we have been shielded from the worst in Australia, companies like Boral that have grown internationally have been hard hit – locally as well as overseas.

Nevertheless, we are coming through the downturn in good shape, as I will explain now in more detail.

Financial performance in challenging markets

During the year ended 30 June 2009, Boral's financial performance and share price was significantly impacted by the global economic downturn.

Boral's sales revenue of $4.9 billion for the year ended 30 June 2009 was down 6% on the prior year, reflecting the impact of significant volume declines which were only partially offset by price increases. Earnings before interest tax depreciation and amortisation (EBITDA) of $539 million was down 22%, as a result of the significant impact of lower volumes on Boral's high fixed cost operations. Boral's underlying profit after tax of $131 million was down 47% and our reported net profit after tax of $142 million compared with $243 million in the prior year.

A number of significant items were reported with a net profit impact of $11 million. The significant items included a $27 million after tax profit arising from the sale of Boral's 17.6% shareholding in Adelaide Brighton Limited and a $64 million favourable reduction in tax provisions. These favourable significant items were largely offset by $63 million of after tax impairment charges in relation to US construction materials, an Australian precast concrete panels business, idle US and Australian brick production assets, and land and capitalised project costs in Australia and Asia, as well as a $17 million after tax expense in relation to contractual obligations to purchase fly ash in Florida where market conditions are limiting product sales.

With the exception of the Australian roads and infrastructure market segment, which remained strong, all of Boral's major markets deteriorated significantly during the financial year, particularly in the second half of the year. Boral's building products and construction materials businesses were adversely impacted by the significant downturn in the Australian dwellings markets and the decline in non-dwellings.

Boral's Australian revenues were down 5% to $4.1 billion and EBITDA of $573 million was down 13% on the prior year.

Our business in the USA has been severely impacted by the country's recession. In financial year 2009, Boral's US revenues were down 33% to US$406 million. Housing starts in the USA were down 42% to around 650,000 starts versus 1.13 million in the 2008 financial year and 2.1 million housing starts at the peak of the market in 2006. With sales volumes well below the breakeven point of the business, we reported an EBITDA loss of US$45 million compared with a US$10 million profit in the prior year. In Australian dollars, the US business reported a A$61 million loss for the year.

Despite a slowing of activity in Asia due to the global recession, Boral's Asian operations performed relatively well during the year, delivering A$30 million of earnings compared with $16 million in the prior year, due to price gains and cost reductions.

To help mitigate the impacts of the considerable volume pressures experienced across Boral's businesses, extensive cost reduction programs, disciplined price management, capacity rationalisation and substantial lowering of capital expenditure continued throughout the business. Price and cost improvements were a positive feature of the result. A strong focus on managing the business for cash was also a positive feature for the year, which supported Boral's relatively strong balance sheet but contributed to the lower reported profits.

Rod Pearse, in his address, will provide an update on trading conditions in the first quarter of this year.

Strong balance sheet

Boral's net debt of $1.51 billion at 30 June 2009 was $670 million lower than the net debt of $2.18 billion at 31 December 2008. Gearing (debt/equity) decreased from 79% at 31 December 2008 to 55% at 30 June 2009.

While gearing was high at the end of the first half of the year, this largely reflected the translation impacts of a low Australian dollar on our US dollar denominated debt.

Fortunately, unlike many other companies, we did not raise capital for liquidity or for balance sheet repair purposes. Recognising however, that Boral's gearing at the end of December was above our target range of 40% to 70%, we implemented plans to lower debt and reduce gearing from 79%. We have focused on strengthening cash flows from operations and lowering capital expenditure. We also divested Boral's 17.6% stake in Adelaide Brighton, which provided an after tax profit of $27 million and around $205.5 million of cash. A 16% appreciation of the AUD/USD exchange rate at 30 June 2009 compared to 31 December 2008 also contributed to the reduction in gearing to 55%, which is at the mid-point of Boral's target range.

I should point out to shareholders that the Board would consider raising equity to fund a value-creating growth acquisition. However, at this point in time, despite the economic downturn, asset prices remain high.

Shareholder returns

We were able to avoid raising equity during the year. If we needed to raise equity, we would have had to do so at a substantial discount to the share price. To have done so would have resulted in a significant dilution of shareholder value with the share price being as low as $2.40 in March 2009.

We did however, lower dividends because of the lower earnings outcome and to assist in conserving cash. A fully franked final dividend of 5.5 cents per share resulted in a full year fully franked dividend of 13.0 cents. This was substantially lower than the 34.0 cent dividend which has been paid out of earnings over the past four years. The interim and final dividend combined however, represents a pay-out ratio of 58% of underlying after tax earnings, which compares with an average of around 60% of earnings over the past nine years. This is in line with our new dividend policy announced in early 2009 of a 50% to 70% pay-out ratio of after tax earnings (excluding significant items) subject to there being no significant deterioration in Boral's financial circumstances in any particular year.

For both the half year and full year dividends, shares issued under Boral's Dividend Reinvestment Plan (DRP) were issued at a 2.5% discount to the market price. The take-up of the DRP lifted from around 30% to 41% for the half year and remained at around 40% for the final dividend. This initiative assisted in further preserving cash during the year.

Boral's share price declined by 25% in 2008/09, from $5.46 at the start of July 2008 to $4.07 at 30 June 2009, as a result of the global financial crisis (which was similarly experienced by most other companies). Since year end however, Boral's share price has increased by more than 50%, closing at $6.22 on Monday of this week. This is 34% above where it was at last year's AGM.

Importantly, through the cycle, Boral has delivered substantial shareholder value. Boral's total shareholder return (TSR) from share price appreciation and dividends has been around 16% per annum since the demerger of the company in January 2000 through to the end of September 2009; this is in the upper half of TSR returns for ASX100 companies over the period.

Remuneration

At Boral's 2008 Annual General Meeting, the Board committed to undertake a fundamental review of executive remuneration practices in Boral. We completed this review with the assistance of an independent adviser, Ernst & Young. We concluded the process with a comprehensive stakeholder engagement program, involving members of the Remuneration Committee and other Board members meeting with representatives of retail and institutional investors and governance advisory firms.

We have taken into consideration the expectations of our shareholders and the broader community as well as the need to appropriately remunerate our people in a competitive marketplace. We have also had contractual commitments in place with our outgoing CEO, which were approved overwhelmingly by shareholders in 2004.

Boral's remuneration policies and practices are focused on linking performance and reward while taking into consideration the particular challenges that a cyclical company like Boral presents. For example, in the past year there has been greater emphasis on measuring performance and rewarding executives for improved cash flow management than profit performance, which during the downturn is critically important for the Company and for shareholders.

In addition to the changes in structure and policy that the Board has made as a result of the formal remuneration review, we also introduced a number of remuneration restraint initiatives during the year in response to shareholder concerns and the current economic challenges impacting Boral's profitability. These restraint initiatives include:

- **a salary "freeze" for the CEO, Management Committee and other senior executives from September 2008 through to September 2010;**
- **the CEO and Management Committee voluntarily forgoing their short term incentive entitlements for 2008/09; and**
- **a "freeze" on Directors' fees from July 2008 through to July 2010.**

Rod Pearse's actual remuneration received in the 2009 financial year was 40% lower than his remuneration received in the prior year, reflecting the fact that Rod volunteered to forgo his contractual short-term incentive entitlement. Given the base salary paid to Rod is a contractual amount, the forfeiting by Rod of the STI component of the package addressed concerns expressed by some shareholders that the quantum of the CEO's remuneration was too high.

Mr Pearse's fixed remuneration is part of his five-year employment contract, which comes to an end in December 2009. The Board has recognised that more contemporary CEO remuneration practices are required going forward. The remuneration package for the incoming CEO, effective 1 January 2010, will have a lower level and proportion of base pay and a higher proportion of 'at risk' remuneration. The base salary for the incoming CEO, Mark Selway, will be $1.75 million.

As you would be aware, when Mr Pearse retires from Boral, he will be entitled to an end of service restraint payment worth $4.5 million, which will be paid not in one lump sum but in installments over a 15 month period from 31 December 2009. During that time Mr Pearse will not be able to become an employee, adviser or a director of a competing company.

While this end of service restraint payment is a contractual commitment that received shareholder approval in 2004, Mr Pearse has volunteered to limit the payment by forgoing the component that relates to the financial objective of the short term incentive portion of the payment. Mr Pearse has also elected to forgo this entitlement in his remuneration for his final six months of service.

Boral's stakeholders hold a range of views on the best measurements to use for long term incentives for executives and the nature and period of testing. The Board has taken into consideration the different perspectives and made a judgement on the most appropriate incentive structure for Boral.

We concluded that the relative total shareholder return or TSR measure is the most appropriate measure for Boral's long term incentives (LTIs). Relative TSR is market-based, reflecting dividend growth payments and share price growth, which provides a direct link between shareholder returns and executive rewards. Other measures are too dependent on the market cycles and do not align with shareholder returns as well. For those shareholders who believe that internal measures are more appropriate, Boral uses the internal measure of profit after funding for short term incentives (STI), and therefore the Board did not feel that an internal measure was also needed for the LTI.

The Board has changed the testing regularity of the LTI hurdle to better reflect market practice. Our LTI testing has changed from continuous testing during the three to seven year vesting period (subject to a 10 trading day minimum requirement) to testing at three specific test dates based on three, five and seven year performance periods using the weighted average volume share price during the 60 trading days prior to the test date to determine relative TSR performance. This applies to the LTI grant made in 2008 and to subsequent grants.

Since demerger, around 60% of the LTI tranches that have reached a testing date have vested; the last grant to vest was a proportion of the 2003 LTI grant, reflecting the cyclical downturn of recent years.

Safety and sustainability

During the year, Boral's non-financial performance was pleasing, including safety and environmental performance.

Boral's lost time injury frequency rate (LTIFR) for employees per million hours worked was 1.8, which was a 28% improvement on the LTIFR of 2.5 delivered in the prior year. Contractor safety management also improved significantly with an LTIFR of 2.4, which was 58% better than the prior year. This improved safety performance was better than our targeted performance improvement; however, it was tragically overshadowed by the death of an employee in Indonesia who was fatally injured in a heavy vehicle accident involving two concrete agitators in November 2008. This employee fatality was a tragic reminder of the risks we need to manage every single day and the importance of continuing to focus our efforts on ensuring a safe workplace for all of Boral's people.

The Board received comprehensive reporting from the business and face-to-face discussions about the fatality including reporting on the follow-up actions to minimise the risk of a similar accident occurring anywhere else in the Company. The Board also reviews all divisional Health and Safety Plans. We approve safety improvement targets and we regularly monitor performance against target for all divisions.

Further details about Boral's safety performance and environmental and social impacts are included in Boral's 2009 Sustainability Report, which can be found on the reverse side of the Annual Review. Boral's Sustainability Report has again been independently reviewed under the globally recognised AccountAbility sustainability standard AA1000.

Management and Board Changes

Shareholders are aware that a number of key management and Board changes are taking place in Boral over the coming months.

In June 2009, Rod Pearse announced his intention to retire at the end of December this year, when his second five year contract comes to an end. Rod joined Boral in 1994 and has been CEO and Managing Director since the demerger of the Company in January 2000.

On behalf of the Board, Boral's shareholders and Boral's employees, I would like to acknowledge and congratulate Rod for his achievements as Boral's CEO over the past decade. Rod has been with Boral for almost 15 years, ten years as CEO and Managing Director. While Rod is retiring at a time when Boral's earnings are cyclically weak, he has successfully reshaped Boral into a focused building and construction materials company that has performed very well through the cycle.

Rod has delivered strong improvements in pricing and in the underlying performance of the business as well as continuous improvements in safety and sustainability outcomes. Under Rod's leadership, around $2.5 billion has been invested in growth initiatives, which has seen Boral's production capacity, resource positions and distribution networks strengthen as well as step-outs into new markets and geographies. Rod is leaving Boral in a very strong position, with the company poised to deliver superior performance as markets recover.

On 16 September, the Board announced the appointment of Mark Selway as Boral's incoming CEO and Managing Director effective 1 January 2010.

Mark joins Boral from the UK, where he has been the Managing Director of the Weir Group, an engineering supply company, for the past eight years. Mark is an Australian who has spent the past 20 years working in the UK and the USA in the industrials and automotive sectors. He has a successful track record as a CEO operating in cyclical markets with particular capabilities in best practice manufacturing and portfolio growth through geographic expansion and innovation.

While Mark does not take over the role until 1 January 2010, over the coming weeks he will spend time with Rod and Boral's senior management team to develop a deeper understanding of Boral's businesses and the challenges and opportunities presented.

In appointing Mark as Boral's new CEO, the Board was in the fortunate position of also considering some very strong internal candidates for the role. While we saw considerable value in Mark's previous CEO record, this should not take away from the strength of Boral's management team.

Over the past decade all appointments to Boral's Management Committee have been internal appointments, with the exception of Margaret Taylor who became Boral's General Counsel and Company Secretary in November 2008. During the past year, Nick Clark, Mike Beardsell and Warren Davison were also appointed to Boral's Management Committee. Nick Clark joined Boral in 2003 and is now Executive General Manager of Clay & Concrete Products; Mike, who joined the Company in 2001, is now Executive General Manager of Boral's Cement division; and, Warren, who has been with Boral since 1998 is Executive General Manager of Boral's Construction Related Businesses. These three appointments followed the resignation of two long-serving Executive General Managers earlier in the year.

On behalf of Boral's shareholders and the Board, I thank all members of Boral's Management Committee together with the rest of Boral's 20,500 employees and contractors for their contribution and commitment to the Company during the year. It has been a challenging time for everyone in the Company, particularly as production curtailments and cost cutting has resulted in a reduction in employee and contractor numbers.

Following Rod's decision to retire, I was asked by the Board and I agreed to seek re-election as Boral's Chairman to provide continuity during the change of CEO. If re-elected, I intend to stay on as Chairman until May 2010, at which time I will retire from the Board and Dr Bob Every will become Boral's Chairman. Bob was appointed Deputy Chairman of the Board in July 2009 in preparation for transition to Chairman in May 2010.

In July 2009 we also announced that John Cloney will retire as a Director at the end of this Annual General Meeting. John joined the Board in 1998 and was Chairman of Boral's Remuneration Committee for five and a half years until July 2009. Over the past 11 years, John has made a major contribution to the governance and strategic direction of Boral. We will miss his wise counsel and steadying influence. On behalf of Boral's Board and shareholders, I thank John for his significant contribution and wish him the very best for the future.

We are well advanced in the process of seeking a new director to replace John, and we expect to make an announcement about a new director in the coming weeks. That person will of course be required to stand for election at next year's Annual General Meeting.

In the appointment of a new director, the full Board performs the functions of a Nomination Committee. The selection process includes obtaining assistance from an external consultant to identify suitable candidates and to assess potential candidates. We aim to ensure that any new director to the Board possesses an appropriate range of skills, experience and expertise to enable the Board to carry out its responsibilities most effectively. Each specific appointment focuses on the requirements at the time with overall consideration of Board renewal, succession plans and diversity. In the case of a replacement for Mr Cloney we are looking for a director with operational experience, preferably in a manufacturing or resource based environment.

As you know, Elizabeth Alexander was a member of our Board for many years, and we would like to see greater diversity on Boral's Board. Unfortunately the pool of potential candidates for directors with operational management experience is under-represented by women.

We are trying to increase the number of women represented in our industry. Boral is recognised as an Employer of Choice for Women by the Federal Government's Equal Opportunity for Women in the Workplace Authority. This government agency monitors how employers manage their female workforce and formally recognises those organisations with Equal Opportunity programs that recognise and advance female employees. We have a range of policies, training programs and career opportunities in place to support female staff. Women occupy 9% of Boral's management positions, which is too low but it is generally higher than the construction industry average which was reported as 6.5% by the EOWA last year.

I will now invite Mr Pearse to address the meeting. As indicated earlier, Mr Pearse will provide an update on the trading conditions experienced in the first quarter of this year. He will also take the opportunity to provide some reflection of the position that the Company is in as he approaches the end of his ten year CEO tenure. While Rod will be retiring, he of course will continue to have an interest in the Company's performance as a shareholder and because his long term incentives remain tied to the Company's performance for the next five years.

We all look forward to recovering markets and improved returns from Boral.

KEN MOSS
CHAIRMAN