# 2013 ANNUAL GENERAL MEETING
# THURSDAY, 31 OCTOBER 2013

## Chairman's Address

### by Dr Bob Every AO

Welcome ladies and gentlemen and thank you for attending Boral's 2013 Annual General Meeting.

The financial year 2013 was another difficult year for the Company but, a great deal of change has occurred at Boral since last year's Annual General Meeting. The Company's portfolio has continued to be realigned, the organisational structure has been streamlined, the size of the workforce has been reduced, and earlier this month we announced that we will form a world-leading plasterboard and ceilings joint venture with USG Corporation (USG) in Asia, Australasia and the Middle East. These initiatives are shaping a more responsive organisation, better positioned to deliver acceptable returns to shareholders through the cycle.

At last year's Annual General Meeting, Mike Kane, Boral's then newly appointed CEO & Managing Director, set out immediate priorities to improve Boral's performance in line with the Company's '*Fix, Execute, Transform*' program. As a result, a detailed review of overhead costs led to the reduction of more than 800 positions in the organisation which is expected to deliver $90 million[1] in annualised costs savings from FY2014; total capital expenditure was reduced below $300 million; and $173 million of cash was generated from divestments and the sale of surplus land out of a two year target of $200 - $300 million. These results, delivered by Mike and his senior executive team, are commendable.

As mentioned, Boral recently announced a strategically significant US$1.6 billion plasterboard and ceilings joint venture with USG that will transform Boral's Gypsum business. The 50/50 joint venture, *USG Boral Building Products,* combines Boral Gypsum's leading plasterboard manufacturing and distribution footprint across Asia and Australia with USG's best-in-class building products technologies and strategic assets in Asia, New Zealand and the Middle East.

This is a very important transaction for the Company that will bolster Boral Gypsum's market leadership position for the long-term across Asia, Australasia and the Middle East. Combining USG's game-changing technology platform and expertise with Boral's gypsum asset positions and distribution channels will create a formidable competitive advantage and significant synergistic opportunities. This underpins Boral's goal of achieving long-term growth in Asia, one of the fastest growing plasterboard regions in the world.

---

[1] All amounts are in Australian dollars unless stated otherwise.

Importantly, the transaction not only positions the Gypsum business for accelerated future growth but also significantly strengthens Boral's balance sheet. In order to achieve an interest of 50% in the joint venture, USG will make an upfront cash payment of US$500 million to Boral on transaction completion, which is expected in January 2014. Boral also has the potential to receive earn out payments of up to US$75 million within five years following deal completion.

The majority of the US$500 million cash payment will be used to reduce Boral's debt with other capital management options to be considered following receipt of the funds and subject to market conditions.

Mike will provide further detail and his perspective on the transaction in his address.

**Financial Performance**

Now turning to the financial results for the year ended 30 June 2013 (FY2013).

The combination of cyclical low levels of activity in key markets, increased competition and unfavourable shifts in demand, a high Australian dollar and $15 million in unrecovered costs associated with the carbon tax resulted in financial results for FY2013 that were disappointing.

While Boral benefited from strong levels of resources and infrastructure work in Australia, this was offset by continued soft Australian detached housing demand and challenging market conditions in some of our key Asian markets. In Australia, although total housing starts increased by 11% to 161,000, detached housing starts increased by 4% in FY2013 and remain cyclically low, at 12% below the prior ten year average[2]. In Asia, although we are confident of the strong projected growth trajectory in the majority of our key markets, FY2013 was a relatively slow growth year as we saw a pause in construction markets in South Korea, China and Vietnam.

In the US, while housing starts improved by 28% to 876,000 starts in FY2013[3], this remained 42% below the long term average of 1.5 million starts. New housing construction also remained biased towards lower cost production homes where the intensity of Boral products per housing start is lower.

Revenue for FY2013 of $5.29 billion was 6% higher than the previous year, assisted by a full year contribution from the acquisitions of Lafarge's 50% interest in the Asian Gypsum business and South East Queensland concrete and quarries in the prior year. Earnings before interest and tax (EBIT) of $228 million before significant items increased 14% on the prior year. A strong increase in earnings from Construction Materials & Cement and reduced losses from Boral USA were largely offset by a significant reduction in earnings from Building Products in Australia.

Profit after tax before significant items (PAT) of $104 million was 3% above last year. The Group reported a net loss after tax of $212 million, after recognising $316 million of net significant items.

---

[2] Source: Australian Bureau of Statistics data
[3] Source: US Census data, September 2013

Before tax, significant items totalled $434 million and included $399 million in asset impairments as a result of capacity rationalisation and permanent structural industry changes predominately in Australia. These impairments comprised $209 million in Building Products as a result of closures and structural declines in Bricks, Timber and Windows, $160 million in Construction Materials & Cement for the suspension of clinker manufacturing at Waurn Ponds, the Berrima colliery and a write-down of land development costs, and finally $30 million in Boral USA to realign North American roof tile capacity and loss on sale of the Oklahoma sand and concrete operations. A further $60 million related to organisational restructuring and redundancy costs in order to simplify the business structure and improve operational efficiency.

The Board believes the restructuring initiatives and asset impairments were an appropriate response to global and domestic industry changes and provide a realistic asset value from which to measure future performance.

Earnings per share of 13.6 cents[4] were in line with last year. EBIT return on average funds employed (ROFE)[4] remained at 4.7% and remains unacceptably low. A key objective for Mike and his executive team is to significantly improve Boral's ROFE to 15% in the longer term. The Board has implemented changes to senior executive remuneration structure which align incentives with achievement of ROFE, which I will touch on shortly.

Operating cash flow of $294 million increased by $161 million on the prior year as a result of increased earnings, improved working capital management and lower acquisition and restructuring costs. Capital expenditure was held at $294 million with $111 million of stay-in-business and $183 million of growth expenditure. Despite strict capital allocation measures, we have continued to invest in projects that are essential to achieving our future growth objectives. We invested $85 million in the $200 million Peppertree Quarry project which is expected to be completed this financial year and US$25 million of the approved US$47 million in our Asian plasterboard capacity expansions in Indonesia, Vietnam and China. In FY2014, it is anticipated that while total capital expenditure will remain around $300 million, growth capital will be constrained and stay in business expenditure will increase.

**Capital management**

Net debt at 30 June 2013 of $1.45 billion was down from $1.52 billion at 30 June 2012 with the reduction achieved through improved operating cash flows and tight capital allocation measures. Gearing (net debt / net debt + equity) of 30% was down from 31% last year.

A fully franked final dividend of 6.0 cents was paid on 27 September 2013, bringing the full year fully franked dividend to 11.0 cents per share, in line with last year's total dividend. This represents a pay-out ratio at the top end of our historical range of 60-80% which the Board believes is appropriate taking into account Boral's future expected performance.

For shareholders, the dividend represented an annualised dividend yield of 4% per annum (after franking) on Boral's average share price of $4.08 for the year to 30 June 2013.

[4] Excluding significant items

### Executive remuneration structure

During the year, the Board approved a number of significant changes to the remuneration arrangements for senior executives in order to more closely align incentives with key business objectives, thereby enhancing the alignment of shareholder and executive interests. Brian Clark who is Chairman of the Remuneration and Nomination Committee will provide an overview of these changes later in the meeting.

Of particular note is the introduction of return on average funds employed (ROFE)[5] as a second performance hurdle under the long-term incentive plan to senior executives to enhance focus on improving returns on invested capital. The long-term incentive grant of performance rights in respect of the financial year 2014 has a three year ROFE target of 8.0%. This target requires ROFE to increase markedly in three years and is on a trajectory to our ultimate goal of exceeding the average (pre-tax) cost of capital over the building cycle, which broadly aligns with a ROFE target of 15%.

### The Board

The composition of Boral's Board has remained unchanged in FY2013, with the exception of the appointment of Mike Kane as CEO & Managing Director.

Eileen Doyle, Richard Longes and I are standing for re-election today and we will discuss our credentials during the formal part of this meeting. Richard is standing for re-election on the basis that he will serve as a Director for a further term of 12 months through to Boral's 2014 Annual General Meeting. The Board has commenced the process of selecting and appointing a new Director during the coming year.

### Renewed management team

Under Mike Kane's leadership, a number of senior management changes occurred during the year.

Joseph Goss was appointed Divisional Managing Director of the newly combined Boral Construction Materials & Cement division. Al Borm became President of Boral USA, and Darren Schulz was appointed Executive General Manager of Boral Building Products. Frederic de Rougemont continued in his role as Divisional Managing Director but his portfolio was expanded to include the Australian plasterboard business which was consolidated with the Asia Gypsum business into a single division, Boral Gypsum. Frederic has been appointed CEO of USG Boral Building Products effective on the start of the joint venture.

Following year-end Rosaline Ng was appointed as Boral's Chief Financial Officer, replacing Andrew Poulter who left Boral for personal reasons.

The Board has confidence in Boral's management team, which collectively has significant global industry experience and the necessary skills to deliver on Boral's strategy.

Although there is significantly more work to be done for Boral to deliver acceptable returns to shareholders through the cycle, the Board is pleased with the marked progress made during

---

[5] EBIT to average funds employed

the year in strengthening the company's future competitive position through the '*Fix, Execute, Transform*' program.

Mike Kane will now provide further detail on the progress made in delivering on Boral's priorities as well as discuss the Group's operational performance and outlook for the remainder of this financial year.