



# Media Release

6 July 2010

## **Boral sets new strategic direction as a platform for growth**

### **Key Points**

- **Completion of comprehensive strategic review of Boral's business portfolio, operations and structures**
- **MonierLifetile acquisition and major investments proposed in Australian quarries and plasterboard businesses**
- **Operational efficiency program and organisational restructure provides platform for market leading returns**
- **\$289 million impairment (\$224 million post tax, predominantly non-cash) of under-performing and obsolete assets**
- **Proposed capital raising of approximately \$490 million to finance investments and growth and to strengthen the balance sheet.**

SYDNEY - Boral Limited (ASX:BLD) announced today the completion of a six month review, which will result in major strategic and organisational changes designed to capitalise on the Group's strengths and provide a strong platform for growth.

The Chief Executive, Mr Mark Selway, said the review had clearly identified the core investment priorities for Boral as cement and construction materials in Australia, plasterboard in Australia and Asia, and bricks, roof tiles and masonry both in Australia and in the United States.

Mr Selway said that an increased focus on core markets and geographies combined with improvement in productivity and efficiencies should lead to growth in margins, reduced working capital and improved customer service.

"The review has been very comprehensive and has crystallised the markets and geographies where the Group has the potential to achieve long term growth and deliver sector best returns," he said. "The improved focus has allowed the Group to simplify our internal structures and several key organisational changes have been made to help facilitate the execution of our plans."

Mr Selway said Boral would recognise a charge of approximately \$289 million to reflect the impairment of assets identified during the review as under-performing, as well as older, high-cost facilities in the USA, including four obsolete brick plants.

He said the Boral Board had approved a capital raising of approximately \$490 million to support future capital investments and growth, including the strategic acquisition of the remaining 50% of Boral's US concrete roof tile business, MonierLifetile, for US\$75 million and the proposed investment of circa \$280 million into key Australian assets which will enhance Boral's market positions in NSW and Victoria. The capital raising would also strengthen Boral's balance sheet.

“By strengthening our core operations and balance sheet, the Group will have the financial flexibility and competitive advantage to capitalise on opportunities across each of our divisions and geographies, and in the process, improve shareholder returns.”

“The initiatives we have announced today are fundamental steps in our strategy to improve the performance of the Group - and to free up capital in readiness for long-term market growth,” he said.

“This is the first stage in the Group’s strategy aimed at reinforcing our foundations and building a platform for growth and enhancing value for our shareholders.”

## **LAYING THE FOUNDATIONS**

### ▪ **Review findings in summary**

Boral has completed a comprehensive review of its portfolio and identified those businesses with attractive through the cycle returns and competitive advantages which have potential to deliver market leading performance.

Cement and construction materials in Australia, plasterboard in Australia and Asia, and bricks, roof tiles and masonry both in Australia and in the United States will be the focus of the Group’s future investment priorities.

### ▪ **Organisational changes**

Mr Selway also announced a number of initiatives to simplify the business and improve the operational effectiveness of the Group.

The new operating structure will comprise five divisions each with an Executive General Manager reporting directly to the Chief Executive. The reduction from the current seven divisions is expected to result in a more efficient organisation better equipped to deliver available synergies across geographic and divisional boundaries.

The five divisions and relevant management under the new Boral structure will be:

- Boral Construction Materials - Murray Read
- Boral Cement - Mike Beardsell
- Boral Building Products - Ross Batstone
- Boral USA - Mike Kane
- Boral Construction Related Businesses - Warren Davison

### ▪ **Asset impairments**

The strategic review also identified a number of poorer performing assets and assets which could derive greater value from alternative ownership. Management have evaluated the appropriate carrying value of these assets and also taken the decision to shut a number of obsolete and inefficient plants. These adjustments will result in an exceptional non-operational impairment of \$289 million, including \$34 million of cash costs.

Included in the \$289 million impairment is a \$14 million restructuring charge in FY2010 resulting from the Group’s organisational restructuring and efficiency initiatives. These initiatives are expected to generate cost savings from 2011.

The impairment costs include adjustments required following a retest of the carrying values of under-performing businesses, a review of obsolete and excessive inventories and a write-down of under-utilised and redundant equipment.

## REINFORCING THE CORE

### ▪ Core Australian assets

Boral's future strategy will include investment in its core Australian construction materials, cement and building products assets which have a proven history of generating attractive returns through the cycle.

Subject to receiving final Board approval (which will be sought later in 2010), the Group proposes to invest circa \$200 million over the next three years in the Peppertree quarry project near Marulan, including associated rail transport infrastructure. The new quarry will underpin the Group's leading position in the Sydney aggregates market.

The Group has also announced an investment of circa \$80 million in its Melbourne plasterboard plant. Once commissioned, the plant will have sufficient installed capacity to service growth in the southern states of Australia. This investment is expected to return in excess of the cost of capital.

### ▪ Investing in the US

Boral's strategy includes a commitment to ongoing investment in the US market and today announced that it has agreed to acquire the balance of 50% interest it does not own in MonierLifetile for US\$75 million.

Mr Selway said: "The MonierLifetile acquisition represents excellent value for Boral in a market that has been hit hard by the housing downturn but which we expect will recover over the next two to three years. The investment in MonierLifetile highlights our commitment to our US business for the long term."

While MonierLifetile is currently loss-making, the business is expected to return to profitability as the market recovers. The combination of MonierLifetile with Boral's clay roof tile business is expected to generate pre-tax synergies of circa US\$3 million per year from 2012.

### ▪ Streamlining our operations

Operational excellence is a Group objective, in line with the Group's philosophy that meeting and exceeding customer expectations plays a direct role in earnings growth. This year the Boral senior executive team has engaged the entire organisation in the Group's vision, putting in place actions designed to deliver excellent operational performance. Mr Selway said: "We remain absolutely convinced that in doing so the Group will unlock its potential to deliver best in sector customer satisfaction and financial returns in the medium term."

The implementation of the Boral Production System as a structured process, with company-wide training, is already beginning to deliver a leaner culture and discipline across all Boral's operations, irrespective of product or geographic location.

The Group's drive for operational excellence should lead to improved working capital, lower inventories and improved on-time delivery.

### ▪ Developing world class products

All of Boral's divisions have now completed the early work on developing more focused product portfolios aimed at the most attractive markets. The first range of new products will be launched in 2011 and a commitment has been made to further investments in research and development for the coming year.

Mr Selway said: "I am confident that the technical and intellectual talent already in place at Boral, coupled with a deliberate and systematic approach to innovation, will enhance the Group's competitive positioning in the near term."

## EXPANDING FOR GROWTH

### ▪ Capital raising to fund investments and future growth

To support the future growth of its core businesses, Boral has today announced a fully underwritten 1 for 5 accelerated renounceable entitlement offer (AREO) to raise gross proceeds of approximately \$490 million at an issue price of \$4.10 per share.

Net proceeds from the equity raising will be used to acquire MonierLifetile and fund a significant investment in the Melbourne plasterboard operation. The proceeds will also be used to develop the Peppertree quarry in NSW.

## EARNINGS GUIDANCE

At Boral's interim results in February 2010, the Group indicated its expectation that full year net profit after tax would be broadly in line with the then prevailing consensus of \$123.5 million. Based on unaudited management accounts, the Group expects full year net profit after tax, excluding the impairment charges announced today, to be within the range of \$123.5 million to \$132 million.

## CONCLUSION

In conclusion, Mr Selway said "As Boral moves forward into the new financial year with the foundation stones of our transition substantially laid, and the necessary tools in place to roll out best practice across the Group, we are ideally placed to accelerate growth. Our operational plans are tightly linked to our ambitions for progressive delivery of world-class products, operational excellence and market leadership. Structurally we will benefit from the focus on our core activities providing a clearer vision of the substantial potential for organic growth and inter-divisional collaboration as and when market conditions improve.

While the uncertain economic climate will have an impact, particularly in the first half of the FY2011 year, Boral is well positioned even in these difficult market conditions. The actions taken from the strategic review provide a strong platform for increased growth and earnings when external conditions improve."

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**Important Notice**

This release is not an offer or an invitation to acquire Boral securities. In particular, this release does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States or to, or for the account or benefit of, any 'US person' as defined in Regulation S under the US Securities Act of 1933 (Securities Act) (US Person)). The Boral shares to be offered and sold in the capital raising referred to herein have not been, and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to any US Person without being so registered or pursuant to an exemption from registration.

**Forward-looking statements**

This release contains forward-looking statements. The words "forecast", "estimate", "likely", "anticipate", "believe", "expect", "project", "predict", "outlook", "guidance", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Forward-looking statements in this release include statements regarding our strategy, future operational and financial results, synergies from acquisitions, future projects, the results of the capital raising and the use of proceeds therefrom. You are cautioned not to place undue reliance on forward-looking statements. The forward-looking statements, opinions and estimates provided in this release are based on assumptions and contingencies that are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Forward-looking statements are subject to known and unknown risks and uncertainties, there can be no assurance that actual outcomes will not differ materially from forward-looking statements and readers are accordingly cautioned not to place undue reliance on these forward-looking statements. Boral assumes no obligation to update or revise these forward-looking statements to reflect any change in expectations or assumptions.

**Stock lending and other transactions**

Boral has been granted a waiver by ASX so that, in determining shareholder entitlements under the entitlement offer, Boral may ignore any changes in security holdings that occur after the commencement of the trading halt (other than registration of transactions that were effected through ITS before the halt).

Accordingly, a person who is a registered Boral shareholder at 7pm on 9 July 2010 (the Record Date) as a result of a dealing after the commencement of the trading halt (other than registrations of transactions that were effected through ITS before the halt) may not be entitled to receive an entitlement under the entitlement offer.

If a Boral shareholder has existing Boral shares out on loan at the Record Date, the borrower will be regarded as the shareholder for the purposes of determining entitlements under the entitlement offer (provided that those borrowed securities have not been on-sold).