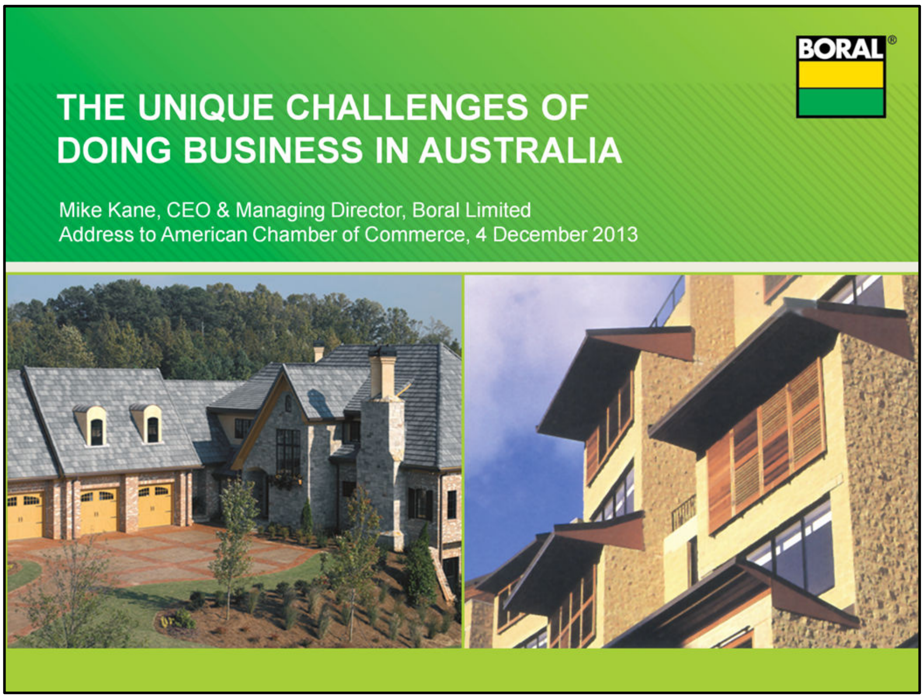


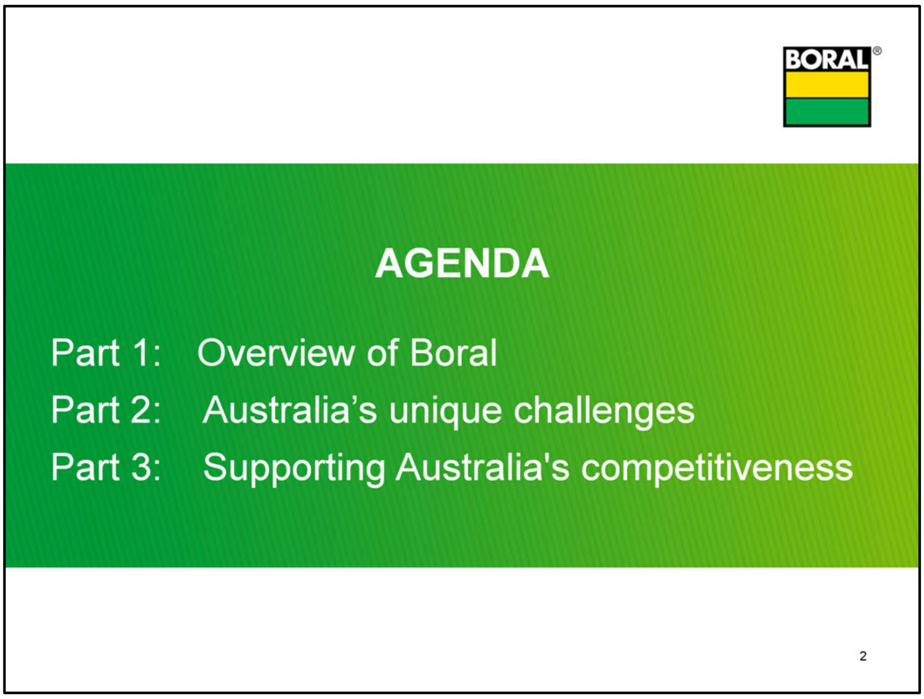
Thank you Graeme. Ladies and Gentleman – it's an honour to be here – thank you for joining us.

As Graeme has said I have spent 20 years of my career visiting Australia on and off but just over a year ago I made the move to Sydney. My wife and two of my six children joined me about six months ago.

Living in Australia provides quite different insights compared to flying in and out for business. In many respects it has been very easy to transition to living like an Australian. Australia is an extraordinary country, full of potential with a welcoming people open to new ideas and new challenges.

But if you live here you may not be as acutely aware of just how incredibly expensive it is to live in Australia by any global standards. For example, when I was signing up to a rental property in Sydney I thought I had agreed to a relatively high monthly rent but it was actually the rent that I had to pay weekly.

Of course the higher costs contribute to making Australia a harder place to do business relative to other geographies around the globe and that is what I would like to focus on today.

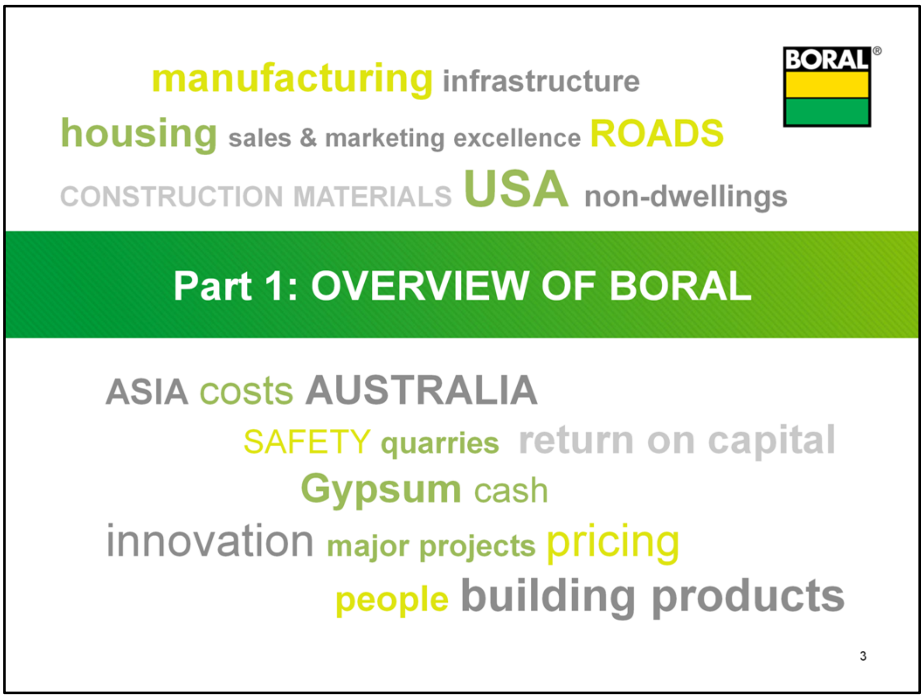


My address highlights some of the challenges I have found in Australia over the past year.

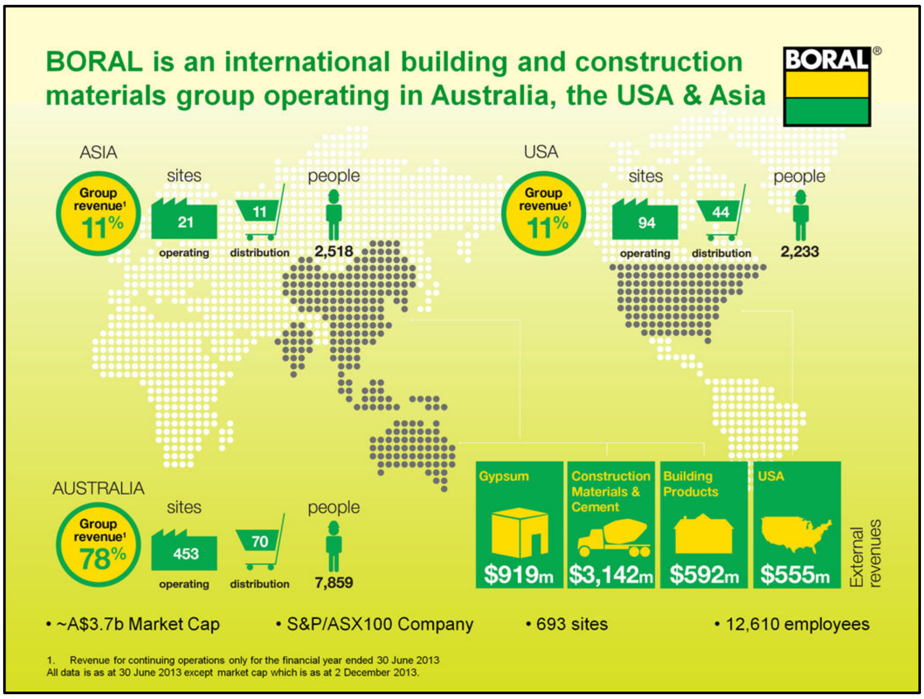
Unaffordable housing, the slow rate of land releases, high energy costs and supply uncertainty, wage inflation, industrial relations, the carbon tax, the high and recently volatile Australian dollar, low population levels making it difficult to deliver economies of scale, high transport costs, and so on.

There is more government intervention than I am used to but less government support for domestic producers than I would expect.

There is a lot more that could be done by government to support Australia's competitiveness and before closing I will offer some modest suggestions of where governments' efforts should be better focused.



But before I talk about the challenges of doing business in Australia and the opportunities for improvements, I will provide a brief overview of Boral and let you know what's been keeping us busy for the past year. This should provide some context for the rest of the address.



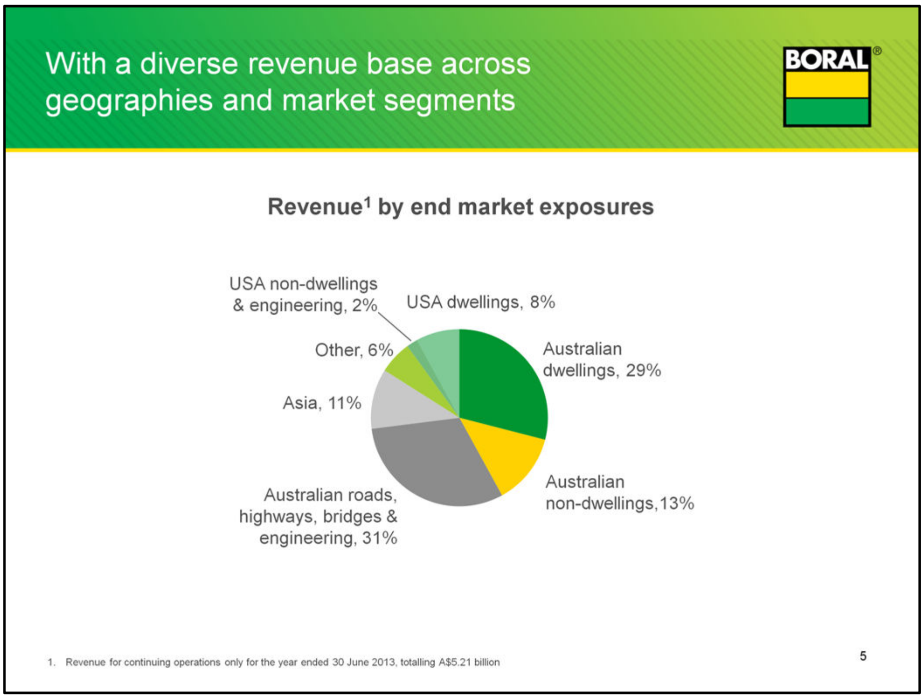
With just over 12,600 employees working across almost 700 sites, Boral is an international building and construction materials company with operations in Australia, the USA and Asia.

Our largest division is Construction Materials in Australia – the wheel-house of Boral. We have around 100 quarries, 240 concrete plants and 50 asphalt plants. With a significant cement business and leading resource positions around the country we are a highly integrated materials supplier.

We also have a Building Products business in Australia – currently our smallest division – made up of Bricks, Roofing and Timber. Later in my address I will use the Bricks business in Australia to illustrate the challenges facing Australian manufacturers and to show just why this business is a shrinking part of Boral's portfolio.

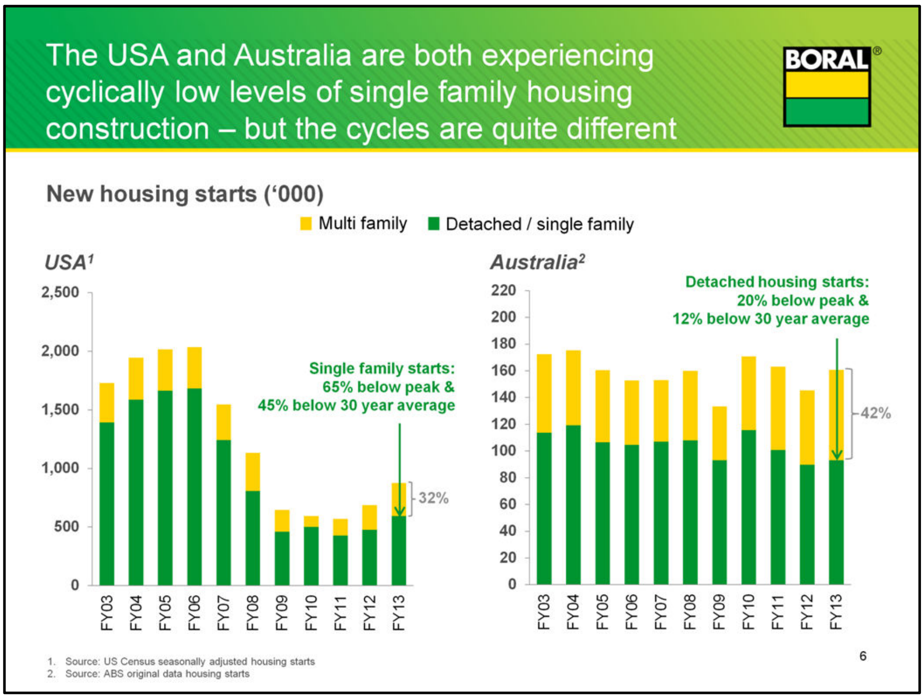
In the USA, we are the country's #1 clay brick player. We are also the #1 roof tile manufacturer and we have a leading cultured stone and fly ash business in North America.

Our Gypsum or Plasterboard business in Australia and Asia is our growth platform for the future. We recently announced the formation of a Plasterboard and Ceiling Joint Venture with USG in Asia, Australasia and the Middle East which will bring together USG's world-leading technologies with our enviable geographic footprint to create a formidable business in the region.



Currently around 22% of Boral's revenues are derived from the USA and Asia and over time we aim to grow the contribution of earnings from outside Australia so that it is more balanced geographically.

In Australia, around one-third of our total group revenues are underpinned by roads, highways and engineering project work; 29% from dwellings (both detached and multi-residential housing construction); and 13% from non-dwelling commercial construction.



In the USA housing activity fell by 72% from the peak in FY2006, with single family housing starts, which drive the majority of our business in the US, down by 65%.

In the USA we have been losing money for the past five years and if the recovery stays on track, we are hopeful of breaking through to profitability toward the end of this financial year.

I joined Boral and took over running the US business in early 2010 when things were about as bad as they could possibly be.

In response to the market crash we permanently closed around 45% of our brick plants, reduced our workforce by around 60% and focused on taking as much costs out of the business as we could. We now have a far more streamlined and efficient business, with strong potential for earnings uplift as the market recovers.

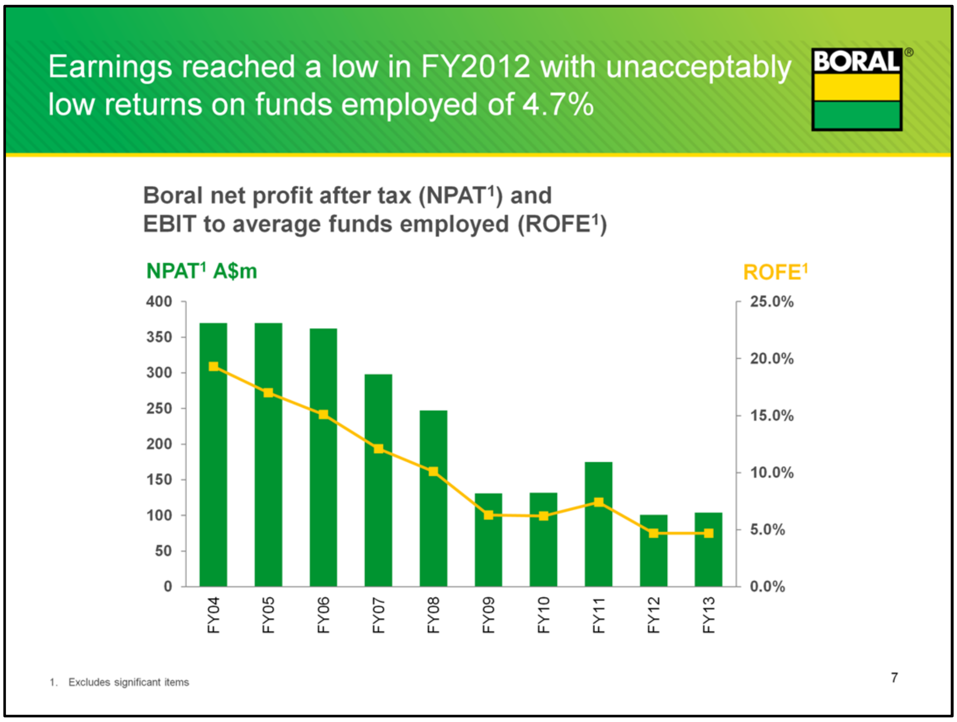
In Australia, the housing cycle has been low but the difference between the highs and lows of the Australian cycle are much smaller than in the USA.

Last year in Building Products in Australia we delivered a $40 million EBIT loss despite detached housing starts only being 20% below peak levels. This means there are a lot of other challenges facing the business in Australia.

Multi-family construction – by that I mean apartments and townhouses – is currently 42% of the new housing construction in Australia, and there is no sign of that reducing. This is not helpful for our building products business.

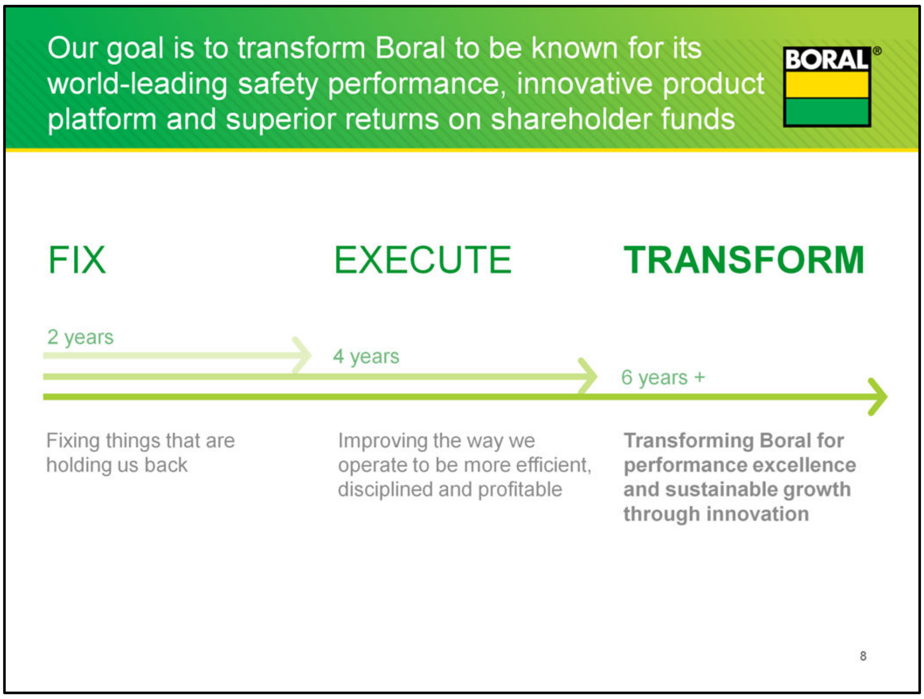
Affordability, land availability and lack of transport infrastructure are driving the structural increase in higher density housing in Australia, which is on a collision course with demographics as population is expected to double in the next 60 years suggesting an urban density problem of the first order.

Multi-family construction in the USA is currently at 32%, which is relatively high for the USA but there are clear signs that it is a cyclical rather than structural phenomenon in the US. A return to the mean as the recovery unfolds should see a more balanced 75/25 split between detached and multi-family construction.



In FY2012 Boral's group net profit after tax excluding significant items was only $101 million and EBIT return on average funds employed reached a low of only 4.7%.

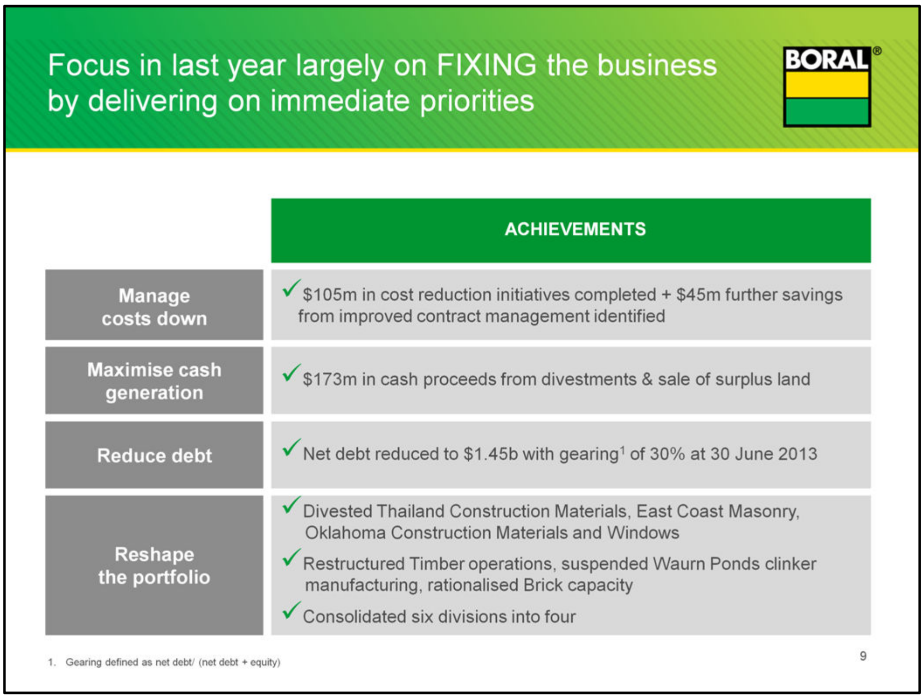
Not surprisingly, 12 months ago when I became CEO, I set some significant targets around reducing costs, generating cash and conserving capital.



These initial priorities were part of a two year plan to FIX the business.

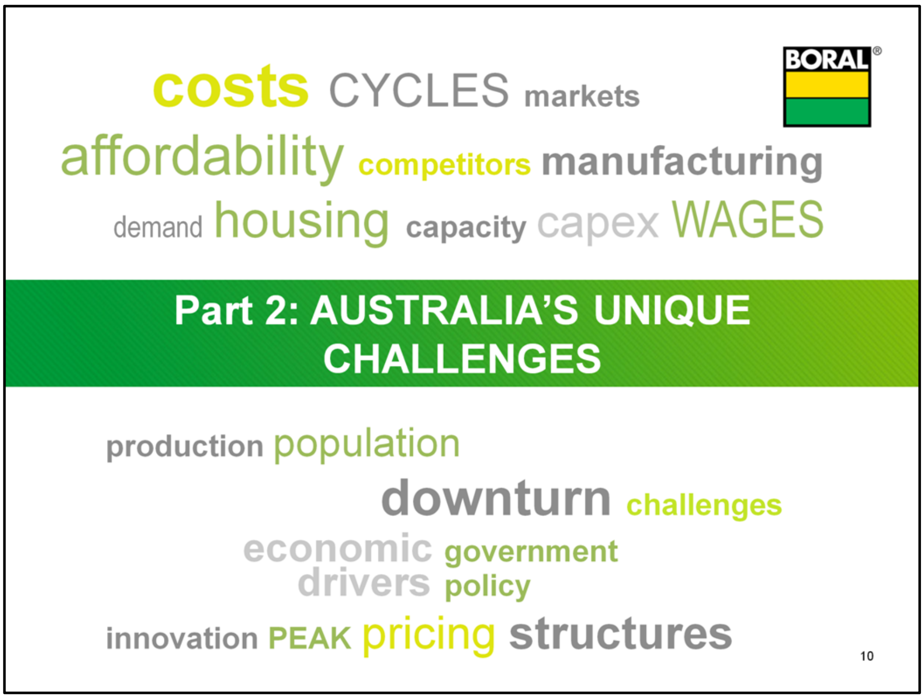
We have strengthened our focus on improving the way we operate to remove inefficiencies and ensure a more disciplined approach to the way we EXECUTE our daily work activities.

And ultimately we started a longer-term process to TRANSFORM Boral into a company known for its world-leading safety performance, innovative product platform and superior shareholder returns.



With our immediate focus on FIXING the business:

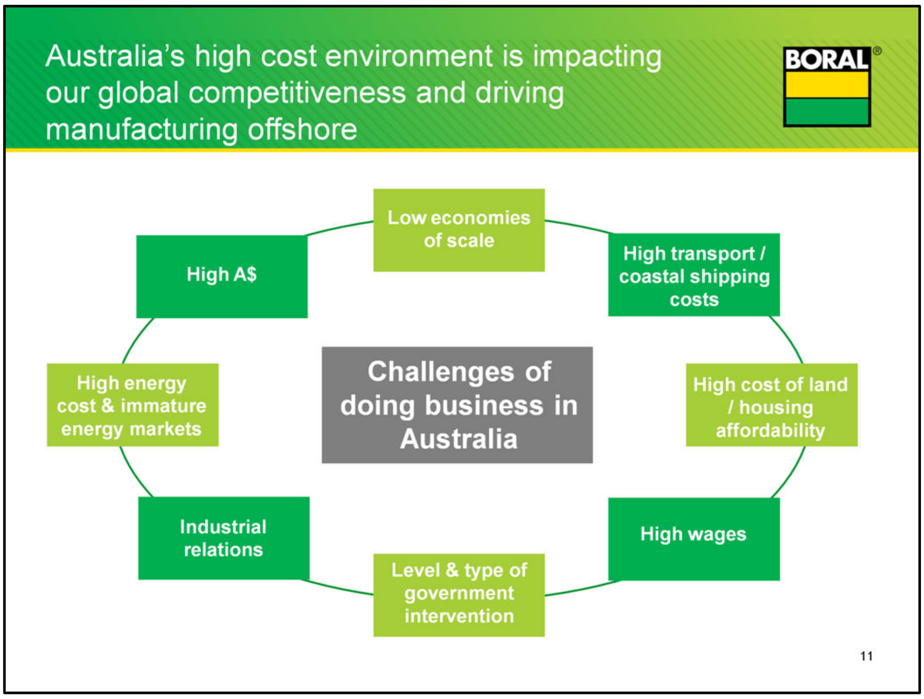
- We have taken $105 million of costs out largely through the removal of over 1,000 positions in the Australian business.
- We have also identified a further $45 million of savings, for a total of $150 million, coming from a second phase of cost reductions focused largely on contract management.
- As at 30 June 2013, we had generated $173 million in cash from divestments and surplus land in the first year of our two year target of $200-$300 million.
- We set a goal of holding capital expenditure below $300 million per annum last year and to do the same this year, helping us to reduce overall debt levels.
- In addition to divestments, we have restructured and rationalised operations to realign the portfolio and simplify our business.
- We have also progressed the TRANSORMATION of Boral by finding a technology partner in USG, ensuring our Gypsum growth platform is supported by innovation for the future.
- And of course the Joint Venture with USG will also deliver US$500 million of cash to Boral on completion currently expected to be at the end of January 2014, which will see our net debt levels down to around $900 million. An additional $US75 million will come to us in structured payments from USG if the joint venture achieves certain earnings targets.



That's a snapshot of our business and where we are at in our program to transform Boral.

So let me now turn to some of the issues facing us in Australia and the things that make doing business here uniquely challenging.

And let me say that while I will use Boral as an example throughout my discussion, these issues apply more broadly across industry and Australian manufacturing.



Australia's large land mass, relatively small population and isolation creates the obvious challenges of doing business here. It makes it extremely difficult to achieve competitive **economies of scale**.

For example, in Australia the country consumes about 10 million tonnes of cement each year and the industry currently produces around 70% of that domestically. In China cement production is exceeding 2.1 billion tonnes. Apart from the economies of scale in China that keep the costs down, the high Australian dollar is making it increasingly attractive to import cement from lower cost producers in Asia.

And to make it even clearer that Australia isn't the place for manufacturers, **cabotage restrictions** which limit competition from foreign flagged vessels in Australia means the costs to ship cement, clinker or gypsum from one port to another within Australia can be more expensive than shipping from China.

Protecting domestic shipping from overseas competition assists the local shipping industry at the expense of Australian manufacturers and industry and ultimately the wider community.

To add to Australia's challenges, throw in a **carbon tax**, high **energy costs**, energy supply uncertainties, prohibitive alternative fuel standards – we get the message!

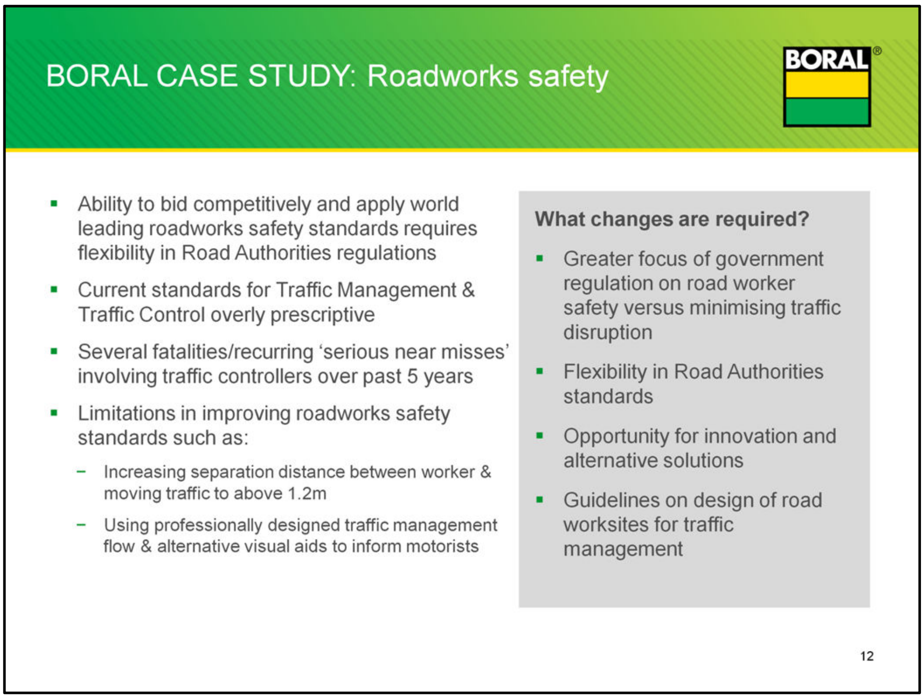
High wages and wage growth in Australia are difficult to manage. For Boral, a 3% increase in wages and salaries in Australia adds around $25 million per annum of costs. Considering we only made $104 million of after tax profits last year, an annual wage increase of $25 million is extraordinarily high – and that's after we reduced the number of employees by around 1,000.

The **high cost of land** and the **high cost of home ownership** require wages to be high and it also makes it expensive to do business. In the USA, the land value of our brick operations is low (immaterial), but in Australia over the past decade a number of brick plants have closed because there is more value in the underlying land holding. Absent improvements, I suspect we will see more of this.

The **Industrial Relations** framework is also challenging in some areas. In general, we have very strong workplace relations and our employees enjoy very good pay conditions.

But in Victoria we have been subjected to illegal secondary boycott activity by the CFMEU and despite going through the courts numerous times and receiving injunctions, the CFMEU appears to have disregard for the rule of law in this country. Moves by the current government to restore the balance are encouraging but change can't come fast enough.

I have already mentioned that I am not used to the level of government intervention that is seen in Australia. In some cases however, we may need more intervention. For example, one area that I firmly believe we need the government to make improvements is in the area of employee and public **safety** when it comes to **road construction and maintenance**.



The current standards are in my view inadequate in facilitating best practice safety outcomes.

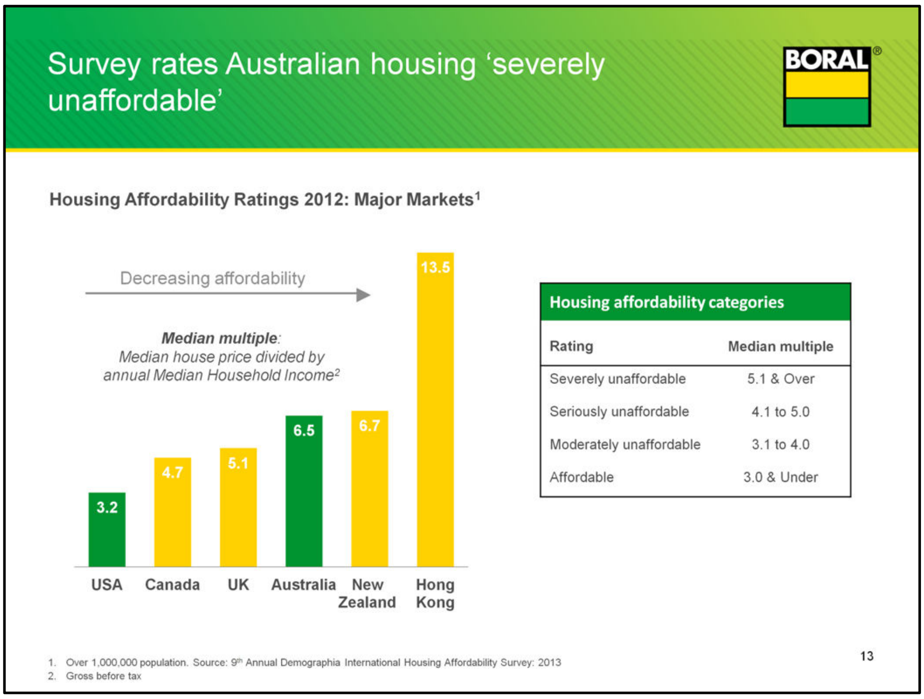
I would like to insist that my asphalt team raises the standards and incorporates safety road diversions and safety barriers when they tender for government work. But if we insist on this we would win little work.

If this was a required standard for all players and there was an even playing field we would maintain local competitiveness while significantly improving the safety standards for our employees at work.

I mean can you imagine going to work every day and doing your job one metre away from cars driving past at up to 60km per hour. You are relying on the drivers slowing down and not getting distracted and nothing going wrong with their vehicle as they drive through your workplace!

There have been several fatalities and recurring 'serious near misses' involving traffic controllers and workers over the past five years.

Our asphalt team in Queensland is currently leading the Asphalt Industry Association in engaging with stakeholders to achieve a level playing field with improved safety standards in traffic management as a minimum; but government support is required to facilitate this change.



When I first arrived in Australia I was shocked at Sydney house prices - $1 million feels average. Nationally, the median house price in Australia is A$520,000 compared to about US$265,000 in the US (or A$290,000 at the current exchange rate).

According to the recent Annual Demographia International Housing Affordability Survey, Australian housing is 'severely unaffordable' versus the USA which is only 'moderately unaffordable'.

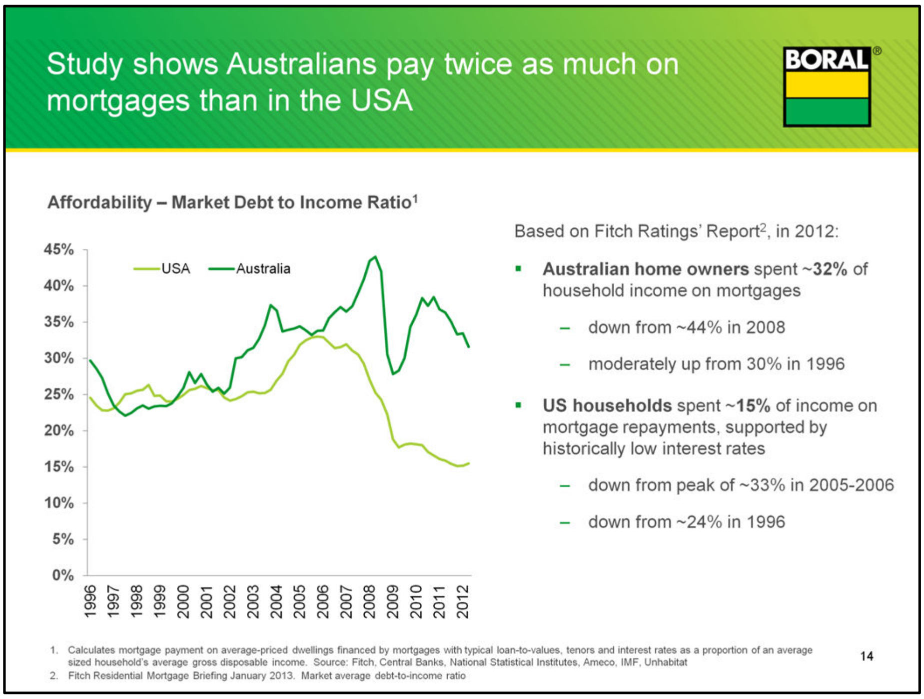
This survey covers markets in Australia, Canada, Hong Kong, Ireland, New Zealand, the UK and the USA, including 81 major metropolitan markets with a population over one million.

The measure used here to rate housing affordability is the Median Multiple which is calculated as the median house price divided by the median pre-tax annual household income.

A rating of 5.1 and over is considered 'severely unaffordable' and 3.0 and under is considered 'affordable'.

In Australia the Median Multiple in major markets is 6.5, with all five major capital city markets rated 'severely unaffordable' and Sydney rated the third most unaffordable market with a multiple of above 8.0.

In comparison the Median Multiple in the US is 3.2 with 40 out of 51 US major markets rated as 'affordable' or 'moderately unaffordable'.



Nationwide dwelling prices in Australia have risen significantly over the past four decades.

According to Fitch Ratings, Australian households pay 32% of their household income on mortgages or twice as much as US households according to Fitch Ratings.

The RBA has stated that: “the cumulative rise in dwelling prices since 1970 has been more than twice that for construction costs”, indicating that factors besides the cost of building a dwelling have driven up dwelling prices.

The main factors affecting the affordability ratio include:

- Nominal interest rates
- Financial sector deregulation; and
- House prices which are impacted by land supply.

Restrictive land use policies and high taxes, wages and manufacturing costs impact affordability

BORAL

- "In every market where there has been a sustained and significant increase in Median Multiple (median house price divided by annual median household income), there has also been the implementation of more restrictive land use policy."

  9th Annual Demographia International Housing Affordability Survey: 2013

- **0.18%** of Australian land used for urban areas compared to **3.0%** in the USA[1]
  - US population dispersed across a broader geographic region than Australia
  - USA has infrastructure (national highway system) to support urban development

1. Source: 9th Annual Demographia International Affordability Survey: 2013

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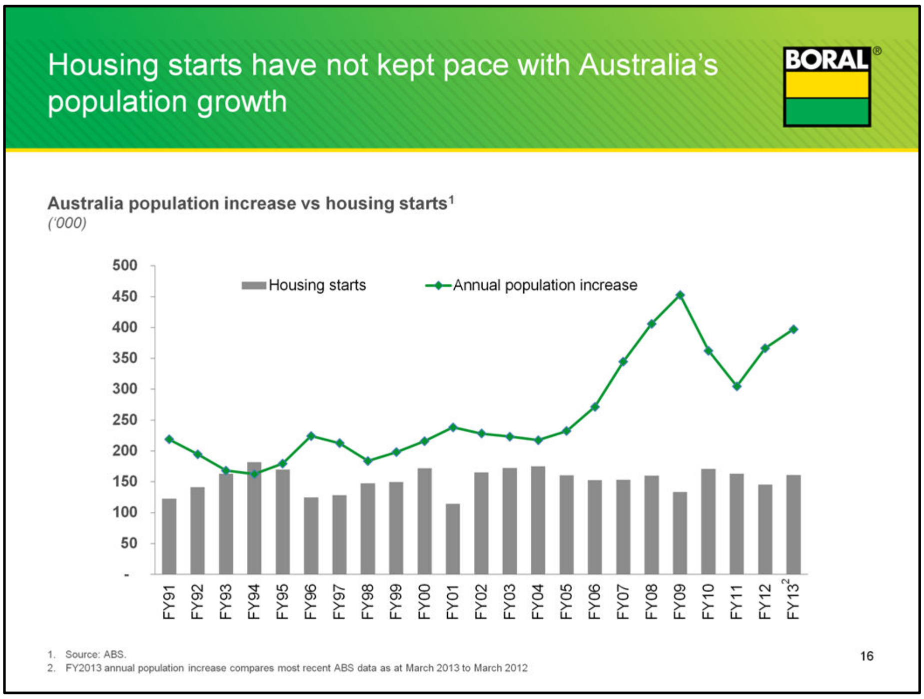
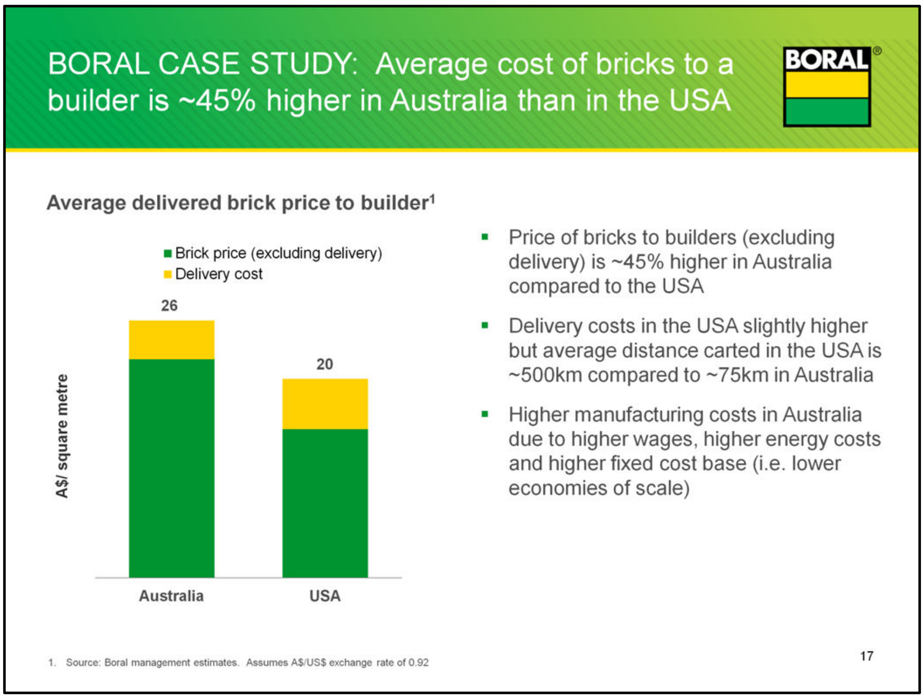
In fact, according to the Demographia study: More restrictive land use policies are in place in those markets where there has been a sustained and significant decrease in housing affordability.

Urban development in Australia relies on State Governments to release land (through rezoning) whereas in the USA, land is essentially in private hands and able to be built on.

Of course land in the USA is more readily accessible as a result of the national highway system and Australia has issues around infrastructure – but this is an area where we need forward thinking government intervention.



Slow rates of land release and associated lack of affordable land has kept housing starts in Australia at a broadly steady level for more than 20 years. This is despite the level of population growth doubling in the past five years.



While Boral's brick businesses in Australia and the US comprise relatively small parts of our overall revenue base, they provide a good illustration of some of the issues when comparing the US and Australia, so I want to use the brick business as a case study to illustrate some of the issues I have been talking about.

Currently our Australian business is selling clay bricks to builders at a price about 45% above that in our US business. This is a reflection of lower wage and energy costs in the USA and an ability to achieve greater economies of scale.

In the USA, we can also afford to ship bricks much longer distances (an average of around 500km) across state boundaries because of the interstate road network and lower transport costs.

Scale economies are difficult to achieve in Australia despite a consolidated brick market

Boral brick data	USA	Australia
Total brick capacity[1] – MSBE[2]	1,300	570
# brick kilns[1]	13	12
Average kiln capacity		
– MSBE[2]	~100	~50
– ('000) tonnes	159	133

- Boral's average brick capacity per kiln on a like for like basis is ~20% higher in the USA vs. Australia
- More product lines per plant manufactured in Australia than the USA
- Brick share of wall has remained steady in the USA while in Australia has steadily declined over last 30 years

1. Includes mothballed capacity
2. MSBE = million standard brick equivalents. One SBE in Australia is equivalent to 1.76 SBE in the USA in weight terms

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Our average brick capacity per kiln in the USA is ~20% higher than our Australian brick network on a per tonne basis and our Australian plants produce over twice the number of SKUs (or products) per plant than our US operations. This means our Australian plants are less efficient than our US plants driven in part by lower economies of scale in Australia.

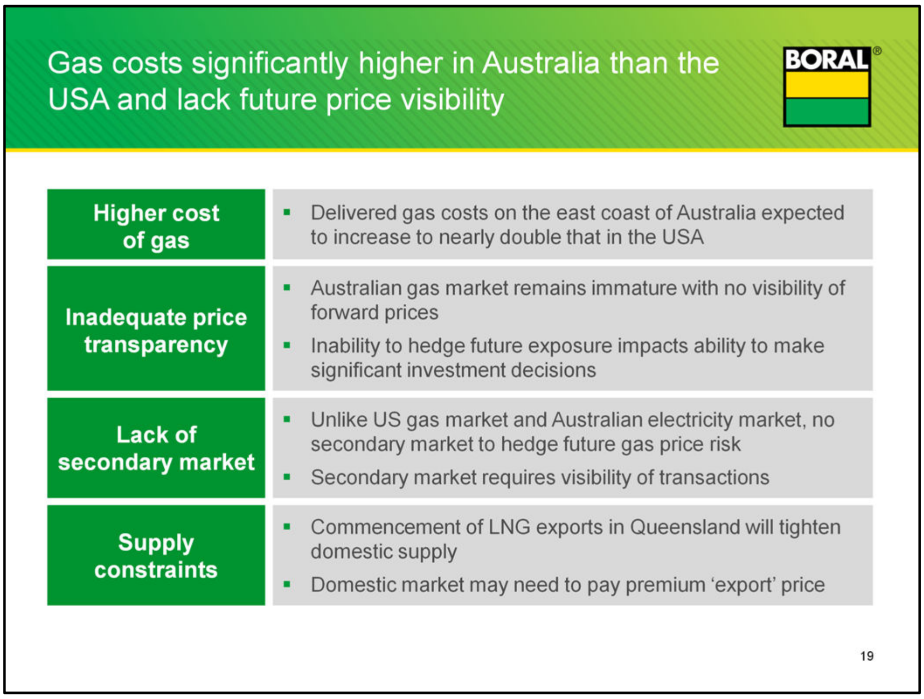
In the past few years we permanently closed 11 of our 24 brick plants in the USA and we have kept our largest, most efficient plants operating.

In Australia, we have closed or mothballed around 40% of our capacity in recent years to try to improve our cost base but it is still unsustainably high.

Despite the fact that there are only four major players in Australia it is still difficult to achieve cost efficiencies.

Add to this the fact that brick intensity in construction (or demand for brick) in Australia has been in steady decline for the past 30 years, the challenges are getting tougher.

In the USA, brick share of wall has held relatively flat for the past 30 years at around 18-20% with around 4,000 to 5,000 bricks per start. But in Australia in terms of the number of bricks per housing start (while higher than in the USA because all states are brick states here) we have seen a reduction in bricks per start of around 45% since 1980. This change is underpinned by a shift to multi-residential dwellings, cost factors and fashion trends.



One of the relatively high costs of brick production in Australia is the cost of energy and in particular natural gas.

Based on what we are seeing at the moment, we expect delivered gas costs on the east coast of Australia to move to close to double the cost in the USA.

In addition to the cost issue, gas users in Australia have inadequate transparency over the medium term wholesale prices and comfort that domestic retailers will be able to access physical gas.

Unlike the USA where a mature secondary market exists, large gas users are unable to hedge their future exposure risk when making significant investment decisions.

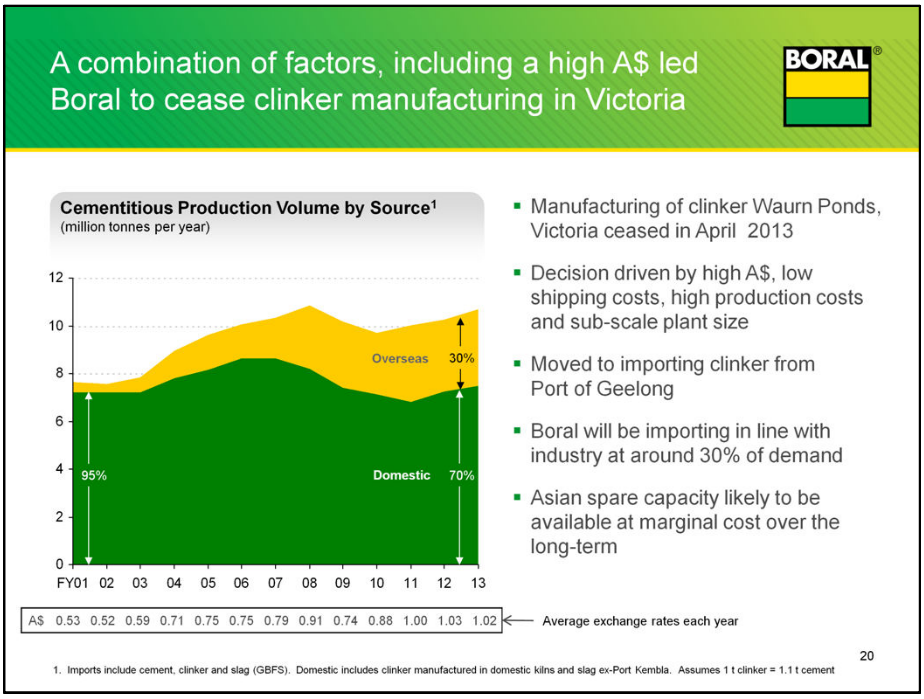
In addition, the commencement of LNG exports in Queensland is likely to tighten supply in the Australian wholesale market with the risk that domestic consumers will need to pay the premium 'export' price to compete with export demand.

The Australian Federal and NSW State Governments need to ensure that new approvals encapsulate domestic supply as well as adopt a more supportive role in developing the gas market to a more mature stage, similar to the electricity market.

Developments required include providing higher visibility of key market parameters, 'open access' transmission and distribution networks with trading hubs at key locations that enable physical gas to be bought for either domestic or export use. This will ensure all consumers of gas are exposed to a local spot price which in turn creates a market incentive for forward secondary markets.

Visibility of future demand and forward prices would incentivise the appropriate level of gas exploration and development to improve supply certainty.

Australia's advantage was historically its low cost of energy and there is a need to return to that situation if manufacturing is to remain viable in Australia.



So we have a bit of work to do to continue to realign our brick business. While Boral may have a higher cost base in some areas relative to competitors, it's not just Boral. The whole industry needs to lift its profitability. We need to find ways to make the Australian industry more efficient and sustainable for the long-term.

But unlike cement, bricks can't be imported. Therefore if we are forced to shut down our brick plants because of the unsustainable cost structures, it will just mean less choice for Australian consumers.

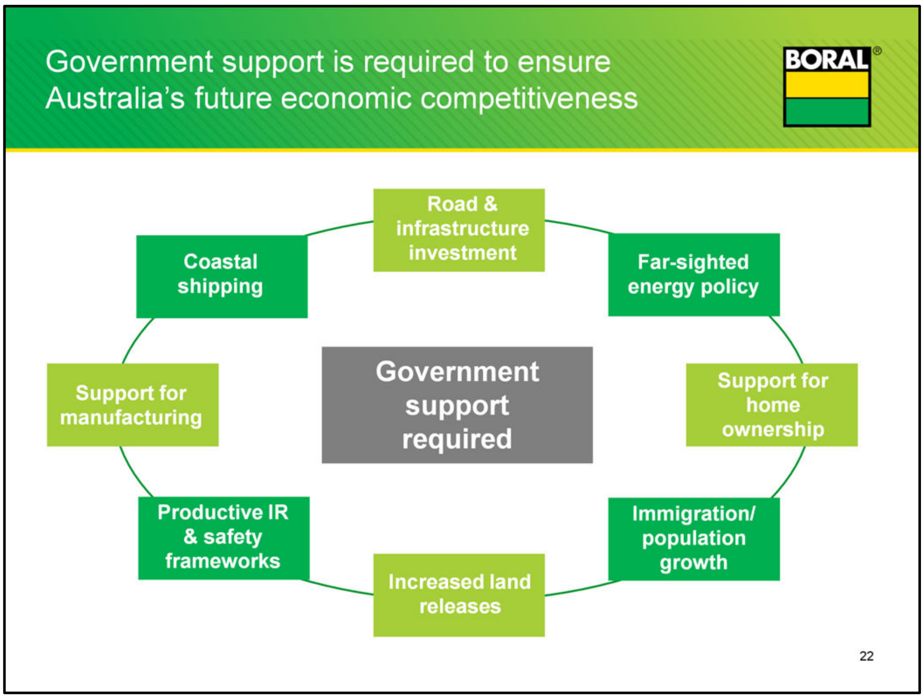
In the cement industry in Australia, the whole industry is migrating to an import model. We closed down our Victorian cement kiln earlier this year to bring us in line with the broader industry which is now importing around 30% of domestic needs.

With high capital costs two to three times the cost of building comparable plants in Asia, high labour and energy costs, high transport costs (both sea and road), not to mention the recent experiment with the carbon tax and the possible flirtation with a carbon trading scheme, the final nail in the cement coffin comes from an Australian dollar that continues to move in a range of 90c to $1.00 relative to the USD – bringing down the import parity price for Asian cement (which is produced at half the cost).

This low price ceiling for domestic cement makes it impossible to further invest in Australian capacity.

It is disappointing to see Australian manufacturing continuing to head in this direction.

So what can be done to change the situation and to support Australia's competitiveness?



There are clear areas where government has a legitimate role to play in the economy.

Government needs to step in where investments are required or can be facilitated with a national interest and where it is unlikely to be possible by private investment alone. In the areas of infrastructure - bridges, highways, mass transit, airports as well as land, immigration and energy.

National policy in these areas is required to create a future where Australia's economy can grow and opportunities can be seized. Most critically we need:

- A far-sighted energy policy including a significant role for coal seam gas and accelerated exploration for domestic consumption.
- Sufficient road and development investments to accommodate a significant population growth. If as some forecasters suggest, Australia will double its population by 2075 – we need a road system to accommodate this growth and support expanded urban corridors.
- Support for affordable detached housing including increased land release and a review of tax policies that support home ownership – not just investment properties.
- And domestic policies that support our global competitiveness. For example, in the area of anti-trust policy so that domestic industries can be allowed to continue to re-balance against imports or in the face of anti-competitive input costs that threaten the sustainability of domestic manufacturing. A country of limited population and thereby market size needs to allow for domestic industries to consolidate or face extinction. Shareholders will not subsidise choices in this market that cannot attract adequate returns.
- Also, in the area of industrial relations, there needs to be meaningful punishment for organisations that flaunt the legal system and use mob-like tactics to impose their way.
- When global players bring in commodities that are not subject to Australian labour laws, environmental standards and energy imposts, the disadvantage to Australian manufacturers must be recognised. To impose costs only on domestic producers in misguided efforts of social engineering like a carbon tax, only cripples local industry.

It's not about tariffs but rather it's about courageous government policy that looks out over the next 20 years and sees where industry is heading if changes are not introduced now.

Australia is often referred to as the 'lucky country'. As I travel around Australia I am often amazed by its beauty and abundance. The people of Australia deserve a future as bright as its past. If the inflationary pressures I have discussed are tackled, both government and business can together ensure that the next 50 years will be as 'lucky' as the last.

QUESTIONS?