Overview

Boral Limited reported $2.6 billion of **sales revenue** for the six months to 31 December 2008, which was in line with last year, with price increases and a weaker Australian dollar broadly offsetting volume reductions and lower Quarry End Use (QEU) sales. Australian revenues of $2.15 billion were steady. USA revenues of US$242 million were 27% down and were 18% down when translated to Australian dollars at a 12% weaker average AUD/USD exchange rate. Asian revenues increased by 26%.

Boral's net **profit after tax (PAT)** of $75 million was 44% below the $132 million PAT in the first half last year. Earnings per share for the half year of 12.8 cents compare with 22.0 cents last year.

Depreciation charges increased by $10 million and Boral's **interest** expense was $12 million higher.

Boral's **EBITDA** (earnings before interest tax depreciation & amortisation) of $285 million was $75 million or 21% lower than the prior year first half result due to housing related losses in the USA and a decline in Australian Building Products' earnings. Boral's overall EBITDA to sales margin was 11.0% compared with

(~1,800 people) over the past year. Headcount in the USA has been reduced by 45% since the FY2006 market peak.

Cash flow from operations of $141 million in the December 2008 half was $82 million below the December 2007 half year because of weaker operating cash flows and an increase in inventory. First half inventory growth will largely be reversed in the June half as production rates are slowed. Cash flows benefited from lower **capital expenditure** of $128 million compared with $280 million in the first half last year.

At 31 December 2008, around 80% of debt was denominated in US dollars which matches Boral's US dollar assets. Boral's net debt of $2,184 million at 31 December 2008 compares to $1,515 million at 30 June 2008 (and $1,609 million at 31 December 2007). The increase in gearing largely resulted from the adverse impact of a 28% reduction of the AUD/USD exchange rate at half year end compared to 30 June 2008. **Gearing** (D/E) increased from 52% at 30 June 2008 to 79% at 31 December 2008.

A fully franked **interim dividend** of 7.5 cents per share has been declared, which is 56% below the prior year. The interim dividend will be paid on 3 April 2009.

Whilst forecasting is particularly difficult at the current time, Boral expects that its **PAT in FY2009** will be around $120 million assuming 600,000-650,000 US housing starts, around 135,000 Australian housing starts and an AUD/USD exchange rate of $0.65 in the June half.

Results at a glance (A$ million unless stated)

Half year ended 31 December	**2008**	**2007**	**% Change**
Revenue	2,594	2,626	(1)
EBITDA	285	360	(21)
EBIT	155	240	(35)
Net interest	69	57	21
Profit before tax	86	183	(53)
Tax	11	51	(77)
Profit after tax	**75**	**132**	**(44)**
Cash flow from operating activities	141	223	(37)
Gross assets	6,217	6,027	3
Funds employed	4,955	4,635	7
Liabilities	3,447	3,001	15
Net debt	2,184	1,609	36
Growth & acquisition capital expenditure	52	219	(76)
Stay-in-business capital expenditure	76	61	25
Depreciation	129	120	8
Employees	15,398	16,265	(5)
Sales per employee, $ million	0.168	0.161	4
Net tangible asset backing, $ per share	4.06	4.37	(7)
EBITDA margin on sales, %	11.0	13.7	(20)
EBIT margin on sales, %	6.0	9.1	(34)
EBIT return on funds employed[1] (MAT), %	7.3	10.9	(33)
Return on equity[1] (MAT), %	6.8	9.4	(28)
Gearing (net debt:equity), %	79	53	49
Interest cover, times	2.3	4.2	(45)
Earnings per share, ¢	12.8	22.0	(42)
Dividend per share, ¢	7.5	17.0	(56)
Safety: (per million hours worked)			
Lost time injury frequency rate	2.0	2.3	(13)
Recordable injury frequency rate	26.0	24.7	5

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90% of the US$30m cost reduction programs in MonierLifetile have now been successfully implemented. Additional cost reduction initiatives have been identified with annualised benefits in excess of US$25m in US Construction Materials businesses (including Flyash), with US$2.4m expected in FY2009 (all in the second half). In FY2009, these initiatives and other Performance Enhancement Program (PEP) initiatives are expected to deliver around US$40m of incremental benefits for Boral compared with FY2008.

In Boral's Australian businesses, a range of step change improvement programs are also underway. Management and administration functions in the east coast Bricks and Roofing businesses were merged in September 2008 with the bulk of the project to be completed by the end of FY2009; annual savings of around $4.3m will be delivered when fully implemented. At Midland Brick, a step-change program will commence in the second half of FY2009 with phased benefits of $10m-$15m from FY2010; and in Australian Construction Materials, the implementation of Six Sigma has assisted with the identification of $45m of cost reduction initiatives which will deliver benefits over three years from FY2009.

Step change initiatives across the business include a focus on optimising workforce numbers. Boral's full time equivalent (FTE) employee numbers reduced by around 5% year-on-year to 15,398. The main head count reductions have been in the USA, where FTEs are down 31% year-on-year and 45% from the peak in FY2006 (excluding the impact of the Oklahoma construction materials acquisitions in FY2007). In Australia, FTE levels were steady over the past year; there has however been a substantial focus on reducing overtime levels and casual labour. Contract labour hire FTEs in Australia have reduced by 33% in the six months to 31 December 2008 (from 1,250 to 830) and contractor labour is down 67% in the USA. Overall, Boral's FTE employee headcount and contract labour hire reductions were around 1,800 people or about 8% in the 12 months ended December 2008.

Despite substantial volume pressures in key markets, price management strategies have resulted in price growth in most businesses. Import parity prices in Australia have increased and prices have increased more generally to recover input cost increases and to protect and enhance margins. Further price increases across most products will occur in the second half of the financial year.

Growth capital expenditure has been wound back significantly. Previously announced capacity upgrades have largely been completed. Whilst many new growth investments have been delayed until markets and cash flows recover, some very attractive opportunities remain under active consideration. Growth

External revenue for the **Cement Division**, which includes Blue Circle Southern Cement, Formwork & Scaffolding and De Martin & Gasparini, was $274m which was up 1% on last year. This was largely due to a 7% lift in average cement prices and a 9% lift in lime prices which was partially offset by reduced cement and lime volumes and a less favourable sales mix in De Martin & Gasparini. Cement volumes were down 3% on last year. Increased cement volumes to major road projects such as the Southern Hume Highway and the replacement of some imported product was offset by reduced wholesale and interstate sales. NSW cement sales volumes were down 4%. Victorian cement volumes were down 11% largely due to the completion of the EastLink project in FY2008. Lime volumes were down 4%, primarily driven by reduced demand from the steel and mining industries. In mid January 2009 the quicklime facility at Galong in NSW was temporarily shut due to reduced demand from the steel sector. Blue Circle's EBITDA improved principally due to improved prices which more than offset cost pressures and lower volumes. A $10/tonne cement price increase in NSW and Victoria and a $15/tonne price increase in Queensland has been announced effective 1 April 2009.

Formwork & Scaffolding experienced stronger volumes with utilisation improving from 68% to 76%,

Operating revenue from US operations was down 27% on last year to US$242m. An **EBITDA** loss of US$10m (A$13m) was reported which compares to a US$10m loss (excluding a plant write-down) in the June half 2008 and a profit of US$25m (A$29m) in the December half last year. The US result was significantly impacted by the further decline of the US housing market, with total US housing starts down 37% compared to the same period last year. Lower sales and production volumes and higher energy costs (US$5m) reduced earnings but the benefits of significant step change cost reduction initiatives significantly benefited results.

EBITDA to sales margin reduced from 7.5% to -4.2%. Return on funds employed fell from 3.5% to -6.8%, reflecting in part the impact of the lower Australian dollar increasing the translated value of funds employed in the USA.

Boral's US operations benefited from US$18m of **PEP cost reduction and other savings** initiatives during the half year compared to US$8m in the previous period. Boral's US labour force has reduced by around 1,500 employees (or ~45% of the workforce) as part of a US$70 million structured cost reduction program across the US portfolio of businesses.

Revenue from **US Bricks** of US$125m was down by 37% due to a 39% decline in sales volumes which was in line with the fall in new home starts in Boral's "US brick states" over the prior comparable period. Average brick prices increased by 4% as a result of a temporary fuel recovery charge implemented in June 2008 as well as a favourable resale and product mix through the direct distribution channel. Bricks sold through direct distribution remains at approximately 80% of total volumes. Brick plant utilisation averaged 42% during the period, down from 69% last year. Bricks' EBITDA was significantly down, despite the benefits of step change cost reduction initiatives, reflecting higher per unit manufacturing costs due to lower levels of production as well as higher freight costs due to the mothballing of some plants.

Boral's 50%-owned concrete roof tile joint venture, **MonierLifetile** (MLT), delivered a half year EBIT loss of US$10m equal to the loss reported in the prior corresponding half year despite housing starts being down 44% in the "US tile states" and sales and production volumes being down 34% and 39% respectively. Average prices were up 1% as prices stabilised in most key markets. Market share remained stable. Unit production costs were higher than the prior year due to inefficiencies resulting from decreased production rates with plant utilisation down to around 19%, compared to 30% last year. The impact of lower volumes and inefficient plant operating levels has been largely offset by benefits from step change cost reductions and other improvement initiatives.

Revenue from **Clay Roof Tiles**

Asia

Performance against objectives

Boral's earnings (EBITDA) from its USA businesses have reduced by $235m over the past two calendar years because of the collapse of the USA housing market with FY2009 volumes forecast to be only one-third of underlying demand. This has adversely affected Boral's overall earnings and share price performance. (Nevertheless, Boral has achieved an average EBITDA return on funds employed in the USA of 18% in the nine years since demerger.)

Since demerger, Boral's EBIT return on funds employed has averaged 13.5%, which is above Boral's weighted average cost of capital.

Boral's financial returns continue to compare well with competitors in like markets across most businesses.

Boral's total shareholder return (TSR) from share price appreciation and dividends wTwurage

USA housing starts are currently at the lowest level recorded in the past 60 years. Despite the current depressed US housing market, Boral has long-term confidence in this market. However, the timing and phasing of the recovery is uncertain. The Harvard Center for Joint Housing Studies has recently confirmed their view that underlying demand in the USA is around 1.8 million starts per annum (excluding manufactured housing). Whilst new US housing inventories have reduced significantly, the high levels of existing housing inventories resulting from abnormally high foreclosure rates (and falling housing prices and confidence) are reducing new housing construction activity. Whilst it may prove to be conservative, it is assumed that US housing starts will fall by 35% in the June 2009 half year compared to the December half to around 500,000 starts. This would result in FY2009 housing starts of around 600,000-650,000. On this basis, the impact of extended temporary plant shutdowns and slowing of production will be more significant in the June half, particularly in Boral's US Brick business where June half production may be around 50% lower than in the December half. Roof tile capacity utilisation will be below 20%. USA losses will increase in the June half because of the significant drop in sales and production volumes.

Price and volume improvements in Indonesia construction materials and operational improvements in Thailand should result in higher Asian construction materials earnings than in FY2008. However, significantly weaker Asian plasterboard volumes and profits are expected as the effect of the global financial crisis spreads.

PEP and step change initiatives of 3.5% of compressible costs have been targeted for FY2009.

The impact of the global financial crisis makes forecasting extremely difficult at the current time. On the basis of Boral's assumptions of 600,000-650,000 housing starts in the USA and 135,000 starts in Australia and assuming an average exchange rate of $0.65 in the second half, Boral's profit after tax in FY2009 is expected to be around $120 million, in line with the updated guidance given to the market on 28 January 2009.