

## Boral further strengthens profitability

Reported revenue of **\$2.2b** for the half year down 4% but revenue from continuing operations was

## Financial Overview

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### Cost and productivity improvements strengthen profitability

Boral's reported **sales revenue of \$2.2b was down 4%** on the prior period, reflecting the absence of revenues from the East Coast brick operations in 1H FY2016 following the formation of the Boral CSR Bricks joint venture on 1 May 2015. **On a continuing operations basis, revenue was broadly steady** as higher revenues associated with stronger residential activity in Australia and the USA offset the decline in resource-based and other major project activity, including LNG projects in Queensland, WA and NT, as anticipated.

**Earnings before interest & tax (EBIT)<sup>1</sup> increased 19% to \$200m**, reflecting improved earnings from all divisions, including operational cost improvements, lower fuel costs and some pricing gains.

**Depreciation and amortisation** remained broadly unchanged at \$122m.

**Income tax expense excluding significant items increased by \$7m** largely due to higher earnings from Boral Construction Materials & Cement, Boral Building Products and Boral USA. The effective tax rate was 18.7%, which was lower than expected as a result of a tax benefit arising from share acquisition rights that vested during the period. Excluding this benefit, the effective tax rate was 21.4%.

**Profit after tax (PAT)<sup>1</sup> of \$137m** was 23% higher on the prior period's PAT of \$112m.

**Statutory net profit after tax (NPAT)** of \$137m was 31% higher than the prior period.

**EBITDA<sup>1</sup> of \$322m** was 11% higher than the prior period while **operating cash flow** of \$113m was broadly steady, with improved earnings and higher dividends received from equity-accounted joint ventures, offset by higher tax payments arising from an increase in tax liabilities in the prior year (particularly relating to the capital gain from the Landfill sale) as well as adverse movements in working capital, in part due to the timing of payments.

**Capital expenditure** was \$115m (\$103m of stay-in-business and \$12m of growth expenditure), up from the prior period but well within our targeted capital expenditure of around \$300m per annum, reflecting ongoing disciplined capital allocation measures. Capital expenditure included quarry upgrades at Deer Park (VIC), Orange Grove (WA) and Holton Morton (Colorado) and a number of capital projects focused on driving manufacturing cost improvements, including in Timber.

**Net debt** at 31 December 2015 of \$1,025m increased by \$208m since 30 June 2015 largely due to the impact of foreign currency translation of US denominated debt as the Australian dollar weakened, as well as a \$115m cash outflow to complete the share buy-back. **Gearing**, net debt / (net debt + equity), increased to 23% from 19% at 30 June 2015 and Boral's principal debt gearing covenant of 31%, up from 29% at 30 June 2015, is still well within the threshold of less than 60%.

**Earnings per share<sup>1</sup> of 18.2 cents increased 28%**. A fully franked interim **dividend of 11.0 cents** per share, representing a payout ratio of 60%, will be paid on 11 March 2016. In order to provide greater clarity, the Board has formalised Boral's **Dividend Policy**, which is intended to reward shareholders relative to profit at the same time as maintaining capital for growth. The Board's policy is to maintain a dividend payout ratio of between 50% and 70% of earnings before significant items, subject to the Company's financial position.

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<sup>1</sup> Excluding significant items

## Market Conditions and External Impacts

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### Record Australian housing activity continues, further improvements in US markets, a transition period in Australian roads and engineering activity, and slower growth in some markets in Asia

Capitalised on current strength in the Australian residential market, offsetting transition from major engineering / LNG projects to expected pick up in major roads and infrastructure investments

Infrastructure pipeline starting to build, with Boral to supply NorthConnex from FY2017 and bidding on a significant number of projects

Strengthened market position in Asia through Sheetrock® brand products with ongoing growth opportunities despite some economic slowdown

Steady recovery of US housing market, with Boral well positioned to benefit from further growth with an increasing suite of innovative composite products

In 1H FY2016, **Australian** residential market activity remained at record high levels, while non-residential activity softened and materials demand from the construction of roads, highways and engineering work contracted in line with expectation, ahead of an expected lift in demand from major road projects towards the end of FY2016.

In **Asia**, economic conditions across the region were

**Australian alterations & additions (A&A) activity**<sup>1</sup> increased by an estimated 1% in 1H FY2016 compared with the prior period.

**Non-residential activity**<sup>1</sup> is estimated to be 5% lower in 1H FY2016 compared with the prior period.

Overall, Macromonitor is forecasting **concrete volumes** in Australia, which can be used as a proxy for total construction activity, to soften by ~2% in FY2016<sup>2</sup>. However, concrete volumes are expected to increase in NSW.

**USA** market conditions continue to strengthen with **total US housing starts** on a seasonally adjusted basis increasing 10% to an annualised rate of 1.146 million starts during the first half<sup>3</sup>.

**Single-family starts**<sup>3</sup> increased by 12% nationally, but were **up 23%** in Boral's Tile States and only **up 5%** in Boral's Brick States. With multi-family starts up 8% nationally, single-family activity increased from 63% to 64% of total starts, but remains below the long-term average of 71%. Brick intensity levels per start were 4% lower than the prior period.

Market forecasters are continuing to expect total US housing starts to lift to ~1.2 million starts<sup>4</sup> in FY2016.

In **Asia**, market demand drivers in **Korea** remained solid in 1H FY2016 underpinned by residential construction. In **Indonesia** and **Thailand**, GDP



One of the few Qld infrastructure projects underway – the Cooroy to Curra major road project – was a feature for Quarries and Asphalt in the half and is expected to benefit Asphalt further in 2H FY2016.

**Cement external revenue increased by 6% to \$159m** due to stronger NSW construction activity and 2% higher average prices. EBIT grew strongly, helped by cost improvement initiatives including improved utilisation of assets and sourcing of lower cost raw materials and energy.

**Concrete Placing** revenue increased with stronger activity in Sydney’s high-rise multi-residential and commercial market, which is expected to continue in the near term.

**Landfill** contributed \$5m lower earnings in 1H FY2016 following the sale of the business effective 1 March 2015. Previous earnings were partially replaced by a royalty-based payment from the new owner, Transpacific Industries (TPI).

**Property** contributed \$5m to EBIT, up from \$3m in the prior period. The final contracts at Nelsons Ridge are due to settle in 2016, with around \$20m of earnings expected over two financial years.

1H FY2016 v 1H FY2015	Total Volume, Var %	Price, Var %
Concrete	(4)	2
Aggregates	(2)	1
Cement	5	2

## Boral Building Products<sup>1</sup>

Australian Bricks including 40% share of Boral CSR Bricks, Roofing and Timber

### Increase in profitability driven by continued strength in housing market and portfolio realignment

**EBIT increased 15%** with pricing gains, cost savings and the benefits of previous restructuring including depreciation cost savings; there was also strong growth in Boral CSR Bricks underlying earnings

Excluding the impact of equity accounting for the Boral CSR Bricks JV which commenced on 1 May 2015, **revenue increased by 1%**

1. Excludes significant i 1.02 56.e 2y 2015,g

## Boral Gypsum

50%-owned USG Boral joint venture in Australia, New Zealand, Asia and Middle East<sup>1</sup>

### Significant profit growth through new product penetration and strong cost management

**Strong cost management including plant efficiency and manufacturing cost improvements, together with Sheetrock® price premium** drives overall margin expansion

**Revenue growth through new products** and strong non-board sales

**Roll-out of Sheetrock® technology on track** to be within the two-year capital expenditure of US\$50m, and synergies of US\$50m per annum expected within three years of the full technology roll-out

Boral Gypsum reported **equity accounted income of \$32m, up 31%** on the prior period. This represents Boral's 50% share of the post-tax earnings of USG Boral, and is reflected in Boral's EBIT result.

#### Boral's half year reported Gypsum result

(A\$ millions)	1H FY2016	1H FY2015	Var %
Equity income <sup>1</sup>	32	24	31

1. Post-tax equity income, excludes significant items

Earnings growth reflects strong business performance with the continued penetration of the new Sheetrock® brand plasterboard and adjacent products, strong cost management and lower fuel costs driving **margin expansion**. In Australian dollar terms, the result benefited from foreign exchange impacts. Plant utilisation averaged 75% in the half year.

Sheetrock® brand products attracted a price premium of around 5% with current adoption rates nearing 40% (in Australia) a year after its launch in Australia, Korea, Thailand, Indonesia, China and Vietnam. These outcomes are in line with expectations. It is strengthening our leading positions in increasingly competitive markets such as Thailand and Indonesia.

**Australia/NZ revenue increased by 19% to \$257m** with board volumes up 12%, reflecting higher housing market activity across all regions, higher non-board sales, and average selling

#### USG Boral underlying business result

(A\$ millions)	1H FY2016	1H FY2015	Var %
Revenue	718	638	13
EBITDA <sup>1</sup>	128	97	32
EBIT <sup>1</sup>	91	70	30

1. Post-tax equity income, excludes significant items

**Revenue increased by 13% to \$718m** with increased penetration of new Sheetrock® brand plasterboard resulting in higher overall pricing, and stronger non-board sales. Strong volume growth in Australia was offset by contraction in key Asian markets and a reversal of a short-term market share gain in Korea.

**EBIT increased 30% to \$91m** with margin expansion in most regions. Integration and inflationary cost impacts were more than offset by operational cost reductions, as well as the benefits from prior restructuring and improvement initiatives, and falling energy and fuel prices.

## Boral USA

Cladding (Bricks, Cultured Stone & Trim), Roof Tiles, Fly Ash and Construction Materials

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### Continuing to benefit from the housing market recovery

**Activity continues to improve;** incremental benefits from continued leverage to market growth including increased plant utilisation

Focus on **operational cost improvements** to offset cost inflation

**On target for a solid improvement in profitability** at ~1.2 million housing starts in FY2016

1. Excludes significant items
2. Includes Bricks, Cultured Stone & Trim

**Revenue increased by 5%** on the prior period to **US\$367m**, with growth in Cladding, Roofing and Fly Ash and Construction Materials. Australian dollar revenue increased by 29% to A\$512m.

The business benefited from increased housing construction activity. However, brick intensity levels per housing start contracted due to a geographic shift in housing starts in 1H FY2016 away from Boral's Brick States and the continued larger proportion of entry-level homes being built at the current point of the cycle. US single-family starts grew 12% in the first half, but only grew 5% in Boral's Brick States.

**EBIT improved by US\$13m to a US\$6m profit.** Margins improved with operational cost savings u11.2286s.



## Strategy and priorities

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As an international building and construction materials group with operations in Australia, New Zealand, Asia, the Middle East and North America, the Company's goals are to deliver:

**World class health & safety** outcomes based on **Zero Harm**

**Returns that exceed the cost of capital** through the cycle, and

More sustainable **growth**.

To achieve these outcomes our strategy is to:

Consistently apply best practice to deliver **performance excellence**

Have a **geographically diverse** portfolio of businesses with a **balance of traditional and innovative products**, and

**Invest in innovation** and, where it makes sense, grow through M&A opportunities.

Each part of the portfolio has its own strategic imperatives to help deliver the Group's goals and transform Boral into a company known for performance excellence and innovation.

In **Australia**, the priority is to **optimise returns** across all building products and construction materials businesses and **maintain our leading, integrated construction materials position**, which will benefit from a **significant pipeline of major roads and infrastructure work** over the next five to six years.

In the **USA**, we have now **returned to profitability** and **expect to grow earnings through cyclical demand growth** and also through investment in new product development and M&A initiatives if opportunities arise.

Through our **USG Boral** gypsum based building products joint venture in Asia, Australia and the Middle East, we will leverage the **considerable potential for growth** through product penetration, market growth and innovation over the medium and longer term.

### **FIX, EXECUTE, TRANSFORM Program**

Since FY2013, Boral's

**Boral Construction Materials & Cement (CM&C)**

## FY2016 Outlook

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Continuing solid performance is expected in FY2016, with the following divisional expectations in the full year FY2016:

**Boral Construction Materials & Cement** is expected to deliver continued strong results with underlying EBIT in FY2016 marginally above FY2015 (excluding property in both years). Conditions are expected to continue at similar levels and with fewer working days in 2H FY2016, 2H underlying earnings are expected to be lower than 1H.

For the full year, benefits from restructuring and impr



## Non – IFRS Information

Boral Limited's statutory results are reported under International Financial Reporting Standards.

Earnings before significant items is a non-IFRS measure reported to provide a greater understanding of the underlying business performance of the Group.

Significant items are detailed in Note 6 of the half year Financial Report and relate to amounts of income and expense that are associated with significant business restructuring, business disposals, impairment or individual transactions.

A reconciliation of earnings before significant items to reported statutory profit is detailed below:

<i>(A\$ millions)</i>	<b>Earnings before significant items</b>	<b>Significant items</b>	<b>Total</b>	<b>Continuing operations</b>	<b>Discontinued operations</b>	<b>Total</b>
Sales revenue	2,193.7	-	2,193.7	2,193.7	-	2,193.7
EBIT	199.5	-	199.5	199.5	-	199.5

The Gypsum division commentary also includes a non-IFRS measure of underlying results excluding significant items representing the 6 months trading results to assist users to better understand the trading results of this division.

The results announcement has not been subject to review or audit, however it contains disclosures which are extracted or derived from the half year Financial Report for the six months ended 31 December 2015.

This half year Financial Report for the six months ended 31 December 2015 is prepared in accordance with the ASX listing rules and should be read in conjunction with any announcements to the market made by the Group during the year.