Build something great™

Boral continues to deliver its strategy and grow earnings

Reported revenue of $2.1b for the half year down 5% but **EBITDA[1] of $333m** up 3%

EBIT[1] of $211m, up 6%

Underlying **profit after tax[1] of $149m**, up 9%

Statutory **net profit after tax of $153m**, up 12% after a net gain of $4m for significant items

Net cash of $1.2b reflecting capital raising

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Interim dividend of 12.0 cents per share, fully franked, up 9%

Strengthening underlying performance, with strong EBIT uplift from USG Boral and Boral USA

Boral Australia – A substantial 2Q catch up supported by favourable weather conditions followed a significant rain affected 1Q result. EBIT for the half year of $164m was down 3% with strong East Coast residential markets, emerging infrastructure volumes, pricing gains, margin improvements and higher property earnings ($9m, up from $5m last year) offset by the impacts of LNG and Barangaroo projects completing, and a significant decline in WA.

USG Boral – underlying EBIT of $117m was up 28% on the prior period; Boral's 50% share of post-tax earnings from the JV of $40m was 25% higher. This was due to growth in Korea and Australia from strong housing markets, continued penetra

Business transformation – the strategically compelling US$2.6b acquisition of Headwaters Inc. announced, funding secured and completion expected mid-CY2017.

Consolidating Boral's str

Driving performance excellence – increase in return on funds employed (ROFE)[3] to 9.3% in 1H FY2017,

Financial Overview

Growth in USG Boral and Boral USA together with strong results from Boral Australia

Boral's reported **sales revenue of $2.1b was down 5%** on the prior year, reflecting a reduced revenue contribution from US Bricks following formation of the Meridian Brick JV on 1 November (and associated impact of equity accounting), coupled with the completion of Barangaroo and LNG projects, and the market decline in WA, all of which was only partially offset by strong activity in Eastern Australia and USA growth.

Earnings before interest & tax (**EBIT**)[1] **increased 6% to $211m** reflecting stronger earnings from Boral USA and USG Boral, partially offset by the earnings impact of the sale of Boral's 40% share of the Boral CSR Bricks JV in November 2016 and the decline in earnings from Boral's remaining bricks WA business.

Market Conditions and External Impacts

Australian residential activity continues at strong levels and roads activity emerging, further improvements in US housing markets, and mixed conditions in Asian markets

- Continuing to capitalise on historically strong levels of activity in the **Australian** residential market, offsetting the transition from resources and LNG projects to the emerging pick-up in major roads and infrastructure investments
- Continued recovery of **US** housing market with single-family house construction growing; Boral well positioned to benefit from further growth with an increasing suite of innovative products
- Strengthened market position in **Asia** through Sheetrock® brand products, with ongoing penetration opportunities; strength in Korea but more subdued activity in Indonesia, Thailand and China

Boral 1H FY2017 external revenue[1] by market, %

Australia – Boral's largest exposure is to the **roads,**

USA market conditions continued to strengthen with **total US housing starts** increasing 3% in 1H FY2017 to an annualised rate of 1.18 million starts[1].

Single-family starts increased by 6% nationally, were **up 9%** in Boral's Tile States and **up 7%** in Boral's Brick States[2]. With multi-family starts down 2% nationally[1], single-family starts as a proportion of total starts increased from 65% to 67%, but remain below the long-term average of 71%[1].

If the market improvement trajectory of the past three years of around 10% per annum continues in the US, housing starts in FY2017 will be around 1.26 million. On average, market forecasters expect total US housing starts to lift to ~1.25 million starts in FY2017[4].

In **Asia**, construction market growth in **Korea** was underpinned by the strongly performing residential sector. Markets remained more subdued in **Thailand** and **Indonesia**, in line with general economic conditions, while construction activity in **China** has been impacted by slowing economic growth. Other markets in Asia, such as **Vietnam** and **the Philippines**, continue to grow.

[1] Seasonally adjusted US Census Housing Starts for national figures
[2] McGraw Hill / Dodge raw data - Brick States: Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mi1

Boral Australia

Concrete, Quarries, Asphalt, Cement, Concrete Placing, Transport, Landfill, Property, Bricks WA, Roofing and Timber

Continued strong results from construction materials but lower building products earnings

Strong 2Q catch up supported by dry weather following a **significant rain impacted 1Q**

Earnings growth on the east coast offset by declines in WA and NT

Above cost of capital **13% return on funds employed**[1]**, solid 10% EBIT margins** from Boral Australia

EBIT down 3% with **strong east coast volumes, pricing gains, margin improvements and higher**

In **Asphalt**, wet weather in the first quarter had a significant impact on volumes and earnings, and delayed the commencement of some major road projects in QLD and WA, although the pipeline of work remains encouraging. Overall, Asphalt delivered improved earnings in the half year through margin growth. This was despite weaker volumes in all states except NSW, driven by the completion of Gateway WA and Cooroy to Curra Sections B2 & C (QLD) road projects.

In **Cement,** despite a 3% increase in total cement volumes, **external revenue decreased by 4% to $154m,** due to wholesale clinker volumes being lower during the period to support higher direct sales volumes of cement. Average selling price gains of 1% in bulk cement and 3% in packaged products (which account for around one-quarter of external revenues) were achieved.

While competitive pressures continue for the Cement business, and energy costs (coal and power) are increasing, other **cost improvement initiatives continued to deliver benefits,** including improved utilisation of assets and benefits from restructuring in the Southern Highlands.

Concrete Placing revenue was down in the half year as expected, following the completion of work on Barangaroo. Earnings were down on the prior year as a result of lower volumes and sales mix.

Property contributed a solid first half EBIT of $9m, compared with $5m in 1H FY2016. The 1H FY2017 result included the second settlement at Nelsons Ridge, NSW.

Building products businesses reported lower revenues and earnings in the first half, underpinned by a significant decline in Bricks WA, but broadly steady results from Timber and Roofing.

Boral's 40% share of Boral CSR Bricks was sold to CSR in October 2016, with earnings for Jul-Oct 2016 reported under Discontinued Operations.

In Boral's remaining **Bricks WA** business, volumes

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USG Boral

Boral USA

Cladding (Cultured Stone, Trim & Siding), Roof Tiles, Fly Ash and Bricks JV

Profit growth driven by improving housing market and strong business performance

- **Business transformation underway** with formation of Meridian Brick JV and announced acquisition of Headwaters Inc.
- **Continued growth in the housing market with single family starts up 6%** leading to **continued** improvements in **underlying revenue** and profitability
- **US$10m (A$13m) EBIT** reflecting the benefits of price and volume gains

Strategy and priorities

Four years ago, we articulated a vision to transform Boral for performance excellence and sustainable growth. To realise this vision, we have been working to deliver:

- **World class health & safety** outcomes based on **Zero Harm**
- **Returns that exceed the cost of capital** through the cycle
- More **sustainable growth**.

Safety performance has improved dramatically in recent years and is approaching world class with Boral's recordable injury frequency rate (**RIFR**)[1] at 8.4 for 1H FY2017, down from 17.4 in FY2013 and 8.6 in 1H FY2016. Boral's combined employee and contractor lost time injury frequency rate (**LTIFR**)[1] at 1.5 is down from 1.9 in FY2013 but up from 1.2 in 1H FY2016, a reminder that there is still considerable work to do to maintain the positive momentum.

Boral Australia and USG Boral delivered underlying divisional EBIT return on funds employed (**ROFE**)[2] of 12.9% and 10.7%, respectively, in 1H FY2017, with Boral Australia exceeding the cost of capital. Earnings from Boral USA are continuing to improve with returns expected to exceed the cost of capital in coming years as demand recovers towards, and then exceeds, mid-cycle levels of activity. **The Headwaters acquisition** will strengthen Boral's ability to deliver returns that exceed the cost of capital through the cycle.

Boral's reported **ROFE**[2] of 9.3% in 1H FY2017 was up from 8.6% in 1H FY2016.

To meet our **objective of returns that exceed the cost of capital** through the cycle and **more sustainable growth**, we are delivering on our strategy to:

- Consistently apply best practice (including **operational** and **commercial excellence)**
- Draw on Boral's **strength of geographic diversification**
- Build a portfolio of businesses with a **balance of traditional and innovative products** and a **more flexible cost structure**
- **Invest in innovation** and, **where it makes sense, grow through M&A** opportunities.

Geographic diversification across Australia, North America and Asia positions Boral well to benefit from strong markets and to leverage growth opportunities. Boral's position in Australia is strong and the business is performing well, but **Boral's growth platforms are in North America and Asia** – markets Boral understands well, having had operations in both since the 1970s and 1980s, respectively.

The priority for **Boral Australia** is to protect and **strengthen our leading, integrated construction materials position**, which will benefit from the **significant pipeline of major roads and infrastructure work** over the next several years, and to **optimise returns** across all building products and construction materials businesses.

The transformational **USG Boral JV** in Australia, Asia and the Middle East formed in March 2014, is a long-term **organic growth** platform, with the business growing through **innovation**, Asian **economic growth** and **as product penetration accelerates for gypsum-based**

During the half year, brick production at Boral's Midland Brick was curtailed due to the residential downturn in Western Australia which has seen a 34% year-on-year decline in brick volumes. Kiln 8 was mothballed in late FY2016 and production shifts further reduced in 1H FY2017 so that Kilns 9, 10 and 11 are now operating at 80% utilis

FY2017 Outlook

Boral's outlook for FY2017 remains largely unchanged. We expect continuing solid performance in FY2017 with Boral's EBIT expected to be higher than EBIT delivered in FY2016. This is despite the divestment of Boral's 40% share of Boral CSR Bricks in 1H FY2017 having an adverse year-on-year impact on the Group's reported EBIT in FY2017 of around $6.5 million[1].

We **expect Boral Australia to deliver higher EBIT in FY2017 compared with FY2016**. However, in November 2016, at Boral's Annual General Meeting, we said FY2017 earnings would be skewed to 2H due

Results at a Glance

[1] Excludes significant items
[2] On a full time equivalent (FTE) basis
[3] ROFE is calculated on a moving annual total EBIT (before significant items) on funds employed
[4] Includes employees and contractors in 100%-owned

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:

(A$ millions)	**Earnings before significant items**	**Significant items**	**Total**	**Continuing operations**	**Discontinued operations**	**Total**
Sales revenue	2,092.9	-	2,092.9	1,893.9	199.0	2,092.9
EBIT	210.9	25.3	236.2	187.8	48.4	236.2
Finance costs	(27.2)	-	(27.2)	(27.2)		(27.2)
Earnings before tax	183.7	25.3	209.0	160.6	48.4	209

The USG Boral 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 2016.

The Half Year Financial Report for the six months ended 31 December 2016 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.

Adjusted EPS Reconciliation

The following earnings per share calculation adjusts for the impact of the equity raising undertaken in December 2016 to fund the Headwaters Inc. acquisition.

[1] Weighted average number of ordinary shares