Delivering significant earnings growth and transformation

- Reported revenue of $2.9b for 1H FY2018, up 40%
-

Financial Overview

Boral's reported sales revenue of $2.9b increased 40%, with a full-period contribution from the Headwaters acquisition for Boral North America and strong revenue growth in Boral Australia.

EBITDA[1,2] of $500m was up 50% over the prior year, reflecting a full period contribution from Headwaters and strong earnings growth from Boral Australia.

EBITA[1,2] increased 66% to $350m and earnings before interest & tax (EBIT[1,2]) increased 50% to $316m.

Depreciation and amortisation was up 50% to $184m , reflecting the impact of the Headwaters acquisition.

Net interest expense of $50m , up from $27m in the prior year, reflects higher debt following the Headwaters transaction.

Income tax expense of $52m and an effective tax rate of ~20% was a better than expected outcome due to a $7m benefit from the vesting of long term incentives, a $6m benefit from the recovery of previously unrecognised capital and income tax losses, and a $4m benefit from lower income tax rates on US earnings. Excluding these impacts, the effective tax rate would have been ~26%.

A net loss of $41m for significant items reflects integration costs in relation to Headwaters and a provision for site rehabilitation at the Waurn Ponds cement operation (Vic) following its anticipated closure. In addition, there was a nil net impact from a $6m adjustment to deferred tax assets, offset by a $6m benefit from recovery of previously unrecognised tax losses, following changes to US tax legislation.

Statutory net profit after tax (NPAT) of $173m was 13% ahead of the prior year's NPAT of $153m.
Net profit after tax before amortisation (NPATA)[1,2] of $237m was 58% higher on the prior year.

EPSA[1,2] of 20.2 cents)

Market Conditions and External Impacts

Significant growth in Australian infrastructure a nd non-residential demand, growth in US markets but impacted by severe weather events ; mixed conditions in Asian markets

- Strong growth in Australian infrastructure projects across all key regions, growing non-residential activity and modest softening in residential markets from record high levels
- Solid growth in US single-family housing starts substantially offset by lower multi-family starts, with solid growth in non-residential and infrastructure activity, and strong lift in repair & remodel demand
- In Asia , continued strong market demand in Korea, subdued markets in Thailand and Indonesia, with China benefiting from plasterboard market supply constraints

Boral 1H FY2018 external revenue [1] by market, %

Australia

Boral Australia's largest exposure is to the roads, highways, subdivisions & bridges (RHS&B)

Market Conditions and External Impacts (cont.)

Australian alterations & additions (A&A) activity[1] is estimated to have declined by 3% in 1H FY2018 compared with the prior period and is expected to be steady in FY2018.

Non-residential activity [1] is estimated to have grown 11% in 1H FY2018 compared with the prior period and is expected to grow 14% in FY2018.

USA

While weather is a factor that impacts our operations every year, a series of exceptionally severe weather events and wildfires disrupted our operations and slowed activity during 1H FY2018:

Boral Australia

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

Strong result underpinned by growing infrastructure and non-residential activity

- EBITDA excluding Property up 15% driven by growth in construction materials businesses particularly in NSW and Qld including strengthening capabilities in servicing customers
- Revenue growth underpinned by significant volume lift in downstream construction materials coupled with average selling price gains of 1-5% across construction materials businesses reflecting mix shifts and modest price increases

(A$ millions)	1H FY2018	1H FY2017	Var %
Revenue	1,804	1,616	12

Revenue increased by 12% to $1.8b, driven by acceleration of infrastructure project work and strong growth in non-residential construction which more than offset moderating housing demand in NSW, Qld and WA. Overall higher average selling prices were achieved across all businesses, except in WA.

The strong result benefited from exceptionally dry weather on the east coast in Q1, compared to extremely wet weather in the prior year. Rainfall in Q2 returned to more normalised patterns.

EBITDA was up 12% to $294m. Excluding Property, which reported nil earnings in 1H FY2018 compared to $9m in the prior period, EBITDA increased by 15% . Volume growth, price gains and cost efficiencies in construction materials businesses combined with favourable weather on the east coast supported the strong result and offset cost pressures including a $7m increase in energy costs.

Excluding Property, EBITDA margin increased to 16.3% from 15.9% in 1H FY2017, reflecting capabilities to effectively service strong markets and deliver customer and operational excellence.

USG Boral

50%-owned USG Boral joint venture in 14 countries across Australia, New Zealand, Asia and Middle East

Strong revenue growth driven by volume and price gains although earnings softer

- Strong growth in Sheetrock® products, higher margin technical board and non-board revenues
- Underlying EBITDA impacted by higher input costs, $8m in one-off costs and pricing pressures
- Significant earnings growth in Korea and China, with softer earnings from Thailand, Indonesia and Vietnam; strong Australia/NZ contri

USG Boral (cont.)

Korea delivered earnings margin expansion driven by continued record sales volumes and double digit price growth, which more than offset rising input costs. New direct distribution arrangements established in early 2H FY2017 supported the strong result. With volume growth softening in Q2 and increased competitor capacity coming online, competitive pressures are expected to increase in 2H FY2018.

Thailand delivered volume growth despite softer market demand, benefiting from increasing adoption of Sheetrock® and growing exports. Earnings were softer, negatively impacted by competitive price pressures and higher energy costs.

Indonesia benefited from volume gains through Sheetrock® adoption and significant growth in non-board revenue, although earnings were lower due to ongoing competitive price pressures.

China delivered significant revenue and earnings growth, with a strong price lift and volume gains underpinned by market supply shortages stemming from paper supply shortages, and the temporary closure of a number of competitors' plasterboard plants in the North due to new environmental controls to curb pollution. Price growth more than offset higher paper input and gypsum costs due to tightening demand, and benefited from increased Sheetrock® adoption to ~95%, up from ~10% in the prior period.

Other regions delivered steady revenue but a decline in earnings. India, Vietnam, and the Philippines reported lower earnings with Vietnam impacted by competitive pricing pressures.

Boral North America (cont.)

Construction Materials revenue grew 7% to US$388m, and EBITDA increased 5% to US$82m, driven by solid revenue growth in Fly Ash and higher Fly Ash and Denver CM earnings.

Fly Ash delivered revenue growth of 11% to US$280m, reflecting a substantial increase in site services revenue, 1% volume growth and an average price increase of 8% nationally. Price increases ranged from 2% to 20% depending on location and

Boral North America (cont.)

Roofing delivered 4% revenue growth to US$155m and lower earnings. Volumes were up 2% with strong volume growth in California, Arizona and Nevada of ~10% moderated by lower growth in Florida, Texas and emerging tile markets, in part due to the hurricanes. Average selling price was up 1%.

While 1H synergies were delivered in line with our expectations, earnings were impacted by ongoing operational issues at our Oceanside metal roofing plant in California (where Headwaters had recently consolidated three plants into one site) together with integration related manufacturing challenges at the Okeechobee plant (FL) (previously part of the Entegra Roofing business, a Headwaters majority owned joint venture) and optimising capacity at Lake Wales (FL).

Improvement initiatives at the two plants are being implemented and will largely be completed in 2H. These initiatives will improve operating efficiency and plant utilisation (from ~40% in the 1H), which together with pricing gains and completion of commissioning the Lake Wales plant upgrade, are expected to lift performance.

1H FY2018 vs 1H FY2017PF[1]	Volume Var %[2]	Price (ASP) Var %[2]
Roofing	2	1
Stone	(5)	2

Light Building Products delivered higher earnings and margin expansion driven by revenue growth of 11% and US$4m in synergies. Tapco revenue was up 6%, with Versetta and TruExterior® (trim and siding) reporting a 30% increase in revenues, underpinned by growing market demand and increased product penetration.

Earnings grew strongly despite commissioning costs of a new line at the Kleer vinyl trim plant in Massachusetts to meet growing demand, and higher raw material and labour costs, partially due to Hurricane Harvey.

The expanded capacity at Kleer and continued penetration of Versetta and TruExterior® should deliver further performance improvement.

Windows revenue lift of US$33m reflects the acquisitions by Headwaters of Krestmark in August 2016 and Magnolia in February 2017, coupled with underlying volume growth of 12%. Earnings margin was negatively impacted by operational issues at Magnolia.

Operational improvement initiatives at Magnolia's plant, which includes installation of a key new plant component and implementation of LEAN manufacturing principles, should deliver improved performance in 2H.

Meridian Brick JV delivered a post-tax equity contribution loss of US$2m compared to a breakeven result for the first two months of the JV and four months of Boral bricks earnings of $4m in 1H FY2017.

Meridian Brick underlying result

(US$ millions)	1H FY2018	1H FY2017PF[1]
Revenue	202	218
EBITDA[3]	11	17

In 1H FY2018, the underlying Meridian Brick JV generated US$202m of revenue and delivered US$11m of EBITDA. Compared to the prior period proforma results, revenue was down 8% and EBITDA down US$6m.

Brick volumes were down, reflecting further deterioration in brick intensity, the impact of Hurricane Harvey in the South, and a smaller distribution network following the planned closure of manufacturing and distributions assets. This more than offset underlying growth in single-family housing starts in Brick States of 10%[4].

Since formation of the joint venture, eight plants have been permanently closed and 14 distribution centres closed or sold, which should minimise future capital investment.

Average selling price was up modestly, while resale revenues were down 12% due largely to the closure or sale of distribution centres.

Cost synergies of US$6m were more than offset by reduced manufacturing leverage due to lower sales volumes and inventory reduction initiatives, as well as costs associated with repositioning volume from closed plants to ongoing operations.

With most asset rationalisation activities now completed, the business is focused on margin expansion and delivering targeted cost synergies of US$25m within four years.

[1] Proforma Meridian Brick JV business for six months to December 2016
[2] Change from 1H FY2018 relative to 1H FY2017PF
[3] Excluding significant items
[4] McGraw Hill / Dodge raw data - Brick States: Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas

Strategy and priorities

We are continuing to target:

- world class health & safety outcomes based on Zero Harm;
- returns that exceed the cost of capital through the cycle; and
- more sustainable growth, through innovation and, where it makes sense, strategic acquisitions.

While Boral's safety performance has continued to improve in terms of lost time and medical treatment injuries, and remains strong relative to industry peers, two tragic events occurred during the half year. In late September, a supplier's driver delivering diesel to our Concrite operation in Alexandria in Sydney was struck by one of Boral's concrete agitator vehicles on site, and later died from his injuries. Two months later, on 28 November, an off-duty contract worker at our Dutch Quality stone plant

Strategy and priorities (cont.)

A new concrete batch plant was completed at Redbank Plains (Qld), and we are constructing a new concrete plant at West Melbourne (Vic) which replaces our closed North Melbourne plant. In Asphalt, we completed the Deer Park (Vic) upgrade, and we are upgrading Toowoomba (Qld) and Canberra (ACT).

We have finalised plans to invest up to approximately $130m to build a new clinker and slag grinding and cementitious storage facility at the Port of Geelong in Victoria. The investment will reduce delivered cement costs by eliminating road transport of imported clinker and reducing handling costs. It will also increase capacity to meet future demand and expand Boral's cement product offering. Boral's Waurn Ponds milling plant is running at full capacity, which is around 750,000 tonnes of clinker p.a. The new facility will allow for long-term growth and increased flexibility in Boral's cement supply network with raw material storage of clinker, slag, gypsum and limestone; and a modern milling plant with capacity of 1,300,000 tonnes p.a. of material. The planned investment remains subject to regulatory approvals and final contract negotiations. Timing will be determined when final approvals are received but it is anticipated that construction will take place over the next 18-24 months.

The USG Boral JV in Australia, Asia and the Middle East, which was 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 interior linings and ancillary products.

USG Boral's roll-out of Sheetrock ® technology was completed in December 2017 with total capital expenditure of ~US$46m, below the budgeted amount of US$50m. The technology adopted across USG Boral positions the network well to take advantage of future innovations in mix designs and manufacturing as developments progress in-house, as well as in each parent organisation, particularly in USG, which is the world leader in gypsum technologies.

USG Boral has differentiated itself from the competition through its Sheetrock® plasterboard offering, which compared with standard board, is higher strength, lighter weight, and delivers improved sag-resistance. USG Boral's adoption of Sheetrock® currently ranges from around 45% in Korea to close to 100% in Vietnam, with average price premiums of around 3% being achieved. USG's next generation of Sheetrock ® continues to be tested in USG Boral's Queensland business.

In 1H FY2018, plans to add 17m m^2 of capacity in Vietnam were completed, increasing total capacity to 47m m^2 once operations commence in 1H FY2020. In India, production capacity is being increased by 30m m^2 from USG Boral's current capacity of 9m m^2. Investments are self-funded through the joint venture.

In Boral North America the Headwaters acquisition has delivered significant scale, expanded product offerings, geographic breadth, multi-channel distribution and increased diversification across growing US construction markets. Through the acquisition we have created a more balanced portfolio of traditional and lightweight products with strengthened ability to grow in large, contestable US markets and through innovation.

Significant cost and revenue[1] synergies have been identified and we are confident of delivering at least ~US$100m p.a. of synergy benefits in FY2021. In 1H FY2018, US$18m of synergies were delivered against a target of US$30-$35m for FY2018. We expect to deliver in excess of ~US$35m of synergies in FY2018 and an exit run rate exceeding US$50-$55m p.a. by the end of FY2018.

During the integration of Headwaters, some things have exceeded our expectations while some have been below expectation and we have responded accordingly, as summarised below:

Exceed expectation	Challenges & responses
x Cultural alignment and support of employees and	

FY2018 Outlook

Boral's outlook for FY2018 is for growth across all divisions, with a significant lift in earnings from Boral North America reflecting a full year contribution from Headwaters and synergy benefits. On a divisional basis, we expect the following:

- Boral Australia to deliver high single-digit EBITDA growth and low double-digit EBIT growth in FY2018, excluding property in both years. The pre-property result is expected to be skewed towards 1H, with 1H having benefited from exceptionally dry weather on the east coast and more working days.

  The expected year-on-year improvement for FY2018 is underpinned by strong forecast growth in RHS&B and non-residential demand (up ~17% and ~14% respectively) more than offsetting a modest softening in housing construction. In FY2018 volumes are expected to grow and margins to remain strong, with improvement initiatives and modest like-for-like price increases in construction materials at least offsetting cost pressures, including higher energy costs estimated at ~$20m.

  We continue to expect the Property earnings contribution to be at the low end of the five year historical range ($8m - $46m). Including Property contribution in both years, Boral Australia is expected to deliver mid-single digit EBITDA growth (and high single digit EBIT growth) in FY2018 compared with FY2017.

- Profits from USG Boral to grow at mid-single digit rate in FY2018, with strong year-on-year growth expected in 2H. Due to typical seasonality impacts 2H earnings are expected to be lower than 1H, despite one-off cost impacts in 1H.

  FY2018 earnings growth is expected to be underpinned by strong pricing and volume outcomes in China and Korea together with strong volumes in Australia albeit growth rates are expected to slow in the second half as market conditions soften. The growth in China, Korea and Australia together with continued benefits from increased penetration of Sheetrock® products and technical board, should offset a slower than expected recovery in market activity in Thailand and Indonesia, increased competitive pressures in Vietnam, and higher raw material and energy costs.

- Boral North America is expected to deliver a significantly higher EBITDA in FY2018 reflecting the Headwaters acquisition, synergy delivery and underlying market recovery.

  EBITDA is expected to be substantially skewed to 2H as a result of:

  - continued progress in delivering synergies, strengthening our confidence to deliver synergies in excess of US$35m in FY2018;
  - progress in resolving the identified operational issues;
  - a return to normal weather patterns, with early benefits from hurricane rebuilding in Block;
  - price growth following announced price increases for nearly all products with most taking effect from January or February 2018, including some significant increases in bricks and fly ash;
  - continued growth in underlying market demand, including ~4% growth in housing starts (to ~1.25m), ~9% in repair & remodel , ~4% in non-residential and ~5% in infrastructure[1]; and
  - normal seasonal impacts which typically result in much higher volumes and activity in Q4.

  The Meridian Brick JV is expected to deliver positive and improved earnings in 2H, with price gains and synergy benefits more than offsetting the impact of lower volumes associated with a decline in brick intensity and as a result of plant closures.

With purchase price accounting adjustments continuing to be finalised, additional amortisation of intangibles and amendments to depreciation of plant and equipment resulting from the Headwaters acquisition is expected to be US$30-35m p.a. from FY2018.

Boral's effective tax rate is projected to be in the range of 22% to 24% in FY2018, reflecting the significant increase in earnings in the USA and reduced US corporate tax rate. In FY2019, with the full benefit from the reduction in the US corporate tax rate, we expect our effective tax rate to be in the range of 21% to 23%.

Results at a Glance

[1] Excludes significant items
[2] See page 16 for a reconciliation and explanation of these items
[3] Decrease in net tangible asset backing per ordinary security since December 2016 reflects increased intangible assets following the acquisition of Headwaters Inc.
[4] Return on funds employed (ROFE) for 1H FY2017 is calculated as EBIT (before significant items) on funds employed at 31 December. ROFE for 1H FY2018 is based on average monthly funds employed to better reflect the impact of the Headwaters acquisition. Based on 31 December 2017 f

Non – IFRS Information

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

A number of non-IFRS measures are reported in order 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 these non-IFRS measures to reported statutory profit is detailed below:

(A$ millions)		Earnings before significant items	Significant items	Reported Result
Sales revenue		2,937.0	-	2,937.0
Profit before depreciation, amortisation, interest & income tax	EBITDA	500.2	(55.9)	444.3
Depreciation & amortisation, excluding amortisation of acquired intangibles		(150.0)	-	(150.0)
Profit before amortisation of acquired intangibles, interest & tax	EBITA	350.2	(55.9)	294.3
Amortisation of acquired intangibles		(33.9)		(33.9)
Profit before interest & income tax	EBIT	316.3	(55.9)	260.4
Interest		(50.1)	-	(50.1)
Profit before tax	PBT	266.2	(55.9)	210.3
Tax benefit / (expense)		(52.3)	15.0	(37.3)
Net profit after tax	NPAT	213.9	(40.9)	173.0
Add back: Amortisation of acquired intangibles		33.9		
Less: Tax effect of amortisation of acquired intangibles		(11.0)		
Net profit after tax & before amortisation of acquired intangibles	NPATA	236.8		
Weighted average number of shares on issue		1,172,331,924		
Basic earnings per share	EPS	18.2		14.8
Basic earnings per share before amortisation of acquired intangibles	EPSA	20.2		

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 2017.

The Half Year Financial Report for the six months ended 31 December 2017 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.

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