Boral reports improved results and continues to deliver against plan

Reported revenue for the year **down 2% to $5.2b**[1]

EBITDA[2] **up 4% to $556m**

EBIT[2] **up 29% to $294m**

Underlying **profit after tax**[2] **of $171m, up 64%**

Reported **net profit after tax of $173m** after net significant items* of $2m

Net debt of $718m down 50% from $1.45b at 30 June 2013

Earnings per share[2] of **22.0 cents, up from 13.6 cents**

Full year dividend up 36% to **15.0 cents per share**, fully franked

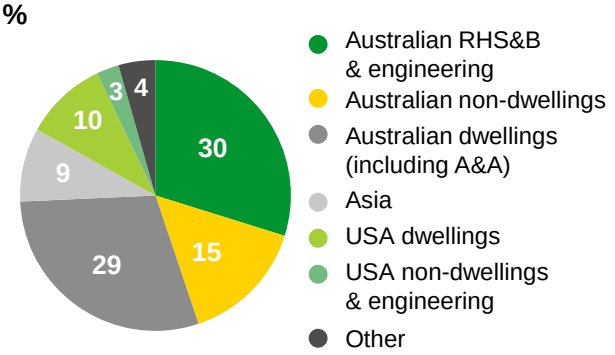
*

Market Conditions and External Impacts

In Australia, housing growth offset a slowdown in roads, highways & engineering; market growth continued in Asia; and in the USA, the housing recovery was slower than expected

During FY2014 higher market activity across most **Australian** residential and non-residential markets was offset by a decline in roads, highways and engineering work. In **Asia**, strengthening economic conditions benefited most markets, while in the **USA**, single-family housing construction experienced only modest improvement compared to the prior year.

Boral external revenue by market
%



Australia – **Roads, highways, subdivisions & bridges** (RHS&B) **and engineering** activity, which accounts for ~**30%** of Boral's revenue, has continued to decline from its FY2012 peak. In FY2014, RHS&B is estimated to be down by 10% on the prior year.[1]

Non-residential activity underpins ~**15%** of Boral's revenue and is estimated to have strengthened by 5% in FY2014, with NSW in particular driving growth.[2]

Housing activity in Australia drives ~**29%** of Boral's total revenues with ~**14%** from detached housing, ~**7%** from multi-dwellings and the remaining **~8%** from alterations & additions (A&A).

Detached housing starts increased by an estimated 10% in FY2014 on the prior year, with **multi-residential** starts up 13%.[3] Total housing starts were up 11% in FY2014 to 180,300 starts.[3]

The proportion of detached housing starts relative to total starts remained historically low at an estimated 57% compared to the prior 20-year average of 67%.

Australian A&A activity remained low but increased by 3% on the prior year with all markets stronger, except Western Australia.[2]

Asia accounted for around **9%** of Boral's total revenues in FY2014.

In **Korea** and **Indonesia**, improved economic conditions resulted in strong growth in underlying market demand for gypsum products.

In **Thailand**, strong underlying demand and market competition were evident despite political unrest which had an adverse impact on the construction market, particularly in Bangkok.

In **China**, Boral supplies the premium end of the construction market which remains subdued. However, Boral's operations continued to achieve strong volume growth in the north east through the Shandong plant.

USA – Total **US housing starts** increased by 9% to **953,000** during FY2014, with single-family starts up 5%.[4] The proportion of single-family starts relative to total US starts at 65% compares to the long-term average of 71%. Housing starts increased despite a severe winter during the third quarter of FY2014, which limited the level of construction activity.

In both Boral's **US Brick States** and **US Tile States**, single-family housing starts increased by 7% on the prior year.[5]

Several **other external factors** impacted Boral's performance in FY2014, including:

- favourable weather conditions in Australia, particularly on the east coast;
- unlawful secondary boycotts by the CFMEU in Victoria affecting materials supply in Melbourne. This has cost Boral approximately $8-$10m in EBIT including legal fees since February 2013, with an estimated $6-$7m EBIT impact in FY2014;
- currency devaluation and elections in Indonesia and political unrest in Thailand; and
- increased competition in Asphalt in Australia and in the Gypsum business in Thailand as a result of recent market entrants.

[1] Based on the average forecasts of Macromonitor and BIS
[2] ABS value of work done 2011/12 constant prices; BIS forecast used for Jun-14 quarter
[3] ABS original housing starts; Jun-14 quarter onwards based on HIA forecast
[4] US Census seasonally adjusted housing starts
[5] McGraw Hill / Dodge data - Brick States: Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas. Tile States: Arizona, California, Florida, Nevada

Boral Construction Materials & Cement

Concrete, Quarries, Asphalt, Cement, Concrete Placing, Transport, Landfill and Property

A strong result from Cement offsets lower contributions from Asphalt and Property

(A$ millions)	FY2014	FY2013	Var %
Revenue	3,287	3,142	5
EBITDA[1]	445	465	(4)
EBIT[1]	277	281	(1)

External Revenue	FY2014	FY2013	Var %
Concrete	1,341	1,223	10
Quarries	517	499	4
Asphalt	783	825	(5)
Cement	307	291	5
Concrete Placing	115	125	(8)

1. Excludes significant items

Revenue – Construction Materials & Cement revenue **increased by 5% to $3.3b** with revenue growth in Concrete, Quarries and Cement partially offset by lower Asphalt revenue.

Concrete, Quarries and Cement revenue growth was supported by a steady flow of major project activity, improved residential and non-residential markets in NSW metro and Western Australia, and favourable weather. There was continued weakness in regional Queensland and NSW driven by a reduction in roads and resource-related project activity. The Victorian market remained flat.

EBIT – was down **1% to $277m**, with improvements in Quarries and Cement more than offset by lower earnings from Asphalt, Concrete Placing and Property as well as softer results from Concrete.

The result includes $10m of equity accounted income relating to a reassessment of rehabilitation obligations of Boral's associated company Penrith Lakes Development Corporation (PLDC) following finalisation of PLDC's water management plans and the scope of rehabilitation required.

Concrete and Quarries – **revenue increased by 10% and 4%, respectively,** largely driven by

Boral Building Products[1]

Australian Bricks, Roofing and Timber

Successful restructuring and market improvements have driven a return to profitability

(A$ millions)	**FY2014**	**FY2013**	**Var %**

[1] Remaining Masonry operations are incorporated into the Bricks business in Western Australia and the Roofing business; the Windows business was sold at the end of November 2013 and moved to discontinued businesses (the Windows business reported revenue of $58m and an EBIT loss of $1m in FY2014)

[2] Excludes exited operations

Boral Gypsum

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

Formation of the USG Boral JV strengthening Boral's long-term growth platform

The **USG Boral joint venture** commenced 1 March 2014, combining Boral's gypsum manufacturing and distribution footprint in Asia and Australia with USG's building products technologies and strategic assets in Asia, New Zealand and the Middle East.

Boral Gypsum's **reported EBIT**[2] **of $77m** for FY2014 reflects 8 months of 100% consolidated earnings from the Gypsum business plus 4 months of 50%-owned equity accounted USG Boral JV earnings.

Boral USA

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

Broke through to profitability in fourth quarter despite slowing housing market recovery

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

Revenue – Boral USA revenue of **US$622m was up 9%** on the prior year, with growth across all businesses partly offset by the loss of revenue from the Oklahoma concrete and sand operations sold in June 2013. Australian dollar revenue increased by 23% to A$681m.

Underlying revenue benefited from an increase in US housing construction activity; however, multi-family activity outpaced single family construction, which remained biased towards low-cost national production home builders rather than custom builders. Brick and stone intensity levels remained flat as a result.

The division reported a **positive EBITDA of US$3m,** which was the first positive EBITDA result in 6 years.

EBIT – **Losses reduced by US$31m to US$35m**.

Managing costs down

Annualised benefits of $105m have now been delivered from the major restructuring and rationalisation initiatives undertaken in FY2013. Early benefits of $37m were delivered in FY2013 and the remaining $68m of incremental cost savings were delivered in FY2014.

The second phase of cost cutting initiatives in **Australia**, which focused on contract management, delivered an initial $25m of benefits in FY2014 and should deliver a further **$20m in FY2015**.

Following the major restructuring program undertaken in Australia in FY2013, it remains imperative that Boral continues to improve its cost base as the Company continues to face inflationary cost pressures of approximately $100m per annum in Australia alone. Structured cost reduction programs commenced in the USG Boral JV, in Boral USA and in Boral Asphalt during the second half of FY2014 to offset cost pressures facing those businesses.

In the **USG Boral** JV a dedicated cost reduction program has been undertaken to help **ensure the business remains cost competitive** as additional resources are added to support the roll-out of new technologies and the sales and marketing of an expanded product portfolio.

In the **USA**, further organisational streamlining was undertaken in June 2014 largely through restructuring and consolidation of regional sales and manufacturing teams as well as consolidation of management responsibilities. This saw a reduction of around 70 employees in the business at year end and is expected to save the business around **US$12m per annum in FY2015**, which will help to offset cost increases.

Restructuring in **Construction Materials & Cement**, particularly in Boral Asphalt in Queensland**,** and including realignment of Support Services, has taken a total of 118 positions out of the business. This should deliver **$11m of cost savings in FY2015**.

Reducing debt through maximising cash generation

Boral generated $251m of cash through divestments and the sale of surplus land over the past two years, achieving the two-year target of between $200m and $300m. This includes cash proceeds delivered in FY2014 through the sale of the Windows business and cash received from land sales.

In addition, Boral received $562m of cash from USG as a balancing payment to form the USG Boral JV. This allowed net debt to reduce substantially to $718m.

Boral is also continuing to apply a disciplined approach to capital allocation. Capital expenditure in FY2014 was $268m, which includes $203m of stay-in-business capital expenditure, and compares with total capital expenditure of $309m in FY2013. In FY2014, the final payment of $48m in respect of the Cultured Stone acquisition occurred.

EXECUTE – Improving the way we operate

Boral continues to rely on its levers of change: Safety, the Boral Production System (based on LEAN), Sales & Marketing Excellence and Innovation, to deliver sector best performance. Benefits from the Boral Production System have been demonstrated at the Berrima Cement works, for example, with the kiln achieving daily, weekly, monthly and annual clinker production records in FY2014.

Safety performance – Boral's combined employee and contractor lost time injury frequency rate (**LTIFR**)[1] of **1.9** in FY2014 was in line with the prior year although a positive improvement trend was experienced in recordable injuries frequency rate (**RIFR**)[1], which **significantly decreased by 22**% **to 13.6**.

TRANSFORM – Transforming Boral for performance excellence

Boral's commitment and focus on growth through innovation is evidenced by:

- The formation of the **USG Boral joint venture** which was underpinned by the objective of accessing USG's world-leading gypsum technologies.
- Boral's **Global Innovation Factory** which is investing in product innovation to create new lightweight products and applications, including the recently launched composite siding product in the USA and the superior performing, lower carbon concrete, ENVISIA® which was launched in Australia in July 2013.
- In FY2015, close to US$4m is planned to be invested to expand Boral's R&D facilities in San Antonio, Texas. A prototype 'composite sheet line' will be built to advance technology to make composite sheets that have applications for roofing, cladding and exterior substrates used in buildings systems.

[1] Per million hours worked

Strategic Direction and FY2015 Outlook

Boral's immediate **focus remains on managing costs, margins, capital and cash.** Longer-term, the goal is to **lower Boral's fixed cost exposures** through the cycle, **leverage innovation** and create a **more geographically balanced** portfolio. This will help to transform Boral for performance excellence and growth, with a continued focus on improving EBIT return on funds employed (**ROFE**) **to 15% over the long-term**.

In **Construction Materials & Cement** in Australia, the objective is to strengthen and protect Boral's **leading integrated positions,** grow margins and continue to grow Boral's major project capability.

In the smaller **Building Products division,** significant improvements have been made to extract returns from the current portfolio. However, **further portfolio restructuring** is required to deliver adequate returns through the cycle. Current initiatives include investigations of a structural solution for the Bricks business and the commencement of a strategic review of our Timber business.

Boral's medium- and longer-term earnings growth will come from the continuing major **market recovery in the USA** and significant **long-term market and product penetration growth in Asia**.

In FY2015, in **Australia** construction activity on roads, highways, subdivisions & bridges (RHS&B) and on major engineering projects is expected to remain below peak levels before recovering later in FY2016. In the **dwellings sector**, higher activity in NSW, Queensland and Western Australia is expected to be dampened by ongoing weakness in Victoria, while **non-residential construction market** activity is expected to be steady, with particular strength in NSW.

Asia will continue to experience good market growth across the region in FY2015. Indonesia and Malaysia are expected to experience solid growth of 10-15% while Korea, Thailand and China growth rates are expected to be more modest.

In the **USA**, the market recovery will continue with total housing starts expected to lift by around 15-20% to 1.1-1.2 million starts.

For FY2015 Boral expects:

Construction Materials & Cement will continue to deliver a strong result. Improvements are expected in Asphalt and other businesses as a result of cost reduction and restructuring programs together with further strength in residential construction activity, particularly in New South Wales. These improvements are expected to offset subdued levels of infrastructure and RHS&B activity, particularly in Queensland and Victoria, as well as lower margins in Cement as a result of current wholesale supply arrangements. While performance should improve, expectations could be dampened if the inability to realise price increases continues.

Boral Gypsum will contribute lower earnings to Boral in FY2015, reflecting the move to a full 12-month period of 50% equity accounted post-tax contribution from USG Boral. The business will deliver improvements in its underlying performance reflecting increased demand in Australia and Asia and the benefits from current restructuring programs. This underlying improvement in FY2015 will be partly offset by integration costs associated with the introduction of an expanded product portfolio and roll-out of new technologies. NextGen products will be introduced to key markets in Q4 of CY2014 and following the roll-out of technologies, synergies are expected to start to ramp up from the second half of FY2015.

Building Products is expected to deliver further gains with its FY2014 EBIT of $8m expected to approximately double in FY2015. The division will be impacted by three plant maintenance shuts in FY2015.

Boral USA should report significantly improved results in FY2015. Assuming US housing starts of around 1.1-1.2 million starts for the year, which is broadly in line with market forecasts, the division is expected to eliminate losses and deliver a broadly break-even result in FY2015.

The FY2015 **effective tax rate** is projected to be in the range of 20% to 25%.

Interest expense in FY2015 will be lower than FY2014 as the benefits of lower debt continue to flow through.

Results at a Glance

(A$ million unless stated)	FY2014	FY2013	% Change
Revenue	5,204	5,286	(2)
EBITDA[1]	556	535	4
EBIT[1]	294	228	29
Net interest[1]	(83)	(97)	
Profit before tax[1]	211	130	
Tax[1]	(37)	(20)	
Non-controlling interests	(3)	(6)	
Profit after tax[1]	**171**	**104**	**64**
Net significant items	2	(316)	
Net profit / (loss) after tax	**173**	**(212)**	
Cash flow from operating activities	507	309	
Gross assets	5,559	6,316	
Funds employed	4,066	4,840	
Liabilities	2,211	2,923	
Net debt	718	1,446	
Stay-in-business capital expenditure	203	126	
Growth capital expenditure	65	183	
Acquisition capital expenditure	48	-	
Depreciation and amortisation	261	307	
Employees[2]	8,953	12,610	(29)
Revenue per employee, $ million	0.581	0.419	
Net tangible asset backing, $ per share	4.03	3.17	
EBITDA margin on revenue[1], %	10.7	10.1	
EBIT margin on revenue[1], %	5.7	4.3	
EBIT return on funds employed[1], %	7.2	4.7	
EBIT return on average funds employed[1], %	6.6	4.7	
Return on equity[1],%	5.1	3.2	
Gearing			
Net debt/equity, %	21	43	
Net debt/net debt + equity, %	18	30	
Interest cover[1], times	3.5	2.3	
Earnings per share[1], ¢	22.0	13.6	
Dividend per share, ¢	15.0	11.0	
Employee safety[3]: (per million hours worked)			
Lost time injury frequency rate	1.9	1.9	
Recordable injury frequency rate	13.6	17.4	

Figures relate to the total Group including continuing and discontinued operations

[1] Excludes significant items
[2] Reflects a reduction of 3,104 employees in the Gypsum division now employed in the USG Boral JV as well as 544 employees transferred from Boral following the divestment of the Windows business.
[3] Includes employees and contractors. FY2013 LTIFR and RIFR have been restated following data corrections from 1.8 and 16.8, respectively.

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 8 of the preliminary 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	5,203.9		5,203.9	4,455.1	748.8	5,203.9
EBIT	294.2	(42.9)	251.3	161.7	89.6	251.3
Finance costs	(83.1)	16.3	(66.8)	(64.4)	(2.4)	(66.8)
Earnings before tax	211.1	(26.6)	184.5	97.3	87.2	184.5
Tax (expense) / benefit	(36.8)	28.5	(8.3)	9.0	(17.3)	(8.3)
Profit after tax	**174.3**	**1.9**	**176.2**	**106.3**	**69.9**	**176.2**
Non-controlling interests	(2.9)		(2.9)	2.9	(5.8)	(2.9)
Net profit after tax	**171.4**	**1.9**	**173.3**	**109.2**	**64.1**	**173.3**

The Gypsum division commentary also includes a non-IFRS measure of underlying results excluding significant items representing the 12 months trading results to assist users to better understand the trading results of this division despite changes in ownership during the year.

The results announcement has not been subject to review or audit, however it contains disclosures which are extracted or derived from the preliminary Financial Report for the year ended 30 June 2014.

This preliminary Financial Report for the year ended 30 June 2014 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. This report is based on accounts which have been audited. The audit report, which is unmodified, will be made available with the Boral Limited Annual Report around 17 September 2014. The Annual Report is currently being finalised in publishable form.

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