Boral continues to strengthen profitability with delivery against plan

Reported revenue of $4.3b for the year down 2% but revenue from continuing operations was broadly steady on the prior year

EBITDA[1] of $645m, up 6%

EBIT[1] of $398m

Boral Gypsum – USG Boral's underlying EBIT of $179m was up 27% on FY2015, and Boral's 50% share of post-tax earnings from the JV of $59m was 21% higher due to strong growth in Australia, continued penetration of premium and adjacent products and cost reduction benefits.

Boral USA – delivered EBIT of A$44m, which is A$38m higher than FY2015, reflecting further recovery in US housing activity, benefits from operational cost savings and a one-off land sale of A$10m.

Delivering on Boral's transformation strategy

Driving safety excellence – a significant 28% reduction in lost time injury frequency rate (LTIFR) to 1.3 and a 27% reduction in recordable injury frequency rate (RIFR) to 8.8.

Driving performance excellence – increase in return on funds employed (ROFE)[2] to 9.0% in FY2016, underpinned by a strong contribution from CM&C achieving 14.2% ROFE, improved earnings from Boral USA and USG Boral and operational improvements across all divisions.

Growing through product innovation – the roll out of our world-leading Sheetrock® gypsum technologies across USG Boral remains ahead of plan, with product acceptance and price premiums tracking well.

FY2017 outlook is for continued growth

In FY2017 we expect slightly improved earnings from Boral Australia, underpinned by infrastructure activity and a thriving NSW market, lower property earnings and softer results from building products businesses. We expect continued underlying growth from USG Boral, and earnings from Boral USA to continue to strengthen in line with the housing market recovery.

[1] Excluding significant items
[2]

Financial Overview

Ongoing focus on operational excellence, costs and productivity drives profit growth

Boral's reported **sales revenue of $4.3b was down 2%** on the prior year, reflecting the absence of revenue contribution from the East Coast brick operations following the formation of the Boral CSR Bricks joint venture on 1 May 2015, and the Landfill business, which was sold effective 1 March 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.

Earnings before interest & tax (**EBIT**)[1] **increased 12% to $398m** despite lower Property earnings this year compared to the prior year, and reflects stronger earnings as a result of operational cost improvements, lower fuel costs and some pricing gains.

Depreciation and amortisation remained broadly unchanged on the prior year at $247m.**Onb76ct18.02**

USA market conditions continue to strengthen with **total US housing starts** increasing 9% to an annualised rate of 1.15 million starts[1].

Boral Construction Materials & Cement (CM&C)

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

Strong returns and margin expansion despite lower project activity

FY2016 v FY2015	Total Volume, *Var %*	Price, *Var %*
Concrete	(2)	2
Quarries	(2)	(1)
Aggregates	(2)	1
Cement	6	2

Cement external revenue increased by 3% to $303m, benefiting from a 6% increase in cement volumes due to stronger NSW activity and 2% higher average prices, partially offset by lower wholesale clinker volumes due to kiln availability. Earnings also grew with 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 inner city high-rise multi-residential and commercial markets. The business delivered positive earnings although slightly down on the prior year.

Landfill contributed $9m lower earnings following the sale of the business on 1 March 2015. Boral now receives a royalty-based payment from the new owner.

Property contributed $28m to EBIT, compared to $46m in FY2015. The FY2016 result included the first settlement at Nelsons Ridge, NSW (with the second contract expected to settle in FY2017) and sale of land at the former Stapylton quarry, QLD.

Boral Building Products[1]

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

Rising profits with continued strength in housing market, cost savings and efficiency gains

EBIT increased 11% with pricing gains across most products and cost savings, including energy and depreciation costs from previous restructuring; there was also strong growth in Boral CSR Bricks underlying earnings

Excluding the impact of equity accounting for t

Boral Gypsum

50%-owned USG Boral joint venture in 12 countries across Australia, New Zealand, Asia and Middle East[1]

Significant profit growth through new product penetration and strong cost management

Strong cost management, including manufacturing cost improvements and procurement savings, together with Sheetrock® price premium underpinned solid margin expansion

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

Strong underlying business performance in line with plan, in local currency terms

Boral Gypsum reported **equity accounted income of $59m, up 21%** on the prior year. This represents Boral's 50% share of the post-tax earnings of USG Boral, and is reflected in Boral's EBIT result.

Boral's reported Gypsum result

(A$ millions)	FY2016	FY2015	Var %
Equity income[1]	59	49	21

1. Post-tax equity income, excludes significant items

Earnings growth reflects strong business performance with the continued penetration of Sheetrock® plasterboard and adjacent (non-board) products, stronger board volumes in Australia and strong cost management driving margin expansion. Plant utilisation remained broadly unchanged at 70%.

USG Boral underlying business result

(A$ millions)	FY2016	FY2015	Var %	6	0	is	represents

Boral USA

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

Strong profit growth; continuing to benefit from the housing market recovery

Accelerated investment to strengthen

Strategy and priorities

Our vision is to transform Boral for performance excellence and sustainable growth. 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
- More sustainable **growth**.

Safety performance has improved dramatically in recent years with more than a 27% reduction in the frequency rate of accidents in FY2016 relative to FY2015. Boral's combined employee and contractor lost time injury frequency rate (**LTIFR**)[1] is approaching world class at 1.3, down from 1.8 in FY2015. Boral's recordable injury frequency rate (**RIFR**)[1] stands at 8.8, down from 12.1 in FY2015 and 21 just five years ago. These orders of magnitude changes demonstrate the effectiveness of disciplines that are in place and that Boral's people and systems are delivering as intended.

EBIT return on funds employed (**ROFE**)[2] of 9.0% in FY2016 was up from 8.2% in FY2015. Key drivers of improved ROFE include improved earnings from the USA underpinned by the market recovery, growing returns from USG Boral in line with plan, together with the benefits from portfolio restructuring in recent years and continuous improvements in the way we operate.

To **deliver returns that exceed the cost of capital** through the cycle and to deliver **more sustainable growth**, our strategy is to:

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

Boral Australia

Effective 1 July 2016, Boral's **Building Products** division in Australia combined with the **Construction Materials & Cement** (CM&C) division to form a new Boral Australia division. This was a logical next step for Boral as portfolio realignment has seen the Building Products division substantially reduce in size over recent years. Bringing the two divisions into one will deliver around $2 million of annual cost savings and improve efficiencies.

In FY2016 Boral Australia delivered a combined divisional ROFE[1] of 13.5%, above the cost of capital (CM&C delivered returns of 14.2% ROFE, and Building Products delivered an improved ROFE of 9.4%). Overall, in Australia we are aiming to sustain and, where possible, strengthen these solid return outcomes.

An ongoing ***operational excellence*** program is helping to deliver margin expansion benefits. In FY2016, the operational excellence program in

FY2017 Outlook

Continuing solid performance is expected, with the following divisional expectations in FY2017:

Boral Australia comprises the previous divisions of Construction Materials & Cement and Boral Building Products from 1 July 2016, as announced on 10 June 2016.

Construction Materials & Cement businesses are expected to continue to deliver strong results with slightly higher EBIT expected in FY2017 compared with FY2016 (including property earnings in both years).

Continued strength in the Sydney construction markets and stronger infrastructure volumes are expected to benefit Boral's downstream concrete and asphalt operations, offsetting the weaker WA market while conditions in QLD and VIC are expected to remain broadly steady.

Typically, earnings from CM&C (excluding property) are skewed towards the first half of the year reflecting available working days. However, in FY2017 earnings are expected to be broadly balanced between the first and second half, due to softer major project and WA activity ahead of the expected ramp-up of materials demand for infrastructure projects and the timing of announced price increases. A strong focus remains on commercial and operational excellence programs, with price rises overall aiming to at least offset cost inflation, and benefits from ongoing improvement initiatives and prior year restructuring expected to drive earnings growth.

The majority of the earnings contribution from **property** sales at Nelsons Ridge, totalling around $20m, was recognised in 2H FY2016 with the remaining ~$5m expected on settlement of the second contract in FY2017, subject to completion. Additional property sales are expected and while there is not yet visibility around the earnings impact, the contribution from property in FY2017 is currently expected to be lower than the contribution delivered in FY2016.

Building Products businesses are expected to continue to benefit from the strong pipeline of work in East Coast residential markets as well as the improvement initiatives in the Timber business. However, slightly softer earnings are expected primarily due to the impacts of weaker housing conditions in WA and SA.

USG Boral is expected to deliver further performance improvements on the back of continued penetration of new Sheetrock® products, strong cost and price discipline, and synergy realisation from the expanded product portfolio and technology roll-out. Continued strong volumes are expected in Australia together with some volume improvements in key markets in Asia.

Boral USA is expected to report further growth in earnings on the back of increased housing activity. 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, external forecasters are projecting housing starts to increase to approximately 1.3 million starts[1] in FY2017. We are positioned well to continue to supply the recovering market and continuing to grow Boral's lightweight products portfolio.