Results Announcement
for the year ended 30 June 2017

30 August 2017

Management Discussion & Analysis

Boral delivers strong earnings growth, continues transformation

- **Reported revenue of $4.4b** for FY2017, up 2%
- Strong earnings growth with **EBITDA[1] of $720m**, up 12%, and **EBIT[1] of $460m**, up 16%
- Underlying **profit after tax[1] of $343m**, up 28%, reflecting lower net interest and a better than expected tax outcome in 2H FY2017
- Statutory **net profit after tax of $297m**, up 16%, after a $46m net loss for significant items
- **Net debt of $2.3b** up from $893m at 30 June 2016 reflecting the Headwaters acquisition; gearing of 30%
- **Earnings per share[1] of 33.7 cents**, up 1%, reflecting additional shares on issue following capital raising in December 2016 but only eight weeks of Headwaters post-acquisition earnings contribution
- **Final dividend of 12.0 cents per share** (50% franked); full year dividend of 24.0 cents per share up 7%

Strong performance with EBIT contribution from Headwaters in line with expectations

Boral Australia – EBIT of $349m was up 11% with pricing and volume gains, strong east coast residential markets, growing infrastructure volumes and margin improvements. There was a smaller contribution from WA and building products businesses, while weather impacts broadly evened out over the year.

USG Boral – underlying EBIT of $217m was up 21% year-on-year; Boral's 50% share of post-tax earnings from the JV of $70m was 18% higher. This was due to solid growth in Korea and Australia from strong market activity, increased penetration of premium priced Sheetrock® and growth in adjacent products. Higher plant utilisation and margin growth from cost improvement initiatives also benefited the result.

Boral North America – delivered EBIT of A$66m, up 50%, reflecting the ongoing transformation of the business and continued housing market growth. The result included the expected A$28m (US$21m) EBIT contribution from eight weeks' ownership of Headwaters. The underlying Boral business benefited from price and volume gains.

Strategy to transform Boral is delivering results

- ✓ **Strong health & safety outcomes** – a further 8% reduction in recordable injury frequency rate (RIFR) to 8.1, lost time injury frequency rate (LTIFR) remains low at 1.5 with further opportunities to improve.
- ✓ **Above cost of capital returns in two divisions** – Boral Australia delivered a strong return on funds employed (ROFE[2]) of 14.6% and USG Boral an underlying ROFE of 11.6%. Boral North America is now well placed to improve returns over time through Headwaters contribution, synergies and market growth.
- ✓ **Transformational growth** – with completion of the strategically compelling US$2.6b acquisition of Headwaters on 8 May 2017, Boral has transformed to a more global building products and construction materials group with three very strong divisions – the high performing, well-positioned Boral Australia; the fast-growing, innovative USG Boral; and Boral North America, a scaled building products and fly ash business with greater geographic reach, diverse product offerings and strong growth prospects.

FY2018 will see continued growth including a major earnings lift from Boral North America

In FY2018 we expect **Boral Australia** to deliver continued strong results with underlying earnings growth, largely driven by infrastructure activity, offset by an expected lower contribution from Property sales. **USG Boral** earnings are expected to continue to grow as a result of our premium Sheetrock® product together with improvements in Indonesia and Thailand partially offset by moderating housing markets in Australia and Korea. **Boral North America** will deliver a significant growth in EBIT with a full year contribution from Headwaters, expected US$30-35m in first year synergies and continued market growth.

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[1] Excluding significant items
[2] EBIT before significant items on funds employed as at 30 June 2017

Market Conditions and External Impacts

USA market conditions continued to strengthen with **total US housing starts**[1] increasing 4% in FY2017 to an annualised rate of 1.20 million starts.

Single-family starts increased by 7% nationally, **up 10%** in Boral's Tile States and **up 10%** in Boral's Brick States[2].

With multi-family starts down 1% nationally[1], single-family starts as a proportion of total starts increased from 66% to 68%, but remain below the long-term average of 71%[1].

The housing activity momentum slowed in FY2017, mainly driven by the slowing in multi-family activity. On average, market forecasters[3] expect total US housing starts to lift by 8% in FY2018 to ~1.29 million starts.

Other US construction markets also strengthened during the year including **Non-residential[4]** activity which was up 2%, and the **Repair & Remodel[5]** market which lifted by an estimated 6%. **US Infrastructure[6]** activity was strong but based on estimated Infrastructure based Ready Mix Concrete volumes, was estimated to be 4% softer.

In **Asia**, market growth in **Korea** was underpinned by the strong performing residential sector. Markets remained subdued in **Thailand, Indonesia and China** in line with weaker economic conditions. **Emerging USG Boral markets** of India, 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, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas. Tile States: Arizona, California, Florida, Nevada
[3] Average of analysts' forecasts (Dodge, Wells Fargo, NAR, NAHB, Fannie Mae, Freddie Mac, MBA) from July/August 2017 forecast
[4] Dodge Data & Analytics, Non-Residential Value of Work, forecast used for Jun-17 quarter
[5] Moody's Retail Sales of Building Products
[6] Infrastructure Ready Mix Demand from McGraw Hill Dodge

Boral Australia

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

Price and volume growth in construction materials businesses deliver strong results

- **Strong earnings growth on the east coast** partially offset by declines in WA/NT and building products businesses
- **EBIT up 11% underpinned by growth in infrastructure** activity supporting strong east coast price and volume gains
- **Above cost of capital return on funds employed**[1] at 14.6% and strong 10.6% EBIT margins assisted by business improvement initiatives
- **$24m EBIT contribution from Property,** slightly ahead of our expectations

(A$ millions)	FY2017	FY2016	Var %
Revenue	3,296	3,279	1
EBITDA[1,2]	551	511	8
EBIT[1,2]	349	314	11
Property	*24*	*28*	15
EBIT[1] excl. Property	*325*	*286*	14

FY2017	External revenue		EBIT
Concrete	1,375	2%	
Asphalt	691	7%	
Quarries	424	5%	
Cement	303	Steady	
Concrete Placing	113	9%	
Bricks WA & Roofing[2]	192	13%	
Timber	144	5%	

1. Excludes significant items
2. Excludes contribution from Boral CSR Bricks JV which was divested during the year, with earnings reported under Discontinued Operations

Revenue from Boral Australia increased by 1% to $3.3b, driven by strong levels of east coast residential construction, price gains in all major businesses and growth in infrastructure activity, largely offset by the WA market downturn impacting construction materials businesses and Bricks WA, as well as lower revenues in Timber and Concrete Placing.

Overall, weather impacts balanced out over the full year with the wetter than average Q1 and Q3 conditions offset by the benefit of a drier Q2 and Q4.

EBIT from Boral Australia of $349m increased by 11% or $35m. **EBIT excluding $24m from Property** increased by 14%. The benefits of solid price gains, infrastructure volume growth and efficiencies more than offset the decline in earnings from LNG and Barangaroo projects, the one-off $4m of damages received from the CFMEU settlement in the prior year and the $9m year-on-year EBIT decline from Bricks WA.

Concrete delivered improved earnings from volume and price growth, particularly in east coast metropolitan regions.

Overall, concrete volumes were up 1%, with strong growth in NSW and positive contributions from all other states except WA. Excluding the impacts of LNG projects (Curtis Island and Wheatstone) and Barangaroo in the prior year, volumes were up 3% year-on-year.

On a like-for-like basis, concrete prices were up by an average of 3% nationally, with ~3-5% increases in metro regions across the country except in WA. The solid price growth reflects overall strong demand conditions and the implementation of bi-annual price increases. A favourable product mix resulted in the average selling price in concrete being up over 4% nationally.

Asphalt delivered improved earnings with stronger margins and volume growth contributing to the result. Increased volumes in Qld, NSW and Vic on the back of growing infrastructure activity were partially offset by weaker volumes in SA and project delays in WA.

Quarries delivered stronger earnings, particularly supported by growth in SEQ and Vic. Quarry volumes were up 4% nationally with volume growth in all states except NSW which maintained its already high volumes. Increased infrastructure related activity was felt across the country.

On a like-for-like basis, quarry prices were up by an average of over 2% nationally, with 4 to 10+% increases in eastern state metro markets, and aggregate prices were up 4%. With pricing pressure in WA and regional NSW and Qld however, the average selling price across all quarry materials was up just over 1% nationally.

FY2017 v FY2016	Total Volume *Var %*	Price (ASP) *Var %*	Price (LFL) Var %
Concrete	1	4	3
Quarries	4	1	2
Aggregates	*10*	*2*	*4*
Cement	2	2	2

[1] EBIT return on divisional funds employed at 30 June 2017. EBIT excludes significant items

In **Cement,** external revenues were steady, underpinned by a 2% price increase and lower wholesale volumes to support higher volumes of cement sold internally. Overall, total volumes (external and internal sales) were up 2%. Earnings grew strongly, supported by price and volume gains as well as productivity and material input cost benefits, partially offset by higher energy costs.

Concrete Placing revenue was down during the year as expected, following the completion of work on Barangaroo and Warringah Mall, with a corresponding reduction in earnings.

Property contributed EBIT of $24m, compared with $28m in FY2016. The FY2017 result included Kirrawee and the second settlement at Nelsons Ridge in NSW, with property sales a little ahead of expectations.

Building products businesses reported lower revenues and earnings across Bricks WA and Timber businesses with a steady result from Roofing.

In **Bricks WA**, volumes were 26% lower and prices were down 5%. Restructuring of the operations in FY2017 resulted in a reduction of 52 positions and a one-off cost of $2m. With earnings down on the

USG Boral

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

Strategy and priorities

We are continuing to transform Boral for performance excellence and sustainable growth, by targeting:

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.

Boral's safety performance has improved dramatically in recent years and is strong relative to industry peers. Boral's recordable injury frequency rate (**RIFR**)[1] at 8.1 for FY2017 is down from 19.0 in FY2012 and 8.8 in FY2016. Boral's combined employee and contractor lost time injury frequency rate (**LTIFR**)[1] at 1.5 is down from 1.8 in FY2012 but up slightly from 1.3 in FY2016, a reminder that there is still work to do.

For the year ended 30 June 2017, Headwaters businesses delivered an employee LTIFR of 3.9 and a RIFR of 14.6. This compares with Boral USA's LTIFR of 0.3 and RIFR of 6.7, demonstrating the work we have to do to bring Headwaters operations in line with Boral's leadership in safety.

We target to deliver **returns that exceed the cost of capital,** and in FY2017 both Boral Australia and USG Boral delivered on that goal with underlying divisional EBIT return on funds employed (**ROFE**)[2] of 14.6% and 11.6%, respectively. Currently, Boral's cost of capital is equivalent to a ROFE of ~10.5-11.0%.

Earnings from Boral North America are continuing to grow with returns expected to exceed the cost of capital in coming years as demand recovers towards, and then exceeds, mid-cycle levels of activity, and as full synergies from the **Headwaters acquisition** are delivered. The Headwaters acquisition strengthens Boral's ability to deliver above cost of capital returns through the cycle and we expect the business will deliver less cyclical, more stable ROFE as a result of the more diversified market exposures in the USA and less exposure to high fixed cost businesses. However, before full acquisition synergies are delivered in year four, the rate at which ROFE is growing will be dampened due to the significant increase in funds employed.

The reported FY2017 **ROFE** for Boral North America is artificially low as it reflects only eight weeks' of earnings contribution in FY2017 while funds employed reflects the full increase of the Headwaters acquisition as at 30 June 2017. This is also reflected in Boral's reported ROFE in FY2017 if funds employed at 30 June is used. However, using the average monthly funds employed for the year, Boral's FY2017 ROFE was 9.2%. This compares with Boral's reported ROFE of 9.0% in 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)**

USG Boral

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

FY2018 Outlook

Boral's outlook for FY2018 is for continued growth across all businesses, with a significant lift in earnings from Boral North America as we deliver on the Headwaters acquisition objectives.

On a **divisional basis**, we expect the following:

Boral Australia to deliver higher EBIT in FY2018 compared with FY2017, excluding property in both years. The pre-Property result is expected to be broadly balanced between 1H and 2H.

The expected year-on-year improvement is **underpinned by infrastructure volume growth,** with RHS&B activity forecast to grow by ~15% in FY2018, driving a lift in volumes, particularly in asphalt and associated pull-through of quarry products, as well as continued strength in concrete and cement. Margins are expected to continue to improve through a combination of price and cost disciplines.

Over the past five years, **Property earnings** have ranged from a low of $8m to a high of $46m. The contribution from property in FY2018 is **currently expected to be at the low end of the historical range** and weighted towards the second half.

Based on this expected Property contribution, FY2018 **EBIT from Boral Australia is expected to be broadly similar to FY2017 including Property in both years**.

Profits from USG Boral are expected to continue to grow in FY2018 underpinned by continued strength of Sheetrock®

Results at a Glance

(A$ million unless stated)	FY2017	FY2016	% Change
Revenue	4,388	4,311	2
EBITDA[1]	720	645	12
EBITA[1,2]	472	400	18
EBIT[1]	460	398	16
Net interest[1]	(51)	(63)	20
Profit before tax[1]	409	335	22
Tax[1]	(67)	(67)	-
Profit after tax[1]	**343**	**268**	**28**
Net significant items	(46)	(12)	
Net profit / (loss) after tax	**297**	**256**	16
Profit after tax and before amortisation[2]	350	269	30
Cash flow from operating activities	413	478	
Gross assets	9,314	5,801	
Funds employed	7,774	4,399	
Liabilities	3,873	2,294	
Net debt / (cash)	2,333	893	
Stay-in-business capital expenditure	288	281	
Growth capital expenditure	52	43	
Acquisition capital expenditure	3,637	-	
Depreciation and amortisation	260	247	
Boral employees[3]	11,499	8,334	
Total employees including in joint ventures	16,475	12,058	
Revenue per Boral employee, $ million	0.382	0.517	
Net tangible asset backing, $ per share	1.90	4.40	
EBITDA margin on revenue[1], %	16.4	14.9	
EBIT margin on revenue[1], %	10.5	9.2	
EBIT return on funds employed[1, 4], %	9.2	9.0	
EBIT return on average funds employed[1,5], %	7.6	9.1	
Return on equity[1],%	6.3	7.6	
Gearing			
Net debt/equity, %	43	25	
Net debt/net debt + equity, %	30	20	
Interest cover[1], times	9.1	6.3	
Earnings per share[1], ¢	33.7	33.3	
Dividend per share, ¢	24.0	22.5	
Employee safety[6]: (per million hours worked)			
Lost time injury frequency rate	1.5	1.3	
Recordable injury frequency rate	8.1	8.8	

1 Excludes significant items
2 Excludes amortisation of acquired intangibles
3 On a full time equivalent (FTE) basis. FY2017 includes 4,016 FTE employees from Headwaters
4 FY2016 return on funds employed (ROFE) is calculated as EBIT (before significant items) on funds employed at 30 June. FY2017 ROFE is based on average monthly funds employed due to the impact of Headwaters only contributing eight weeks of EBIT in FY2017 but funds employed increasing fully at 30 June 2017. Based on year end funds employed, ROFE for FY2017 would be reported as 5.9%
5 Calculated as EBIT (before significant items) on the average of opening and closing funds employed for the year
6 Includes employees and contractors in 100%-owned businesses and 50%-owned joint venture operations. Does not include Headwaters.

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 7 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:

The USG Boral 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.

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 2017.

This Preliminary Financial Report for the year ended 30 June 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.

A reconciliation of reported EBIT to EBITA and PATA is detailed below:

[1] Excluding significant items

Appendix

Templates for Boral North America disclosure from FY2018

The following templates are provided to demonstrat