Build something great™

# Results Announcement

## for the half year ended 31 December 2017

13 February 2018

## Management Discussion & Analysis

## Delivering significant earnings growth and transformation

- **Reported revenue of $2.9b** for 1H FY2018, up 40%
- **EBITDA[1,2] of $500m**, up 50%
- **EBITA[1,2] of $350m**, up 66% and EBIT[1,2] of $316m, up 50%
- **NPATA[1,2] of $237m**, up 58%, and NPAT[1,2] of $214m, up 44%
- Statutory **NPAT[2] of $173m**, up 13%, after a $41m net loss for significant items
- **EPSA[1,2] of 20.2 cents**, up 17%, and EPS[1,2] of 18.2 cents, up 6%
- **Interim dividend of 12.5 cents per share**, 50% franked, up 4%

### Significant lift in earnings driven by Headwaters acquisition and Boral Australia

- **Boral Australia** – EBITDA of $294m was up 12% on 1H FY2017 driven by strong growth in infrastructure, higher non-residential activity, favourable weather and strengthening capabilities all supporting underlying margin improvement.
- **USG Boral** – underlying EBITDA of $149m was down 1% on the prior period with Boral's 50% share of post-tax earnings from the JV down 4% to $38m. Strong revenue gains in Australia, Korea and China and increased penetration of premium priced Sheetrock® across all regions was offset by higher input costs, $8m in one-off costs, and softer results in Thailand, Indonesia and Vietnam.
- **Boral North America** – EBITDA of A$184m was up from A$41m and EBITA of A$135m was up from A$19m in the prior period, reflecting a full period contribution from Headwaters. EBITDA growth benefited from US$18m in synergies but was moderated by severe weather events, operational issues in Roofing, Stone and the Magnolia Windows business, and challenges in the Meridian Brick JV.

### Focused on delivering results

✓ **Safety performance** – lost time injury frequency rate (LTIFR) improved 27% to 1.1, and recordable injury frequency rate (RIFR) was broadly steady at 8.3.

✓ **Above cost of capital returns** – Boral Australia and USG Boral delivered return on funds employed (ROFE[3]) of 15.4% and 11.1% respectively, above Boral's cost of capital. Boral North America and the Boral group are well placed to deliver above cost of capital returns over time through full realisation of synergies from the Headwaters acquisition and market growth. Boral's ROFE for 1H FY2018 was 8.5%[4].

✓ **Business transformation** – the Headwaters acquisition has transformed Boral to a more global construction materials and building products group with Boral North America, a scaled building products and fly ash business with diverse product offerings and greater geographic reach and growth prospects.

### FY2018 outlook remains strong with substantially higher North American earnings

In FY2018, we expect growth across all divisions with a significant lift in **Boral North America** EBITDA from a full year contribution from Headwaters, synergy benefits and market growth. **Boral Australia** should deliver strong underlying earnings growth underpinned by increased infrastructure and non-residential activity, partly offset by a lower contribution from Property. **USG Boral** earnings are expected to grow with strong outcomes in Australia, Korea and China together with benefits from our Sheetrock® products moderated by competitive pressures in several markets, rising input costs, and one-off costs impacting 1H.

[1] Excluding significant items
[2] See page 16 for a reconciliation and explanation of these items
[3] Moving annual total EBIT (excluding significant items) on divisional funds employed at 31 December
[4] Moving annual total EBIT (excluding significant items) on monthly average funds employed for the 12 months to 31 December

# Financial Overview

| *(A$ millions) figures may not add due to rounding* | 1H FY2018 | 1H FY2017 | Var % |
|---|---|---|---|
| Revenue | 2,937 | 2,093 | 40 |
| **EBITDA[1,2]** | **500** | **333** | **50** |
| **EBITA[1,2]** | **350** | **212** | **66** |
| EBIT[1,2] | 316 | 211 | 50 |
| Net interest | (50) | (27) | |
| Tax[1] | (52) | (35) | |
| NPAT[1,2] | 214 | 149 | 44 |
| Significant items (net) | (41) | 4 | |
| Statutory NPAT[2] | 173 | 153 | 13 |
| **NPATA[1,2]** | **237** | **149** | **58** |
| EPSA (cents)[1, 2] | 20.2 | 17.3 | 17 |
| EPS (cents)[1,2] | 18.2 | 17.2 | 6 |
| Interim dividend (cents) | 12.5 | 12.0 | 4 |

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** increased 17% and EPS[1,2] of 18.2 cents increased 6%, reflecting the increased number of shares following the equity raising in December 2016.

An interim **dividend of 12.5 cents** per share (50% franked), to be paid on 9 March 2018, represents a payout ratio of 68%. This is in line with Boral's Dividend Policy[3].

**Operating cash flow of $216m was 37% higher** on the prior year, reflecting a strong earnings lift from the Headwaters acquisition and Boral Australia, partially offset by higher interest and tax payments, and restructuring, acquisition and integration costs paid.

**Capital expenditure of $164m** ($149m of stay-in-business and $15m of growth expenditure) was up from $144m in the prior year, and included quarry upgrades at Deer Park (Vic), Orange Grove (WA) and Ormeau (Qld), a new concrete plant at Redbank Plains (Qld) and a replacement plant at West Melbourne (Vic).

**Net debt at 31 December 2017 was $2.4b compared to $2.3b at 30 June 2017** and net cash of $1.2b at 31 December 2016; the latter which reflected the equity raising for the Headwaters acquisition. Boral remains well within its funding covenants, with Boral's principal debt gearing covenant (gross debt/ (gross debt + equity)) of 32% well within the threshold of less than 60%. Gearing (net debt/(net debt + equity)) was 30% at 31 December 2017, unchanged from 30 June 2017.

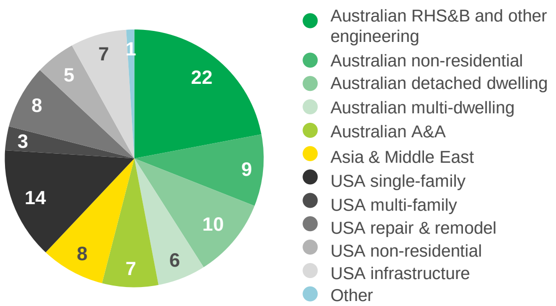
1 Excluding significant items
2 See page 16 for a reconciliation and explanation of these items
3 Dividend policy of between 50% and 70% of earnings before significant items, subject to the Company's financial position

# Market Conditions and External Impacts

**Significant growth in Australian infrastructure and 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) segment. RHS&B value of work done[2] is forecast to grow by 17% in FY2018, with 21% growth in NSW and 22% in Qld.

**Other engineering** activity[2] is forecast to grow in FY2018, primarily through growth in railways and electricity sectors.

Australian **housing starts**[3] remain strong, moderating from a record high annualised rate of 238,000 starts in 1H FY2017 down 6% to an expected ~224,000 starts in 1H FY2018. **Detached housing starts** were down 4%, while **multi-residential starts** were down 8%.

In NSW, Qld and WA housing starts are estimated to have declined by 15%, 15%, and 8% respectively. Conversely, housing starts in Vic and SA are estimated to have grown by 9% and 13% respectively, driven by increased multi-residential starts. Overall detached housing starts as a proportion of total starts remain at low levels of ~53%, compared to a 20-year average of 64%.

Market forecasters[4] expect Australian housing starts to be down ~6% to ~208,000 starts in FY2018.

The **list of project work** in Table 1 below includes the largest projects across each State in infrastructure awarded to Boral and the potential pipeline of work.

### Table 1: Australia – Project Work

**Boral's Australian project work & potential pipeline**

*Projects recently awarded to Boral are highlighted in grey*

| | |
|---|---|
| Bringelly Road Stage 1, NSW | Est. completion 2018 |
| Northern Beaches hospital, NSW | Est. completion 2018 |
| NorthLink stage 1, WA | Est. completion 2018 |
| Pacific Hwy, NSW | Est. completion 2018 |
| Toowoomba Second Range, Qld | Est. completion 2018 |
| Warrego Highway stage 2, Qld | Est. completion 2019 |
| Amrun Project, Qld | Est. completion 2019 |
| Forrestfield – Airport Link, WA | Est. completion 2019 |
| Gateway Upgrade North, Qld | Est. completion 2019 |
| Kingsford Smith Drive, Qld | Est. completion 2019 |
| NorthConnex, NSW | Est. completion 2019 |
| Northern Connector, SA | Est. completion 2020 |
| Northern Road stage 2, NSW | Est. completion 2019 |
| Northern Road stage 3, NSW | Est. completion 2020 |
| Pacific Motorway, Qld | Est. completion 2020 |
| Sydney Metro (City/SW precast), NSW | Est. completion 2020 |
| Warrego Highway stage 3, Qld | Est. completion 2020 |
| Albion Park Rail Bypass, NSW | Currently tendering |
| Brisbane Airport Runway, Qld | Currently tendering |
| Haughton River Bridge, Qld | Currently tendering |
| Inland Rail, Qld, NSW, Vic | Currently tendering |
| Logan Motorway, Qld | Currently tendering |
| Melbourne Airport Runway, Vic | Currently tendering |
| Melbourne Metro, Vic | Currently tendering |
| Newell Hwy Upgrade, NSW | Currently tendering |
| Outer Suburban Arterial Roads, Vic | Currently tendering |
| Pacific Hwy W2B, NSW | Currently tendering |
| Perth Metro Road Maintenance, WA | Currently tendering |
| Smithfield Transport Corridor, Qld | Currently tendering |
| Princes Hwy Upgrade, NSW | Currently tendering |
| Sunshine Coast Airport, Qld | Currently tendering |
| Sydney Metro (Stations), NSW | Currently tendering |
| WestConnex Stage 3, NSW | Currently tendering |
| West Gate Tunnel, Vic | Currently tendering |
| Badgerys Creek Airport, NSW | Pre-tendering |
| Bruce Hwy, Qld | Pre-tendering |

1 Includes Boral's 50% share of underlying revenue from USG Boral and Meridian Brick joint ventures, which are not included in Group reported revenue
2 RHS&B: average of Macromonitor and BIS Oxford Economics forecasts; Other Engineering: Macromonitor
3 ABS original housing starts; December 2017 quarter
4 Average of HIA, BIS Oxford Economics and Macromonitor forecasts

# 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:

- Hurricane Harvey in Texas impacted Block, Roofing, and Fly Ash sales, as well as input costs for our Light Building Product business;
- Hurricane Irma in Florida and the South East impacted Meridian Brick JV, Roofing, Stone, and Fly Ash;
- Wildfires in Northern California in October impacted our Roofing and Stone businesses.

Combined these weather events and fires impacted earnings by ~US$10m as a result of lost sales and higher costs.

Housing activity momentum slowed in 1H FY2018 driven by a decline in multi-family starts, with total **US housing starts**[2] up 1% to an annualised rate of 1.21m starts.

**Single-family starts** however **grew by 9%** nationally[2], and were up 13% in Boral's Tile States[2,3]. Multi-family housing starts were down 15% nationally[2], resulting in single-family starts as a proportion of total starts increasing from 66% to 72%, compared to the long-term average of 71%[2].

On average, market forecasters[4] expect total US housing starts to lift by ~4% in FY2018 to ~1.25m starts.

Other US construction markets also strengthened during the period with **non-residential[5]** activity up 4%, and the **repair & remodel[6]** market up by an estimated 10%.

**US infrastructure[7]** activity, based on estimated ready mix concrete volumes, was up ~3%.

## Asia

In Asia[8], **Korea** continued to report strong market growth driven by residential market activity, although government measures to curb housing prices resulted in growth moderating in Q2.

In **Thailand,** the construction market continues to decline relative to the prior year, while activity in **Indonesia** and the high-end construction market in **China** remains subdued.

**Emerging markets** of India, Vietnam and the Philippines continue to grow.

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1 ABS value of work done constant 2015/16 prices; average of Macromonitor and BIS Oxford Economics for December 2017 quarter and FY2018
2 US Census seasonally adjusted annualised housing starts
3 Boral US Tile States: Arizona, California, Florida, Nevada
4 Average of analysts' forecasts (Dodge, Wells Fargo, NAR, NAHB, Fannie Mae, Freddie Mac, MBA) from December 2017 / January 2018
5 Dodge and Analytics non-residential square foot area, November 2017, forecast used for December 2017 quarter
6 Moody's Retail Sales of Building Products, January 2018
7 Infrastructure Ready Mix Demand from McGraw Hill Dodge ,November 2017; forecast used for December 2017 quarter
8 Based on various indicators of building and construction activity

# 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 |
| EBITDA[1,2] | 294 | 264 | ▲12 |
| *EBITDA ROS[1,2]* | *16.3%* | *16.3%* | |
| EBIT[1,2] | 194 | 164 | ▲18 |
| *EBIT ROS[1,2]* | *10.8%* | *10.2%* | |
| *Property* | *0* | *9* | ▼ |
| *EBITDA[1,2] excl. Property* | *294* | *255* | ▲15 |

| 1H FY2018 | External revenue | | EBITDA |
|---|---|---|---|
| Concrete | 801 | ▲17% | ▲ |
| Asphalt | 371 | ▲24% | ▲ |
| Quarries | 204 | ▼3% | ▲ |
| Cement | 157 | ▲2% | ▲ |
| Concrete Placing | 73 | ▲26% | ▲ |
| Bricks WA & Roofing[2] | 93 | ▼7% | ▼ |
| Timber | 79 | ▲2% | ▲ |

**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.

**Concrete** earnings (EBITDA) improved significantly, benefiting from a marked lift in infrastructure volumes, with projects including NorthConnex and Pacific Highway in NSW, Amrun Project in Qld, and Forrestfield Airport Link in WA.

Concrete volumes were up 13%, and average selling price (ASP) up 4%. All regions reported volume growth with particularly high metro demand and growth in major projects where Boral is able to deliver innovative, highly technical solutions. ASP increased across all regions, except WA, reflecting a favourable shift towards infrastructure work. On a like-for-like (LFL) basis, concrete prices were up an average of 1% nationally, with modest price growth in NSW, Qld and SA offset by declines in WA and steady pricing in Vic.

**Asphalt** delivered strong earnings growth and improved margins, driven by a 24% increase in revenue. Substantial volume growth was underpinned by increased maintenance funding by Vic Roads and SEQ city councils as well as infrastructure projects including: Gateway Upgrade North and Warrego Highway stage 2 in Qld, Northern Road and Bringelly Road in NSW, and Vic Roads project work on the Princes and Western Highway. Capacity in metro regions is now highly utilised.

**Quarries** earnings were steady with external revenue down 3% due to supply interruptions in Vic metro, and a shift to higher internal supply to meet growing demand in concrete and asphalt.

Quarry volumes (internal and external) increased 2% with strong demand in NSW, Qld and SA largely offset by lower volumes in Vic due to supply issues. Aggregate volumes increased 8% with strong growth in most regions.

Quarry ASP was up 5% nationally, with higher prices across most regions, except WA and NSW, reflecting a favourable mix shift. ASP in NSW was impacted by an adverse mix shift towards low value products and an abundance of recycled product supply in the market.

[1] Excluding significant items
[2] Excludes contribution from Boral CSR Bricks JV which was divested on 1 November 2016, with earnings reported under Discontinued Operations

## Boral Australia (cont.)

On a LFL basis, quarry prices were up an average of 1% nationally, with modest price growth across SEQ and Vic.

**Cement** total volumes (external and internal) were up 7% and while LFL prices were up 3%, ASP was only up 1% due to an adverse mix shift. External revenue was up 2%, reflecting a shift from wholesale clinker to internal supply to support growth in Boral's concrete business. Earnings and margins improved reflecting higher volumes, price gains, fewer rain days and benefits from the *commercial and operational excellence* programs which together more than offset cost inflation and higher energy costs.

| 1H FY2018 v 1H FY2017 | Total Volume[1] *Var %* | Price (ASP)[2] *Var %* | Price (LFL)[2] Var % |
|---|---|---|---|
| Concrete | 13 | 4 | 1 |
| Quarries | 2 | 5 | 1 |
| *Aggregates* | *8* | *2* | *1* |
| Cement | 7[3] | 1[4] | 3[4] |

**Concrete Placing** delivered higher earnings with revenue up 26%, reflecting strong underlying market demand, particularly in the multi-residential Sydney market. Earnings also benefited from favourable weather on the east coast in Q1.

**Property** contributed nil EBITDA, compared to $9m in 1H FY2017.

**Building products** businesses overall reported steady earnings with a decline in Bricks WA EBITDA offset by earnings growth in Timber and lower overhead costs.

**Roofing** (including masonry operations in SA, and Qld) reported steady earnings on lower revenue. An adverse mix shift and lower masonry revenues offset a 1% lift in roofing volumes and 2% increase in LFL prices.

**Bricks WA** (including WA masonry) delivered a breakeven EBITDA, down on the prior year, with a 15% decline in revenue more than offsetting full-period cost reduction benefits from restructuring initiatives completed in FY2017. Brick volumes were down 9% and prices down 6%. Brick inventory levels declined 10% compared to 30 June 2017.

The earnings contribution from Boral's 40% share of Boral CSR Bricks sold to CSR in October 2016 is reported under Discontinued Operations.

**Timber** revenue and earnings improved driven by higher Softwood revenues and earnings. Softwood prices were up 7% due to a favourable mix shift and announced price increases with volumes down 2%. Hardwood revenue was steady reflecting a 2% lift in prices and 3% decline in volumes, with earnings negatively impacted by an adverse mix shift and cost inflation.

The division's ***commercial excellence*** program, which is focused on improving commercial outcomes, continued to be rolled out across the business, with parts of NSW and Qld completed during 1H FY2018. The program was rolled out in the Southern Region and Cement in FY2017, and is delivering margin improvement in those businesses so far, in line with our expectations.

As part of our ***operational excellence*** program, which includes our ongoing Value Improvement Program (VIP), work commenced on the early phase of the division's multi-year supply chain transformation program. The ***supply chain transformation program*** aims to deliver cost efficiencies and improvements through the business' integrated supply chain, from making of materials through to delivery of materials to our customers.

[1] Includes external and internal sales volumes
[2] For external sales only
[3] For external and internal sales, including wholesale cement volumes
[4] For external cement sales excluding cement wholesale volumes

## 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 contribution with earnings steady, excluding one-off gypsum supply impact
- **Sheetrock® technology roll-out completed** under US$50m budget across 18 board lines with benefits from Sheetrock® adoption continuing

Boral's **equity accounted income of $38m, down 4%** on the prior year, represents Boral's 50% share of USG Boral's post-tax earnings, and is reflected in Boral's EBITDA result.

**Boral's reported result**

| (A$ millions) | 1H FY2018 | 1H FY2017 | Var % |
|---|---|---|---|
| Equity income[1] | 38 | 40 | ▼4 |

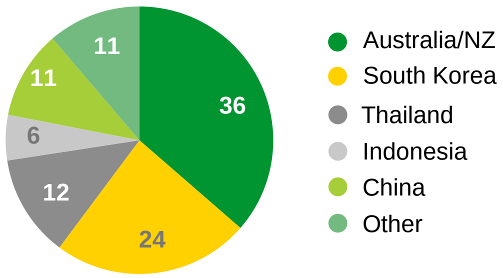
**USG Boral underlying business result**

| (A$ millions) | 1H FY2018 | 1H FY2017 | Var % |
|---|---|---|---|
| Revenue | 815 | 735 | ▲11 |
| EBITDA[2] | 149 | 151 | ▼1 |
| *EBITDA ROS[2]* | *18.3%* | *20.5%* | |
| EBIT[2] | 113 | 117 | ▼3 |
| *EBIT ROS[2]* | *13.9%* | *15.9%* | |

**Revenue increased 11%** to $815m in the underlying business, underpinned by continued growth in premium Sheetrock® products and technical board across all key markets, pricing gains and a strong lift in non-board revenue. Overall board volumes increased 6% with prices up 4%. Strong volume and price gains in China and Korea, coupled with solid volume growth in Australia and Indonesia underpinned board revenue growth. Non-board revenue, which includes ceiling tiles, metal stud, compounds and plasters, and contracting in Australia, increased by 14% and represented 40% of USG Boral's total revenue.

Sheetrock® brand products continue to maintain a price premium of ~3% with adoption rates at December ranging from ~45% in Korea to over 90% in Australia, China and Vietnam.

**External Revenue %**




**Underlying EBITDA declined by 1% to $149m,** with benefits from revenue growth offset by higher input costs, particularly paper, $8m in one-off costs, and competitive pricing pressure in Thailand, Indonesia and Vietnam. The one-off costs include impacts of the three-month closure of the port facility in South Australia impacting gypsum supply in Australia, and an unfavourable operational reserve adjustment in India. **Excluding these one-offs, EBITDA was up 5%**.

Average plant utilisation was ~82%, up from 77% in 1H FY2017.

**Australia/NZ revenue increased 12% to $297m** with solid board volume gains, average selling price up 1%, and a strong lift in non-board revenue, including contracting. Price growth was muted due to competitive pressures. Softer earnings were negatively impacted by higher gypsum costs in Q1 as gypsum was temporarily sourced from Oman and WA, as well as stock transfer costs to meet strong NSW demand.

**Asia revenue increased by 10% to $519m** driven by significant volume and price gains in Korea and China, together with volume growth in Indonesia and Thailand.

1 Post-tax equity income from Boral's 50% share of USG Boral JV
2 Excluding significant items

## 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

**Construction Materials (Fly Ash, Block, Denver Construction Materials), Building Products (Roofing, Stone, Light Building Products, Windows) & Meridian Brick JV**

## Substantial earnings lift through acquisition

- **EBITDA growth tempered** by severe weather events (US$10m), US$7m of plant operational issues, and US$6m of lower earnings from Meridian Brick JV
- **Synergies of US$18m**[1] achieved in 1H FY2018; on track to exceed US$35m of synergies in FY2018
- **Continued growth** in underlying markets but not as strong as anticipated

| *(A$ millions)* | 1H FY2018 | 1H FY2017 | 1H FY2017PF[2] |
|---|---|---|---|
| Revenue | 1,133 | 477 | 1,208 |
| EBITDA[3] | 184 | 41 | 185 |
| EBITA[3] | 135 | 19 | 130 |
| EBIT[3] | 101 | 18 | 113 |
| *(US$ millions)* | **1H FY2018** | **1H FY2017** | **1H FY2017PF[2]** |
| Revenue | 884 | 357 | 904 |
| EBITDA[3] | 144 | 30 | 139 |
| *EBITDA ROS[3]* | *16.3%* | *8.5%* | *15.3%* |
| EBITA[3] | 105 | 15 | 98 |
| *EBITA ROS[3]* | *11.9%* | *4.1%* | *10.8%* |
| EBIT[3] | 79 | 14 | 85 |

With the acquisition of Headwaters Inc completed on 8 May 2017, the 1H FY2018 result includes revenue and earnings from the combined Boral USA and Headwaters businesses, as well as post-tax equity income from Meridian Brick JV formed 1 November 2016. As a result of equity accounting, Boral's share of revenue from Meridian Brick is not reported in Boral's revenue following formation of the JV.

There was a **substantial lift in reported revenue and EBITDA,** with **revenue of A$1.1b** compared to A$477m in the same period last year and **EBITDA of A$184m** compared to A$41m last year.

*The following commentary relates to the 1H FY2018 performance relative to the underlying proforma consolidated Boral and Headwaters businesses for the six months to December 2016.*

**Revenue of US$884m** was down 2% on the same period last year due to the inclusion of four months of Bricks revenue in 1H FY2017 prior to the formation of Meridian Brick JV.

Excluding Bricks, **revenue was up 10%**, benefiting from strong growth in Fly Ash from site services revenue and price gains, a full period contribution from Krestmark and Magnolia Windows businesses acquired during FY2017, strong volume growth in Light Building Products (LBP), modest growth in Roofing and a higher contribution from Denver CM.

**EBITDA of US$144m was up 4%** with benefits from underlying revenue growth and substantial synergies of US$18m[1]. During the period, earnings were adversely impacted by:

- a US$10m impact from Hurricane Harvey in Texas and Irma in Florida, and wildfires in California;
- a US$7m impact from plant operational issues associated with:
  - **commissioning plant upgrades** (at Lake Wales Roofing, Greencastle Stone and the Kleer LBP plant in Boston);
  - **integration of businesses acquired by Headwaters prior to acquisition** (Okeechobee Entegra roofing plant in Florida, Oceanside metal roofing in California and Magnolia Windows in Georgia); and
  - **safety interventions** (Stonecraft in Ohio);
- a challenged result from Meridian Brick JV which was impacted by higher operating costs and lower volumes due to declining brick intensity and a smaller rationalised network.

A US$6m benefit from aligning the accounting policy between Boral and Headwaters for Stone molds was largely offset by an adverse one-off US$4m Purchase Price Accounting adjustment reflecting the expensing of the fair value inventory uplift.

### Construction Materials

| *(US$ millions)* | 1H FY2018 | 1H FY2017 PF[2] | Var % |
|---|---|---|---|
| Revenue | 388 | 363 | 7 |
| EBITDA[3] | 82 | 78 | 5 |
| *EBITDA ROS[3]* | *21.1%* | *21.6%* | |
| EBITA[3] | 73 | 69 | 6 |
| *EBITA ROS[3]* | *18.8%* | *19.0%* | |

| (US$ millions) | External revenue[4] | | EBITDA[4] |
|---|---|---|---|
| Fly Ash | 280 | ▲11% | ▲ |
| Block | 56 | ▼ 6% | ▼ |
| Denver CM | 52 | ▲ 3% | ▲ |

1 Synergies are net of earnings impact due to market share loss in Stone
2 Proforma consolidated Boral and Headwaters businesses for the six months to Dec-16, with Headwaters on a comparable basis to previously reported results. Proforma 1H FY2017 EBITDA of US$139m includes US$30m from Boral legacy businesses and $109m from Headwaters
3 Excluding significant items
4 Change from 1H FY2018 results relative to 1H FY2017PF

## 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.

| 1H FY2018 vs 1H FY2017PF[1] | Volume *Var %*[2] | Price (ASP) *Var %*[2] |
|---|---|---|
| Fly Ash | 1 | 8 |
| Block | (6) | 1 |

**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 source. Volumes were relatively steady due to supply constraints associated with intermittent closure of a number of power plants due to weather (especially in Texas), temporary switching of some generators from coal to gas (as a result of low gas prices), and suppliers' operational issues.

Earnings increased, benefiting from US$4m in synergies although margins were adversely impacted by the mix shift towards site services, as well as some contract renewals which benefitted from contract extensions. We expect the proportion of site services work to return to historical levels in FY2019 as current projects are completed.

The 2H supply impact from the closure of four of our electricity generator suppliers in Texas as a result of consolidation in the sector is expected to be mitigated by optimising our supply network and strengthening our storage facility capabilities which are laying the foundation for future growth. Work also continues on a program to reclaim ash.

**Block**, which largely services the non-residential Texas market, reported lower earnings with revenue down 6% reflecting a 6% decline in volume with average selling prices up 1%. Volumes were significantly impacted by lower shipments during 1H due to Hurricane Harvey and the subsequent focus of remediation work by builders on interior rather than exterior repairs, as well as a decline in school construction work. Benefits from post hurricane remediation work as well as future planned school construction/reconstruction are expected over the next 12 months.

**Denver Construction Materials** delivered a 3% increase in revenue and solid growth in earnings. Higher aggregates and concrete prices and volume gains in aggregates were underpinned by solid regional demand.

The business is expected to benefit from continued robust regional demand as well as operational improvements in the quarry operations and procurement initiatives.

### Building Products

| *(US$ millions)* | 1H FY2018 | 1H FY2017 PF[1] | Var %[2] |
|---|---|---|---|
| Revenue | 493 | 437 | 13 |
| EBITDA[3] | 72 | 70 | 4 |
| *EBITDA ROS*[3] | *14.7%* | *15.9%* | |
| EBITA[3] | 45 | 45 | (1) |
| *EBITA ROS*[3] | *9.0%* | *10.3%* | |

| 1H FY2018 | External revenue[2] | | EBITDA[2] |
|---|---|---|---|
| Roofing | 155 | ▲4% | ▼ |
| Stone | 134 | ▼2% | ▲ |
| LBP | 130 | ▲11% | ▲ |
| Windows | 74 | ▲ 78% | ▲ |

**Building Products** revenue was up 13% to US$493m, largely driven by the Windows acquisitions and strong volume growth in LBP. Earnings were up 4%, with the benefit of strong revenue growth largely offset by a US$4m impact from one-off weather events and US$7m from plant integration issues, costs associated with commissioning new capacity, and safety interventions disrupting operations.

**Stone** revenue was down 2%, with average prices up 2% and volumes down 5% due to some acquisition related share loss in the stone businesses.

Earnings were modestly higher, with a US$6m benefit arising from an alignment in accounting policy between Boral and Headwaters for Stone molds more than offsetting the impact of lower volumes, higher costs due to safety interventions and the resulting impact on production, and costs associated with commissioning of the upgraded Greencastle Eldorado Stone plant. Stone manufacturing utilisation was ~60%.

We are seeing market share stabilise and in the 2H we expect benefits from the Greencastle plant in Pennsylvania as well as from improved safety measures across the Stone business.

1 Proforma consolidated Boral and Headwaters businesses for the six months to Dec-16, with Headwaters on a comparable basis to previously reported results
2 Change from 1H FY2018 relative to 1H FY2017PF
3 Excluding significant items

# 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 in Mt Eaton, Ohio in the US was killed in a two vehicle collision on a public road outside our site. We remain determined to learn from these devastating incidents to further advance safety for all people who work for us or visit our sites.

For the first half of FY2018, Boral's combined employee and contractor recordable injury frequency rate (**RIFR**)[1] was broadly steady at 8.3 (8.4 for the first half of FY2017), and lost time injury frequency rate (**LTIFR**) of 1.1 was a solid 27% improvement on reported LTIFR of 1.5 for the same period last year. From FY2018 reported data includes Headwaters businesses, and all joint ventures irrespective of equity or management control, whereas up until FY2018, Boral's data only captured joint ventures where Boral's ownership was 50% or greater. While reported RIFR was steady, continuing businesses improved 8% year on year, with, for example, Boral Australia reducing RIFR by more than 11%. Therefore the improvement in continuing businesses was offset by the higher rates of medical treatment injuries reported in the newly acquired and reported businesses. Since completing the acquisition of Headwaters in May 2017, safety performance in those businesses has improved, which is an encouraging early trend.

We target to deliver **returns that exceed the cost of capital**, and in the first half of FY2018 Boral Australia and USG Boral both continued to deliver on that goal with underlying divisional EBIT return on funds employed (**ROFE**)[2] of 15.4% and 11.1%, respectively. Currently, Boral's cost of capital is equivalent to a ROFE of ~10-11.0%.

Returns from Boral North America are expected to exceed the cost of capital in coming years as earnings continue to grow with market recovery and as full synergies from the **Headwaters acquisition** are delivered in year four. The Headwaters acquisition strengthens Boral's ability to deliver above cost of capital returns through the cycle and we expect 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.

The reported first half FY2018 **ROFE** for Boral North America of 4.6%[3] compares with 5.7%[2] for the prior corresponding period. The softening of reported ROFE reflects the significant increase in funds employed following the Headwaters acquisition, ahead of the expected full earnings uplift.

Boral's reported Group ROFE has been similarly impacted, with ROFE in 1H FY2018 (using average monthly funds employed for the 12 months) of 8.5%[3], lower than the reported ROFE of 9.2%[2] for 1H FY2017.

To **deliver above cost of capital returns** through the cycle and more **sustainable growth**, we aim 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**
- **Grow through innovation** and, **where it makes sense, through M&A** opportunities.

In **Boral Australia**, our position is strong and the business is performing well. Our strategy is to protect and strengthen our **leading, integrated construction materials position**, which is benefiting from the multi-year pipeline of major roads and infrastructure work.

In 1H FY2018, ~$111m of capital was invested in Boral Australia including further progress on **quarry reinvestments** at Deer Park (Vic), Orange Grove (WA) and Ormeau (Qld), part of a ~$200m capital program to modernise and secure future resource positions in Melbourne, Perth and Brisbane markets. Capital was also allocated to strengthen Boral's **concrete and asphalt plant network** in growth markets.

[1] Per million hours worked
[2] Moving annual total EBIT (excluding significant items) on funds employed at 31 December. Boral's reported Group ROFE includes post tax earnings from USG Boral, whereas USG Boral's divisional ROFE is based on underlying EBIT on funds employed
[3] Moving annual total EBIT (excluding significant items) on monthly average funds employed for the 12 months to 31 December

## 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 |
|---|---|
| • **Cultural alignment** and support of **employees and customers**<br>• **Synergy opportunities** – confidence in exceeding US$35m in year 1 and US$100m within 4 years<br>• **Fly Ash –** attractive medium- and longer-term opportunities<br>• **Light Building Products** – better performance and growth opportunities<br>• **Block and Windows** – offering attractive opportunities | • **Safety** performance and equipment – requiring increased management time and ~US$10m of capital<br>• **Operational and integration issues in Roofing and Stone** requiring strengthened leadership and a focused improvement program<br>• Some **share loss in Stone,** which has been included as a 'dis-synergy' in the US$18m of 1HFY2018 synergies<br>• **Clubhouse Decking**, **Enviroshake®** roofing (in Canada) and the **Energy** business, all small underperforming businesses which have been divested<br>• **Integration of Magnolia** Windows into Krestmark, requiring strengthened leadership and a focused improvement program |

[1] Refers to distribution and cross selling revenue synergies

# 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%.

Boral's **interest expense** is expected to reflect a **cost of debt of ~4.25% - 4.50% p.a.** on a broadly steady net debt position and based on current market forecasts for government cash rates.

The 1H FY2018 dividend is 50% franked; **franking** rates for dividends will be partially franked in the range of 50% to 70% in line with the relative earnings from Australia in the total portfolio.

Our expectation for **capital expenditure** for FY2018 is towards the **lower end of A$425-475m**, including stay-in-business and growth, and including incremental capital expenditure for Headwaters businesses.

[1] Housing starts based on average of Dodge, Wells Fargo, NAR, NAHB, Fannie Mae, Freddi Mac and MBA analysts between Dec-17 and Jan-18; Repair & remodel from Moody's Retail Sales of Building Products , Jan-18; Non-residential from Dodge Data & Analytics, Nov-17; and Infrastructure Ready Mix Demand from McGraw Hill Dodge, Nov-17

# Results at a Glance

| (A$ millions unless stated) | 1H FY2018 | 1H FY2017 | % Change |
|---|---|---|---|
| Revenue | 2,937 | 2,093 | 40 |
| EBITDA[1,2] | 500 | 333 | 50 |
| EBITA[1,2] | 350 | 212 | 66 |
| EBIT[1,2] | 316 | 211 | 50 |
| Net interest[1] | (50) | (27) | 84 |
| Profit before tax[1] | 266 | 184 | 45 |
| Tax[1] | (52) | (35) | 51 |
| Net profit after tax[1] | 214 | 149 | 44 |
| Net significant items | (41) | 4 | |
| Statutory net profit after tax | 173 | 153 | 13 |
| Net profit after tax and before amortisation[1] | 237 | 149 | 58 |
| Cash flow from operating activities | 216 | 158 | |
| Gross assets | 9,061 | 7,821 | |
| Funds employed | 7,804 | 4,425 | |
| Liabilities | 3,623 | 2,218 | |
| Net debt / (cash) | 2,366 | (1,179) | |
| Stay-in-business capital expenditure | 149 | 124 | |
| Growth capital expenditure | 15 | 20 | |
| Acquisition capital expenditure | 0 | 9 | |
| Depreciation and amortisation | 184 | 122 | |
| Boral employees | 11,655 | 7,422 | |
| Total employees including in joint ventures | 16,621 | 12,167 | |
| Revenue per Boral employee, $ million | 0.383 | 0.282 | |
| Net tangible asset backing, $ per share[3] | 1.96 | 4.67 | |
| EBITDA margin on revenue[1], % | 17.0 | 15.9 | |
| EBIT margin on revenue[1], % | 10.8 | 10.1 | |
| EBIT return on funds employed[1,4], % | 8.5 | 9.3 | |
| EBIT return on average funds employed[1,5] , % | 9.2 | 9.2 | |
| Return on equity[1],% | 7.5 | 5.0 | |
| Gearing | | | |
| Net debt/equity, % | 43 | 0 | |
| Net debt/net debt + equity, % | 30 | 0 | |
| Interest cover[1], times | 6.3 | 7.8 | |
| Earnings per share[1], ¢ | 18.2 | 17.2 | |
| Interim dividend per share, ¢ | 12.5 | 12.0 | |
| Employee safety[6]: (per million hours worked) | | | |
| Lost time injury frequency rate | 1.1 | 1.5 | |
| Recordable injury frequency rate | 8.3 | 8.4 | |

[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 funds employed, ROFE for 1H FY2018 would be reported as 7.2%
[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 all joint venture operations regardless of equity interest (note that in 1H FY2017 and prior periods safety data only captured 50%-owned joint ventures)

# 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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