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BORAL®

Results Announcement
for the year ended 30 June 2013
21 August 2013

Management Discussion & Analysis

KEY POINTS

- Group profit after tax[1] up 3% to $104m
- Full year revenue up 6% to $5.29b, EBITDA[1] up 10% to $519m and EBIT[1] up 14% to $228m
- Revenue and earnings improvements include a full year contribution from the acquisitions of Boral Gypsum in Asia and South East Queensland concrete and quarries
- Reported net loss after tax of $212m after net significant items of $316m relating to organisational restructuring costs and impairment charges
- Net debt of $1.45b down from $1.52b at 30 June 2012
- Full year dividend of 11.0 cents per share, fully franked
- Strong increase in earnings from Construction Materials & Cement and reduced losses from Boral USA were largely offset by a significant reduction in earnings from Building Products in Australia
    - Resources and infrastructure work, acquisitions and $28m of property earnings benefited Construction Materials & Cement
    - Building Products was impacted by weak demand, particularly in Timber, continued pricing pressure in Western Australia and production reconfiguration costs
    - Boral Gypsum benefited from full year consolidated earnings from Boral Gypsum Asia
    - The continued recovery in the USA saw increased residential demand and reduced losses in Boral USA although volumes were impacted by low product intensity
- Extensive organisational restructuring and a range of operational rationalisation and outsourcing initiatives completed in FY2013, in line with strategic priorities set in November 2012
- Expected cost savings of $90m in FY2014 from reduction of more than 800 functional, support and managerial positions with $37m realised in FY2013, partially offset by $15m of net carbon costs
- Divestments and land sales delivered $173m of cash proceeds in year 1 ($88m from divestments and $85m from land sales), of the two-year target of $200-$300m
- With lost time injury frequency rate steady at 1.8, safety efforts are being reinvigorated with a push on senior level ‘safety interventions’, behaviour-based safety systems and near-miss reporting

(A$ millions)	FY2013			FY2012		
	Group[2]	**Discontinued Operations**	**Continuing Operations**	**Group[2]**	**Discontinued Operations**	**Continuing Operations**
Revenue	5,286	77	5,209	5,010	294	4,716
EBIT[1]	228	(9)	237	200	(1)	201
PAT[1]	104	(10)	115	101	(4)	106
Significant items (net)	(316)	12	(328)	75	(29)	104
NPAT	(212)	1	(213)	177	(33)	210
EPS (cents)[1]	13.6			13.6		
Gearing (net D/net D+E)	30%			31%		
Full year dividend	11.0 cents			11.0 cents		

[1] Excluding significant items

[2] Commentary in this document refers to Group operations before significant items

FINANCIAL OVERVIEW

Boral's **sales revenue** of $5.29b increased 6% year-on-year, assisted by a full year contribution from the acquisitions of Lafarge's 50% interest in the Asian Gypsum business and South East Queensland concrete and quarries in the prior year.

Boral's **earnings before interest and tax** (**EBIT**)[1] increased by 14% to $228m with underlying earnings from continuing operations (including acquisitions) up 18% to $237m.

Improved earnings from Construction Materials & Cement and Boral USA, in addition to a full year consolidated contribution from Gypsum in Asia, more than offset the reduction in earnings from Building Products.

- **Construction Materials & Cement** EBIT[1] improved by $38m underpinned by major project activity, full year contribution from past acquisitions, and a $16m increase in Property earnings.
- **Boral USA** EBIT[1] losses reduced by A$20m driven by continued growth in residential construction which increased sales volumes, revenue and contribution coupled with cost reduction programs.
- **Boral Gypsum** EBIT[1] increased by $17m as a result of the full year consolidation of earnings from Asia. Australian earnings were level with last year, while underlying Asian earnings declined 10% largely due to continued challenging conditions in South Korea and China, lower demand in Vietnam, and costs associated with plant ramp-ups and continued impact of lower capacity utilisation rates.
- **Building Products** EBIT[1] decreased by $35m, reflecting significant volume declines, particularly in Timber, and one-off cost impacts from brick capacity rationalisation.

Interest expense increased by 10% to $97m as the benefits of lower underlying interest rates were offset by the increased acquisition debt.

Income tax[1] expense increased by $11m as a result of the reduction in US losses which are tax effected at a higher rate. The underlying effective tax rate increased from 8.0% in FY2012 to 15.0%.

Depreciation and amortisation increased by $18m to $291m.

Profit after tax (PAT)[1] of $104m was up 3% on last year's PAT of $101m.

Net **significant items** totalled a $316m loss after tax, resulting in a reported net loss after tax of $212m. A net gain from the divestment of non-core businesses and insurance settlements was offset by organisational restructuring costs and impairment charges relating to portfolio restructuring and recognition of permanent structural changes in Australian building products markets.

Earnings per share[1] of 13.6 cents were in line with FY2012.

Return on funds employed[1] increased to 4.7% from 4.1% and return on equity improved to 3.2% from 3.0%.

EBITDA[1] of $519m increased 10% on last year while **operating cash flow** of $294m was $161m above the prior year due to increased earnings, improved working capital management and lower acquisition and restructuring expenditure. **Capital expenditure** was held to $294m ($111m of stay-in-business and $183m of growth and acquisition expenditure) and is expected to remain at a similar level in FY2014 as strict capital allocation measures are maintained.

Net debt at 30 June 2013 of $1.45b was a $72m reduction from net debt at 30 June 2012 despite a $103m adverse movement caused by the weakening of the AUD and the translation of USD denominated debt. **Gearing**, net debt / (net debt + equity), reduced to 30% from 31% at 30 June 2012. Based on Boral's gearing covenant under its bank facilities (debt to debt plus equity less intangibles), Boral's 40% level as at 30 June 2013 remained flat on last year and well within the threshold of less than 60%.

A fully franked final **dividend** of 6.0 cents per share will be paid on 27 September 2013. Boral's Dividend Reinvestment Plan (DRP) will operate in respect of this dividend, with the shares issued under the DRP to be issued at a 2.5% discount to the market price. The DRP underwrite has not been extended following the expiry of the underwriting agreement after payment of the FY2013 interim dividend.

[1] Excluding significant items

EXTERNAL IMPACTS & MARKET CONDITIONS

In FY2013, Boral continued to face significant external pressures and market challenges, as well as higher than average rainfall in Queensland and New South Wales in the second half of the year.

In Australia, political and economic uncertainty constrained growth, a high cost environment was intensified by the unrecovered costs associated with the carbon tax, industrial activity involving secondary boycotts impacted construction materials supply in Victoria, and a high Australian dollar supported import competition and constrained pricing in some businesses. Recent market entrants also intensified competition in Bricks in Western Australia and in Asphalt and Hardwood distribution in Queensland.

Around 78% of Boral's revenue from continuing operations in FY2013 was derived from Australian markets of which it is estimated 14% was from detached housing; 6% from multi-residential housing; 9% from alterations & additions; 13% from non-residential activity; 25% from roads, highways & sub-divisions; 6% from other engineering & construction work; and the remaining 5% from other markets.

Detached housing starts in Australia were estimated to have increased by 3% in FY2013 with total housing starts up 8% to 157,200[1], driven by a 16% increase in multi-residential construction. The shift to urban multi-residential dwellings in Australia is continuing and is not transitory. Alterations & additions activity was estimated to be down 11% on the prior year, while non-residential activity was estimated to have declined 4%[2] year-on-year with Queensland and Western Australia particularly weak. Infrastructure work for roads, highways, subdivisions and bridges was estimated to be down 3% year-on-year, with Queensland down 24% and Victoria 14% lower[2].

Revenue from Boral Gypsum's operations in Asia accounted for 11% of Boral's revenues in FY2013 with revenues from South Korea, Thailand, China and Indonesia accounting for 82% of this total.

In Thailand, Indonesia and Malaysia, strong economic conditions continued to increase underlying demand while South Korea and Vietnam experienced softer market conditions. In China, central government measures to reduce house price inflation continue to dampen housing construction demand, particularly at the premium-end of the market, although Boral's operations continue to grow share in the north east following entry into the Shandong market in early 2012. Volume growth is expected across Asia which will support a return to pricing stability in the Gypsum business and will deliver cost benefits as a result of a greater absorption of capacity increases in China, Indonesia and Vietnam.

In the United States (US), while housing starts for FY2013 remained 42% below the 50-year annual average of 1.5m starts, demand continued its upward momentum with total FY2013 housing starts of 877,000, up 28% compared to FY2012. In Boral's US Brick States[3], single family housing starts increased by 22% year-on-year and in Boral's US Tile States[4], by 43% compared to the prior year. The higher proportion of starter homes has adversely impacted brick, stone and tile intensity and sales volume with subsequent impacts on pricing leverage. A return to a more typical mix of single- and multi-family housing starts will support Boral's volume growth in US markets and price appreciation.

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1 ABS original housing starts; Jun-13 quarter based on HIA estimate
2 ABS value of work done rebased to 2010/11 constant prices; BIS forecast used for Jun-13 quarter
3 McGraw Hill / Dodge data. Boral's Brick States include: Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas
4 McGraw Hill / Dodge data. Boral's Tile States include: Arizona, California, Florida, Nevada

SEGMENT RESULTS

The financial results of Boral Construction Materials & Cement are consolidated as a single reporting segment following the restructure of Boral Construction Materials and Boral Cement into one division.

Boral Construction Materials & Cement

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

(A$ millions)	FY2013	FY2012	Var %
Revenue	3,142	2,902	8
EBITDA	451	397	14
EBIT	281	243	16

External Revenue	FY2013	FY2012	Var %
Concrete	1,223	1,084	13
Quarries	499	468	7
Asphalt	825	783	5
Cement	291	312	(7)
Concrete Placing	125	118	6

Construction Materials & Cement revenues of $3.14b increased $240m (8%) on FY2012, benefiting from increased resources and major project activity, a full year contribution from the Wagners assets and Sunshine Coast acquisitions and higher property sales. Increased construction activity in New South Wales metro, Queensland and Western Australia country markets offset a marked decline in demand in Victoria and South East Queensland.

EBIT before property sales of $253m was up $22m or 10%, driven by revenue growth and overhead cost reductions.

Revenues in the second half of FY2013 were however relatively flat on the prior corresponding period, with improved Concrete and Quarries revenues offset by lower revenues in Asphalt, Cement and Concrete Placing.

Concrete and Quarries revenues in FY2013 were up 13% and 7% respectively on the prior year. Excluding acquisitions, concrete volumes were up 2% and quarry volumes were down 6%. Concrete and quarry delivered prices were up 14% and 6% respectively, reflecting a continued shift to higher priced project and country markets and strong pricing disciplines. Concrete and Quarries earnings continued to benefit from supply to the three Curtis Island LNG projects at Gladstone, which will carry on until the end of calendar 2013.

Asphalt revenues increased by 5% year-on-year benefiting from flood recovery work and major infrastructure projects including Jondaryan-Warrego Highway and Port Connect in Queensland, and Melbourne Peninsula Link in Victoria. Revenue and earnings in the second half of FY2013 were impacted by: a sharp decline in road and highways work, particularly in Queensland and Victoria; increased competitive pressures including a new market entrant in Queensland; and wet weather in Queensland and New South Wales which impacted operating efficiency and project timing.

While cement sales volumes increased by 4% and prices were steady, **Cement** revenues of $291m were down 7% on the prior year due to lower wholesale clinker volumes and the loss of lime and limestone volumes to BlueScope Steel (following the closure of the Port Kembla furnace in the second half of CY2011). Cement EBIT of $73m improved by 7%, underpinned by stable operating performance and overhead cost reductions.

Revenues from the **Concrete Placing** business, De Martin & Gasparini, were 6% above FY2012 due to a favourable mix shift, underpinned by higher volumes of ‘supply & place’ sales, and an increase in market share.

Property contributed earnings of $28m in FY2013, which is a $16m increase on the prior year. Significant transactions contributing to this result included the sale of surplus land at Darra and Lawnton in Queensland, and Red Hill in Western Australia.

Boral Building Products

Australian Bricks[1], Roofing[1], Timber and Windows

(A$ millions)	FY2013	FY2012	Var %
Revenue	592	660	(10)
EBITDA	(3)	33	(109)
EBIT	(40)	(5)	(671)

External Revenue	FY2013	FY2012	Var %
Bricks & Roofing[1]	310	333	(7)
Timber	155	192	(19)
Windows	127	135	(6)

Building Products revenues of $592m declined 10% on the prior year reflecting lower volumes and mixed pricing outcomes.

Building Products reported volume declines of 4% in Bricks[2], 8% in Roofing[2] and 9% across Hardwood and Softwood. Prices were marginally higher in Bricks and Hardwood, broadly flat in Roofing, and lower in Softwood. The division also saw a reduction in woodchip sales due to the loss of its major overseas customer which resulted in Boral's exit from the woodchip export business in June 2013.

An EBIT loss of $40m in FY2013 was $35m lower than the prior year primarily driven by lower volumes in Bricks and Timber as well as lower margins.

Combined revenues from the **Bricks and Roofing** business declined by 7% over the prior year, with earnings falling by $21m due to lower sales volumes, competitive price pressures in Western Australia and $8m in one-off impacts from Bricks capacity optimisation projects. Three capacity optimisation projects were undertaken in FY2013, all of which were essentially completed in the second half of the year – the upgrade of Darra line 1 in Queensland (increasing plant output by 10% following the closure of Darra 3 in 2012); the consolidation of Badgerys Creek production into Bringelly in New South Wales; and the transfer of products from mothballed kilns 7 and 8 to kiln 11 in Western Australia.

The **Timber** business reported a 19% revenue decline and $11m reduction in earnings on the prior year, as a result of a number of factors, including:

- significantly lower demand for decorative hardwood products at the premium end of the new housing and alterations & additions markets;
- increased import and domestic competition in softwood and hardwood; and
- a substantial decline in revenue from the woodchip export business as the high Australian dollar reduced price competitiveness.

Windows revenues were down 6%, reflecting weak residential activity in Victoria and the impacts of the closure of Newcastle and Nowra fabrication sites in New South Wales. Improvement initiatives have since been implemented which should benefit FY2014 earnings.

The Building Products division played a key role in realising overhead cost savings, delivering a $12m reduction in administration costs during the year. Substantial restructuring and streamlining of the business took place during the year including in Timber where Boral has eliminated peripheral activities having now exited from the woodchip export business, softwood distribution in Queensland and engineered flooring production in Murwillumbah.

In an effort to return Building Products to profitability it is critical that margins are recovered to achieve a sustainable business base. Boral is continuing to review value creating opportunities for its Australian Bricks business, further reduce costs and increase prices. Boral is also continuing to work cooperatively with the state-owned Forestry Corporation of NSW to align available log supply with demand.

[1] The remaining Masonry operations are incorporated into the Bricks business in Western Australia and the Roofing business in South Australia

[2] Not including Masonry volumes

Boral Gypsum

Plasterboard Australia and 100% of Boral Gypsum Asia (BGA)

(A$ millions)	FY2013	FY2012	Var %
Revenue	919	656	na
EBITDA	125	90	na
EBIT	83	66	na

External Revenue	FY2013	FY2012	Var %
Australia	335	352	(5)
Asia	584	304	na

EBIT	FY2013	FY2012	Var %
Australia	25	25	-
Asia	57	41	na

Note: FY2012 includes BGA's equity accounted after tax result to 8 Dec-11. On a proforma comparative basis, BGA revenue for 12 months to Jun-12 was $559m and EBIT was $63m.

Boral Gypsum revenues of $919m and EBIT of $83m include a full year consolidated contribution from Boral Gypsum's Asian operations; Boral acquired the remaining 50% interest in BGA on 9 December 2011.

In **Australia** revenue of $335m was down 5% and EBIT of $25m was flat year-on-year. Revenues were adversely impacted by lower market demand resulting in a 2% decline in board volumes, flat board prices and lower resale product and contracting revenues. Plasterboard Australia earnings however benefited from lower operational and distribution costs from the upgraded Port Melbourne plant, reduced overheads and a higher contribution from the Rondo joint venture.

EBIT from **Asia** of $57m in FY2013 compares to a contribution of $41m in the prior year, $10.1m of which was equity income recognised prior to acquisition of the remaining 50% interest in BGA.

On a like-for-like basis theoretical consolidation for the prior comparative period would have resulted in Asia revenue of $559m and EBIT of $63m in FY2012. On this basis, revenues from Asia increased 4% while EBIT declined 10%. The benefit of revenue growth on Asia earnings, most notably in Thailand, China and Indonesia, was offset by lower volumes and margins in Korea and Vietnam as well as the cost of market entry into north eastern China through the Shandong plant.

Accounting for a combined one-third of Asian revenues, **Thailand** and **Indonesia** reported strong revenue growth underpinned by favourable economic conditions. Margins in Indonesia however, were impacted by the ramp-up of the new board line at Cilegon and higher energy costs. In **Korea**, which accounts for another 30% of Asian revenues, strong pricing competition in a weak housing market coupled with higher input costs adversely impacted margins. Revenues in **China** benefited from a full year contribution of the Shandong plant which was commissioned in early 2012; year-on-year volume growth continued to be dampened by weaker construction activity, particularly at the premium end of the market.

The remaining country markets in Asia account for around 16% of Asian revenues on a combined basis including Vietnam, Malaysia and India. **Malaysia** reported solid revenue growth while **Vietnam** experienced a slowing economy and plant performance issues, which have since been resolved, resulting in lower sales volume and margin. Sales volumes in **India** were negatively impacted by anti-dumping restrictions on sales of imported products.

In line with expectations, the plant expansion of 30m m^2 at Cilegon (Indonesia) was completed in the first quarter of CY2013 and will be a critical investment in meeting the rapid growth in the Jakarta market in FY2014. The ramp-up of the Shandong plant has delivered the expected cost improvements although sales have been below expectation due to weaker market conditions. The capacity expansions of 15m m^2 at Chongqing (China) and 30m m^2 at Ho Chi Minh City (Vietnam) are progressing well although the timing of both these projects has been marginally delayed with expected completion at Chongqing in the second half of CY2013 and Ho Chi Minh City in early calendar 2014. In total, capacity increases of 16% (75m m^2) with attendant ramp up costs have and will detract from earnings performance until capacity utilisation moves from a current level of 69% to greater than 80%.

Boral USA

Bricks & Cultured Stone, Roof Tiles, Fly Ash, Construction Materials

(A$ millions)	**FY2013**	**FY2012**	**Var %**
Revenue	555	499	11
EBITDA	(23)	(41)	45
EBIT	(64)	(84)	23

(US$ millions)	**FY2013**	**FY2012**	**Var %**
Revenue	569	516	10
EBITDA	(23)	(42)	45
EBIT	(66)	(87)	24

External Revenue (*US$ millions*)	**FY2013**	**FY2012**	**Var %**
Cladding[1]	276	239	16
Roofing	122	101	20
Construction Materials & Fly Ash	171	176	(3)

Boral USA revenues of A$555m were up 11% on the prior year, reflecting the benefit of a 22% increase in single family US housing starts in Boral's Brick States[2] and 43% in Boral's Tile States[3].

The reported EBIT loss of A$64m was a 23% improvement on the prior year loss of A$84m. US dollar losses of US$66m decreased by US$21m from FY2012.

The improved result was driven by higher Cladding and Roofing volumes, better production leverage, operational cost containment projects and overhead cost reductions which more than offset cost inflation and lower prices in Cladding and Roofing.

Cladding and Roofing volume gains however continued to be below expectation as growth in new housing construction was biased towards low cost national production home builders which typically have a lower intensity of Boral products relative to regional custom home builders. The adverse mix shift towards production builders coupled with a geographic mix shift towards lower priced markets, and a soft re-roof market resulted in average selling prices declining in Cladding and Roofing.

Revenue from **Cladding** (Bricks, Cultured Stone & Trim) was up 16% to US$276m, reflecting a 14% volume increase in both Bricks and Cultured Stone and a strong uplift in resale product revenues which partly offset lower prices. Sales of the innovative composite trim products, which were introduced into the market less than two years ago, increased significantly albeit from a low base; the business will continue to be loss making until scale manufacturing and optimum market positioning is achieved.

Bricks and Cultured Stone plant utilisation remains low at 41% and 27% respectively in FY2013, with Bricks benefiting from earlier capacity reductions following the closure of 45% of Boral's brick plants. Commissioning of the Bessemer commercial brick plant which was completed in the last quarter of FY2013 is expected to deliver earnings benefits from the second half of FY2014.

Roofing revenues of US$122m increased by 20% with volumes improving by 24% and pricing down on last year. Earnings increased over the prior period due to operational cost reductions as well as improved volumes.

Combined **Construction Materials and Fly Ash** revenues of US$171m were 3% lower on FY2012 with margins down marginally as FY2012 earnings benefited by $5m from the termination and settlement of an onerous fly ash contract. Strong volume gains in the Colorado construction business driven by higher market demand offset lower Fly Ash revenues which were impacted by some site closures; volumes in the Oklahoma construction materials business were broadly flat on last year. The Oklahoma concrete and sand operations were sold in June 2013.

Discontinued Businesses

Asian Construction Materials, East Coast Masonry

Discontinued Businesses reported $77m of revenue and a $9m EBIT loss in FY2013, reflecting the trading results of Thailand Construction Materials and East Coast Masonry until their disposal.

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[1] Includes Bricks, Cultured Stone and Trim

[2] McGraw Hill / Dodge data. Boral Brick States include: Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas

[3] McGraw Hill / Dodge data. Boral Tile States include: Arizona, California, Florida, Nevada

BORAL'S STRATEGIC PRIORITIES

Boral's EBIT return on funds employed (ROFE) for FY2013 of 4.7% is unacceptably low.

Efforts are focused on improving margins through price and cost management as well as imposing strict evaluation over capital expenditure returns. The business objective is to return ROFE to above 10% within around five years.

The following mandates are helping to turn around the business at a time when cyclical market pressures are significant:

- Deliver world class **safety performance**;
- **Clean up the portfolio** and **simplify structures**;
- Significantly reduce **overhead costs**;
- Maximise **cash generation**; and
- Conserve **capital**.

Deliver world-class safety performance

Boral's employee and contractor lost time injury frequency rate (LTIFR)[1] of 1.8 for FY2013 was in line with the prior year. Boral's businesses are targeting to deliver safety outcomes in line with global best practice. Three Boral businesses achieved this outcome in FY2013 – Boral Cement (LTIFR of 0.5), Boral USA (LTIFR of 0.7) and Boral Gypsum (LTIFR of 0.9).

Despite these good results in some businesses, there has been no real overall improvement in Boral's safety performance over the past five years. To address this plateau in performance, Boral launched a series of senior management safety interventions across the globe beginning two years ago in the USA and culminating over the next two years throughout Asia and Australia. Employees are being engaged through the integration of behaviour based safety systems with the Boral Production System (LEAN) and the introduction of training that incorporates recent scientific findings around risk awareness.

Portfolio reshaping and organisational restructuring

With the consolidation from six to four focused operating divisions, and the appointment of experienced operational leaders, Boral has improved the line of sight to its global materials and products businesses.

Joe Goss (Construction Materials & Cement), Darren Schulz (Building Products), Frederic de Rougemont (Boral Gypsum) and Al Borm (Boral USA) each bring decades of global industry insight to the job of delivering safety improvements, reducing costs, improving the quality of our capital investments and generating cash needed to justify continued capital investment.

Boral Construction Materials & Cement

Boral's largest and most profitable division, Construction Materials & Cement, delivered a ROFE of 12.5% in FY2013. This division will continue to underpin future earnings for Boral with the business to benefit over time as the New South Wales Peppertree Quarry investment comes to market, the returns on the Queensland acquisitions made in CY2011 continue to grow, and continuous improvement programs deliver further benefits.

The following steps were taken to strengthen Construction Materials & Cement during the year:

- ✓ Restructuring and combining Cement and Australian Construction Materials into a single division
- ✓ Divestment of Thailand Construction Materials
- ✓ Ceasing clinker manufacturing at Waurn Ponds and strengthening Boral's clinker import capabilities
- ✓ Closure of Emu Plains Transport depot and closures or exits from 19 small and redundant concrete batching plants and quarry sites
- ✓ $85m invested as part of the $200m Peppertree Project for a new, efficient quarry and manufactured sand operation which will deliver around 100 years of hard rock and sand into the Sydney market through an integrated rail network.

[1] Per million hours worked

Boral Building Products

The smaller Building Products division is suffering from industry overcapacity and significant competitive pressures. Further restructuring in Bricks is required to address poor profitability and over-capacity in New South Wales and Victoria (due to higher density and lower brick-intensity housing), and in Western Australia (where increased competition has seen a major structural change in the industry and capacity).

In Timber, Boral has been working cooperatively with Forestry Corporation of NSW to better align short-term log supply with lower demand. Negotiations are continuing to find a sustainable solution that better aligns cyclical demand with available log supply through the term of Boral's Wood Supply Agreements.

While further work is progressing, the following steps were taken to streamline the business and help return it to profitability:

- ✓ Divestment of East Coast Masonry
- ✓ Closure or exit of:
    - o Batemans Bay Timber mill
    - o Woodchip Export business
    - o Softwood distribution in Queensland
    - o Engineered Flooring manufacturing at Murwillumbah
    - o Nowra and Newcastle Windows fabrication operations.

Boral Gypsum

With the leading position in the highest growth gypsum market in the world, Boral Gypsum is a strategically important division for Boral. We have more than 40% market share across countries where the combined population is 570m and where 470m m^2 of plasterboard is currently consumed.

FY2013 was a relatively slow growth year with only 4.0% volume growth in Asia, reflecting a pause in construction markets in South Korea, China and Vietnam. Despite some low growth years, including the global financial crisis, sales growth in the Asian business has averaged 7% per annum since FY2007. The projected growth trajectory for this business remains strong and particularly so in Thailand, Indonesia and Vietnam where forecast economic growth is high and plasterboard penetration is low.

Compared to Gypsum Asia's historic capacity utilisation of 78%[1] in FY2007, capacity utilisation in Asia was down to 69%[1] in FY2013 following significant capacity investment in the last few years including 30m m^2 of new capacity that came on line in Indonesia in FY2013. Boral is confident of continued growth in the region and with around 195m m^2 of available capacity once 45m m^2 capacity expansions are completed in Vietnam and China in FY2014, the business is well positioned without the need for significant investment in capacity in the short- to medium-term. Margins and profitability will improve as capacity utilisation lifts towards 80% once new capacity expansions are fully leveraged.

Key steps taken in FY2013 to strengthen the Gypsum business were:

- ✓ Combining of Plasterboard Australia and Boral Gypsum Asia into a single Boral Gypsum division
- ✓ US$25m spent of approved investments of US$47m to complete new plasterboard plants in Ho Chi Minh City (Vietnam), Cilegon (Indonesia) and Chongqing (China).

Access to future technology innovation for the Gypsum business remains a priority and all options are being explored.

Boral USA

Boral USA is currently the smallest division by revenue terms but is expected to grow the fastest as the residential market recovers from the worst downturn since the Great Depression. Ongoing improvements and cost reductions have been implemented with the focus being to grow the Cladding and Roofing businesses over time leveraging the current asset base. In FY2013 the following steps were taken:

- ✓ Commissioning of a new $14m commercial brick line at the Bessemer brick plant in the USA
- ✓ Closed Mexico Roof Tile plant
- ✓ Divestments of Oklahoma Concrete and Sand operations
- ✓ Outsourcing of brick transport operations.

[1] Based on total plant capacity at year end

Realigning overhead costs

In January 2013, it was announced that 700 administration and managerial positions would come out of Boral's Australian organisation in FY2013, supporting a more efficient, streamlined overhead structure.

As at 30 June 2013, the number of positions had reduced by more than 800, exceeding the original estimate and supporting delivery of the anticipated $90m of annualised cost savings from FY2014. Of the identified overhead cost savings, $37m was delivered in FY2013.

Maximising cash generation

In FY2013, $173m of cash proceeds was delivered from divestments and land sales, including proceeds from the sale of Thailand Construction Materials, East Coast Masonry, and the Oklahoma concrete and sand operations, as well as the sale of surplus land at Darra and Lawnton, and final proceeds from the sale of Indonesian Construction Materials, which was sold in the prior year.

The two-year FY2013-2014 target of delivering between $200m and $300m of cash proceeds from land sales and divestments remains on track and will be progressively delivered over the remainder of FY2014.

Boral has a substantial property bank which is expected to become surplus to operational requirements over time. This land bank has the potential to realise significant profits and cash proceeds, subject to planning approvals for alternative use and property market conditions. However, the level of high value property sales completed in FY2013 is not expected to be sustained and profits from property sales will be at significantly lower levels and less consistent in the foreseeable future.

Conserving capital

With demonstrable progress made during the year to reshape the portfolio and realign the organisation, capital expenditure allocation has also been directed to those parts of Boral's portfolio that have significant potential to deliver strong earnings growth. A total of $111m was spent on stay-in-business (SIB) capital in FY2013 compared with $192m in the prior year. This expenditure represents 38% of depreciation. Growth capital of $183m included $85m of capital invested into the Peppertree Quarry project and US$25m of the approved US$47m on the upgrades of the Cilegon, Chongqing and Ho Chi Minh City gypsum plants in Asia.

In FY2014, it is expected that SIB capital will increase but the total level of capital expenditure will remain around $300m with growth capital constrained.

Significant items and impairments

The Company has incurred significant costs as a result of restructuring initiatives and has taken asset impairments that recognise permanent structural changes in some of the industries in which Boral operates. Significant items totalling $434m before tax have been reported in FY2013, consisting of:

- Organisational restructuring including redundancy costs of $60m
- Capacity rationalisation and impairments of $399m in the following divisions:
    - $160m in Construction Materials & Cement for Waurn Ponds clinker manufacturing, the Berrima colliery, and a write-down of land development costs
    - $209m in Building Products as a result of closures and structural declines in Bricks, Timber and Windows
    - $30m in Boral USA to realign North American roof tile capacity and loss on sale of the Oklahoma sand and concrete operations
- A $25m combined gain from the disposal of Asian construction materials together with insurance settlements.

FY2014 OUTLOOK

External pressures are expected to continue in FY2014, although the softer Australian dollar is helping to support announced price increases in Cement and Softwoods, where import parity pricing has previously capped prices.

The Australian Federal election provides an opportunity for greater political certainty and improved confidence in Australian markets, however this will take time. Activity in Australia is expected to be broadly flat in FY2014. An increase in dwelling activity in New South Wales and Western Australia should offset lower activity in Victoria and Queensland and a reduction in major project volumes. Similar to FY2013, net cost impacts of $15m from the Australian carbon tax are anticipated in FY2014.

To meet these challenges, Boral is continuing to 'right-size' the business and explore value enhancing opportunities across the portfolio, including revenue enhancing growth opportunities, potential divestments and restructuring of assets or businesses where appropriate. Incremental benefits are anticipated from **ongoing improvement, production leverage and cost reduction initiatives** including in the areas of contractor services expenditure and other discretionary expenditure.

The previously announced cost savings of $105m from restructuring and overhead reductions are expected to be fully delivered in FY2014 (following the phased benefit of $37m in FY2013). These cost savings are factored into the divisional outlook commentary below.

Construction Materials & Cement is expected to deliver a sustained strong performance but revenues and earnings are not expected to exceed FY2013 due to an anticipated substantial decline in Property earnings. The benefit of announced price increases in Cement (effective October 2013) and in Concrete and Quarries (effective April 2013), together with overhead reductions and rationalisation benefits at Waurn Ponds, are expected to be offset by reduced LNG project activity in the second half of FY2014, continued weakness in activity in South East Queensland, Victoria and South Australia and low Property earnings.

While conditions will remain challenging for **Building Products,** the business will benefit from restructuring, price increases, the non-recurrence of one-off costs, and some improvement in dwelling activity levels in New South Wales and Western Australia. Performance will improve significantly but the business is expected to remain loss making in FY2014.

Boral **Gypsum** is expected to deliver improved returns in FY2014 with better volume and pricing outcomes in Australia, Korea and Vietnam. To the extent volume improvements can lift capacity utilisation in Asia, we can expect to deliver improved returns.

In the **USA**, the continuing housing recovery should see the business better positioned to break through to profitability in the second half, significantly reducing reported losses in FY2014.

Capital expenditure will be held at around $300m with an increase in stay-in-business capital expenditure offset by a reduction in growth capital expenditure.

With the recovery in US earnings and lower property sales, the FY2014 effective **tax rate** is projected to be in the range of 23% to 28%.

RESULTS AT A GLANCE

(A$ million unless stated)

Year ended 30 June	FY2013	FY2012	% Change
Revenue	5,286	5,010	6%
EBITDA[1]	519	473	10%
EBIT[1]	228	200	14%
Net interest	(97)	(88)	(10%)
Profit before tax[1]	130	111	17%
Tax[1]	(20)	(9)	
Non-controlling interests	(6)	(1)	
Profit after tax[1]	**104**	**101**	**3%**
Net significant items	(316)	75	
Net profit / (loss) after tax	**(212)**	**177**	
Cash flow from operating activities	294	133	
Gross assets	6,316	6,499	
Funds employed	4,840	4,921	
Liabilities	2,923	3,096	
Net debt	1,446	1,518	
Stay-in-business capital expenditure	111	192	
Growth capital expenditure	183	222	
Acquisition capital expenditure[2]	-	701	
Depreciation and amortisation	291	273	
Employees[3]	12,610	14,740	(14%)
Revenue per employee, $ million	0.419	0.340	
Net tangible asset backing, $ per share	3.17	3.31	
EBITDA margin on revenue[1], %	9.8	9.4	
EBIT margin on revenue[1], %	4.3	4.0	
EBIT return on funds employed[1], %	4.7	4.1	
Return on equity[1],%	3.2	3.0	
Gearing			
Net debt/equity, %	43	45	
Net debt/net debt + equity, %	30	31	
Interest cover[1], times	2.3	2.3	
Earnings per share[1], ¢	13.6	13.6	
Dividend per share, ¢	11.0	11.0	
Employee safety[4]: (per million hours worked)			
Lost time injury frequency rate	1.8	1.8	
Recordable injury frequency rate	16.8	19.0	

Figures relate to the total Group including continuing and discontinued operations
[1] Excludes significant items
[2] Net of $63 million cash acquired in BGA in FY2012
[3] Includes reduction of 1,567 employees from divestments in FY2013.
[4] Includes employees and contractors combined

Non – IFRS Information

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

Earnings before significant items is a non statutory measure reported to provide a greater understanding of the underlying business performance of the Group.

Significant items are detailed in Note 8 of the preliminary financial report and relate to amounts of income and expense that are associated with significant business restructuring, impairment or individual transactions.

A reconciliation of earnings from continuing operations before significant items to reported profit is detailed below:

Year ended 30 June 2013

	Profit before significant items	Significant items	Total
	$m	**$m**	**$m**
Continuing operations			
EBIT	236.6	(445.6)	(209.0)
Net financing costs	(96.0)		(96.0)
Income tax (expense) benefit	(19.5)	117.5	98.0
NPAT from continuing operations	121.1	(328.1)	(207.0)
Non controlling interests	(6.4)		(6.4)
NPAT from continuing operations attributable to members of the Boral Group	**114.7**	**(328.1)**	**(213.4)**
Discontinued operations			
NPAT from discontinued operations attributable to members of the Boral Group	(10.3)	11.6	1.3
NPAT attributable to members of the Boral Group	**104.4**	**(316.5)**	**(212.1)**

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 2013.

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