Build something great™

Results Announcement

for the half year ended 31 December 2015

10 February 2016

Management Discussion & Analysis

Boral further strengthens profitability

- **Reported revenue of $2.2b** for the half year down 4% but revenue from continuing operations was broadly steady on the prior corresponding period
- **EBITDA[1] of $322m**, up 11%
- **EBIT[1] of $200m**, up 19%
- Underlying **profit after tax[1] of $137m**, up 23%
- Statutory **net profit after tax of $137m**, up 31%, with no significant items in 1H FY2016
- **Net debt of $1,025m** increased from $817m at 30 June 2015 due mainly to foreign exchange translation impacts and the completion of Boral's share buy-back
- **Earnings per share[1] of 18.2 cents**, up 28%
- **Interim dividend up 29% to 11.0 cents per share, fully franked**

Improved earnings and margins across all divisions

- **Boral Construction Materials & Cement** (CM&C) – EBIT of $159m was $9m higher than 1H FY2015 despite being a period of transition for infrastructure and road projects in Australia. A strong residential market and growth in NSW, together with disciplined cost management, some pricing gains and slightly higher property earnings, contributed to earnings growth.
- **Building Products** – EBIT of $17m was $3m above the prior period reflecting strong East Coast housing activity, price gains and depreciation savings, offsetting the equity accounting impact for Boral CSR Bricks.
- **Boral Gypsum** – USG Boral's underlying EBIT of $91m was up 30% on the prior period, and Boral's 50% share of post-tax earnings from the JV of $32m was 31% higher due to strong growth in Australia, cost reduction benefits, product price premiums, and favourable foreign earnings translation.
- **Boral USA** – delivered EBIT of A$8m, A$16m higher than the prior period reflecting further recovery in US housing activity including benefits from operational cost leverage and favourable currency translation.

Delivering on Boral's transformation strategy

✓ **Driving safety excellence** – substantial improvement in lost time injury frequency rate (LTIFR) to 1.2 and 26% reduction in recordable injury frequency rate (RIFR) to 8.6.

✓ **Driving performance excellence** – increase in return on funds employed (ROFE)[2] to 8.6% in 1H FY2016, underpinned by a strong contribution from CM&C achieving 15% ROFE, operational cost improvements across all divisions, and benefits from prior year restructuring, rationalisation and realignment initiatives.

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

FY2016 outlook

In FY2016 we expect a continued strong result with marginally higher underlying earnings from Construction Materials & Cement; marginally higher reported earnings from Building Products; underlying growth from USG Boral; and earnings from Boral USA to strengthen in line with market recovery.

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[1] Excluding significant items, noting there were no significant items reported in the period.
[2] Calculated on moving annual total EBIT on funds employed at 31 December 2015. CM&C divisional ROFE is EBIT on segment assets less segment liabilities. EBIT excludes significant items.

Commentary in this document refers to Group operations before significant items. Profit before significant items is a non-IFRS measure –refer to page 13 for reconciliation to statutory profit. Figures may not add due to rounding.

Financial Overview

Cost and productivity improvements strengthen profitability

(A$ millions)	1H FY2016	1H FY2015	Var %
Revenue	2,194	2,285	(4)
EBITDA[1]	322	290	11
EBIT[1]	**200**	**167**	**19**
Net interest[1]	(31)	(31)	
Tax[1]	(32)	(25)	
Non-controlling interests	-	-	
PAT[1]	**137**	**112**	**23**
Significant items (net)	-	(7)	
NPAT	**137**	**105**	**31**
EPS (cents)[1]	18.2	14.2	28
Interim dividend (cents)	11.0	8.5	29

Boral's reported **sales revenue of $2.2b was down 4%** on the prior period, reflecting the absence of revenues from the East Coast brick operations in 1H FY2016 following the formation of the Boral CSR Bricks joint venture on 1 May 2015. **On a continuing operations basis, revenue was broadly steady** as higher revenues associated with stronger residential activity in Australia and the USA offset the decline in resource-based and other major project activity, including LNG projects in Queensland, WA and NT, as anticipated.

Earnings before interest & tax (**EBIT**)[1] **increased 19% to $200m,** reflecting improved earnings from all divisions, including operational cost improvements, lower fuel costs and some pricing gains.

Depreciation and amortisation remained broadly unchanged at $122m.

Income tax expense excluding significant items increased by $7m largely due to higher earnings from Boral Construction Materials & Cement, Boral Building Products and Boral USA. The effective tax rate was 18.7%, which was lower than expected as a result of a tax benefit arising from share acquisition rights that vested during the period. Excluding this benefit, the effective tax rate was 21.4%.

Profit after tax (**PAT**)[1] of $137m was 23% higher on the prior period's PAT of $112m.

Statutory net profit after tax (**NPAT**) of $137m was 31% higher than the prior period.

EBITDA[1] of $322m was 11% higher than the prior period while **operating cash flow** of $113m was broadly steady, with improved earnings and higher dividends received from equity-accounted joint ventures, offset by higher tax payments arising from an increase in tax liabilities in the prior year (particularly relating to the capital gain from the Landfill sale) as well as adverse movements in working capital, in part due to the timing of payments.

Capital expenditure was $115m ($103m of stay-in-business and $12m of growth expenditure), up from the prior period but well within our targeted capital expenditure of around $300m per annum, reflecting ongoing disciplined capital allocation measures. Capital expenditure included quarry upgrades at Deer Park (VIC), Orange Grove (WA) and Holton Morton (Colorado) and a number of capital projects focused on driving manufacturing cost improvements, including in Timber.

Net debt at 31 December 2015 of $1,025m increased by $208m since 30 June 2015 largely due to the impact of foreign currency translation of US denominated debt as the Australian dollar weakened, as well as a $115m cash outflow to complete the share buy-back. **Gearing**, net debt / (net debt + equity), increased to 23% from 19% at 30 June 2015 and Boral's principal debt gearing covenant of 31%, up from 29% at 30 June 2015, is still well within the threshold of less than 60%.

Earnings per share[1] **of 18.2 cents increased 28%**. A fully franked interim **dividend of 11.0 cents** per share, representing a payout ratio of 60%, will be paid on 11 March 2016. In order to provide greater clarity, the Board has formalised Boral's **Dividend Policy**, which is intended to reward shareholders relative to profit at the same time as maintaining capital for growth. The Board's policy is to maintain a dividend payout ratio of between 50% and 70% of earnings before significant items, subject to the Company's financial position.

[1] Excluding significant items

Market Conditions and External Impacts

Record Australian housing activity continues, further improvements in US markets, a transition period in Australian roads and engineering activity, and slower growth in some markets in Asia

- Capitalised on current strength in the Australian residential market, offsetting transition from major engineering / LNG projects to expected pick up in major roads and infrastructure investments
- Infrastructure pipeline starting to build, with Boral to supply NorthConnex from FY2017 and bidding on a significant number of projects
- Strengthened market position in Asia through Sheetrock® brand products with ongoing growth opportunities despite some economic slowdown
- Steady recovery of US housing market, with Boral well positioned to benefit from further growth with an increasing suite of innovative composite products

In 1H FY2016, **Australian** residential market activity remained at record high levels, while non-residential activity softened and materials demand from the construction of roads, highways and engineering work contracted in line with expectation, ahead of an expected lift in demand from major road projects towards the end of FY2016.

In **Asia**, economic conditions across the region were mixed, with a general slowdown in growth rates impacting construction activity.

In the **USA**, single- and multi-family house construction continued to improve compared to the prior year.

Australia – Boral's largest exposure is to the **roads, highways, subdivisions & bridges** (RHS&B) segment in Australia. While the value of work done is forecast to increase in FY2016, and the pipeline of work is starting to build, increased investment in roads infrastructure is not expected to start to translate into materials demand until the end of FY2016.

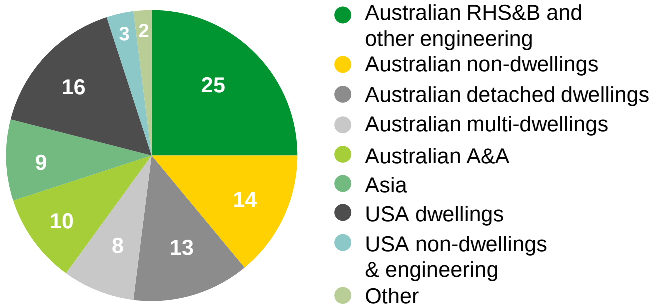
Other engineering activity is continuing to contract in Australia with the slowdown of the resources sector and associated infrastructure.

FY2016 is in a period of transition before a multi-year recovery led by major road and infrastructure projects.

Housing starts in Australia increased by an estimated 2% in 1H FY2016 on the prior year, to a record high annualised rate of ~220,000 starts[1]. **Detached housing starts**[1] were down 1% while **multi-residential starts**[1] increased by 5%. Housing activity on the East Coast was very strong while housing starts in Western Australia and South Australia declined by an estimated 18% and 8%, respectively. Market forecasters[2] are expecting Australian housing activity to remain strong, softening by an average of around 3% in FY2016.

Detached housing starts as a proportion of total starts remain at historically low levels at an estimated 54% compared to the prior 20-year average of 66%.

Boral revenue exposure[3] by market, %



Boral's Australian project work & potential pipeline

Wheatstone, WA	Est. Completion 2016
Ichthys LNG, NT	Completion 2016
Barangaroo, NSW	Est. completion Apr-16
Gateway, WA	Est. completion Apr-16
Pacific Hwy Nambucca, NSW	Est. completion Jul-17
Perth Stadium, WA	Est. completion Oct-16
Torrens to Torrens, SA	Est. completion Feb-18
Reid Hwy, WA	Est. completion Apr-16
Bringelly Road Stage 1, NSW	Est completion FY2017
Cooroy to Curra Sect.A, Qld	Completion 2016
NorthConnex, NSW	Boral to start mid-2016
Mitchell Fwy, WA	Currently tendering
Westconnex (1b & 2), NSW	Currently tendering
Pacific Hwy W2B, NSW	Currently tendering
Toowoomba Bypass, Qld	Currently tendering
Gateway Upgrade North, Qld	Currently tendering
Roe 8, Mains Roads, WA	Currently tendering
Northern Connector, SA	Currently tendering
Northlink stages 1 & 2, WA	Currently tendering
Airport Link, WA	Currently tendering
Darlington Upgrade, SA	Currently tendering
Kingsford Smith Dr, Qld	Currently tendering
Amrun Project, Qld	Currently tendering
Cooroy to Curra Sect.C, Qld	Pre-tendering
Northern / Bringelly Rds, NSW	Pre-tendering
Brisbane Airport Runway, Qld	Pre-tendering
Sydney Metro, NSW	Pre-tendering

[1] ABS original housing starts; Dec-15 quarter based on HIA forecast
[2] HIA, BIS Shrapnel and Macromonitor
[3] Includes Boral's 50% share of underlying revenue from USG Boral which does not appear in Boral's consolidated accounts

Australian alterations & additions (A&A) activity[1] increased by an estimated 1% in 1H FY2016 compared with the prior period.

Non-residential activity[1] is estimated to be 5% lower in 1H FY2016 compared with the prior period.

Overall, Macromonitor is forecasting **concrete volumes** in Australia, which can be used as a proxy for total construction activity, to soften by ~2% in FY2016[2]. However, concrete volumes are expected to increase in NSW.

USA market conditions continue to strengthen with **total US housing starts** on a seasonally adjusted basis increasing 10% to an annualised rate of 1.146 million starts during the first half[3].

Single-family starts[3] increased by 12% nationally, but were **up 23%** in Boral's Tile States and only **up 5%** in Boral's Brick States. With multi-family starts up 8% nationally, single-family activity increased from 63% to 64% of total starts, but remains below the long-term average of 71%. Brick intensity levels per start were 4% lower than the prior period.

Market forecasters are continuing to expect total US housing starts to lift to ~1.2 million starts[4] in FY2016.

In **Asia,** market demand drivers in **Korea** remained solid in 1H FY2016 underpinned by residential construction. In **Indonesia** and **Thailand**, GDP growth rates slowed, which saw a slowdown of residential and commercial construction; in Thailand activity contracted for the first time since 2008. Activity in the high-end **China** market remains subdued. **Other construction markets in Asia** are continuing to grow. These conditions are expected to be sustained for the remainder of FY2016.

Other external impacts

Due to significantly lower global oil prices, **diesel costs** in Australia in 1H FY2016 were ~$10m lower than 1H FY2015, with further savings expected in 2H FY2016 (assuming steady AUD pricing) as hedging programs and haulage contracts roll-through.

[1] ABS value of work done 2013/14 constant prices; average of Macromonitor and BIS forecasts used for Dec-15 quarter
[2] Macromonitor, "Construction Materials Forecast", October 2015
[3] US Census Raw Housing Starts. McGraw Hill / Dodge data - Brick States: Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas. Tile States: Arizona, California, Florida, Nevada
[4] Analysts average (Dodge, Wells Fargo, NAR, NAHB, Fannie Mae, Freddie Mac, MBA) between November & December 2015

Boral Construction Materials & Cement (CM&C)

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

Strong returns and increasing profitability through margin expansion despite lower major project activity and lower earnings following Landfill divestment

- Delivered **15% return on funds employed**[1], exceeding the cost of capital
- **EBIT increased 6%** with some pricing gains, operational cost and efficiency improvements including business realignment in regional areas to deliver earnings growth
- **Revenues decreased 8% due to the decline in major project activity and the sale of the Landfill business**; excluding these items, revenues remained at similar strong levels
- **Strong earnings growth in NSW**; other regions maintaining profitability through improvement programs
- **FY2016 is a transition year** from resource-based to infrastructure projects, with materials demand from new infrastructure activity expected in late FY2016/FY2017; current work is less materials intensive

(A$ millions)	1H FY2016	1H FY2015	Var %
Revenue	1,489	1,626	▼8
EBITDA[1]	251	241	▲4
EBIT[1]	159	150	▲6

1H FY2016	External revenue		EBIT
Concrete	707	▼3%	▲
Quarries	206	▼12%	▲
Asphalt	320	▼10%	▼
Cement	159	▲6%	▲
Concrete Placing	65	▲4%	▼

1. Excludes significant items

EBIT increased by 6% to $159m reflecting the continued focus on operational cost and efficiency improvements, benefits from realignment initiatives to match market demand, as well as falling fuel and energy costs and $4m of damages received from the CFMEU settlement. Excluding Property, EBIT rose 4% to $154m, despite $5m lower earnings from the divested Landfill business.

Revenue decreased by 8% to $1.5b due to the decline in major project activity, including LNG projects in Qld, WA and NT, as well as the sale of the Landfill business to Transpacific Industries (TPI) in the prior year. Excluding these impacts, **underlying revenue remained broadly at similar strong levels** to the prior period, with strong residential construction activity in Sydney, particularly multi-residential, and some pricing gains, offset by lower activity in WA, most regional areas and lower asphalt volumes.

Concrete delivered stronger earnings despite almost 4% weaker volumes. Increased activity in Sydney and a stronger result in South-East Qld (SEQ) helped to offset reduced resource-based activity in Qld and WA, most regional markets and falling residential activity in WA.

The reduction in concrete volumes associated with Curtis Island and Wheatstone LNG projects during 1H FY2016 compared with 1H FY2015 represented a 2% reduction in Boral's total concrete volumes. This was equivalent to more than half of the overall reduction in concrete volumes during the period.

On a like-for-like basis, concrete prices were up by an average of 2% nationally with strength in SEQ and metro NSW in particular. The average selling price was up less than 2% due to a mix shift away from major projects.

Boral's share of multi-residential and commercial construction in the Melbourne metro market remains low with prices and volumes impacted as the business continues to regain its position following the secondary boycott activity.

Quarries also delivered stronger earnings despite lower volumes, as activity in NSW, metro VIC and SEQ offset weaker infrastructure and resource-based activity in regional Qld, and declining construction activity in WA and NT. On a like-for-like basis, aggregates prices were up by an average of 1% nationally while the average selling price for quarry materials was down 3% due to adverse product mix shift, particularly in VIC and SA. While Quarry prices and volumes increased in NSW they were impacted by an abundance of fill materials in the market.

Asphalt revenue and earnings were down as activity in Qld continued to weaken following the finalisation of a number of key projects in the prior period, and volumes in VIC and WA were lower. This was partially offset by ongoing Pacific Hwy work in NSW, however underlying conditions in NSW remain highly competitive as interstate crews with excess capacity enter the market.

[1] EBIT return on divisional funds employed calculated on a moving annual total EBIT on funds employed at 31 December 2015

One of the few Qld infrastructure projects underway – the Cooroy to Curra major road project – was a feature for Quarries and Asphalt in the half and is expected to benefit Asphalt further in 2H FY2016.

Cement external revenue increased by 6% to $159m due to stronger NSW construction activity and 2% higher average prices. EBIT grew strongly, helped by cost improvement initiatives including improved utilisation of assets and sourcing of lower cost raw materials and energy.

Concrete Placing revenue increased with stronger activity in Sydney's high-rise multi-residential and commercial market, which is expected to continue in the near term.

Landfill contributed $5m lower earnings in 1H FY2016 following the sale of the business effective 1 March 2015. Previous earnings were partially replaced by a royalty-based payment from the new owner, Transpacific Industries (TPI).

Property contributed $5m to EBIT, up from $3m in the prior period. The final contracts at Nelsons Ridge are due to settle in 2016, with around $20m of earnings expected over two financial years.

1H FY2016 v 1H FY2015	Total Volume, *Var %*	Price, *Var %*
Concrete	(4)	2
Aggregates	(2)	1
Cement	5	2

Boral Building Products[1]

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

Increase in profitability driven by continued strength in housing market and portfolio realignment

- **EBIT increased 15%** with pricing gains, cost savings and the benefits of previous restructuring including depreciation cost savings; there was also strong growth in Boral CSR Bricks underlying earnings
- Excluding the impact of equity accounting for the Boral CSR Bricks JV which commenced on 1 May 2015, **revenue increased by 1%**

(A$ millions)	1H FY2016	1H FY2015	Var %
Revenue	192	263	▼27
EBITDA[1]	21	25	▼16
EBIT[1]	17	14	▲15

1H FY2016	External revenue		EBIT
Bricks & Roofing	116	▼38%	▲
Timber	77	▲1%	▼

1. Excludes significant items

EBIT increased 15% with strong underlying earnings growth in the Boral CSR Bricks JV, cost savings and the benefits from previous restructuring, including depreciation savings from the $70m asset write-down in FY2015.

An equity-accounted post-tax earnings[2] contribution of $5.7m from Boral's 40% interest in **Boral CSR Bricks** compares with $5.3m of EBIT in 1H FY2015 from the previous 100% consolidated Bricks East business. Underlying earnings of $22m were delivered on $149m of revenue in the JV, driven by continued housing activity across the East Coast and solid pricing outcomes. To date, $1.3m of synergies have been realised (equivalent to an annualised run rate of ~$3.6m). Targeted annual synergies of $7-$10m remain on track.

Boral CSR Bricks underlying business result

(A$ millions)	1H FY2016
Revenue	149
EBIT	22

Reported revenue for Boral Building Products decreased by 27%; however, adjusting for the impact of equity accounting which excludes our share of revenue from the Boral CSR Bricks JV, **underlying revenue increased by 1%**.

Bricks & Roofing overall delivered stronger earnings due to price increases of between 1 - 4% as well as a mix shift towards higher-priced roofing products. In WA, housing activity is slowing and while the pipeline of construction is still working its way through, brick demand is expected to be impacted by lower housing approvals in 2H FY2016.

Timber revenue was slightly up, while earnings were slightly down with growth in Hardwood largely offset by declines in Softwood, which was impacted by strong competition from imported products, creating volume and price pressure. Hardwood inventory reduction remains a priority.

[1] Remaining Masonry operations are incorporated into the Bricks business in Western Australia and the Roofing business in other states
[2] Post interest and tax

Boral Gypsum

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

Significant profit growth through new product penetration and strong cost management

- **Strong cost management including plant efficiency and manufacturing cost improvements, together with Sheetrock® price premium** drives overall margin expansion
- **Revenue growth through new products** and strong non-board sales
- **Roll-out of Sheetrock® technology on track** to be within the two-year capital expenditure of US$50m, and synergies of US$50m per annum expected within three years of the full technology roll-out

Boral Gypsum reported **equity accounted income of $32m, up 31%** on the prior period. This represents Boral's 50% share of the post-tax earnings of USG Boral, and is reflected in Boral's EBIT result.

Boral's half year reported Gypsum result

(A$ millions)	1H FY2016	1H FY2015	Var %
Equity income[1]	32	24	▲31

1. Post-tax equity income, excludes significant items

Earnings growth reflects strong business performance with the continued penetration of the new Sheetrock® brand plasterboard and adjacent products, strong cost management and lower fuel costs driving **margin expansion**. In Australian dollar terms, the result benefited from foreign exchange impacts. Plant utilisation averaged 75% in the half year.

Sheetrock® brand products attracted a price premium of around 5% with current adoption rates nearing 40% (in Australia) a year after its launch in Australia, Korea, Thailand, Indonesia, China and Vietnam. These outcomes are in line with expectations. It is strengthening our leading positions in increasingly competitive markets such as Thailand and Indonesia.

USG Boral underlying business result

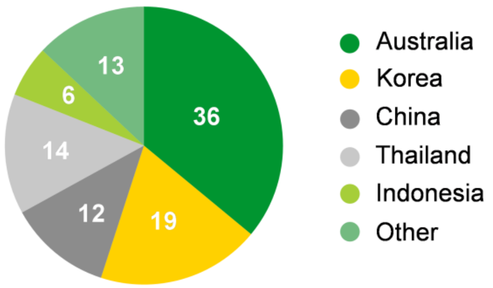
(A$ millions)	1H FY2016	1H FY2015	Var %
Revenue	718	638	▲13
EBITDA[1]	128	97	▲32
EBIT[1]	91	70	▲30

1. Post-tax equity income, excludes significant items

Revenue increased by **13% to $718m** with increased penetration of new Sheetrock® brand plasterboard resulting in higher overall pricing, and stronger non-board sales. Strong volume growth in Australia was offset by contraction in key Asian markets and a reversal of a short-term market share gain in Korea.

EBIT increased 30% to $91m with margin expansion in most regions. Integration and inflationary cost impacts were more than offset by operational cost reductions, as well as the benefits from prior restructuring and improvement initiatives, and falling energy and fuel prices.

External Revenue %



Australia/NZ revenue increased by 19% to $257m with board volumes up 12%, reflecting higher housing market activity across all regions, higher non-board sales, and average selling prices up 5%, supported by the introduction of Sheetrock® products.

Asia revenue increased by 9% to $461m in AUD terms, reflecting favourable exchange rate impacts. Strong earnings growth was delivered despite softening market conditions and increased competition in some markets.

Korea achieved earnings growth through lower fuel costs and stronger margins, despite lower volumes, in the context of modest market growth and the fact that a key competitor has overcome production supply constraints, which delivered a short-term volume benefit in the prior year.

Thailand reported earnings and margin growth with lower fuel and production costs. Increased export sales[2], stable market share and steady average prices offset contracting domestic activity.

Indonesia results were impacted by reduced market activity and lower margins, offsetting Sheetrock® product price rises.

Strong cost management in **China** delivered stronger earnings despite softer activity, including in the high-end market.

1H FY2016 vs 1H FY2015	Board Volume *Var %*	Board ASP *Var %*
Australia	12	5
Asia	(3)	N/A

[1] The USG Boral joint venture commenced 1 March 2014, combining Boral's gypsum manufacturing and distribution footprint in Asia and Australia with USG's building products technologies and strategic assets in Asia, New Zealand and the Middle East
[2] Export markets include the Philippines, Cambodia, Myanmar, Laos, Malaysia and Singapore

Boral USA

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

Continuing to benefit from the housing market recovery

- **Activity continues to improve;** incremental benefits from continued leverage to market growth including increased plant utilisation
- Focus on **operational cost improvements** to offset cost inflation
- **On target for a solid improvement in profitability** at ~1.2 million housing starts in FY2016

(A$ millions)	1H FY2016	1H FY2015	Var %
Revenue	512	396	▲29
EBITDA[1]	33	12	▲169
EBIT[1]	8	(8)	▲

(US$ millions)	1H FY2016	1H FY2015	Var %
Revenue	367	349	▲5
EBITDA[1]	24	11	▲119
EBIT[1]	6	(7)	▲

1H FY2016 *(US$ millions)*	External revenue		EBIT
Cladding[2]	190	▲4%	▲
Roofing	87	▲11%	▲
Fly Ash & Construction Materials	91	▲3%	▲

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

Revenue increased by 5% on the prior period **to US$367m**, with growth in Cladding, Roofing and Fly Ash and Construction Materials. Australian dollar revenue increased by 29% to A$512m.

The business benefited from increased housing construction activity. However, brick intensity levels per housing start contracted due to a geographic shift in housing starts in 1H FY2016 away from Boral's Brick States and the continued larger proportion of entry-level homes being built at the current point of the cycle. US single-family starts grew 12% in the first half, but only grew 5% in Boral's Brick States.

EBIT improved by US$13m to a US$6m profit. Margins improved with operational cost savings and easing of freight and logistic costs offsetting cost inflation and higher cement input costs in Roofing.

Cladding revenue, which includes Bricks, Cultured Stone and Trim, **grew 4% to US$190m**.

Bricks revenue increased by 4% to US$129m supported by a 9% increase in re-sale product revenue. Brick volumes were steady, broadly in line with the industry, despite increased housing starts in Boral's Brick States. Activity remains skewed towards entry-level housing with lower brick intensity and activity slowed in the brick-intensive Houston market in the December quarter. Prices were up ~1%.

Cultured Stone volumes increased 6% with stronger sales of the recently launched second brand, ProStone, particularly in the Southeast. Like-for-like prices rose 1-2%, while steady average selling prices reflect the mix shift to the lower-price ProStone product.

Brick and Cultured Stone increased plant utilisation to 55% and 36% respectively, with a small increase in inventories.

The small **Trim** business continues to make progress with the launch of a new bevel siding product and an 8% increase in the number of dealer locations stocking the products (from 500 to 540). The Trim business is targeting a breakeven result this year.

Roofing revenue **increased 11% to US$87m**, with volumes up 11% as strong growth in California and Arizona was offset by strong competition in Southern Florida. Underlying prices increased ~4%, however the average selling price increase of ~1% reflects a regional mix shift. Concrete roofing plant utilisation was 30%, up from 27% in the prior year.

Fly Ash and Construction Materials combined revenue of **US$91m was up 3%** with increased volumes and strong price gains for both fly ash and concrete, and higher margins and profitability in both businesses.

1H FY2016 vs 1H FY2015	Volume, *Var %*	ASP, *Var %*
Bricks	-	1
Cultured Stone	6	-
Roof tiles	11	1

Strategy and priorities

As an international building and construction materials group with operations in Australia, New Zealand, Asia, the Middle East and North America, the Company's goals are to deliver:

- **World class health & safety** outcomes based on **Zero Harm**
- **Returns that exceed the cost of capital** through the cycle, and
- More sustainable **growth**.

To achieve these outcomes our strategy is to:

- Consistently apply best practice to deliver **performance excellence**
- Have a **geographically diverse** portfolio of businesses with a **balance of traditional and innovative products**, and
- **Invest in innovation** and, where it makes sense, grow through M&A opportunities.

Each part of the portfolio has its own strategic imperatives to help deliver the Group's goals and transform Boral into a company known for performance excellence and innovation.

In **Australia**, the priority is to **optimise returns** across all building products and construction materials businesses and **maintain our leading, integrated construction materials position**, which will benefit from a **significant pipeline of major roads and infrastructure work** over the next five to six years.

In the USA, we have now **returned to profitability** and **expect to grow earnings through cyclical demand growth** and also through investment in new product development and M&A initiatives if opportunities arise.

Through our **USG Boral** gypsum based building products joint venture in Asia, Australia and the Middle East, we will leverage the **considerable potential for growth** through product penetration, market growth and innovation over the medium and longer term.

FIX, EXECUTE, TRANSFORM Program

Since FY2013, Boral's **'Fix, Execute, Transform'** program has been an effective framework to help us deliver on our strategic imperatives.

Significant progress has also been made to ***Fix*** the things that were holding us back and improve the way we operate including focusing on costs, cultural change, and strengthening innovation for future growth.

Major group-wide restructuring and rationalisation initiatives undertaken in FY2013 and FY2014 delivered $150m of annualised benefits in FY2015. Cost reduction initiatives remain a feature of Boral's activities in 1H FY2016, with a greater focus now on divisional improvements.

We will always be working to optimise the portfolio, manage costs down, and maintain a strong balance sheet through cash generation and conserving capital.

EXECUTE and TRANSFORM – We are improving the way we operate to be more efficient, responsive and profitable, and transforming Boral for performance excellence

Safety performance continues to improve. Boral's combined employee and contractor lost time injury frequency rate (**LTIFR**)[1] of 1.2 in 1H FY2016 was a substantial improvement on the prior year at 1.7 and the recordable injury frequency rate (**RIFR**)[1] of 8.6 compares with 11.7 last year, continuing the improvement trend with a further 26% reduction.

EBIT return on funds employed (**ROFE**[2]) of 8.6% in 1H FY2016 was up from 6.7% in 1H FY2015. Key drivers of improved ROFE include improved earnings from the USA underpinned by the market recovery, together with portfolio restructuring in recent years and continuous improvements in the way we operate.

[1] Per million hours worked
[2] Calculated on moving annual total EBIT on funds employed at 31 December

Boral Construction Materials & Cement (CM&C)
CM&C, Boral's largest division is delivering above cost of capital returns at 15% divisional ROFE[1]. We are aiming to sustain and, if possible, strengthen these solid margin outcomes.

In the first half of FY2016, margin improvements were delivered through cost reductions, productivity improvements and by realigning businesses to match market demand.

The first half results benefited from the restructuring initiatives undertaken in late FY2015, which saw several small plants closed and 90 positions made redundant, mainly in Queensland to help offset slowdowns in major projects and regional markets.

This is part of a larger, ongoing ***operational excellence*** program in CM&C, designed to deliver benefits that offset cost inflation and help to offset any volume pressures. In FY2016, the *operational excellence* program includes procurement initiatives, fleet optimisation and plant efficiency projects as well as an alternative fuels project in Cement.

While average prices increased in 1H FY2016 in CM&C, pricing traction has been difficult to achieve in some markets. A new ***commercial excellence*** initiative will commence in 2H FY2016 which over the coming years, will significantly strengthen the way we approach revenue and margin management across CM&C. We have engaged world-leading pricing and marketing strategy firm *Simon Kucher & Partners* (SKP) to assist with this work, and they will pull in expertise from industry participants including Karl Watson Jr.

More flexible and dynamic pricing structures will be introduced to better align value-added products and services to different customer segments, and sustainably capture price and margin improvements. This more targeted, integrated approach builds on our traditional volume and price focus by incorporating improvements in market segmentation, mix optimisation and transactional transparency.

Commencing with pilots across CM&C in late FY2016, the *commercial excellence* initiative will see phased implementation across the division with benefits expected from FY2017.

Boral Building Products
The **Boral CSR Bricks JV** commenced in May 2015, and is on track to deliver synergies of $7-$10m per annum following integration. To date, the business has transitioned to the PGH Brick brand with some costs incurred as a result of marketing and rebranding. Full synergies are expected by March 2017.

Following a **strategic review of the Timber business** in FY2015, a structural improvement program in the Hardwood business has commenced. The small hardwood poles business has been sold and several small capital projects totalling ~$10m-$15m are underway or have recently been completed. These investments focus on safety and operational efficiency improvements, including warehouse and distribution rationalisation.

Boral Gypsum
The roll out of USG's **world-leading gypsum technologies** across **USG Boral** is helping us to grow faster than the competition. The new higher strength, lighter weight, improved sag-resistance Sheetrock® Brand plasterboard is now available in Australia, Korea, Indonesia, Thailand, China and Vietnam. The technology roll-out is ahead of schedule and coming in below budget and adoption of the Sheetrock® brand plasterboard is on target nearing 40% in Australia and over 15% across Asia and price premiums of around 5% are being achieved.

USG's adjacent products continued to be introduced to USG Boral's markets across Australia and Asia. We remain confident of delivering the targeted US$50m per annum of synergies within three years of the technology roll-out, with approximately 25% of synergies realised by the end of December 2015.

USG Boral is also continuing to adopt a structured program approach to cost reduction and improvement initiatives to help ensure the business remains cost competitive, building on the successful US$22m of cost reductions delivered in FY2015. In FY2016, improvement initiatives include procurement projects, plant efficiency projects and transport and logistics optimisation.

Boral USA
Supporting a move into lighter weight building products in the USA, the **US$4m expansion of the R&D capabilities in San Antonio** is allowing a prototype 'composite sheet line' to leverage Boral's poly-ash composite technologies from trim to sheet products. These new-to-market sheet products, which are being developed and tested are expected to have applications for roofing, cladding and exterior substrates.

Plans to expedite **further investments in lightweight building products innovation and development** in the USA, including in marketing and manufacturing capacity, are being developed.

[1] EBIT return on divisional funds employed calculated on a moving annual total basis as at 31 December 2015

FY2016 Outlook

Continuing solid performance is expected in FY2016, with the following divisional expectations in the full year FY2016:

- **Boral Construction Materials & Cement** is expected to deliver continued strong results with underlying EBIT in FY2016 marginally above FY2015 (excluding property in both years). Conditions are expected to continue at similar levels and with fewer working days in 2H FY2016, 2H underlying earnings are expected to be lower than 1H.

  For the full year, benefits from restructuring and improvement initiatives together with continued strength in the Sydney and SEQ construction markets are expected to offset the negative impacts including a depressed regional Queensland construction market, subdued RHS&B activity more broadly, lower year-on-year LNG major project volumes and lower earnings from the Western Landfill business, which was sold to TPI on 1 March 2015.

  Boral will commence supplying concrete to the multi-year NorthConnex infrastructure project, including pull-through of quarry products and cement, from late FY2016, with benefits to flow from FY2017.

  Across CM&C the focus is on maximising margins through commercial and operational excellence programs, balancing our ability to realise price growth against our ability to sustain market share.

  Property contributed $5m in 1H FY2016 and an earnings contribution from property sales at Nelsons Ridge of around $20m is expected over two years with the majority in 2H FY2016 and the remainder in FY2017, subject to completion. Additional property sales are possible in 2H FY2016 but any earnings impact remains uncertain.

- **Boral Building Products** is expected to deliver a marginal improvement in reported EBIT in FY2016 compared to the reported EBIT for FY2015. Improvement initiatives and a continuing strong East Coast housing market should benefit the business, including the Boral CSR Bricks JV. These benefits should offset the impact of lower housing activity in Western Australia and South Australia and the impact on earnings as EBIT from Bricks East has moved from 100% consolidated to a 40% post-tax equity accounted share of earnings from the Boral CSR Bricks JV.

- **Boral Gypsum** is expected to deliver further underlying performance improvements in FY2016 compared with FY2015, on the back of strong residential and construction activity in Australia, penetration of Sheetrock® products, and strong cost and price management, despite slowdowns in activity in key markets in Asia. Synergies are expected to exceed the cash costs associated with the expanded product portfolio and technology roll-out in FY2016.

- **Boral USA** is expected to report a further increase in earnings in FY2016 on the back of increased housing activity. External forecasters are projecting housing starts to increase to approximately 1.2 million starts[1] in FY2016.

In FY2016, Boral's **effective tax rate** is projected to be in the range of 20% to 25%. This is higher than the effective tax rate of 19% in 1H FY2016 because the 1H included a tax benefit arising from share acquisition rights that vested during the period. Boral's **interest expense** in FY2016 is expected to be broadly similar to FY2015.

[1] Average of analysts' forecasts (Dodge, Wells Fargo, NAR, NAHB, Fannie Mae, Freddie Mac, MBA) between November & December 2015

Results at a Glance

(A$ million unless stated)	1H FY2016	1H FY2015	% Change
Revenue	2,194	2,285	(4)
EBITDA[1]	322	290	11
EBIT[1]	200	167	19
Net interest[1]	(31)	(31)	3
Profit before tax[1]	168	137	23
Tax[1]	(32)	(25)	25
Non-controlling interests	-	-	
Profit after tax[1]	**137**	**112**	**23**
Net significant items	-	(7)	
Net profit / (loss) after tax	**137**	**105**	31
Cash flow from operating activities	113	115	
Gross assets	5,712	5,710	
Funds employed	4,501	4,379	
Liabilities	2,236	2,218	
Net debt	1,025	887	
Stay-in-business capital expenditure	103	76	
Growth capital expenditure	12	18	
Acquisition capital expenditure	-	-	
Depreciation and amortisation	122	123	
Boral employees[2]	8,104	8,726	(7)
Total employees including in joint ventures	11,754	12,032[3]	
Revenue per Boral employee, $ million	0.271	0.262	
Net tangible asset backing, $ per share	4.36	4.18	
EBITDA margin on revenue[1], %	14.7	12.7	
EBIT margin on revenue[1], %	9.1	7.3	
EBIT return on funds employed[1, 4], %	8.6	6.7	
EBIT return on average funds employed[1, 4], %	8.8	6.4	
Return on equity[1],%	7.9	5.5	
Gearing			
Net debt/equity, %	29	25	
Net debt/net debt + equity, %	23	20	
Interest cover[1], times	6.4	5.5	
Earnings per share[1], ¢	18.2	14.2	
Dividend per share, ¢	11.0	8.5	
Employee safety[5]: (per million hours worked)			
Lost time injury frequency rate	1.2	1.7	
Recordable injury frequency rate	8.6	11.7	

Figures relate to the total Group including continuing and discontinued operations

1 Excludes significant items
2 FTE. Includes a reduction of 290 employees in the East Coast Bricks business now employed in the Boral CSR Bricks JV
3 As at 30 June 2015
4 ROFE is calculated on a moving annual total EBIT on funds employed
5 Includes employees and contractors in 100%-owned businesses and 50%-owned joint venture operations

Non – IFRS Information

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

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

Significant items are detailed in Note 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 earnings before significant items to reported statutory profit is detailed below:

(A$ millions)	**Earnings before significant items**	**Significant items**	**Total**	**Continuing operations**	**Discontinued operations**	**Total**
Sales revenue	2,193.7	-	2,193.7	2,193.7	-	2,193.7
EBIT	199.5	-	199.5	199.5	-	199.5
Finance costs	(31.4)	-	(31.4)	(31.4)	-	(31.4)
Earnings before tax	168.1	-	168.1	168.1	-	168.1
Tax (expense) / benefit	(31.5)	-	(31.5)	(31.5)	-	(31.5)
Net profit after tax	**136.6**	**-**	**136.6**	**136.6**	**-**	**136.6**

The Gypsum 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 2015.

This half year Financial Report for the six months ended 31 December 2015 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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