Boral Limited (ASX: BLD) today reported a half year profit after tax (before significant items\(^1\)) of $52 million for the six months ended 31 December 2012, in line with the guidance given on 23 January 2013.

After net significant items costing $77 million, Boral reported a net after tax loss of $25 million. Significant items included asset impairment charges relating to the suspension of clinker production at Waurn Ponds, Victoria, and first half restructuring and redundancy costs, which were partially offset by a gain on the divestment of the Asian Construction Materials businesses.

Boral’s sales revenue of $2.77 billion was 14% above the prior year, but excluding the impact of acquisitions, revenue was broadly steady. Earnings before interest and tax (EBIT) (before significant items\(^1\)) increased by 3% to $112m, also benefiting from acquisitions.

Boral’s CEO and Managing Director, Mike Kane, said that some of Boral’s businesses performed ahead of expectation, but others disappointed as they continued to face external challenges and are still transitioning to lower cost bases and more appropriate production configurations and organisation structures.

“In Australia, Construction Materials delivered a solid 25% improvement in EBIT, but Cement reported a 15% decline and Building Products reported a very disappointing $18 million first half loss, following an $11 million loss in the second half last year,” Mr Kane said.

“The improved Construction Materials result reflects strong volumes from resources and infrastructure projects combined with dry weather and the early benefits of restructuring. On the other hand, in the Cement division, the high Australian dollar and increasing production costs continued to impact, but we have taken action to replace Boral’s manufactured clinker in Victoria with lower cost imports.

“The deterioration in Building Products reflects increased import and domestic competition and low levels of alterations and additions work impacting Timber, together with significant volume and cost pressures in clay and concrete products, in part due to production reconfiguration impacts in Bricks as well as lower production to reduce stock levels.

“In the newly combined Boral Gypsum division, Australian Plasterboard was also significantly impacted by lower volumes and higher operational costs, reporting a 45% decline in EBIT. This decline was more than offset by a $19 million increase in reported earnings from Asia as a result of the acquisition of the remaining 50% interest of BGA in FY2012.”

Having spent two and half years as President of Boral USA before being appointed CEO in October 2012, Mike Kane played a significant role realigning the US business to the changed market conditions and positioning Boral to take full advantage of the US market recovery.

“While US housing activity is still 44% below the 50-year annual average of 1.5 million starts, it is encouraging to see the recovery now in full swing, with single family housing starts in Boral’s brick states up 24% year-on-year, and losses from Boral’s US business reducing by 25% in the first half. With low cost production builders being the early movers in the US market, brick intensity in the market is lower than normal but this will improve as activity from higher end builders starts to rebound and Boral leverages its relatively strong cost and market positions”, said Mr Kane.

\(^1\) Profit before significant items is a Non-IFRS measure reported to provide a greater understanding of the Group’s underlying business performance. Full details of significant items are contained in Note 6 of the half year Financial Report.
As part of today’s results announcement, Mike Kane also presented on the progress made on his immediate strategic priorities, providing his perspectives on the Company after his first 100 days as CEO.

“Boral is a great company with significant potential. We have an enviable integrated position in Construction Materials in Australia; arguably the best Gypsum position in the highest growth market in the world; and in the USA, we are coming through the worst downturn since the Great Depression with a leading position in the Cladding and Roof Tile markets in terms of cost, distribution and product offering.

“While the future for Boral is positive, we can’t afford to just sit and wait for the markets to recover. We need to perform better through the cycle and be better prepared for future downturns, which will follow the inevitable recoveries. Therefore, we have been continuing to get our house in order – restructuring, maximising the potential of our businesses, divesting non-core assets, integrating acquisitions, and realigning capacities to mid-cycle levels – not peak-levels of demand, as we have typically done in the past.

“In October I set three immediate priorities to focus our improvement efforts – cost reductions, cash generation and pulling back on capital expenditure. I am pleased with the progress we have made in a few short months.

“Boral’s overhead structure is well on the way to becoming much leaner and more efficient, with around one-quarter of functional and managerial positions coming out of the business in Australia. We have also continued with operational rationalisation activities. Combined, these cost reduction activities will deliver $105 million of annualised savings from next year. Our cash generation from operating activities has also improved, increasing by $96 million year-on-year, and we have identified around $50 million of planned capital expenditure that can be deferred this year or avoided altogether. As a result, debt has reduced from $1.52 billion to $1.46 billion over six months.

“While the rates of market recoveries remain uncertain and adverse weather conditions can have a significant impact, the progress already made in realigning overhead costs, strengthening the portfolio, and improving the balance sheet, positions Boral very well, particularly on the back of ongoing resources work in Australia and the US market recovery. We expect a significant volume uplift in the USA in the final quarter of this financial year,” concluded Mr Kane

A fully franked interim dividend of 5.0 cents per share will be paid on 25 March 2013.

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