FY2021 results

Year ended 30 June 2021

Management Discussion & Analysis

Building a stronger Boral

24 August 2021

Commentary throughout this Management Discussion & Analysis, unless otherwise stated, is based on earnings from continuing operations and includes the impact of the IFRS leasing standard (AASB 16). In addition, FY20 comparative figures have been restated - see Note 1(d) of the preliminary final report for further details.

FY2021 results summary

Significant progress has been made to refocus Boral's portfolio of businesses, deliver better financial results and build a stronger performing business.

Boral delivered $75m against its $200–$250m EBIT Transformation target by 2025, which aims to achieve ROFE > WACC throughout the cycle.

Total operations:

- **Statutory NPAT**[2] **of $640m** (loss of $1.145b in FY20)
- **Underlying NPAT**[1,2] of **$251m**, up 44% on prior year
- **Statutory EPS** of **52.5 cents**
- **Underlying EPS**[1,2] of **20.6 cents** (14.5 cents in FY20)
- **No dividend paid**
- **Operating cash flow of $654m** up 7% on prior year

Continuing operations:

- **Revenue** of **$2,924m**, down 6% on prior year
- **EBIT (excl. property)**[1,2] of **$157m**, up 11% on prior year
- **ROFE**[1,3] **(excl. property)** of **7.2%** (6.3% in FY20)
- **EBIT**[1,2] of **$181m**, down 8% on prior year

Overview[1]

- **Continuing operations –** Revenue declined 6% reflecting lower volumes and pricing, particularly in NSW and Qld where major project work, infrastructure and non-residential activity decreased substantially. EBIT (excluding property) increased 11% to $157m. Transformation benefits together with the reversal of prior period COVID impacts and one off costs helped to offset lower volumes, including a lower contribution from major projects and softer prices.
- **Financial Framework –** Boral's Financial Framework is supporting a stronger balance sheet and improved shareholder returns. Net debt of $899m is at the lower end of the targeted range. Since 30 June, Boral completed an on-market buyback of 10% of issued capital at an average price of $7.01.

  In Australia, Boral has a 5-year target to achieve $200–250m of EBIT uplift through Transformation initiatives (net of inflation), to help deliver ROFE > WACC throughout the cycle. In FY21, $75m (including $6m attributed to discontinued Building Products) of net Transformation was delivered. By the end of FY21 the annualised run rate of these benefits was ~$94m.
- **FY22 outlook –** Underlying market conditions in Australia are mixed and uncertainty remains. Detached housing growth has been supported by government stimulus, but lead indicators suggest softening in FY22. Demand from multi-residential remains weak. Non-residential activity expected to be broadly steady. Infrastructure construction, especially roads, could improve slightly in 2H and more so in FY23. However, COVID-related disruptions are having a significant impact. In July, lost volumes and higher costs as a result of Sydney and South Australia lockdowns impacted EBIT by ~$16m. At this stage, the impact of COVID disruptions in the first quarter may be in the order of ~$50m.

  FY22 net Transformation benefits of ~$60–$75m are expected to contribute to $200–$250m 5-year target.
- **Safety –** Boral Australia's recordable injury frequency rate (RIFR)[4] was11.9 in FY21. RIFR was 19% higher than the prior year, however, actual and potential serious harm incident frequency rates[4] improved by 67% and 53%, respectively (see page 4). Robust hygiene, social distancing and tracking protocols are in place to protect the health of our people and customers through the COVID-19 pandemic.
- **Strategic framework –** The pillars of Boral's new strategic framework are **focus, position, redefine** and **extend.** The first pillar to **focus** Boral on the core Australian construction materials business is well progressed, with divestments of Boral's 50% interest in USG Boral (complete) and Meridian Brick (targeting to complete 1QFY22), and North America Building Products and Boral Timber (both expected to complete in 1HFY22). Following a detailed assessment of strategic options for Fly Ash, plans are well progressed to divest the Fly Ash business. We expect to provide an update in the coming weeks.

  To **position** Boral's core business for improved profitability and a clear competitive advantage, a new operating model organised along national product lines came into effect 1 July. This will support the delivery of Transformation targets and improve value for customers. A strategy to realise latent value from property is also underway.

  The third and fourth pillars aim to **redefine** Boral through decarbonisation and adjacent growth, and over time **extend** the business by commercialising innovation.

  Boral has set sector-leading science-based carbon emission reduction targets aligned with limiting global warming to 1.5°C.

Footnotes are at the end of the document on page 15

Group financial overview

A$m *Figures may not add due to rounding*		**FY21**	**FY20**	**Var %**
Revenue	– total operations	5,346	5,728	(7)
	– continuing operations	**2,924**	**3,117**	**(6)**
EBITDA[1,2]	– total operations	882	807	9
	– continuing operations	**406**	**435**	**(7)**
EBIT[1,2]	– total operations	445	324	37
	– continuing operations	**181**	**197**	**(8)**
	– continuing operations (ex. Property)	**157**	**142**	**11**
ROFE[1,3], %		7.4%	4.3%	
Net interest		(131)	(126)	(3)
Tax[1]		(63)	(24)	
NPAT[1,2]	– total operations basis	251	174	44
	– continuing operations basis	**48**	**65**	**(26)**
Significant items (gross)		358	(1,408)	
Tax on significant items		32	90	
Statutory NPAT[2]		**640**	**(1,145)**	
Cash flow from operating activities		**654**	**613**	**7**
Underlying EPS[1,2] (cents)		20.6	14.5	
Statutory EPS (cents)		52.5	(95.8)	
Dividend (cents)		**-**	**9.5**	

- **For continuing operations, sales revenue of $2,924m was down 6%** reflecting significant declines in multi-residential, a contraction in major projects and softer pricing. **EBIT[1] (excl. Property) of $157m increased 11%,** as benefits from transformation initiatives, the reversal of prior period COVID impacts and one off items helped to offset substantial declines in multi-residential, softer prices and lower earnings from major projects.
- **Income tax expense[1] of $63m** represents an effective tax rate of 20%. Excluding recognition of US tax losses, and utilisation of capital losses, Boral's effective tax rate was 22.5%.
- **Significant items:** A gain of $358m primarily relates to the profit on sale of Boral's 50% interest in USG Boral and the Midland Brick business (net of costs). See page 14 for details.
- **Group operating cash flow of $654m** increased 7% reflecting improved EBITDA performance.
- **Capital expenditure of $313m** (including leases) for total operations was down from $454m in the prior year and included investments in the new Port of Geelong clinker import terminal in Vic, the Tarong Fly Ash facility in Qld, and the Kirkland natural pozzolan resource project in North America.
- **Surplus capital:** Following receipt of proceeds from the divestment of Boral North America Building Products, Meridian Brick and the Australian Timber business, the Group will have a significant surplus. Subject to prevailing conditions and other reinvestment opportunities, surplus capital will be available for distribution to shareholders. No final dividend will be paid.
- Including lease liabilities, **net debt at 30 Jun 2021 was $899m**, **down from $2,580m** at 30 June 2020.
- **Gearing** (net debt/(net debt + equity)) was 17%, down from 36% at 30 June 2020 due to higher operating cash flows, disciplined capital investment, and proceeds from asset disposals.
- **No refinancing is required until November 2022** (being the remaining US$127m of 144A / Reg S bonds).
- **Significant liquidity of $1.35b** with undrawn committed facilities of $450m and $904m of cash.

Continuing and discontinued operations

A summary of continuing and discontinued results is provided in the table with a description of discontinued operations below. Detailed commentary in the following pages is focused on continuing operations.

A$m *Figures may not add due to rounding*	Sales revenue		EBITDA[1]		EBIT[1]	
	FY21	FY20	FY21	FY20	FY21	FY20
Continuing operations:						
Boral Australia	2,924	3,117	432	472	210	235
Corporate	-	-	(26)	(36)	(28)	(38)
Total continuing operations	**2,924**	3,117	**406**	435	**181**	197
Discontinued operations: Boral North America, USG Boral and Boral Australia Building Products	2,422	2,612	476	371	263	127
TOTAL reported (total operations basis)	**5,346**	5,728	**882**	807	**445**	324

Discontinued operations

Boral's FY21 earnings for **Boral North America, Australian Building Products** and Boral's 50% share of post-tax earnings in **USG Boral** are reported under discontinued operations.

On 27 October 2020, Boral announced it had agreed to sell its 50% share in **USG Boral** to Knauf for US$1.015b. The transaction completed on 31 March 2021. **USG Boral** contributed $37m of equity income[1], compared with $25m in FY20.

On 18 December 2020, Boral together with joint venture partner Lone Star, announced an agreement to sell the **Meridian Brick joint venture** to Weinerberger for US$250m (US$125m for Boral's 50% share). The parties are targeting completing in the first quarter of FY22. **Meridian Brick contributed $16m (US$12m) of EBIT**, compared with $1m (US$0.5m) in the prior year.

On 21 June 2021, Boral announced it had agreed to sell its **North America Building Products** business for US$2.15b (~A$2.9b). The transaction is expected to complete in 1H FY22.

Boral's **North America Building Products** and **Fly Ash** businesses contributed $193m (US$144 m) of EBIT, compared with $120m (US$80.5 m) in the prior year.

A detailed assessment of the strategic options for the **North America Fly Ash** business has been undertaken including assessing opportunities to divest, joint venture or maintain ownership of the business. A decision has now been taken to divest the business and the divestment process is well progressed. An update is expected to be provided in the coming weeks.

On 26 July 2021, Boral announced it had agreed to sell its **Australian softwood and hardwood Timber** business for $64.5m. The transaction is expected to complete in 1H FY22.

The remaining small Building Products business in **Australia (Roofing and Masonry)** is being held for sale.

Boral's Australian Building Products businesses **(Timber, Roofing and Masonry)** contributed $18m of EBIT in FY21, compared to a loss of $11m in the prior year.

Zero Harm – safety and environment

In FY21, Boral's Zero Harm Council embarked on the next evolution of HSE best practice to help Boral deliver industry leading HSE performance. When it comes to safety, our focus is to strengthen the prevention of serious harm through standardised and tailored controls that mitigate critical risks.

Following a review of our health and safety reporting last year, our reporting metrics were broadened to include two additional indicators – actual serious harm incident frequency rate (ASHIFR) and potential serious harm incident frequency rate (PSHIFR). Serious harm incidents are those that cause life-threatening or life-changing injuries or fatalities. We require our people to report PSHIFR as these provide key learnings for the organisation to prevent actual serious harm incidents in the future.

In FY21, Boral Australia reported a 67% reduction in ASHIFR[4] and 53% reduction in PSHFIR[4]. This reflects implementation of programs that focus on critical controls as well as identifying and preventing incidents that cause serious harm. While these indicators showed improvement, Boral Australia's recordable injury frequency rate (RIFR)[4] was 11.9, which compares with 10.0 in FY20.

As a business, efforts to minimise the risk of spreading COVID-19 to keep our people, customers, and communities safe, remain a key priority. We have COVID safe plans in place for our sites in line with government requirements and comply with regulatory requirements. Contactless transactions and delivery options are available to concrete, quarry and asphalt customers.

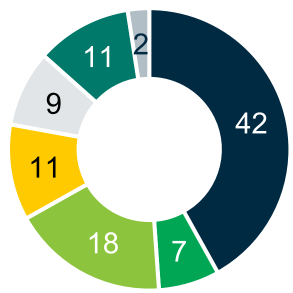
In FY21, Boral Australia's serious environmental incident frequency rate (SEIFR)[5] was 0.3, which was an improvement on the prior year. Boral Australia received no penalty infringement notices during the year which is the first time this has occurred in at least eight years.

Boral has set short- and medium-term carbon emissions reduction targets aligned with meeting net-zero emissions by 2050 and limiting global warming to 1.5°C. See page 8 for further details.

Market conditions

In Australia, total value of construction work done was down ~3% (residential down 1%, non-residential down 5%, infrastructure down 5%)**, with a greater impact on Boral due to geographic exposure, major project delays and completions ahead of demand from new projects, and lower materials intensity of current major projects.**

FY21 Australian revenue (continuing operations) by end market, %



Overall, the value of work done (VWD) across Boral market segments are estimated to be down by approximately 3% in FY21 relative to FY20.

Boral Australia's largest market segment exposure is to **roads, highways, subdivisions & bridges (RHS&B)[6]**. The RHS&B segment includes new construction (~75% of activity) and maintenance work (~25%) with major infrastructure projects a part of new construction activity.

In FY21, **RHS&B value of work done (VWD) decreased by an estimated ~3%** nationally as new construction declined by ~7% and was partially offset by an increase of ~8% in maintenance spend, which is a smaller proportion of the overall VWD in RHS&B. RHS&B VWD was down ~9% in NSW, down ~8% in SA, and down ~5% in WA, while Vic and Qld were up ~1% and ~3% respectively.

Other engineering activity[6] in Australia **decreased ~7%,** with activity lower in all states.

Market conditions (cont.)

Non-residential construction activity[6] declined ~5%, with NSW down ~3%, Vic down ~8%, Qld down ~5% and WA down ~9%, and SA up ~15%.

Boral's **major projects** which can include RHS&B, other engineering and non-residential construction were substantially lower in FY21.

Completion of key major projects (and some delays) in FY21 ahead of new projects starting, impacted the results. The lower materials intensity of major projects also dragged on demand as large projects in FY21 were driven by tunnelling works (e.g. West - Connex Stage 3), utilities realignment (e.g. West Gate Tunnel) or road fit-out and finishing works (e.g. WestConnex 2). We estimate construction materials demand was less than 3% of major projects VWD in FY21 compared with in excess of 5% in FY20.

NorthConnex and Metro Rail projects completed in FY20, and the Pacific Highway and Northern Road completed in FY21. In Qld, Logan Enhancement, M1/M3 in Brisbane, and the Mudgeeraba to Varsity Lakes project on the Gold Coast were completed in FY20. The Norfolk Island and Sunshine Coast Airport projects were completed in FY21.

Work continues at Queens Wharf in Qld; Sydney Metro Rail (Martin Place) in NSW, Mordialloc Bypass in Vic and the Kate to Aumuller project in Qld. The West Gate Tunnel project in Vic continued to progress (although progress of this project remains slow and substantially delayed).

Boral continues to bid for infrastructure work, while projects remain slow to move to execution phase, especially in Qld. West Connex and Line Wide System Connect projects in NSW were the only major new projects commencing recently.

In FY21, **Australian housing starts[7] increased ~16%** to an **estimated 201,000 starts.** However, on a **VWD basis, Australian housing activity was down by an estimated 1%.**

Detached housing starts increased by ~32% underpinned by a government stimulus, while VWD was up ~7%. Multi-residential starts were down ~6% reflecting continued impact by the pause in immigration, with VWD down 12%.

While Boral benefited from growth in residential starts as concrete demand occurs early in the construction process, the increase in starts was more pronounced where Boral's presence is smaller. For example, NSW housing starts increased by ~6,000 starts or 11% while WA increased by ~10,000 starts or 73%, with WA reporting 36% of Australia's increased housing starts. In FY21, 43% of Boral's revenue was derived from NSW while only 5% was from WA.

Alterations & additions (A&A) activity[8] **increased** by an estimated **~11%**.

FY21 Housing starts and VWD by state[7]

	FY21 starts '000	Change on FY20		VWD change %	% Boral revenue exposure
		starts	%		
NSW	56	+6	+11%	-3%	43%
Vic	63	+4	+7%	-4%	22%
Qld	35	+4	+13%	+1%	23%
WA	24	+10	+73%	+11%	5%
SA	13	+3	+26%	+8%	5%
AUS	201	+28	+16%	-1%	

Selection of project work and potential pipeline

(as at June 2021)	Estimated completion
Norfolk Island Airport	Completed FY21
Melbourne Metro Rail Project (Precast), Vic	
Sydney Metro Precast, NSW	
RAAF – East Sale, Vic	
Karratha Tom Price Road, WA	
Line Wide System, NSW	FY22
Pacific Motorway M1 (various), SE Qld	
Mordialloc Bypass, Vic	
Saltwater Creek, Qld	
West Connex 3B (above ground), NSW	
Queens Wharf – resort development, Qld	FY23
Sydney Gateway Project, NSW	
Sydney Metro (Martin Place Station), NSW	
Snowy Hydro 2.0, NSW (precast)	
Bruce Highway upgrade (various), Qld	Tendering
Bunbury Outer Ring Road, WA	
Commera Connector, Qld	
Great Eastern Highway Bypass, WA	
Groote Eylandt, NT	
Inland Rail Project, Qld, NSW, Vic	
M6 – Kogarah, NSW	
New M12 Motorway, NSW	
North East Link, Melbourne, Vic	
Metronet MEL Line, WA	
South Road Upgrade, SA	
Sydney Metro (west extension), NSW	
Tonkin Gap, WA	
Tonkin Highway extension, WA	
Warragamba Dam, NSW	
Wyangala Dam Upgrade, NSW	
Warringah Freeway Upgrade, NSW	
Western Sydney Airport, NSW	
Brisbane Olympics Infrastructure, Qld	Pre-tendering
Coffs Harbour Bypass, NSW	
Outer Suburban Rail Loop, Vic	
Raymond Terrace, NSW	
Rockhampton Ring Road, Qld	
Western Harbour Tunnel, NSW	

Operational overview

Transformation benefits of $75m *(incl. $6m in Building Products)* **were delivered in line with target, helping to offset the impacts of lower volumes (particularly from RHS&B and major projects), an unfavourable geographic mix shift and softer pricing outcomes.**

A$m (continuing operations)	FY21	FY20	Var %
Revenue	2,924	3,117	▼ 6
EBITDA[1]	406	435	▼ 7
EBITDA[1] ROS	13.9%	14.0%	
EBIT[1]	**181**	**197**	▼ 8
EBIT[1] ROS	**6.2%**	**6.3%**	
Property	24	55	▼56
EBIT[1] *excl. Property*	157	142	▲11
EBIT[1] ROS excl. Property	5.4%	4.5%	
Average funds employed	2,193	2,233	
ROFE[1,3] *excl. Property*	7.2%	6.3%	
ROFE[1,3] *incl. Property*	8.3%	8.8%	
Capital expenditure[9]	184	249	

FY21 underlying revenue of $2.9b declined 6%, reflecting lower volumes (3% lower Concrete and 4% lower Quarries volumes) and ~1-2% lower like-for-like selling prices in concrete and quarries.

Boral's 3% decline in concrete volumes was underpinned by a volume decline of ~21% to infrastructure (RHS&B and other engineering) relative to FY20, ~17% lower concrete volumes to multi-residential construction and ~2% softer volumes to non-residential construction, which was only partially offset by a ~18% increase in concrete to detached housing construction and ~7% growth to supply strong A&A activity, relative to the prior year.

Overall, prices were generally softer in FY21 relative to FY20 due to challenging market conditions, with price softness more pronounced in our key segments of NSW and Qld. The price declines occurred early in the year with prices stabilising, and in some cases improving, as the year progressed.

Revenue declined in Asphalt, Concrete and Quarries but a higher external revenue contribution was delivered from Cement.

A$m	FY21		
	External revenue		EBIT
Concrete & Placing	1,428	▼5%	▼
Asphalt	697	▼15%	▼
Quarries	437	▼1%	▲
Cement	316	▲3%	▼

Var %	FY21 vs FY20		
	Volume[10]	Average selling price[11]	LFL price[11]
Concrete	(3)	(2)	(2)
Quarries	(4)	5	(1)
Cement	1[11]	(2)[12]	2

Excluding property, FY21 EBIT[1] of $157m increased $15m or 11%. Transformation initiatives of $75m (net of inflation and including $6m attributed to the discontinued Australian Building Products business) and reversal of prior year COVID impacts and one offs more than offset the impacts of lower volumes, softer prices and an adverse geographic mix shift.

Volume impacts were more pronounced in NSW, where Boral has substantial exposure and strong integrated margins. Despite this, EBIT margins improved slightly to 5.4% and will strengthen further with the benefits of Transformation initiatives and as demand recovers.

FY21 EBIT[1] of $181m declined $16m or 8% reflecting $24m of earnings contribution from Property, compared with $55m in the prior year. FY21 Property earnings were primarily from the sale of the Alexandria Concrite land.

Major projects revenue (including concrete placing) contributed ~10% of Boral Australia's revenue compared with ~17% in the prior year. This reflects a heightened level of activity in the prior year, with several large projects in NSW and Qld finishing in FY20 and early FY21, coupled with FY21 major projects work being less materials intensive than FY20. Boral's NSW major projects revenue was down 63% and Qld was down 52% on the prior year.

The decline in major projects resulted in a $40m decline in EBIT year on year.

Concrete reported lower revenue and earnings due to weaker activity in NSW and Vic and price declines, with average selling prices (ASP) down 2%. The completion of projects such as NorthConnex and Metro Rail projects in NSW contributed to the volume decline, together with low levels of demand from multi-residential activity.

In Concrete Placing, revenue and earnings were lower due to the completion of major projects in NSW and Qld. Major pours occurred at the Crown Sydney Project at Barangaroo, Parramatta Square and the Waterloo Metro Station in FY21.

Quarries revenue reduced slightly as softer volumes reflected lower internal pull through from lower Concrete volumes. Earnings improved due to cost savings and better operational performance at the Peppertree Quarry relative to the prior year when an unplanned disruption impacted earnings. While like-for-like prices were 1% softer, ASP improved due to a shift towards higher priced quarry products.

Cement external revenue was higher reflecting increased project work in Vic and continued strength in the DIY market with higher sales of packaged products which offset a 2% decline in ASP.

Earnings were lower as Boral aligned its upstream cement pricing to market rates. Targeted cost savings and lower energy costs only partially helped to offset this pricing realignment.

Asphalt reported lower revenue and earnings due to completion of major project work in NSW and Qld which included projects such as Northern Road, Pacific Highway, Norfolk Island, Emerald Airport & Mudgeeraba to Varsity Lakes. There were also continuing delays on the West Gate Tunnel project in Vic.

In FY21, we delivered $75m of **Transformation benefits** net of inflation in Australia, including $6m in the discontinued Timber business. By the end of FY21, Transformation initiatives were delivering an annualised run rate benefit after inflation of ~$94m against the $200-$250m target. Initiatives that contributed to the delivered Transformation benefits in FY21 included:

- Targeted labour and human capital initiatives resulting in a 7% reduction in employee numbers, a 7% reduction in overtime hours and a 17% reduction in contractor hours
- Procurement initiatives to lower costs and help offset inflation
- A broad range of improvement projects to improve operations excellence, including National Quarry performance improvement program to lift Overall Equipment Effectiveness (OEE) and other efficiency initiatives as well as mothballing or permanent closure of 17 under-utilised sites / plants
- The transition to a new operating model, including centralisation of functional support services and elimination of duplication; benefits will be more substantial in FY22
- Supply chain initiatives delivering improving productivity of tippers, tankers and concrete agitators.

We have adopted a disciplined and rigorous approach to identify, capture and track the Transformation benefits that are targeted over the next five years. This strengthens our confidence that the benefits delivered through our Transformation program will have a sustainable positive impact on the underlying earnings and future performance of the business.

Boral’s strategic priorities

Significant progress has been made to refocus Boral’s portfolio of businesses, deliver better financial results and build a stronger performing business for our shareholders, our customers and our people. Work commenced on a renewed strategy for Boral in late 2020 and, in May 2021 a new comprehensive strategic framework was adopted.

Strategic framework

The four pillars of Boral’s strategy are: **FOCUS, POSITION, REDEFINE** and **EXTEND.**

Boral is already well advanced on the first pillar of the strategy, which aims to **FOCUS** Boral on the core construction materials business in Australia.

This includes divestment of non-core businesses and disciplined capital management via a renewed Financial Framework.

Divestment of non-core assets and exploration of divestment opportunities includes:

✓ the **sale of Boral’s 50% interest in USG Boral for US$1.015b**

✓ **divesting Meridian Brick for US$250m** (Boral’s share US$125m), targeting to close in 1Q FY22

✓ the announced **divestment** of the **North American Building Products business for US$2.15b**, expected to close in 1H FY22

✓ the announced **divestment of Boral’s Timber business** for **$64.5m**, also expected to close in 1H FY22, and

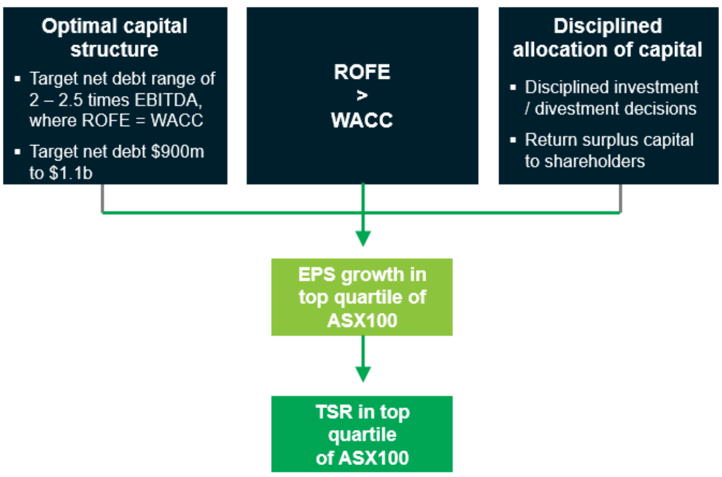
✓ following **market testing** of strategic alternatives for **North America Fly Ash**, **the divestment process is now well progressed.**

Boral’s new **Financial Framework** was articulated in February 2021 and is intended to guide the Group’s decision making and ensure alignment with the interests of our shareholders.

The key financial objective of the Financial Framework is to achieve a Total Shareholder Return (TSR) in the top quartile of the S&P/ASX100. To achieve this, Boral is targeting an ‘earnings per share’ growth in the top quartile of the S&P/ASX 100.

To meet these objectives, there are three core pillars to the Financial Framework:

1. **Maintaining an optimal capital structure**, which means having the right amount of debt for our business. The optimal net debt range of 2–2.5 times EBITDA is where Boral’s cost of capital is at its lowest.
2. **Ensuring return on funds employed (ROFE) is greater than our weighted average cost of capital (WACC)**. Targeting ROFE greater than 10% will help us deliver ROFE >WACC throughout the cycle.
3. **Being disciplined about how we allocate our capital.** Maintaining an optimal capital structure and achieving ROFE > WACC will generate surplus capital. How we allocate that capital will drive our success. This means we will:
   - reinvest in the business to ensure we maintain a sustainable competitive advantage
   - seek to divest assets where we do not have a sustainable competitive advantage and do not see a realistic prospect of building one, and
   - return surplus capital to our shareholders in the most efficient form.



The second pillar of Boral's strategy is the renewed focus to **POSITION** Boral's core business in Australia for improved profitability and to deliver its competitive advantage in the short-, medium- and long-term.

The following important elements of the strategy will position the business in Australia for success:

- Boral's **Transformation program**, which aims to deliver **$200-$250m EBIT uplift** (net of inflation) by 2025 through permanent cost reductions, new earnings streams, optimising use of existing funds employed and divesting assets (this target for continuing operations in Australia is required to achieve ROFE greater than WACC at all times throughout the cycle)
- the new **operating model**, which came into effect from 1 July 2021 and has moved Boral from an autonomous regional model to an integrated operating company organised along national product lines; it is intended to unlock significant value by delivering a more nimble and more responsive organisation
- a strategy to **realise latent value** within the existing **property portfolio**; with surplus property representing a market value of at least $850m, this part of the strategy is currently under development and is expected to be finalised in FY22.

The third pillar of Boral's strategy aims to **REDEFINE** Boral through decarbonisation and adjacent growth to establish a competitive advantage.

Importantly, Boral has set **sector-leading science-based carbon emissions reduction targets** aligned with limiting global warming to 1.5°C.

We have set targets to reduce our Scope 1 and 2 emissions by 46% by 2030, which is aligned with a commitment to net zero emissions by 2050. For Scope 3 emissions we are targeting a reduction of 22% per tonne of cementitious materials produced by 2030.

We are also adopting a **2025 short-term target** to reduce scope 1 and 2 emissions by 18%.

We have adopted an absolute contraction approach under the Science Based Target initiative (SBTi) methodology as a sector specific 1.5°C target pathway is not yet in place.

Decarbonisation pathways have been identified and work is underway across a range of initiatives under energy, transport, cementitious intensity, sourcing, and carbon capture and storage pathways.

We have identified clear and viable decarbonisation pathways to achieve our 2030 target. Beyond 2030, emission reductions depend on further development and commercial viability of emerging and new technologies.

For example, as a grant recipient from the Federal Government's CCUS Development Fund, we will receive up to $2.4 million towards a pilot-scale carbon capture and use project. The pilot project will capture carbon from our Berrima Cement plant and store it in recycled concrete, masonry and steel slag aggregates to improve the quality of these recycled materials before re-use.

In addition to decarbonisation plans, growth plans being developed include recycling, waste, supplementary cementitious materials (SCMs), and accelerating lower carbon products and technology.

The fourth pillar of Boral's strategy is **EXTEND** the business by exploring opportunities to commercialise innovations. These include digital and decarbonisation innovations in the pipeline that can drive value for Boral but will likely be realised over a longer time period.

Capital structure and capital allocation

Our optimal capital structure is defined by the point where our cost of capital is at its lowest. This is defined as net debt at 2–2.5 times EBITDA, equivalent to $0.9b - $1.1b (for continuing operations) where ROFE = WACC. We will target the bottom of this range to ensure we retain flexibility.

As at 30 June 2021, Boral's net debt was $899m, which is at the bottom end of the target range.

Post the receipt of proceeds from Boral North America Building Products, Fly Ash, Meridian Brick and the Australian Timber business divestments, Boral will have significant surplus capital.

Boral maintains strong liquidity of $1.35b including $904m of cash.

With diverse sources of **long-term funding** – including undrawn bank facilities of nearly $450m – and a weighted average debt maturity of 4.9 years, Boral's debt maturity profile presents minimal refinancing risk.

The group maintains an investment grade credit rating with both Moody's and S&P.

In FY21, Boral's **capital expenditure** for total operations was $313m (including leases), compared with $454m in FY20, including:

- the new clinker grinding and storage facility at the Port of Geelong, Vic
- the new Fly Ash classifier as part of the operations at the Tarong Power Station, Qld
- the Kirkland natural pozzolan grinding facility in Arizona, USA.

Maintaining a strong balance sheet is a key priority. A strong balance sheet ensures that Boral is well placed to withstand headwinds and take advantage of opportunities.

In line with Boral's Financial Framework, the form of **returning capital to shareholders** will take into account the availability of franking credits, the prevailing share price and what is in the best interest of shareholders as a whole. If surplus capital was available to return to shareholders, **the Group does not currently have adequate franking credits available to pay franked dividends**.

After 30 June 2021, Boral completed its 10% share buy back at an average price of $7.01 per share.

FY2022 outlook

Underlying performance and market activity

We expect the current uncertain and mixed market conditions in Australia to continue in FY22.

- Infrastructure activity is expected to improve slightly in 2H FY22 but more so moving into FY23, particularly road construction.
- Non-residential activity is expected to be broadly steady.
- Continued flow through of stimulus led detached housing activity is expected but lead indicators suggest softening of demand will occur in FY22.
- Multi-residential activity is expected to remain weak, with a lift in activity not expected until immigration returns.

Uncertainty across all geographies and market segments remains.

- While we were seeing signs of improved demand as we ended FY21 and moved into FY22, COVID disruptions and unprecedented impact on construction through temporary closures from July 2021 have presented early challenges and considerable uncertainty.
- In July 2021 construction closures in Greater Sydney and South Australia had an estimated EBIT impact of ~$16m due to lost volumes and higher costs. Further impacts are continuing in 1Q FY22 in Greater Sydney due to Local Government Area closures together with restrictions in other states and the slow ramp up of activity in SA.
- At this stage, the impact of COVID disruptions in the first quarter may be in the order of ~$50m.
- Our ability to recover lost volumes remains unclear.
- We will continue to take actions to minimise the financial impacts of COVID-related measures, including short-term cost measures.

We are focusing on the things we can control including targeting FY22 Transformation benefits of ~$60 – $75m net of inflation. This will contribute to the longer-term $200 – $250m Transformation target, against which $75m was delivered in FY21.

Additional financial considerations

- No significant Property sales are currently contemplated.
- Boral's financing costs will be approximately 4.2% pa on gross debt value (including leases).
- Capital expenditure for FY22 (continuing operations) is currently expected to be around $300m (including new leases), subject to market conditions.

Results at a glance (total operations)

A$m unless stated	FY21	FY20	Var %
Revenue	5,346	5,728	(7)
EBITDA[1,2]	**882**	**807**	**9**
EBIT[1,2]	**445**	**324**	**37**
Net interest	(131)	(126)	(3)
Profit before tax[1]	314	197	59
Tax[1]	(63)	(24)	(166)
Net profit after tax[1]	**251**	**174**	**44**
Net significant items	389	(1,318)	
Statutory net profit / (loss) after tax	**640**	**(1,145)**	**-**
Net profit after tax before acquired amortisation	290	220	32
Cash flow from operating activities	654	613	7
Gross assets	7,584	9,162	
Average funds employed	6,040	7,469	
Liabilities	3,220	4,667	
Net debt	899	2,580	
Stay-in-business capital expenditure	161	210	
Growth capital expenditure	97	118	
Depreciation and amortisation (D&A)	437	483	
Boral employees	10,909	11,073	
Total employees including in joint ventures	12,489	16,169	
Revenue per Boral employee, $ million	0.49	0.516	
Net tangible asset backing, $ per share	2.06	1.85	
EBITDA margin on revenue[1], %	16.5%	14.1%	
EBIT margin on revenue[1], %	8.3%	5.7%	
EBIT return on average funds employed[1,3] %	7.4%	4.3%	
Return on equity[1], %	5.7%	3.9%	
Gearing			
Net debt/equity, %	21%	57%	
Net debt/net debt + equity, %	17%	36%	
Interest cover[1], times	3.4	2.6	
Underlying earnings per share[1], ¢	20.6	14.5	
Statutory earnings per share, ¢	52.5	(95.8)	
Dividend per share, ¢	-	9.5	
Boral Australia employee safety[14] (per million hours worked)			
Lost time injury frequency rate	3.1	2.6	
Recordable injury frequency rate	11.9	10.0	
Actual serious harm incident frequency rate	0.1	0.3	
Potential serious harm incident frequency rate	5.1	10.8	

Non-IFRS information

Boral Limited's statutory results are reported under International Financial Reporting Standards. A number of non-IFRS measures are reported in order to provide a greater understanding of the underlying business performance of the Group.

Significant items are detailed in Note 2.1 of the Financial Report and relate to amounts of income and expense that are associated with significant business restructuring, business disposals, impairment or individual transactions.

A reconciliation of these non-IFRS measures to reported statutory profit is detailed below:

$m		Earnings before significant items	Significant items	Reported Result[15]
Sales revenue		5,345.7	-	5,345.7
Profit before depreciation, amortisation, interest & income tax	**EBITDA**	**882.0**	**357.7**	**1,239.7**
Depreciation & amortisation		(437.4)	-	(437.4)
Profit before interest & tax	**EBIT**	**444.6**	**357.7**	**802.3**
Interest		(130.6)	-	(130.6)
Profit before tax	**PBT**	**314.0**	**357.7**	**671.7**
Tax benefit / (expense)		(63.3)	31.5	(31.8)
Net profit after tax	**NPAT**	**250.7**	**389.2**	**639.9**
Weighted average number of shares				1,219,708,646
Basic earnings per share (cents)	**EPS[16]**	**20.6**		**52.5**

The results announcement has not been subject to review or audit however it contains disclosures which are extracted or derived from the Financial Report for the year ended 30 June 2021.

The Financial Report for the 12 months ended 30 June 2021 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.

Non-IFRS information (cont.)

Significant Items

A breakdown of significant items is provided below:

$m	Gross
Profit on divestments and related matters	399
Transformation costs	(21)
SAP implementation costs	(10)
Takeover costs	(10)
Total	**358**

A reconciliation of non-IFRS measures for continuing and discontinued operations to reported statutory profit is detailed below:

$m	Before significant items	Significant items	After significant items
Sales revenue			
Continuing operations	2,924.1		2,924.1
Discontinued operations	2,421.6		2,421.6
Total	**5,345.7**	-	**5,345.7**
EBITDA			
Continuing operations	405.8	(41.2)	364.6
Discontinued operations	476.2	398.9	875.1
Total	**882.0**	**357.7**	**1,239.7**
Depreciation & Amortisation (incl acquired amortisation)			
Continuing operations	(224.6)		224.6)
Discontinued operations	(212.8)		(212.8)
Total	**(437.4)**	-	**(437.4)**
EBIT			
Continuing operations	181.2	(41.2)	140.0
Discontinued operations	263.4	398.9	662.3
Total	**444.6**	**357.7**	**802.3**
Net financing costs			
Continuing operations	(122.9)		(122.9)
Discontinued operations	(7.7)		(7.7)
Total	**(130.6)**	-	**(130.6)**
Profit before tax			
Continuing operations	58.3	(41.2)	17.1
Discontinued operations	255.7	398.9	654.6
Total	**314.0**	**357.7**	**671.7**
Income tax benefit / (expense)			
Continuing operations	(10.4)	12.4	2.0
Discontinued operations	(52.9)	19.1	(33.8)
Total	**(63.3)**	**31.5**	**(31.8)**
Profit after tax			
Continuing operations	47.9	(28.8)	19.1
Discontinued operations	202.8	418.0	620.8
Total	**250.7**	**389.2**	**639.9**

Footnotes

1. Excluding significant items
2. See pages 13-14 for reconciliations and explanations of these items
3. ROFE is EBIT before significant items on funds employed (average of opening and closing funds employed for the year)
4. Per million hours worked for employees and contractors in 100% owned businesses and controlled joint ventures in Boral Australia (including Building Products)
5. SEIFR: Serious (Environmental) incident frequency rate defined as Level 3 (or greater) environmental, regulatory or community incident rate (per million hours). Incident thresholds are determined by using the Boral HSEQ risk matrix
6. Macromonitor (July 2021 Outlook) forecasts
7. ABS original housing starts to March 2021 quarter. Macromonitor (July 2021 Outlook) forecasts. Numbers in the housing starts table on page 5 exclude Tas, SA and ACT.
8. ABS to Mar 2021 quarter plus Macromonitor (July 2021 Outlook) forecast
9. Includes lease additions
10. Includes internal and external sales
11. For external sales only
12. For external and internal sales including wholesale cement but excluding Sunstate JV
13. For external cement sales excluding wholesale cement and Sunstate JV volumes
14. Includes employees and contractors in Boral Australia (for entities consolidated for financial reporting purposes)
15. Includes continuing and discontinued operations. Refer to page 14 for reconciliation between the reported result and continuing and discontinued operations
16. Based on weighted average number of shares on issues of 1,219,708,646