

# Finance report

In 2015 Adelaide Brighton recorded an increase in revenue, earnings before interest and tax (EBIT) and net profit after tax attributable to members (NPAT). Revenue increased 5.6% to \$1,413.1 million. EBIT rose by 20.6% to \$298.6 million. NPAT increased 20.4% to a record \$207.9 million.



Michael Kelly  
Chief Financial Officer

## Sales and profits

Revenue growth was supported by higher cement and lime sales volumes, improved prices and the contribution of acquisitions made in 2014. Strong residential construction activity in the eastern states improved demand for cement, clinker, concrete, aggregates and concrete products. Lime sales volume increased due to higher demand from the gold sector and the recovery in sales in the non-alumina sector. Sales of concrete products increased as a result of improved residential demand in major markets, particularly in New South Wales and Queensland.

Earnings for the year were supported by profits on the sale of surplus property, which contributed \$34.9 million to NPAT (2014: \$0.7 million), on cash proceeds of \$47.9 million. Excluding property profits, underlying EBIT increased 4.5% to \$255.3 million.

Notwithstanding increased margins in the cement, concrete, aggregates and concrete products businesses, the average EBIT margin for the Company, excluding property earnings, decreased slightly from 18.3% to 18.1%. This reflected a change in the mix of sales, joint venture earnings, changing import costs (due to currency movements) and an increased proportion of lower margin concrete revenue of total sales. These factors were almost fully offset by benefits from volume growth, price rises and operating efficiencies.

The contribution from the Company's joint ventures and associate entities declined compared to the prior year due to rising input costs affecting Independent Cement and Lime Pty Ltd (ICL) in Victoria and lower demand for premixed concrete and quarry products in regional Victoria impacting Mawson Group's earnings.

This was partly offset by an improved contribution from Sunstate Cement in Queensland due to a recovery in demand in south east Queensland.

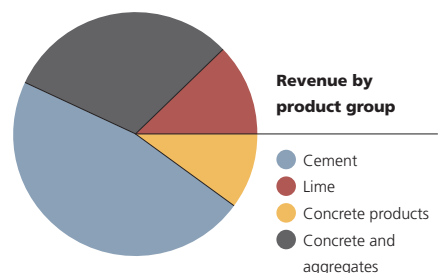
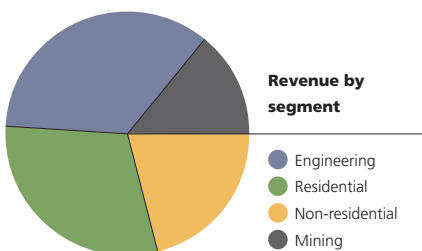
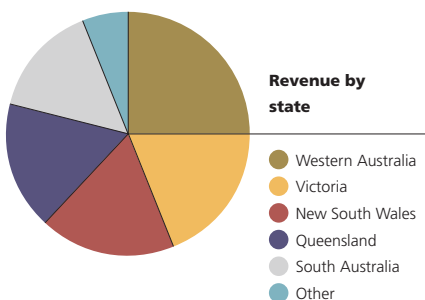
Underlying NPAT increased 25.6% to \$209.2 million and underlying profit before tax rose by 24.8% to \$287.3 million.

Underlying measures of profit exclude significant items of revenue and expenses in order to highlight the underlying financial performance across reporting periods. The items excluded from underlying measures in 2015 were a net cost of \$1.3 million after tax and \$1.7 million before tax. These were:

- > Corporate restructuring costs;
- > Acquisition expenses; and
- > Gain on acquisition from fair value accounting.

Net finance costs decreased from \$15.0 million to \$13.0 million in 2015, due to lower average debt, reduced borrowing margins on the facilities and lower underlying market interest rates. Adelaide Brighton's tax expense increased by \$17.9 million to \$77.8 million as a result of higher earnings. The effective tax rate increased from 25.8% in 2014 to 27.2% in 2015 due to the non-taxable accounting gain which lowered the prior year's effective tax rate.

Adelaide Brighton's underlying average tax rate approximates the Australian corporate rate of 30%. Equity accounted after tax earnings from joint ventures and associate entities, who pay tax within their own company, reported in the Group results reduces the reported tax rate to the range of 27% to 28% in most years.



## EBIT margin

Group underlying EBIT margin increased to 21.3% compared with 18.3% in 2014. This increase was attributable to the positive impact of the profits from sales of property during the year. Excluding property sales, the Group's EBIT margin decreased slightly from 18.3% to 18.1%.

This slight decline in margins reflected the changing contribution of different divisions to Adelaide Brighton's overall result, in particular the higher proportion of sales from lower margin concrete revenue following recent acquisitions. Notably, however, the EBIT margin of each individual business division increased during the year.

The devaluation of the Australian Dollar against Adelaide Brighton's major trading currencies, the US Dollar and the Japanese Yen, reduced import profitability by approximately \$6 million before tax in 2015 compared to 2014.

Operational improvement programs delivered benefits of \$21 million (pre-tax) for the 2015 year compared to 2014. Key initiatives were a corporate restructure, the Munster clinker rationalisation, operating cost and energy efficiency programs and the realisation of additional synergies from acquisitions completed in 2014.

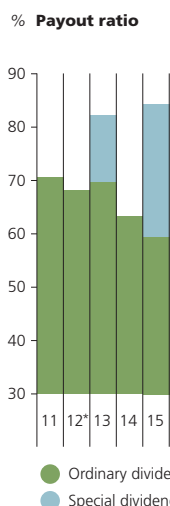
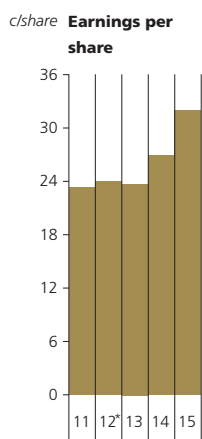
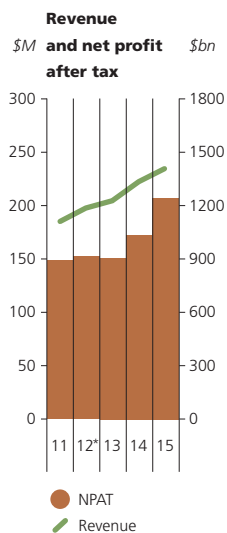
## Shareholder returns

A final ordinary dividend of 11.0 cents per share (fully franked) was declared, an increase of 1.5 cents per share on the 2014 final ordinary dividend. In addition, the Board declared a final special dividend of 4.0 cents fully franked. Fully franked dividends declared total 27.0 cents per share for 2015 compared to 17.0 cents for 2014, and represent a payout of 84% of reported EPS.

Underlying return on funds employed improved from 17.5% to 19.9% in 2015. Adelaide Brighton's returns continue to exceed its cost of capital.

Adelaide Brighton has maintained strong total shareholder return (capital appreciation plus dividends) over the last decade compared to its peer group, which has supported S&P/ASX 100 Index inclusion since 2012.

The Dividend Reinvestment Plan remains suspended given the Company's strong cash flows and low gearing.



\*In line with changes to accounting policies effective 1 January 2013, comparative numbers for 2012 have been restated

## Cash flow and debt

Operating cash flow increased by \$35.9 million to \$229.9 million in 2015. The increase was attributable to improvement in the conversion of sales to cash and the return to more typical levels for instalments of income tax after one-off items impacted payments in 2014.

One of the benefits of the rationalisation and improvement program is the release of surplus assets, including a substantial land portfolio. During the year Adelaide Brighton's cash flows were supported by proceeds of \$50.8 million from the sale of assets, which includes \$47.9 million from the disposal of property.

Development activities and increasing underlying land values have contributed to an upgrade of the Company's estimates of the pipeline of remaining land sales. It is now estimated that the portfolio of properties targeted for sale could realise in excess of an additional \$140 million in proceeds over the next 10 years, including proceeds over the next two years in the range of \$30 million to \$40 million.

Capital expenditure outside of acquisitions totalled \$74.3 million in 2015, an increase of \$13.9 million compared to 2014.

Working capital increased by \$29.2 million over the year, with the final payment in 2015 of the carbon tax liability of \$14 million representing almost half of this increase. Increased inventory and trade debtors and lower provisions for rehabilitation activities also contributed to the increased working capital balance.

Net debt to equity gearing was 24.6% at year end compared to 31.7% in the prior year. This is slightly below the Company's targeted gearing range of 25% to 45%. The reduction in gearing levels was assisted by improved operating cash flows and proceeds from property sales, with net debt declining by \$62.5 million to \$297.2 million at year end.

The Company refinanced debt facilities during 2014, increasing the term and lowering borrowing margins. Since that date, Adelaide Brighton's total facilities remained unchanged at \$540 million, with the following maturity profile:  
January 2018: \$330 million  
January 2019: \$210 million

To maximise shareholder returns, Adelaide Brighton seeks to ensure the balance sheet is efficiently utilised while retaining the flexibility to fund its long term growth strategy as opportunities are identified.