

## Managing Director and Chief Executive Officer review

*The financial performance of your Company has continued to improve during the past year, due not only to healthy market conditions but also, the ongoing benefits of Adelaide Brighton's strategy of operational improvement, growth in our lime business and vertical integration.*



Martin Brydon  
Managing Director and  
Chief Executive Officer



### Performance

Demand for our products across the business was generally a positive contributor to our financial performance in 2015. We witnessed healthy demand from the residential sector, particularly in New South Wales and Queensland. However, resource project activity eased in Western Australia and the Northern Territory, and South Australian demand was lower ahead of the commencement of several major infrastructure projects in 2016.

Our total revenue of \$1,413.1 million was 5.6% higher than in 2014, and once again a record. It was assisted by higher cement and lime volumes, improved prices and the first full year contribution from acquisitions completed in 2014.

Reported earnings before interest and tax (EBIT) increased 20.6% to a record \$298.6 million, resulting in an EBIT margin of 21.1%. Underlying EBIT, a figure which excludes significant items increased 22.4%, while underlying EBIT excluding property transactions, increased 4.5% to \$255.3 million. Property sold as part of Adelaide Brighton's ongoing rationalisation and improvement program contributed \$34.9 million after tax to earnings, based on sale proceeds of \$47.9 million.

Excluding property earnings, the underlying EBIT margin was 18.1%. The geographic mix of cement sales, lower earnings from joint ventures, rising import costs due to currency movements and the increased proportion of concrete revenue, had an impact on overall sales margins. However, these factors were almost fully offset by volume growth, price rises, operating efficiencies and reduced transport costs.

Strong residential construction sectors in the eastern states improved demand for cement, clinker, concrete, aggregates and concrete products. This offset reduced sales in South Australia. Sales volumes increased across all products, assisted by demand in New South Wales, Victoria and Queensland. Margins increased in concrete, aggregates and concrete products.

Lime sales increased 2.3% as demand from gold producers recovered, while alumina volumes were stable. As an established low cost producer, the Company is well placed to take advantage of a recovery in the resources sector.

In 2015 we benefited from the first full year of earnings contribution from our 2014 acquisitions in South Australia and Queensland and will continue to look at further acquisitions where they add to shareholder value.

### Strategy

Adelaide Brighton continues to build on its position as a leading Australian integrated construction materials and lime producing company with balanced exposure across mining and construction sectors.

We are the largest producer of lime in Australia, the number two supplier of cement and clinker, the leading importer of cement and clinker and the largest producer of concrete products. In addition, Adelaide Brighton holds leading market positions in many of its regional concrete and aggregates markets.

A number of strategic initiatives supported our financial results and shareholder returns in 2015 and are expected to provide further benefits in the long term including: investment in downstream concrete and aggregates businesses; the rationalisation of clinker capacity; the sale of surplus land; and corporate restructuring.

Adelaide Brighton's long term strategy has delivered industry leading growth and shareholder returns and your Company continues to explore alternatives to grow shareholder value through investment in the three key areas of our strategy:

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Cost reduction and continuous improvement across the Company;

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Growth of the lime business to supply the resources sector in Western Australia, South Australia and Northern Territory; and

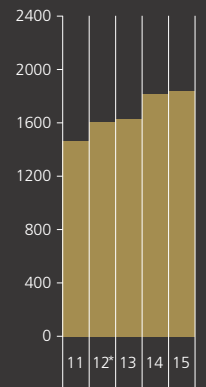
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Vertical integration into quality aggregates, concrete, logistics and masonry businesses.

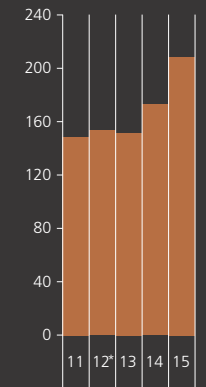
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\$M Total assets



\$M Net profit after tax



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



Photo courtesy of Oz Minerals Limited

### **Growing shareholder value**

In implementing this strategy Adelaide Brighton pays particular attention at the business and corporate level to important drivers of long term shareholder value:

- > Financial performance - delivering attractive return on capital;
- > Market leadership - maximising operating efficiencies in production, logistics and marketing;
- > Risk management - maintaining a strong balance sheet and minimising operational risks;
- > Capital management - efficient utilisation of capital and returns to shareholders; and
- > Governance and social licence - maintaining our licence to operate on behalf of shareholders and other stakeholders.

### **Cost reduction and continuous improvement**

Adelaide Brighton took significant steps in 2014 to lower costs, delivering incremental benefits of \$21 million pre-tax for the full 2015 year compared to 2014. The rationalisation of clinker production at the Munster plant in Western Australia was largely completed in December 2014 and delivered a further \$5 million in benefits in 2015.

Efficiency measures undertaken at the corporate level in 2014 and 2015, achieved an additional \$3 million in savings in 2015. We also continue to focus on the management of energy costs. Incremental year on year benefits of \$6 million were delivered during the year through a range of initiatives, including fuel switching, demand management and the increased use of alternative fuels.

Synergies achieved in 2015 from the acquisitions completed in 2014 were \$4.4 million in total. Other benefits of \$4 million were obtained through a range of other initiatives, including improved efficiency in transport and materials used.

### **Import strategy delivers competitive supply into key markets**

Adelaide Brighton is Australia's largest importer of cementitious materials (cement, clinker and blast furnace slag), utilising 2.1 million tonnes of imported product in 2015.

*Adelaide Brighton Cement's product is used in the production of "shotcrete" at the Oz Minerals Prominent Hill mine site. "Shotcrete" is critical in maintaining the integrity of the underground exposed surfaces.*

The use of imported materials allows us to supply competitively priced product into a range of markets where demand exceeds the Company's manufacturing capacity.

The Company continues to examine ways to further enhance the scale and efficiency of its operations. The import strategy is supported by long term supply agreements.

### **Land sales program estimates increased**

As part of the Company's ongoing growth, and the consequent rationalisation and reconfiguring of operations, surplus land becomes available that offers the potential for significant capital release to maximise returns. This is expected to further support returns over the next decade.

Since the beginning of 2013, proceeds from the property sales program have been \$64 million. This includes transactions in 2015 that realised \$47.9 million in cash sales proceeds and \$34.9 million to NPAT.

The Company's estimates of the pipeline of remaining land sales has increased due to development activities and increasing underlying land values.

It is now estimated that the portfolio of properties targeted for sale could realise in excess of an additional \$140 million over the next 10 years, with an expected EBIT margin on these sales of about 85%. Sale proceeds over the next two years could be in the range of \$30 million to \$40 million.

### **Lime positioned for demand growth**

Adelaide Brighton's Western Australian lime business is underpinned by low cost, long term raw material reserves secured by State Agreement and statutory approvals. Long term demand growth is driven by the state's globally competitive resources sector.

The two lime kilns at our Munster plant are among the largest globally and are currently operating at 80% capacity. Operating margins are expected to improve in 2016 due to the Munster plant's low cost operation and the lower cost of gas in Western Australia.

Lime volume growth has been held back in recent years by the non-alumina sector, which represents about 30% of Western Australia's lime demand and achieves higher selling prices. The sector appears to be improving, with increased demand from gold projects in particular.

Continued improvements in the operating efficiency of production facilities in Western Australia remain a key priority.

### **Concrete and aggregates acquisitions delivering value**

The 2014 investment in concrete and aggregate operations in South Australia and north Queensland, is delivering returns in line with expectations. This investment provided the Group with access to strategically located assets across important markets, increasing exposure to concrete and quarrying operations.

Operational performance in this division has also met our expectations. Adelaide Brighton's systems and management processes allowed for rapid delivery of the expected synergies from this investment. Adelaide Brighton will continue to pursue its strategy of acquiring quality concrete and aggregate operations that deliver shareholder value.

### **Outlook**

In 2016, Adelaide Brighton expects sales volume of cement and clinker to be slightly higher than 2015. Sales volumes of premixed concrete, aggregates and concrete products are also expected to increase.

Price increases have been announced for March and April 2016 in cement, clinker, aggregates, concrete and concrete products.

Price increases achieved in 2016 are expected to exceed those achieved last year. A number of factors are supportive of higher prices including strengthening demand and capacity utilisation and the weakening Australian Dollar, which increases the cost of import substitutes.

Aggregate prices are anticipated to increase significantly above CPI, particularly in Sydney where average delivered costs have risen substantially as the industry moves to source supply from further afield as traditional sources have depleted.

Lime sales volumes are expected to be slightly higher and average realised prices are likely to increase. The weaker Australian Dollar reduces the competitiveness of imports relative to Adelaide Brighton's low cost operations, however the threat of small scale lime imports in Western Australia and the Northern Territory remains.

Efficiency remains a key operational priority as part of the rolling program of cost reduction to sustain leading margins and shareholder returns.

As always, Adelaide Brighton will look to participate in industry consolidation where it adds to value for shareholders.

To maximise shareholder returns, Adelaide Brighton seeks to ensure the balance sheet is efficiently utilised while retaining the flexibility to fund long term growth as opportunities are identified. Prudent capital management remains an important part of this approach.

### **Our people**

Finally, I would like to thank Adelaide Brighton's senior management team and all our employees for their hard work in the past year.

The strong performance we have achieved has been built on year after year of improvement and dedication.

Despite our successes I believe there remains much more we can achieve as we continue implementing our long term strategy and striving for greater rewards for our shareholders.

Adelaide Brighton has a strong and sustainable future and I look forward to working with you to make this great Australian Company even greater.