FINANCE REPORT

In 2017 Adelaide Brighton delivered record revenue of $1,560.0 million up 11.7% on the previous year. Underlying net profit after tax (NPAT) was up 5.4% to $197.7 million. Underlying earnings before interest and tax (EBIT) increased 7.8% to $288.8 million.

Sales and profits

Record revenues of $1,560.0 million were driven by acquisitions and improved demand for construction materials, notably in the eastern states and from infrastructure projects in South Australia. When the acquisitions completed in 2017 are excluded, revenues were up a strong 5.9%.

Adelaide Brighton reported NPAT was down 2.3% to $182.0 million, impacted by a number of one-off items, which included a doubtful debt provision and associated costs of $17.7 million. The Company has now completed its analysis of the debt and is actively seeking to recover the underpayments.

Earnings before interest and tax (EBIT) increased 0.2% from the prior year to $266.5 million on an EBIT margin of 17.1%. Underlying EBIT grew 7.8% to $288.8 million, reflecting the strong growth in sales.

Underlying EBIT was supported by: higher construction materials volumes and pricing; operational improvements and lower import costs; and acquisitions completed during the year.

This was partially offset by a cement quality issue in South Australia; additional remediation related to the closure of our North Melbourne concrete plant; unplanned costs associated with the Company's limestone carrying vessel; and higher energy costs.

Property profits of $8.4 million after tax increased slightly on the $7.9 million achieved in 2016. Excluding property profits underlying EBIT growth was 7.0% in 2017 to $277.7 million.

Joint arrangements and associate (including joint opeartions) earnings increased from $30.9 million in 2016 to $37.8 million in 2017 reflecting improved demand and higher construction materials prices on the east coast of Australia.

Net finance costs increased from $11.5 million to $12.1 million in 2017 as a result of a slight increase in borrowing margins and higher average net debt.

Tax expense of $72.3 million representing a $3.9 million increase over 2016 and an effective tax rate of 28.4% compared to 26.9% in 2016. The increased effective tax rate in 2017 is due recognition of capital losses in the prior year and the true-up of prior year tax return.

EBIT margins

Underlying EBIT margin declined from 19.1% to 18.5% in 2017 impacted by higher energy costs, a cement quality issue at the Birkenhead plant early in the year and higher site remediation costs associated with the closure of our North Melbourne concrete plant.

Higher energy costs put pressure on cement margins, which were also affected by a number of one offs and lower volumes in the Western Australia and the Northern Territory markets. Our cement business receives a lower price on the east coast where growth is currently strongest, but some of this comes back to us through the equity accounted earnings of our joint ventures.

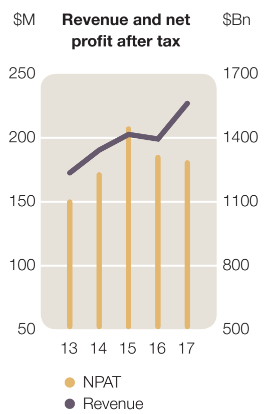
Concrete and Aggregates revenue, EBIT and EBIT margins all improved significantly in FY2017 despite the $3.3 million in rehabilitation costs at North Melbourne site in the first half. This improvement reflects price and volume growth in all states and a solid performance on costs. The 2017 acquisitions have contributed in line with expectations.

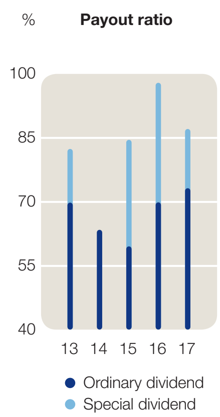
Our import margins have also increased due to savings in shipping, currency and procurement.

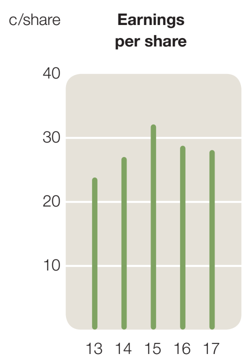
In our lime business margins are down slightly but remain healthy. We have long term contracts in place with major customers and a strong competitive position as the primary supplier to the Western Australian and Northern Territory mineral processing sector.

Concrete Products margins have been pressured by reduced sales to commercial projects but the business is performing well.

Net profit from our joint venture operations increased by 22.3% driven by volume increases and price rises, with the ICL joint venture performing strongly across volumes, prices and costs control.







Our operational improvement program continued with the rationalisation of laboratory facilities and specialty cement production at the Angaston facility resulting in annualised EBIT savings of approximately $3.8 million, of which approximately $2.8 million was achieved in 2017. Adelaide Brighton also signed new agreements for the supply of gas and electricity in South Australia to give certainty of supply at competitive prices.

Adelaide Brighton incurred an additional $17.1 million provision for doubtful debts plus $0.6 million costs in 2017 relating to transactions identified for which Adelaide Brighton was underpaid.

The Company has completed its analysis of these transactions, with the help of forensic accountants KPMG. While the financial impact of the discrepancies has been quantified, investigations are continuing.

The issues around underpayments were identified under Adelaide Brighton's existing compliance and risk management systems and processes. The Company has taken steps to further strengthen these and is continuing its efforts to recover amounts owed.

Shareholder returns

A final ordinary dividend of 12.0 cents per share (fully franked) and a final special dividend of 4.0 cents per share (fully franked) have been declared.

Total dividends declared with respect to the 2017 financial year are 24.5 cents per share, fully franked, compared to 28.0 cents per share (fully franked) with respect to 2016.The Dividend Reinvestment Plan remains suspended given the Company's strong cash flows and low gearing.

While underlying EBIT margins declined slightly in 2017, underlying EBIT return on funds employed increased from 17.6% to 18.1% in 2017, reflecting strong returns on capital employed. This rate of return remains significantly ahead of the Company's cost of capital.

Adelaide Brighton has achieved a Total Shareholder Return over the last five years of 166% and has outperformed the ASX200 Accumulation Index. This is due to a sustained year on year improvement in share price and increased dividends.

TSR over the last 12 months was 24.6%, again reflecting an improved share price, increased ordinary dividends and the payment of special dividends and an improvement in the underlying performance of the business.

Cash flow and debt

Operating cash flow decreased 9.7% from the prior year to $224.2 million, due to lower cash conversion of revenues and increased tax payments partially offset by an increase in dividends from joint ventures. Nonetheless, underlying cash flow generation remains robust.

Working capital increased $22.2 million as a result of acquisitions and the timing of receipts from customers and import shipments at year end.

Capital expenditure of $169.3 million was $82.8 million higher than the prior year, largely due to $80.2 million in acquisitions. Stay in business capital expenditure of $60.1 million represents 73% of depreciation and amortisation. In addition, the Company invested $29.0 million on organic growth projects in 2017.

Cash proceeds from the sale of assets of $17.7 million includes $13.9 million from the disposal of land, bringing sales in the last five years to $97 million. The estimate of the sales value of the remaining property pipeline over the next decade exceeds $100 million. Net debt increased $83.1 million, with net debt to equity gearing increasing to 29.8% from 23.6% over the year as a result of acquisitions. However, due to healthy cash flow gearing declined from 34.3% at 30 June 2017 and remains at the lower end of the target range of 25% to 45%.

Dividends paid to shareholders decreased 13% to $156.0 million due to lower special dividend payments in 2017. The 4.0 cents per share special dividend declared with respect to the 2017 financial year reflects Adelaide Brighton's strong cash flows, current capex plans and low balance sheet gearing compared to the target range.

The special dividend is consistent with Adelaide Brighton's strategy to distribute surplus capital to shareholders while maintaining an efficient and resilient capital structure with the flexibility to investment for long term growth.

Michael Kelly
Chief Financial Officer