



Nick Miller
Chief Executive Officer



I was delighted to take up the role of Chief Executive Officer of Adelaide Brighton in January 2019. In the short time I've been at the Company, it has been evident that the quality of its people and the very successful long term strategy, underpinned strong growth and shareholder returns. The 2018 performance provides further evidence that the strategy to diversify the business by product and geography, driving vertical integration through both acquisition and organic growth and continual focus on cost reduction and operational improvement is working well.

Following the retirement of the former CEO and Managing Director, Martin Brydon, I'm pleased to provide a report on the 2018 year.

In 2018, construction markets were strongest in New South Wales and Victoria. Queensland, Northern Territory and South Australia experienced stable demand during the year, while demand in Western Australia eased. Lime demand from the resources sector was stable.

Excluding Western Australia and Northern Territory, residential construction activity remained healthy during the year and the non-residential and infrastructure sectors continued to improve.

The business continued to perform well in 2018, with full year revenue growing 4.6% to \$1,630.6 million. Our revenue growth reflects Adelaide Brighton capitalising on the favourable demand environment for construction materials and lime as well as the concrete and aggregates acquisitions, made in 2017, delivering to expectations.

Net profit after tax increased 1.4% to \$185.3 million, while EBIT of \$265.4 million was 0.8% lower than 2017.

Underlying EBIT, which disregards one-off items, declined 5.7% to \$273.5 million, reflecting softer cement and lime earnings and lower property profits, not fully offset by improved concrete, aggregates and joint venture earnings. Excluding earnings from property sales, which are variable from a timing perspective, underlying EBIT was stable in 2018.

Strong cash flow was a feature of the 2018 results, which supported our healthy balance sheet and provided the capacity to fund growth projects while continuing to provide attractive shareholder returns in the form of dividends. A lift in total dividends paid to shareholders for the 2018 financial year reflects the Board's confidence in the financial position and the outlook.

Operational highlights

Overall cement and clinker sales volume increased 1.1% compared to 2017. Sales were stronger into east coast markets but declined in South Australia and Western Australia, which also impacted average realised prices.

Cement selling prices increased in most markets but margins declined in the second half on reduced cement volumes, lower average realised prices and increased import costs. Increased competition from bagged imports in South Australia was observed in the second half of the year.

Sales of concrete improved 14% compared to 2017, or 9% when the impact of acquisitions is excluded, with east coast markets particularly strong. Aggregate volumes increased 10%, assisted by the strong east coast markets and acquisitions. Concrete margins increased on higher volumes and prices. Pricing in aggregates improved in the majority of markets, however margins were impacted by sales of lower value fill to the early stages of infrastructure projects.

Lime sales were stable in 2018 as Adelaide Brighton continued to supply the market with reliable, high quality and cost competitive product. While improving in the second half, average lime prices were lower over the year due to a combination of sales mix and contractual pricing arrangements.

The Australian joint venture operations benefited from the strong demand in east coast states for cement, clinker, concrete and aggregates to support an overall 6.1% increase in joint venture earnings in 2018.

Strategic developments

Adelaide Brighton's long standing strategy remains highly relevant. But there's always room to improve at the operational level.

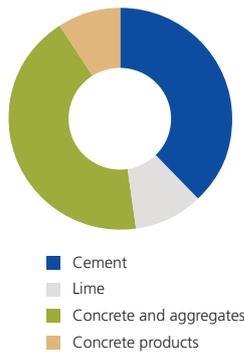
The Company continues to deliver against its long term growth strategy of cost reduction and operational improvement; growth of the lime business and vertical integration opportunities into downstream aggregates, concrete, logistics and masonry businesses.

Improving energy efficiency and reducing carbon footprint remain a key focus. In 2018, Adelaide Brighton benefited from savings in an electricity supply agreement with a renewables generator, increased utilisation of alternative fuels in its production plants, and greater use of environmentally friendly alternative cementitious materials in its key products.

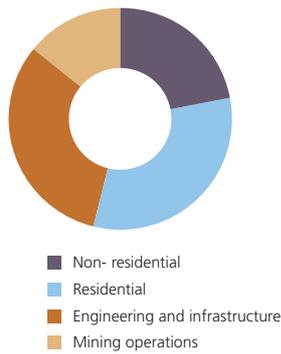
Lime demand is expected to grow over the medium term, in line with incremental output improvements and growth in the Western Australian resources sector. Adelaide Brighton's leading cost position and substantial capacity means it is well placed to benefit from this growth.

In addition to its active pursuit of further downstream opportunities, organic projects remain a driver of growth. Organic projects recently completed include two concrete plants to service the southeast Queensland market, a new upgraded drymix packaging plant to service the Western Australian market, and increased cement storage capacity at the Morgan site to improve service to the New South Wales market.

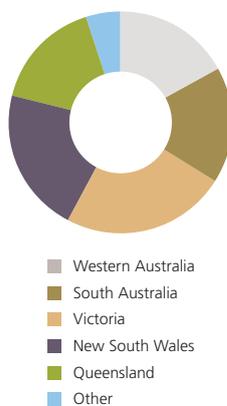
Revenue by product group



Revenue by market



Revenue by state



Focus on energy efficiency and sustainability

Optimising efficiency will remain an important element of our approach to long term growth to underpin our competitiveness and the sustainability of our business.

Adelaide Brighton has a proactive strategy to deliver long term reductions in operational energy consumption, as well as lower costs and operating risk, through measures including:

- > A portfolio approach to energy supply and procurement benefits;
- > Long term contracts that lower electricity costs and improve sustainability;
- > Increased use of alternative fuels to reduce reliance on traditional sources (targeting more than 30% substitution of 6PJ of fuel supply in South Australia in the medium term);
- > Increased use of alternative cementitious materials e.g. blast furnace slag; and
- > Hedging and other financial strategies to manage risk, where it adds value for shareholders.

In 2018, Adelaide Brighton made a number of operational improvements to mitigate rising energy costs and reduce its carbon footprint, including:

- > The realisation of energy efficiency improvements from the 2017 rationalisation of oil well cement production at Angaston in South Australia, and the leveraging of the import supply network.
- > Lifting sales of granulated blast furnace slag as an alternative cementitious material to reduce both the consumption of natural resources and the environmental impact from disposal of these industrial by-products.
- > Following an investment in a second wood firing plant undertaken in 2015, approximately 25% of energy at Birkenhead was sourced from alternative fuels in 2018.
- > Establishing new energy supply contracts in South Australia, that include one of the country's largest renewable electricity supply contracts, to improve costs while increasing supply security and sustainability.

Safety

Safety is a key performance indicator across all divisions and at Group level. In 2018 we saw a decrease in our lost time injury frequency rate by 33% to 26.0, primarily as a result of focussed injury prevention programs which were also embedded into the acquisitions made in 2017.

An increase in proactive safety reporting, up 65% at year end, is an indication of employee engagement and improved awareness of potential hazards. Safety is not just about processes and procedures within a business, it is a culture. We will continue to invest in our safety development to deliver further improvements in our safety performance.

Outlook

In 2019, Adelaide Brighton expects overall demand for construction materials to be stable, with growth in non-residential engineering and infrastructure demand largely offset by declines in residential.

Construction demand in east coast markets is expected to remain healthy and with stable demand in Western Australia and the Northern Territory. Volumes in South Australia are likely to be assisted by demand from projects and mining. While variation in sector demand is likely, overall, Adelaide Brighton's east coast markets are anticipated to remain at healthy levels in 2019.

The demand environment appears favourable for further construction materials price increases, but, as always, this will be dependent on local market conditions.

The outlook for the joint venture operations in Australia remains positive, although Sunstate Cement may face increased competition in the southeast Queensland market.

While there are regional variances in the outlook, we are expecting a broadly stable demand environment in construction materials and lime in 2019. This should be supportive of our efforts to implement our strategy and continue to grow long term value for shareholders.

Conclusion

In summary, Adelaide Brighton is in a fantastic position to go forward - it has privileged assets which are difficult to replicate. In 2018 the Company achieved good revenue growth with the underlying revenue increasing excluding acquisitions. The company has a very strong cash flow and the balance sheet is in great shape.

There is always room for operational improvement and I look forward to working with the management team on applying my experience and perspective to explore and define new opportunities for improvement and growth at Adelaide Brighton, within the current successful long term strategy.

Finally, a significant thank you to all our employees for their hard work and dedication in 2018 for the delivery of strong returns to shareholders and a sustainable future for Adelaide Brighton.

Australian industry position

#1

Lime producer
in the minerals processing industry

Concrete products producer

Cement and clinker imported
with unmatched channels to market

#2

Cement and clinker supplier
to the Australian construction industry

#4

Concrete and aggregates producer