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MEDIA RELEASE

ADELAIDE BRIGHTON DECEMBER 2019 FULL YEAR RESULTS

Results summary:

- Focus on safety initiatives resulting in a 36% improvement in TRIFR
- Revenue of $1,517.0 million (FY18: $1,630.6 million) driven by increased competition and challenging market conditions in the construction materials market
- Underlying Earnings Before Interest and Tax (Underlying EBIT)[1] of $186.4 million (FY18: $273.5 million) impacted by lower volumes, rising raw material and shipping costs, and higher transport and fuel costs
- Underlying Net Profit After Tax (Underlying NPAT)[1] of $123.0 million, in line with guidance issued mid-year, delivering underlying EPS of 18.9 cents per share
- Reported net profit after tax of $47.3 million, includes significant items, including impairment of $69.8 million after tax
- Underlying return on funds employed[1] of 11.2%, remains ahead of the cost of capital
- Final fully franked dividend of 5.0 cents per share
- Net Debt of $423.3 million and leverage of 1.5 times
- $900 million refinancing undertaken to diversify the Group's available debt funding facilities and provide flexibility for investment in growth initiatives
- Strategy in place with a focus on sustainable business model and consolidation of Adelaide Brighton's strong position in key markets
- Cost-out program on target to deliver in excess of $30.0 million in gross savings for 2020
- 2020 full year NPAT, excluding property expected to be 10% lower than underlying result for 2019, based on our early assessment of markets[2]

Leading construction materials and lime producer Adelaide Brighton (ASX: ABC) today reported results for the full year ending 31 December 2019 (FY19). The Company reported revenue of $1,517.0 million (FY18: $1,630.6 million), reflecting a weaker market for construction materials due to a reduction in residential construction activity and increased competition.

Underlying EBIT[1] of $186.4 million (FY18: $273.5 million) was impacted by lower cement volumes, higher raw material costs and increased freight, fuel and transport costs. On a statutory basis, reported EBIT was $81.9 million.

Underlying NPAT[1] was $123.0 million, in line with guidance issued mid-year. Reported NPAT was $47.3 million.

A final fully franked dividend of 5.0 cents per share has been declared.

Nick Miller, Chief Executive Officer, said:

"In 2019, construction materials markets softened on the eastern seaboard of Australia, particularly in Queensland and New South Wales – driven by an oversupply of multi-residential dwellings, and a reduction in general consumer confidence.

"Cost pressures across sea freight, transport and raw materials also drove down margins during the period.

"In response to cost pressures, the Group is well advanced with a major cost-out initiative to ensure a long-term sustainable platform for future growth, and consolidating our strong market position in lime, cement and clinker, concrete products and aggregates.

"Whilst the short-term outlook remains subdued, we expect east coast demand to improve in 2021, with the benefit of stimulus from fiscal and monetary policy measures. We will continue to build out our vertically integrated position in the interim to ensure we take full advantage of our long-term growth prospects."

Operational review

Cement and Lime

Overall cement sales volumes reduced by 6.1% in FY19 due to a decline in residential demand on the eastern seaboard of Australia and increased competition in South Australia.

Underlying demand in the South Australian market was impacted by the completion of a number of key infrastructure projects. However, the entry of a new cement importer and distributor in 2018 was the primary driver of lower sales. This resulted in reduced average selling prices and the redirection of additional Birkenhead production volumes into the Victorian market at reduced margins.

Average selling prices in our other east coast markets held during the period.

On a positive note, Western Australian cement demand stabilised during 2019, with cement volumes slightly up on the previous year, driven by increased resources sector activity and a number of new infrastructure projects. The Northern Territory continues to experience low demand from construction. However, demand from the resources sector saw overall demand remain stable year on year.

Lime volumes increased marginally, supported by infrastructure projects and resource sector activity, particularly gold in Western Australia. A number of new contracts were secured against import competition, as a result of strong cost competitiveness.

Cement margins were also impacted by increased transport and raw materials costs (cementitious materials and shipping costs), as well as operational issues at Birkenhead caused by a lightning strike and a separate kiln bearing failure, which both led to higher clinker unit production costs. Lime margins remained stable during the period, with rising costs being offset by a small increase in prices.

During the second half, the cement and lime team delivered three key improvement projects which will increase productivity and reduce unit costs: the commissioning of the Kwinana packaging plant; upgrades of the Birkenhead dry-mix plant; and a limestone stacker at Birkenhead.

The Group also reached a 1,000,000 tonne milestone for use of Refuse Derived Fuel (RDF) at the Birkenhead plant, having redirected waste from landfill. Adelaide Brighton is targeting up to 50% of our kiln fuel to come from refuse derived energy sources.

Concrete and aggregates

In 2019, concrete and aggregate volumes were impacted by softer market conditions, particularly in Victoria, New South Wales and Queensland. Selling prices were modestly up on the previous year.

Operating costs, although well controlled, increased on a unit cost basis as the market slowed. In particular, aggregate costs in the south-east Queensland market, and transport costs were higher during the reporting period. To address the deteriorating market conditions, a significant cost reduction program was undertaken, which will give us a more competitive cost base to work from in 2020.

In 2019, we successfully completed major infrastructure projects in South Australia and the Northern Territory, including the Northern Connector Project and the Tindal RAAF Base Upgrade. We will continue to enhance our major project capabilities in 2020 as we focus on other large infrastructure projects where we have a vertically integrated offering.

Major capital investments during 2019 included:

- Construction of a new concrete plant at Pinkenba, servicing the inner Brisbane market and completing our footprint in south-east Queensland; and
- A new quarry at Scotchy Pocket which commenced operations in July 2019, is expected to deliver up to 350,000 tonnes of annual production and will service growth in the Sunshine Coast market.

The business was also focused on securing land in the Greater Western Sydney region to build out its vertically integrated position.

Concrete products

Earnings, excluding property and impairments, reduced from $9.7 million in 2018 to $6.0 million on the back of softer activity in the broader residential and commercial construction markets, particularly in Queensland and New South Wales. Modest selling price increases were able to be achieved, in spite of a challenging and competitive market.

At an operational level, lower production volumes negatively impacted plant efficiencies and unit costs in most regions, further impacting margins. The business implemented a number of cost reduction initiatives to assist in offsetting cost impacts associated with the lower volumes and we continue to focus our capital investment to improve manufacturing efficiencies and safety within our operations.

Sustainability has been an ongoing priority and in 2019, the division invested in several energy reduction initiatives including low energy gas curing and solar power. The business also continues to use recycled materials such as bottom ash, fly ash, smelting slag and recycled glass. Continued investment in sustainability, product innovation and new market opportunities remains a priority for the division in 2020.

Joint ventures

Most of the company's joint venture operations were subject to similar market conditions as Adelaide Brighton, leading to volume and margin pressures. In FY19, earnings from joint ventures and associates were lower at $31.5 million. Aalborg Portland Malaysia performed strongly on south-east Asian demand for white cement.

Strong financial position

The Group's balance sheet remains strong with longer dated debt facilities negotiated during the year, providing the company with flexibility to pursue opportunities for growth. Leverage at period end improved to 1.5 times trailing underlying EBITDA and remains well inside the Group's target range. Cash flow from operations remains strong at $193.2 million.

Strategy update

In 2019, the Executive team outlined the strategic priorities for Adelaide Brighton with a focus on reducing costs and further embedding a long-term, sustainable competitive advantage. The strategy is progressing well:

- **Cost reduction:** The company expects to deliver cost savings of more than $30.0 million to counter $20.0 million in cost headwinds expected in 2020.
- **Vertical integration:** Adelaide Brighton continues to pursue growth in its downstream business and will soon commission its Pinkenba plant in south-east Queensland to serve the Brisbane market. Scotchy Pocket quarry was commissioned in FY19 and is now serving the Sunshine Coast market. Management is now focused on the development of land it recently secured in the Badgerys Creek area for the establishment of another concrete plant to serve Greater Western Sydney.
- **Land development:** Surplus land holdings have been identified and are being prepared for sale and the Company is currently exploring partnerships with established property developers. As a priority, management is currently exploring two excellent opportunities to develop the Batesford Quarry and the Company's 'Hilltop' land, both close to the City of Geelong.
- **Grow Lime:** Adelaide Brighton's lime production is low-cost on a global scale and management remains focused on opportunities to grow the business in line with increased gold, nickel and alumina production.

Outlook[2]

The long-term outlook for population growth, which will drive the demand for residential and infrastructure construction, remains strong, particularly on the eastern seaboard of Australia. The Company's Western Australian and Northern Territory operations, which deliver key contributions to the Group's profitability, have remained robust through the cycle and are supported by a low-cost and competitive resources sector.

In 2020, we expect competitive pressures to persist and construction materials markets to remain subdued. Mining demand is expected to grow modestly, driven by investment in new resource projects.

We expect demand to pick up in the Queensland and Western Australian markets, driven by demand from the resources sector and an increase in residential and infrastructure construction activity in the Queensland market. Pricing pressure is expected in the Queensland market as increased capacity in both concrete and cement distribution is established in the south-east Queensland market.

Lime and cement demand in Western Australia is expected to increase in 2020, driven by the commencement of new gold and nickel projects.

The New South Wales market is expected to remain subdued until infrastructure projects are brought to market. We expect fiscal and monetary policy stimulus to impact this market positively in 2021.

The South Australian and Northern Territory markets are expected to decline marginally as key infrastructure projects reach completion in early 2020. Competition in the ready mix market is anticipated to remain strong, with residential demand expected to be flat and further pricing pressure expected.

The Victorian market is expected to remain stable in 2020, buoyed by the delivery of infrastructure projects and continued demand from the industrial and commercial sector.

Overall, Adelaide Brighton expects conditions to remain challenging in construction materials markets, particularly with the impact of bushfires and extreme weather, since the start of the year. Consequently, we expect 2020 full year NPAT, excluding property, to be 10% lower than underlying profit for 2019, based on our early assessment of markets. We continue to closely monitor and evaluate the potential impacts of the coronavirus.

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[1] Underlying NPAT, Underlying EBIT, Underlying Return on Funds Employed are non-IFRS measures reported to provide greater understanding of the Group's underlying business performance and exclude significant items. Non-IFRS information has not been subject to audit or review. Full details of significant items are contained on Page 50 of the 2019 Annual Report.

[2] Disclaimer

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