# Macquarie Asia Pacific Conference – London

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Presented by:

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Adelaide Brighton Ltd

## Agenda

- ABL profile and history
- ABL financial performance
- Australian cement markets & industry structure
- ABL market position and geographical spread
- ABL strategic drivers
- ABL borrowings and cash flow
- 2009 market and outlook

# Adelaide Brighton profile

- A leading Australian integrated construction materials and lime producing company with high exposure to the engineering, infrastructure and resource sectors
- An S&P/ASX 200 company with operations in all states and territories, 1,500 employees - $1.7bn Aus market capitalisation
- Well positioned to supply cement to all mainland states from its domestic manufacturing base, coastal supply & import facilities
- Market leader in lime manufacture in Australia, and the second largest supplier of cement
- Ninth largest lime producer on world scale
- Market leader in concrete masonry products and an emerging position in aggregates and ready mixed concrete
- ABL is highly cash generative with low gearing and balance sheet capacity for future organic and acquisitive growth



# Adelaide Brighton history

ABL origins go back to 1882 with the first manufacture of cement in South Australia

Over the last decade:

1999 - Merger of ABL with Rugby plc's Australian subsidiary Cockburn Cement through share issue making Rugby a 55% shareholder

2000 - RMC Group plc acquire Rugby plc

- Geelong cement factory closes bringing Australian cement capacity inline with market demand

2002 - Acquisition of Premier Resources Limited and Neil Mansell concrete establishing an eastern state downstream concrete business, NSW clinker import facility and substantial aggregate reserves at Hartley in NSW

2003 - ABL acquires Westlime lime assets in WA

- ABL secures 25 year extension of shellsand resources in WA
- ABL enters the masonry products market with the acquisition of 55% of C&M Brick and 100% of Rocla Pavers and Masonry
- Unsolicited takeover offer by Boral Limited through acquisition of 19.9% of ABL's shares from RMC Group plc
- RMC Group plc disposes of further 20% of ABL shares including 10% to Barro Group increasing their shareholding to 19.9%

# Adelaide Brighton history

2004 - Boral Limited withdraws takeover offer for ABL following ACCC refusal for approval of the takeover

2005 - Clinker import strategy established, long term clinker supply contract signed with Mitsubishi of Japan

2006 - Acquisition of Rawlinna limestone quarry assets in WA from Loongana Lime Pty Ltd

- Austen Quarry (Hartley) commissioned

2007 - Acquisition of 50% share of Mawson Group Victorian quarry and concrete

- Operational Improvement Programme implemented

2008 - Acquisition of Queensland based Hanson Building Products Pty Ltd masonry products

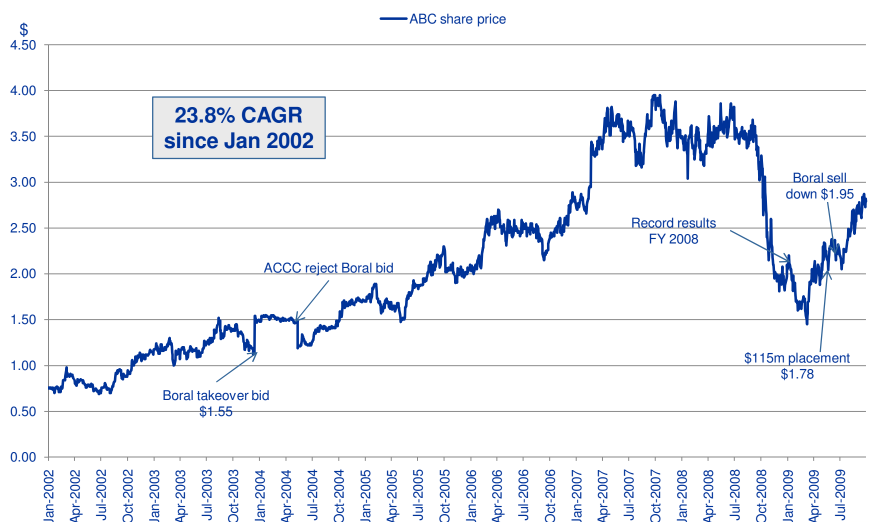
- Dividend Reinvestment Plan re-introduced

2009 - Institutional equity placement and Share Purchase Plan raised $113.5m

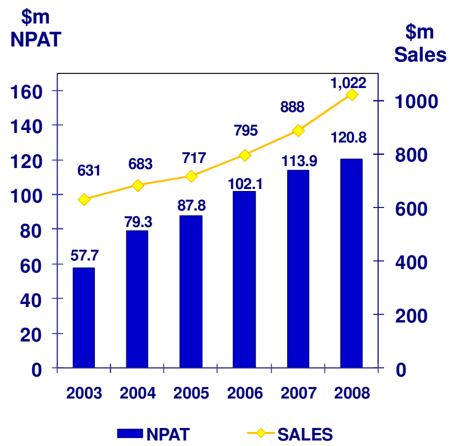
- Boral Limited disposes of shareholding to long term investors



# Share price performance 2002 - 2009



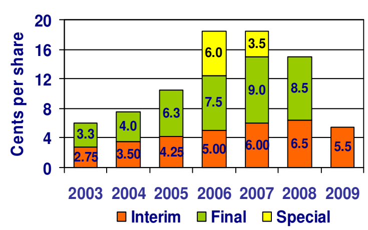
# Historical sales and earnings



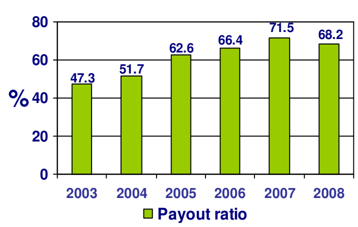

- Seventh year sales and earnings cycle peaked mid 2008
- 2009 cement demand down circa 15% ytd
- 2009 earnings impact mitigated by reducing lower margin imports
- Cement and lime operations running at capacity
- Lime demand level due to alumina and gold demand

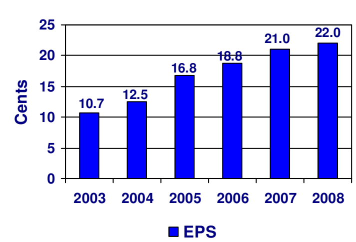


# Historical shareholders returns




- Capital management strategy from 2006:
  - use of special dividends fully franked
  - payout ratio range 65 – 75%
- DRP introduced for 2008 interim
  - 38% uptake rising to 52% on 2009 interim
- EPS on 2009 full year earnings guidance 16.7 - 18.3 cents per share



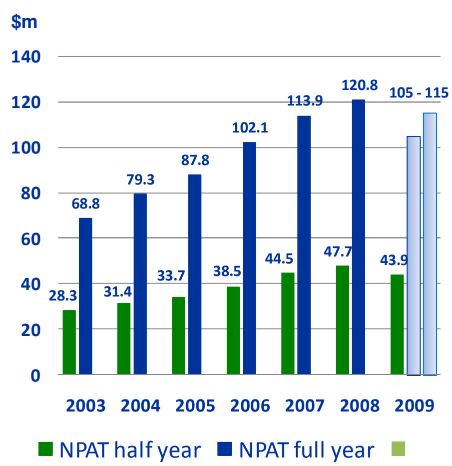



## ABL summary earnings

| $m Aus | 2009 (6 mths June 30) | 2008 (6 mths June 30) | 2008 (12 mths) | 2007 (12 mths) |
|---|---|---|---|---|
| Sales revenue | 463.2 | 476.9 | 1,022.4 | 888.4 |
| EBITDA | 100.5 | 105.5 | 245.9 | 223.9 |
| EBIT | 71.3 | 77.5 | 189.1 | 171.3 |
| Net interest | (10.8) | (15.8) | (33.8) | (21.7) |
| Profit before tax | 60.5 | 61.7 | 155.3 | 149.6 |
| Tax expense | (16.7) | (13.9) | (34.5) | (35.7) |
| Net profit | 43.9 | 47.8 | 120.8 | 113.9 |
| EBIT Margin | 15.4% | 16.2% | 18.5% | 19.3% |

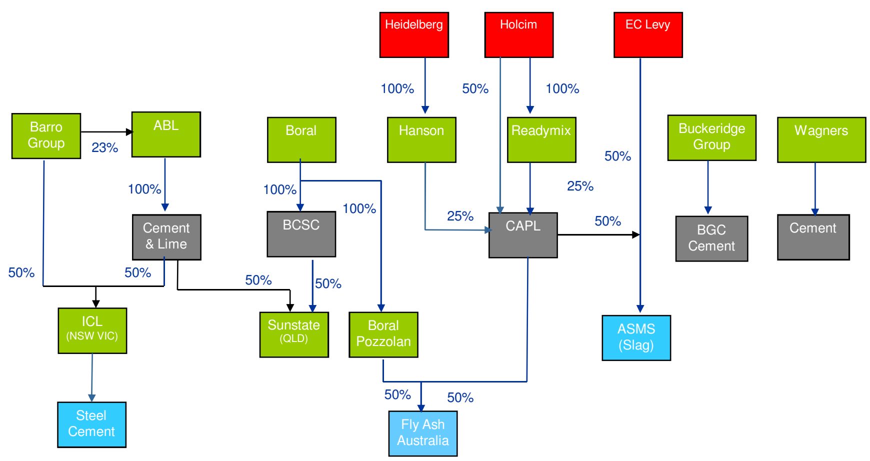


## Profit growth – half and full year




- 8% first half decline in NPAT normalised to 3.7% after prior year one off tax benefits
- $1.6m redundancy one offs in first half
- Profit Optimisation Programmes - second half leverage
- $5m lower maintenance cost forecast in second half v pcp
- 2009 earnings guidance $105 - $115m NPAT

# Australian cement industry ownership

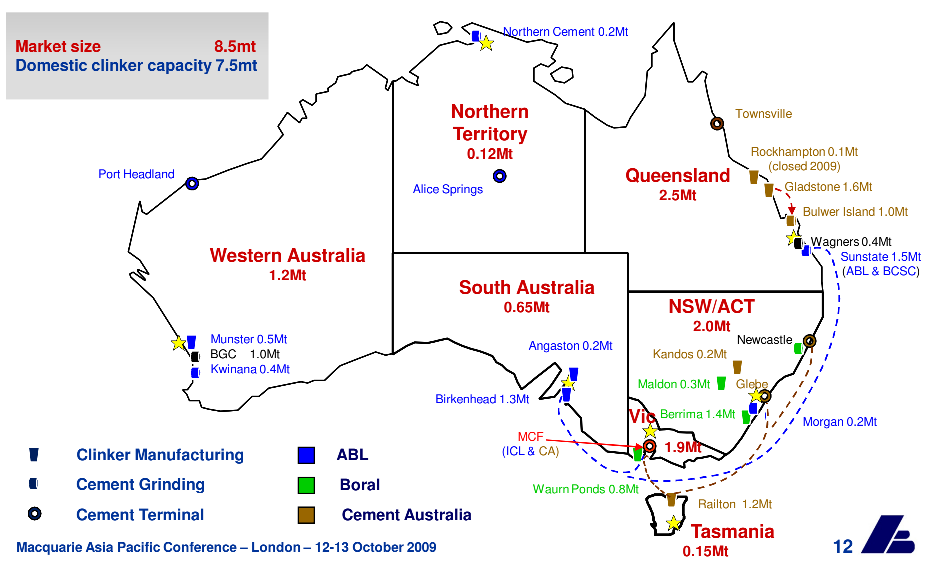



**Glossary**

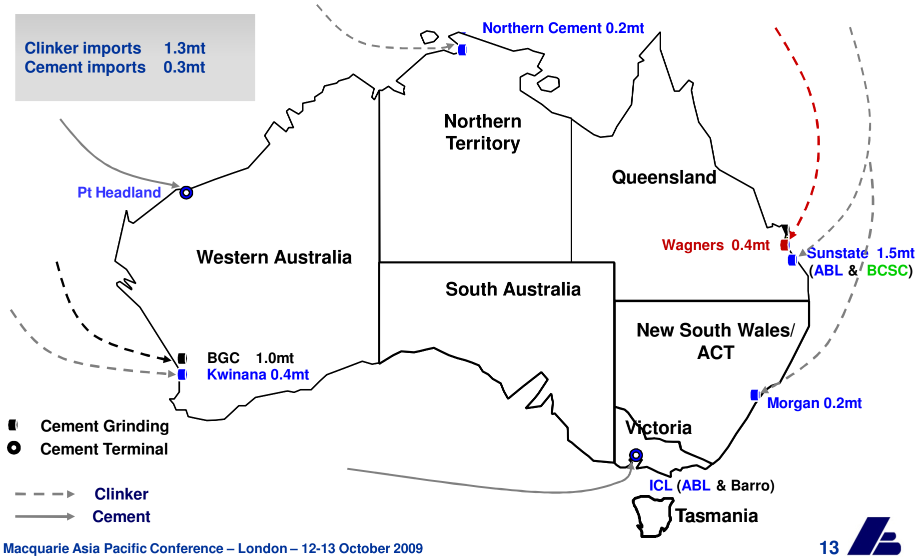
ABL: Adelaide Brighton Ltd
BPS: Building Products Supplies
BCSC: Blue Circle Southern Cement
ASMS: Australian Steel Mill Services
ICL: Independent Cement & Lime
CAPL: Cement Australia Pty Ltd



# Australian cement industry 2009

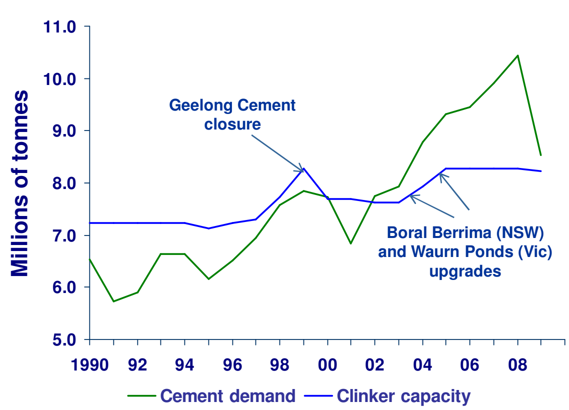


# Imported cement / clinker flows 2009



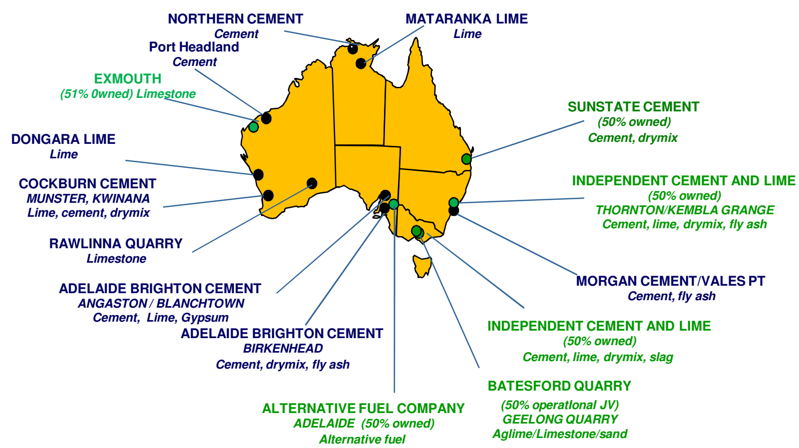



# Australian capacity and demand




- Industry has been at full capacity until 2009
- Qld and NSW market declines have created under utilisation in these states
- Wagners mill has also taken volume in Qld
- In 2009 Cement Australia have closed Rockhampton (100kt) and mothballed one Kandos kiln (250kt)
- ABL buying volume from majors displacing imports

# Adelaide Brighton's cement and lime geographical spread






# Key Adelaide Brighton market position

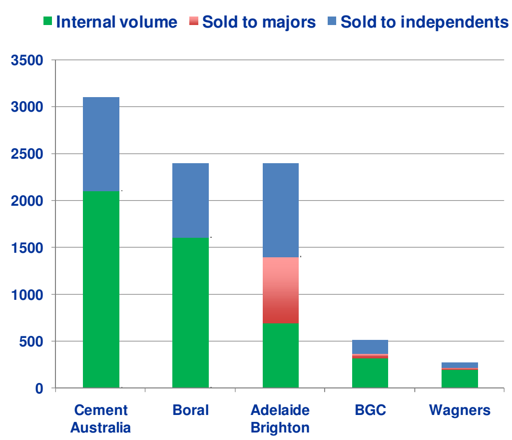
- Market leader in cement and lime in SA, WA and NT
- Eastern states competitors, Boral and Cement Australia (Holcim - Heidelberg) are key cement customers in WA and SA
- Strategic cement positions in NSW (Morgan) and in Qld and Vic through the Sunstate (Boral) and ICL (Barro) JV's
- Resource sector exposure to cement and lime demand:
  - Mining sector in WA, SA and NT circa 8% national cement sales
  - Increasing lime demand from alumina and gold resource sectors
  - Uranium mining potential in SA (Olympic Dam) and NT (ERA Ranger expansion)
  - LNG expansions e.g. Gorgon

## Strategy overview – vertical integration

- Selective and relevant downstream integration
  - Aggregates and Concrete
    - Northern NSW growth: Hurd Haulage, Aggregates, Hy-Tec concrete
    - West Sydney aggregates: Austen Quarry
    - Regional Vic: Mawson Group 50%
  - Masonry Products – Australian market leader
    - Central and eastern states
    - No presence in WA
- Aggregates and sand targets for future growth
    - NSW resource constraints post Penrith Lakes closure
- Concrete as a driver for cement and aggregates pull through and eastern states leverage

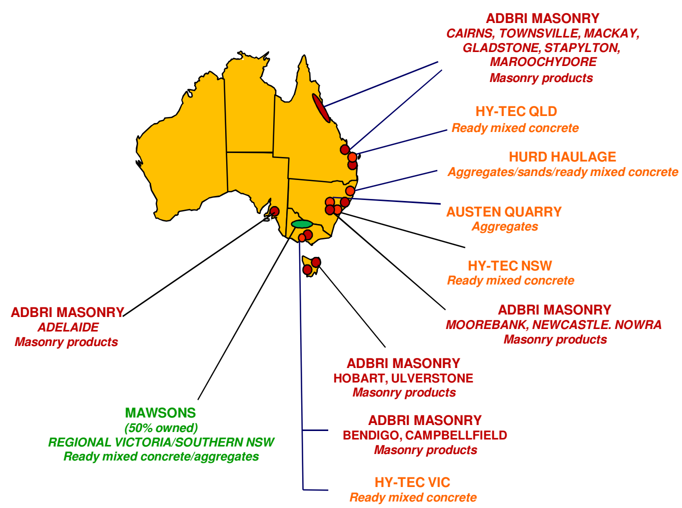


## Industry cement scale and utilisation



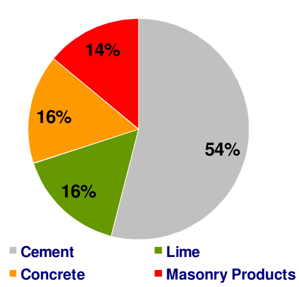

- Highly integrated industry, cement aggregates and ready mixed concrete
- Circa 75% cement is used in ready mixed concrete
- ABL has higher sales to independent users
- ABL also a major supplier to 'majors' in WA, SA and NT

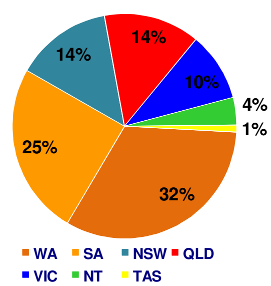
# ABL downstream geographical spread






# Sales – 2009 forecast sales segmentation




- Cement and lime dominant product segments with central and western states bias
- Masonry products suppressed by weak Qld, NSW and Vic markets

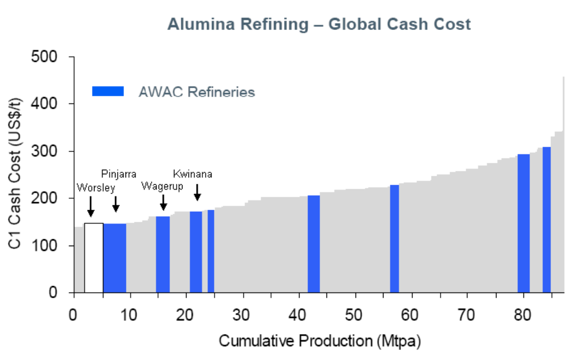
- Includes sales into JV's (Sunstate QLD and ICL Vic) and not share of external sales

## Strategy overview - lime development

- World lime demand (non captive) 160mt
- Highly fragmented industry
  - Top 5 make up 22% market
  - Top 10 - 26%
  - Top 200 - 50%
  - Only 35 producers exceed 450kt pa
- Market leader Lhoist (10%) and Carmeuse (7%)
- Key Australian resource sector uses:
  - Steel: as a flux to remove impurities as slag
  - Alumina: Sinter process, limestone + lime, Bayer process, ++lime
  - Gold and silver: essential for cyanide leaching process
  - Ore concentration: copper zinc nickel and lead flotation
- Other sector uses: building, water treatment, paper, glass and agriculture



## Australian alumina scale and resilience




- BHP and AWAC are in the lowest quartile of alumina refining cost worldwide
- This capacity has been maintained through the current cycle
- AWAC is owned by Alumina Ltd (40%) and Alcoa (60%)
- AWAC produces circa 8.6m tonnes of alumina from its three Australian refineries
- AWAC alumina is refined into aluminium both in Australia and overseas
- BHP produces in excess of 3.1m tonnes of alumina from its Worsely refinery
- Together AWAC and BHP produce 15% of the world's alumina

# Strategy overview - lime development

- Key resource sector exposure in WA, SA and NT
  - Alumina 70% (BHP-Alcoa and Alumina)
  - Gold 15%
  - Uranium and copper
- 1.27mt total lime capacity
  - Munster WA — 900kt + 210kt 'switch' from cement clinker kiln
  - Dongara WA — 80kt peak demand provider to SE markets
  - Mataranka NT — 30kt + potential for second vertical shaft kiln
  - Angaston SA — 50kt currently shipping to SA and NT
- ABL production scale provides customer security of supply
- Lime is a low input cost compound essential for base metal manufacture



# Munster lime development

- Highly efficient calciner and rotary kiln configuration
- Among the largest of their type worldwide
- Unique shellsand raw material - high quality
- $22m invested to switch to coal from gas (supply constraints and cost)
- OIP plans to increase output by 275kt for $25m investment
- Flexibility to meet key customer variable demand

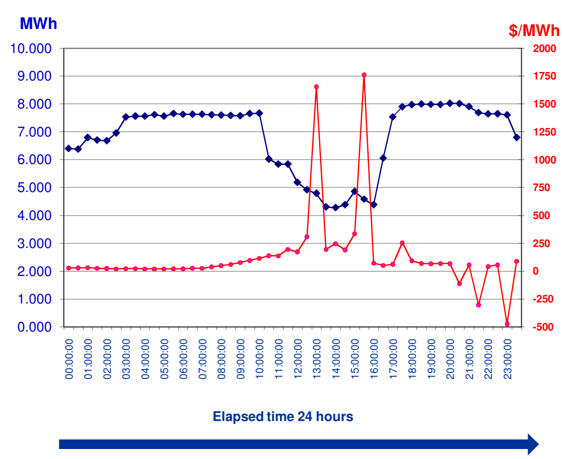
# Strategy overview - operational improvement

- WA – strategic switch to coal in 2008 to displace higher cost gas
  - $7.0m cost increase avoided in 2008
  - $3.5m cost saved lower coal price
- Increased use of alternative fuels to supplement natural gas
  - Annual increases in waste wood combustion – Sita-Resourceco JV
  - NT, SA and WA increasing waste oil fuel use
- Phases II and III of lime capacity development plans deferred until resource sector demand curve resumes
- Increased cement output - Birkenhead shutdown strategy
  - 2009 annual shutdown reduced to 20 days v 28+ days
  - Re-scheduled in February 2009
  - Electric power price risk management benefits



# Cement and Lime SA power pricing

## Power price risk management – a day in February 2009




- ABL buys electricity on the open market as opposed to 'insured' pool prices
- ABL receives power price forecasts received in half hour intervals
- Will maintain capacity to $100/Mwh
- Permitted peak pricing $10,000 Mwh
- Progressively lay off capacity as predicted prices increase - cement mills, calciner, kiln
- Assists SA in avoiding consumer peak demand constraints
- 2009 pricing managed to 2008 levels

## ABL's 2009 key profit influences

- Geographic and sector spread in the construction and resource sector industries
- Circa 15% decline in cement sales met through lower margin import reductions
- All cement and lime plants operating at capacity
- Cement price increases circa 5% in core markets
- Lime price increases circa 7% over pcp
- Lime demand level - alumina and gold sector resilience
- Continued focus on lime pricing as long term contracts expire
- Concrete and Masonry products weakness in Qld and NSW
- Profit optimisation programmes to deliver $15m EBIT benefit
- Reduced interest expense - lower borrowings and cash rate
- Australian dollar strength moving toward 2008 Q2 highs v US$



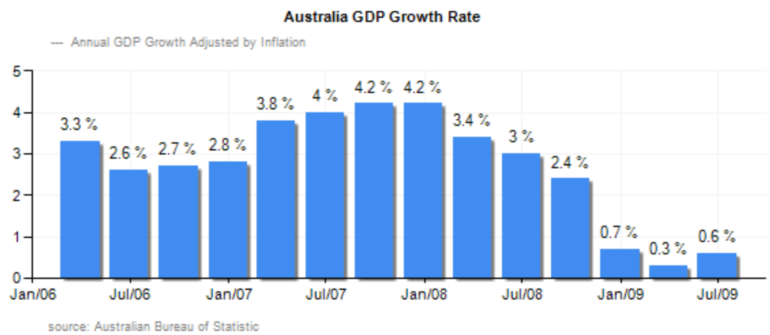
## Outlook Australian ETS update

ABL supports the implementation of an Australian emissions trading scheme, the Carbon Pollution Reduction Scheme

- ABL has a higher carbon intensity on a revenue basis due to high primary material production (cement and lime) - 3mt$CO_2$-e pa
- Government White Paper Dec 2008 recognises need for cement and lime industries to qualify Energy Intensive Trade Exposed (EITE)
- Bill defeated by opposition in July, revised Bill to be tabled mid Nov
- Opposition may again vote against. Awaiting Copenhagen outcomes
- Free carbon allocations EITE industries – top tier cover 94.5%
- Realistic allocation decay curve to match international ETS progress
- July 2011 revised implementation $10/t carbon price ceiling Yr1
- ABL is progressing strategies to mitigate future carbon risk
  - Optimising plant efficiency to benchmark standards
  - Substitution of cementitious additives and limestone fillers
  - Targeting carbon offsets such as increased use of biomass fuels

# Outlook Australian GDP

## The Australian economy has avoided a technical recession

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# Outlook Australian Unemployment

## Unemployment has risen, but remains below 30 year average

30 year average = 7.8%


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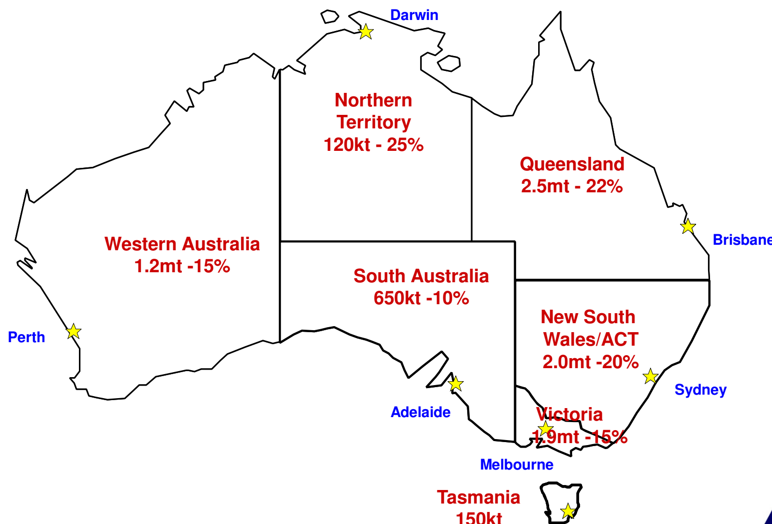
## Market size and movement 2009 forecast






## Outlook – market

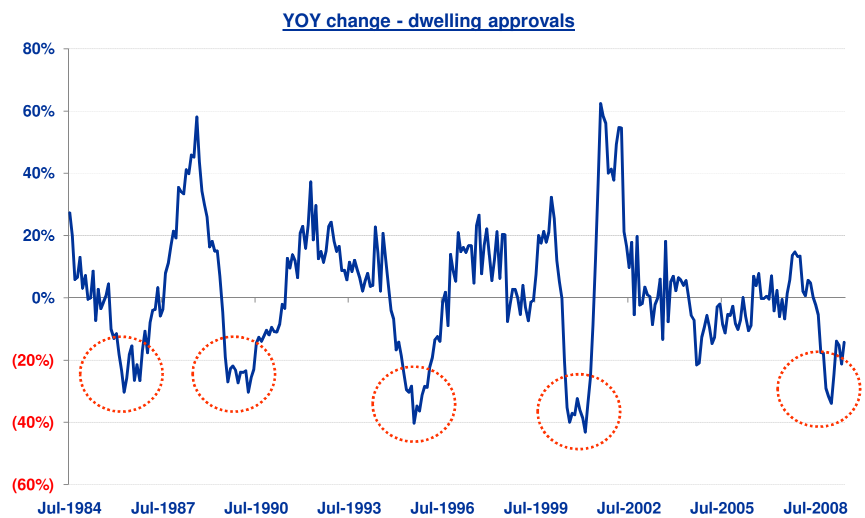
- There is growing concensus that the current Australian economic downturn has bottomed out and was milder than predicted
- ABL cement sales volume projections down circa 15% over 2008 with favourable geographic mix
- ABL lime demand projected level
  - weakness in non alumina, (nickel and steel) offset by alumina and gold sector strength (circa 85% of demand)
- Aggregates demand level. Supported by larger road contracts and Mawsons in regional Victoria
- Concrete masonry products showing some seasonal recovery from a low base
- Key recovery drivers will come from the residential and infrastructure sectors

# Outlook – residential

- Residential construction activity increasing
  - Government first/new homeowner stimulus will drive construction activity from Q4 2009
  - Increase in home loans since Sept 2008 +32% of which +25% related to new homes
  - Housing affordability index lowest since 2002
- Population growth +2.1% driving housing inventory shortages
- Average house prices down 1.4% year to June, up 4.2% in June quarter (first increase since March 08)
- Three month rolling average housing approvals have begun to recover from January lows
- Consumer confidence at 10 year highs
- Cash (bank) rate was at 49 year low - 3%



# Australian dwelling approvals



## Outlook – commercial and infrastructure

- $28.8bn government infrastructure stimulus package
  - Construction ($14.1bn) and repair ($2.1bn) of primary and secondary school infrastructure
  - Social housing construction and repair ($1.0bn)
  - 14 road and 17 rail projects ($2.3bn)
  - Additional state investment added to attract federal expenditure
- Schools infrastructure - funding allocated for 10,701 projects. Construction now underway
- Four road projects including the $451m SA Northern Expressway and the $900m Western ring road in Melbourne have commenced
- Seasonally adjusted non residential building approval values doubled in June – driven by Government education spending
- However, private commercial construction activity continues to decline due to lack of project financing



## Outlook ABL profit optimisation plans

- The eight year Australian construction sector growth cycle peaked mid 2008
- ABL implemented Divisional profit optimisation plans in Q4 2008
- Rigorous review of all input costs undertaken with focus on:
  - Cement and Lime - $10m target:
    - Reduced contractor utilisation
    - Key materials and services contract pricing and sourcing
    - Maintenance planning expenditure and control
  - Concrete and Aggregates - $3.0m target
    - Increased use of alternative cementitious materials
    - Matching operating capacity to meet market demand
  - Concrete Masonry Products - $2.0m above Hanson consolidation synergies
    - Reduced operating capacity to meet market demand
    - Three plants mothballed/closed
    - Circa $1.4m redundancy costs in 2009

# Outlook 2009 cash flow optimisation

- Working capital management tightening through strict adherence to customer trading terms
- Resistance to suppliers seeking to tighten trading terms
- Debtor days outstanding improvement over 2008 - no material bad debts YTD 2009
- Inventory management focus on cement spare parts and masonry products finished goods
- Capital expenditure constrained to essential, sustaining and short term payback only FYF $45m
- Continuation of Dividend Reinvestment Plan with 52% acceptances for 2009 interim dividend
- 2009 year end gearing guidance - debt to equity below 25%



# Outlook ABL debt profile

ABL has $510m of debt facilities with its three principal Australian banks CBA, NAB and Westpac. ABL refinanced its debt nine months early in June 2008:

$310m expires on 30 June 2010

$210m expires on 30 June 2011

Year end 31 December 2009 debt projection $225m

Each bank will participate in refinancing of 2010 facilities in Q1 2010

Common banking covenants:

| Ratio | Measure |
|---|---|
| Liquidity | EBIT / interest |
| Leverage | Debt/ (debt + equity) |
| Net tangible assets | |

ABL operates well within all three ratios

# 2009 Outlook – ABL cash flow and profit

- Focused profit optimisation plans engaged in Q4 2008 by all Divisions - secure $15m EBIT benefit v 2008
- Benefits from lower cash rate and $113.5m share placement – finance expense will be circa $15m below 2008
- Increase in 2009 free cash flow through effective working capital management and capital expenditure constraint
- Year end gearing will be below 25%
- ABL's 2009 dividend will be fully franked, toward the lower end of the Board's preferred 65% – 75% payout ratio range
- ABL's net profit after tax guidance for 2009 $105m - $115m