Results for announcement to the market

Company name:	Adbri Limited
ABN:	15 007 596 018
Reporting period:	Half year ended 30 June 2020
Previous corresponding period:	Half year ended 30 June 2019
Release date:	26 August 2020

		%		**A$m**
Revenue from continuing operations	down	7	to	700.7
Earnings/(loss) before interest and tax (EBIT)	up	412	to	48.7
Net profit/(loss) for the period attributable to members	up	263	to	29.1

Dividend	Amount per security		Franked amount per security
	Current period	Previous corresponding period	
Interim ordinary dividend (cents per share)	4.75	–	100%
Interim special dividend (cents per share)	–	–	N/A

[1] As disclosed to the ASX on 26 August 2020, an interim dividend of 4.75 cents per share has been declared.

Record date for determining entitlements to the interim dividend	22 September 2020
Payment date for the interim dividend	7 October 2020

	30 June 2020	30 June 2019
Net tangible asset backing per ordinary share	$1.40	$1.30

Dividend Reinvestment Plan

The Adbri Limited Board advises that the Company's Dividend Reinvestment Plan remains suspended until further notice.

Summary of Results

Key Messages

- Adbri has delivered a first half net profit after tax of $29.1 million and an underlying net profit after tax of $47.6 million.
- Cash flow was stronger with the first half delivering cash flow from operations of $116.3 million.
- Strong balance sheet with net debt to net debt plus equity at 25.7% and leverage at 1.5 times.
- Fully franked interim dividend of 4.75 cents per share declared, representing a payout ratio of 65% of underlying earnings.
- Revenue 7% lower impacted by lower demand in New South Wales and Queensland due to the impact of bushfires, flood and smoke earlier in the year, coupled with lower residential demand.
- The cost-out program has offset cost headwinds and remains on-track to deliver $30 million in cost out savings.
- EBITDA, and underlying EBITDA margins at 16.6% and 17.5% respectively remain strong. Excluding Joint Ventures, the wholly owned operations experienced margin growth from 15.3% to 15.8% despite the reduction in revenue.
- Operations largely uninterrupted during COVID-19. Impacts have been well managed.
- Earnings guidance withdrawn in April due to uncertainty surrounding COVID-19. Underlying financial results were in line with expectations set at the beginning of the year.
- Mitigation strategies are being formulated to address future reduction in lime earnings following non-renewal of contract by Alcoa from 1 July 2021. The Group has recognised a pre-tax non-cash impairment charge of $20.5 million, primarily associated with cessation of this contract and consequential placement of kiln 5 assets at Munster into care and maintenance in 2021. Restructuring provisions of $5.0 million have been brought to account for job losses and operational efficiency improvements.
- The business is well placed to benefit from demand for construction materials as a result of Federal and State stimulus measures and ongoing demand from the mining sector. However, the future impact of COVID-19 on the industry remains uncertain.

Revenue

- First half revenue of $700.7 million, down 7.3% compared to 1H19 due to the impact of bushfires, floods and smoke, particularly in New South Wales and Queensland, which caused a slow start to the year. Revenue was also impacted by lower demand in the Northern Territory. Trade with the mining sector continued largely uninterrupted, resulting in higher returns in both lime and cement in Western Australia. Demand in the Victorian market exceeded expectations, delivering higher returns across all product lines. Demand in the South Australian market was lower than the prior comparative period. However, infrastructure project work supported volumes, delivering a better than expected result for the period.

Earnings before interest and tax (EBIT)

- Reported EBIT of $48.7 million.
- Underlying EBIT of $75.2 million, which excludes pre-tax impairment and other restructuring and transaction costs, as anticipated was lower than the prior comparative period, impacted by:
    - Lower concrete volumes in the higher margin New South Wales market and lower cement volumes into the South Australian market.
    - Joint venture contributions were $5.2 million lower, primarily from Sunstate which was impacted by lower demand in Queensland and exacerbated by lower shareholder offtake.

Partially offset by:

- Higher earnings from mining demand, particularly in Western Australia, and higher earnings from sales of packaged cement and masonry products which continue to benefit from increased demand from the home renovation and DIY market.
- Earnings from the Victorian market via the ICL Joint Venture and our concrete and aggregates business were also higher due to increased and ongoing demand from the commercial and industrial sector.
- The Group's cost-out programme, offset cost headwinds, as expected, and remains on target to deliver $30 million in gross savings for 2020.

Net profit after tax

- Net profit after tax (NPAT) of $29.1 million. Underlying net profit after tax of $47.6 million, impacted by:
  - Higher interest charges, of $0.7 million due to the drawdown of debt for additional liquidity in response to the uncertainty brought about by the COVID-19 pandemic; and
  - Lower underlying tax expense of $3.0 million.

Cash flow and debt

- Strong increase in operating cash flow to $116.3 million, driven by improved working capital management with stronger debtor collections, in conjunction with lower income taxes paid and deferred GST.
- Investing cash outflows of $71.1 million, increased $27.6 million from the prior comparative period, primarily due to increase in development capex, related to land purchases at Badgerys Creek, New South Wales and Kewdale, Western Australia, and downstream investment in concrete plants.
- Cash flows from financing activities increased due to the drawdown of debt for additional liquidity in response to the uncertainty brought about by the COVID-19 pandemic.
- Net debt decreased to $413.8 million, due to higher operating cash flow which offset the higher investing outflows, with additional debt largely held as cash.
- The Company's key credit metrics remain investment grade with net debt to net debt plus equity decreasing to 25.7%, gearing at 34.6%, the leverage ratio at 1.5 times EBITDA and interest cover[1] was 12.4 times.

Shareholder returns

- Basic earnings per share (EPS) increased to 4.5 cents per share, while underlying EPS has decreased to 7.3 cents per share.
- Underlying Return on Funds Employed of 10.9% remains higher than the Group's cost of capital.
- An interim dividend of 4.75 cents per share, fully franked, represents a payout ratio of 65% on underlying earnings and 107% on reported earnings.
- The Company continues to operate within a flexible dividend policy to deliver surplus capital back to shareholders over the long term.

Outlook

- Due to the inherent market uncertainty associated with COVID-19, earnings guidance for FY20 remains withdrawn.
- To date, Adbri's sites have continued to operate largely uninterrupted by COVID-19. Adbri's earnings benefit from a diverse pool of customers in the construction and mining sectors, located across all

[1] Underlying EBITDA on a rolling 12-month basis / net interest

states and territories of Australia. Trading performance in July continued in line with expectations. August trading was weaker, impacted by stage 4 restrictions in Victoria and a soft New South Wales market.

- The construction materials sector, more broadly, is likely to continue to benefit from stimulus from all levels of government, particularly stimulus to fast-track construction projects including infrastructure spending, home-building grants and stamp duty relief. The mining sector remains ‘open for business’, with a strong production outlook for gold, nickel and iron ore in particular. These in combination with a low interest rate environment will help support ongoing demand for construction and industrial materials over the medium term.
- From July 2021, the impact of non-renewal of the Alcoa contract is expected to lower future annual revenue by $70 million. The business is evaluating strategies to mitigate the future loss of earnings from this contract.
- Adbri’s priorities are to continue to:
  - Minimise the impacts of COVID-19 on our business while continuing to protect our people and the communities in which we operate;
  - Mitigate the earnings impact of cessation of the Alcoa contract from 1 July 2021, including development and implementation of lime volume recovery initiatives;
  - Prudently manage capital spend;
  - Continue to contain costs and right-size the business to improve performance;
  - Remain competitive against imports; and
  - Maintain balance sheet flexibility for reinvestment and growth.

Financial Summary

Statutory basis	6 months ended 30 June		
($million)	**2020**	**2019**	**% change pcp Fav / (Unfav)**
Revenue	**700.7**	755.7	(7.3)
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	**116.5**	128.3	(9.2)
Depreciation, amortisation and impairment	**(67.8)**	(143.9)	52.9
Earnings / (loss) before interest and tax ("EBIT")	**48.7**	(15.6)	412.2
Net finance cost[1]	**(9.9)**	(9.2)	(7.6)
Profit / (loss) before tax	**38.8**	(24.8)	256.5
Tax (expense) / credit	**(9.7)**	6.9	(240.6)
Net profit / (loss) after tax	**29.1**	(17.9)	262.6
Non-controlling interests	**-**	-	-
Net profit / (loss) attributable to members ("NPAT")	**29.1**	(17.9)	262.6
Basic earnings / (loss) per share (EPS) (cents)	**4.5**	(2.7)	
Ordinary dividends per share – fully franked (cents)	**4.75**	-	
Special dividends per share – fully franked (cents)	**-**	-	
Net debt[2]	**413.8**	519.2	

Underlying basis[3]	6 months ended 30 June		
($million)	**2020**	**2019**	**% change pcp Fav / (Unfav)**
Revenue	**700.7**	755.7	(7.3)
EBITDA	**122.5**	133.0	(7.9)
Depreciation and amortisation	**(47.3)**	(47.8)	1.0
EBIT	**75.2**	85.2	(11.7)
Net finance cost[1]	**(9.9)**	(9.2)	(7.6)
Profit before tax	**65.3**	76.0	(14.1)
Tax expense	**(17.7)**	(20.7)	14.5
Net profit after tax	**47.6**	55.3	(13.9)
Non-controlling interests	**-**	-	-
NPAT	**47.6**	55.3	(13.9)
Earnings per share (cents)	**7.3**	8.5	
EBITDA margin (%)	**17.5**	17.6	
Leverage ratio[2] (times)	**1.5**	1.6	
Interest Cover (EBITDA/Interest) (times)	**12.4**	14.5	
Gearing[2] (%)	**34.6**	45.9	
Net Debt / Net Debt plus Equity[2] (%)	**25.7**	30.2	
Underlying ROFE[4] (%)	**10.9**	14.0	

1 Net finance cost is the net of finance costs shown, gross in the Income Statement, and interest income included in other income.
2 Net debt is calculated as total borrowings less cash and cash equivalents. Lease liabilities recognised under AASB 16 are excluded from net debt.
3 Underlying measures adjusted for significant items. An explanation and reconciliation to statutory results is provided on page 12.
4 12-month EBIT divided by average monthly funds employed.

Review of Operations

Demand Overview

Demand for Adbri's products is driven by the mining and construction sectors. Demand remained largely uninterrupted by COVID-19 during the reporting period. However, bushfires, floods and smoke, impacted construction activity and demand, particularly in Queensland and New South Wales, resulting in a slower start to the year. This exacerbated the anticipated reduction in underlying demand following a period of oversupply in multi-residential dwellings in these two markets. Mining demand has remained largely uninterrupted resulting in higher cement and lime volumes in Western Australia than the prior comparative period. Victorian demand was strong across all product lines. South Australian demand, although impacted by lower residential demand was better than anticipated, driven by mining and infrastructure activity.

The construction materials sector is likely to continue to benefit from stimulus from all levels of government, particularly stimulus to fast-track construction projects including infrastructure spending, home-building grants and stamp duty relief. These, in combination with a low interest rate environment, will help support ongoing demand for construction materials.

According to the Australian Bureau of Statistics, Australian residential construction declined 12%, as compared to the prior comparative period, and residential building approvals declined 4.9% in June month on month, representing a decline of 15.8% from the prior comparative period. The markets most impacted were New South Wales (14.8%) and Queensland (10.9%). However, the value of total buildings approved, increased by 7.3% in June 2020 and the value of non-residential buildings increased by 17.8%, month on month. The information released by the Australian Bureau of Statistics is consistent with the lower concrete demand for construction materials the business is experiencing in New South Wales and Queensland.

Demand for cement and lime is also likely to continue to benefit from a strong production outlook for gold, nickel, and iron ore in particular, and stable demand from the alumina sector.

Earnings Overview

The $10.0 million decline in underlying EBIT was predominantly driven by lower concrete volumes in the higher margin New South Wales market, lower cement sales volume in South Australia, and Sunstate's lower earnings contribution.

Pleasingly, our underlying EBITDA margins excluding equity accounted earnings improved from 15.3% to 15.8% despite the 7.3% decline in revenue.

The implementation of the cost-out programme has offset cost headwinds. This programme remains on-track to deliver $30 million in gross cost savings by the end of the year.

Despite the COVID-19 pandemic, volumes have maintained a solid trajectory, with some parts of the business outperforming the prior comparative period.

Victoria and Western Australia delivered higher earnings contributions, driven by higher volumes across most product lines.

As previously highlighted, South Australia's demand was anticipated to be lower, however earnings contributed were stronger than expected.

Earnings from the Northern Territory decreased marginally with lower demand from the construction sector.

Our Scotchy Pocket quarry was in full operation during the period with earnings from the quarry and cost management offsetting the impact of lower Queensland concrete volumes.

Impacts of COVID-19 have been well managed. All sites remain operational. However, stage 4 restrictions in Victoria are constraining construction activities in that state. Over 400 non-operational staff are working from home. Costs directly incurred to minimise the impact of COVID-19 (increased security, health and safety measures) have been partially offset by costs avoided through border restrictions (travel and accommodation costs) and the receipt of $0.2 million of JobKeeper subsidies only in relation to our Northern Territory operations.

Cement and Clinker

Sales – Underpinned by Mining

Cement and clinker sales volumes decreased 6% compared to 1H19, predominantly in New South Wales and Queensland, due to lower demand caused by bushfires, flood and smoke earlier in the year and underlying market softness. Demand for raw materials including slag and clinker also declined in Queensland as a result of reduced demand from the Sunstate Joint Venture due to lower shareholder offtake, mainly by Boral.

Volumes in South Australia also declined as a result of completion of the Northern Connector project and slowing residential demand.

Demand from mining projects supported cement sales in Western Australia driving a 7% increase in volumes over the prior comparative period, while commercial projects supported stable volumes in Victoria.

Average prices were in line with the prior comparative period.

Lime

Sales – Volume growth

Lime sales volumes increased 4% compared to 1H19 predominantly due to increased demand from the Western Australian gold and nickel markets.

Average prices were higher than the prior comparative period, mainly driven by indexed pricing.

In early July, the Company announced Alcoa's intention to move to an imported lime product from 1 July 2021. Australian made lime is an important part of the local supply chain and its demand is underpinned by a number of other contracts. The business is evaluating strategies to mitigate the future loss of earnings from this contract, including finding alternative sources of lime revenue, increasing operational utilisation and efficiencies, and reviewing supply chain opportunities. As a consequence of the non-renewal of this contract, kiln 5 at Munster will be placed into care and maintenance, following cessation of the contract. The Group has recognised a pre-tax non-cash impairment charge of $20.5 million, primarily associated with cessation of this contract. Restructuring provisions of $5.0 million have been brought to account for job losses and operational efficiency improvements. At this stage, any incremental demand, following closure of kiln 5 will be met out of kiln 6, which has latent capacity.

Concrete and Aggregates

Sales – Slower demand in New South Wales and Queensland

Concrete volumes decreased by 13% compared to 1H19, in line with reduced concrete demand in New South Wales and Queensland due to bushfires, floods and smoke which constrained construction activity in the first half as well as underlying market softness as anticipated.

Victorian demand exceeded expectations and prior comparative period volumes due to increased activity in the commercial, multi-residential and industrial precast markets.

Despite lower demand in South Australia compared to the prior comparative period, strong external demand for aggregates, driven by infrastructure projects offset lower concrete demand delivering a higher than anticipated earnings contribution.

Northern Territory demand was lower than the prior comparative period due to a reduction in infrastructure project activity.

Overall average concrete and aggregate prices were largely in line with the prior comparative period.

Concrete Products

Sales – Strong retail demand

Despite overall lower sales volumes, Concrete Products revenue increased marginally over the prior comparative period, driven by higher sales into the retail sector. Stronger retail sales volume improved margins, increasing EBIT contribution by $2.3 million, or 121% from the prior comparative period.

Joint Arrangements and Associates

Independent Cement and Lime Pty Ltd (ICL) (50%)

ICL is a specialist supplier of cement and cement blended products to a wide variety of industries and retail outlets throughout Victoria and New South Wales and is Adbri's distributor in those markets.

Demand in the Victorian market more than offset declines in the New South Wales market, and in conjunction with a strong focus on reducing costs, has delivered an increase in earnings to $8.2 million, 7% higher than the prior comparative period.

Sunstate Cement Limited (Sunstate) (50%)

Sunstate operates a cement milling, storage and distribution facility at Fisherman Islands, Port Brisbane.

Sunstate revenues were impacted by reduced demand in Queensland, similar to our wholly owned businesses, and lower offtake from shareholders. Earnings of $0.8 million were $5.1 million lower than the prior comparative period.

Mawson Group (Mawsons) (50%)

Mawsons is the largest premixed concrete and quarry operator in northern regional Victoria, also operating in southern regional New South Wales. Mawsons is a significant aggregates producer in the region, holding leading positions in the markets it serves.

Earnings of $3.0 million were consistent with the prior comparative period, with volumes and pricing remaining stable.

Aalborg Portland Malaysia Sdn. Bhd. (Aalborg) (30%)

Aalborg manufactures and sells white cement and clinker for the domestic Malaysian markets and exports to Australia and other markets throughout south east Asia.

Export volumes from Aalborg were paused from early in the COVID-19 pandemic to late May, resulting in a loss of $0.1 million in the period, a decrease in the contribution to Adbri's earnings by $0.6 million.

Strategic Initiatives

Adbri's strategy to create shareholder value over the long term continues through the following key strategic initiatives:

1. Ongoing cost reduction and operational improvement;
2. Lime volume and earnings recovery, following cessation of the Alcoa contract in 2021;
3. Targeted downstream integration and diversification;
4. Increased exposure to infrastructure; and
5. Maximising value creation opportunities across its land holdings.

Specifically, in response to the softening market conditions, Adbri will continue to focus on right-sizing its overhead and fleet, rationalise its operational footprint, and pursue procurement strategies to deliver cost savings in the near to medium-term. Ongoing focus in this area is driving demonstrable cost reductions allowing Adbri to maintain margin in softening market conditions. Surplus land sales and working capital management will be utilised to recycle capital for investment in growth and protection of earnings, whilst managing interest costs that have increased due to higher debt and cash holds during COVID-19.

1. Cost reduction and operational improvement

Remaining cost competitive and customer-focused in an increasingly competitive landscape are critical to the long-term sustainability of the Company.

Managing raw material and energy costs across the Group's operations remains an important focus and a significant opportunity for shareholder value creation, particularly growing utilisation of alternative fuels and cementitious materials.

Adbri remains Australia's largest importer of cementitious materials (cement, clinker and blast furnace slag). Utilising its import facilities in key markets across Australia, the Company sources approximately 1.9 million tonnes of imported product per annum.

This industry-leading position enhances supply chain efficiency in procurement, transport, storage and distribution. The use of imported materials allows the supply of competitively priced product into a range of markets where demand exceeds the Company's manufacturing capacity. It enables Adbri's domestic production assets to operate at full utilisation, underpinning its cost competitive position.

Adbri also has a leading position in the supply of supplementary cementitious materials including ground granulated blast furnace slag and fly ash. The use of supplementary cementitious materials in the production of concrete can enhance durability, while reducing both the consumption of natural resources and the environmental impact from disposal of these industrial by-products, as well as providing a cost benefit.

Adbri has a proactive strategy designed to manage energy costs and operating risks, taking a portfolio approach to energy supply and procurement. We continue to improve operational energy efficiency, increasing the use of alternative fuels to reduce reliance on traditional sources with a target of more than 50% substitution of 6PJ of fuel supply in South Australia and increased use of alternative cementitious materials. Adbri is actively seeking to reduce its emission intensity through changing fuel sources whilst reducing its cost.

The Group's cost-out programme remains on-track to deliver $30 million in cost savings, to mitigate cost headwinds experienced in 2020.

Technology and the application of capital to make our operations more cost efficient will help support the cost advantage we enjoy against local competitors and imports.

2. Lime volume recovery

Adbri's Western Australian lime business is underpinned by low cost mineral resources secured by a State Agreement Act. Although the announced loss of the Alcoa contract to imports is disappointing, Adbri's lime business remains resilient. Adbri is committed to servicing our lime customers and is actively seeking to mitigate the consequential loss of volume following cessation of the Alcoa lime contract in 2021 with additional opportunities potentially available in the gold, nickel and rare metal sectors.

Adbri is also evaluating strategies to improve future earnings through operational utilisation and efficiencies, in conjunction with reviewing alternate supply chain and raw material opportunities.

To mitigate costs, kiln 5 at Munster will be placed into care and maintenance in 2021, following cessation of the Alcoa contract. The Company will continue to be well placed to service incremental demand from its existing facilities, which have latent capacity.

3. Downstream integration and diversification

The Group has made significant investments in downstream concrete and aggregate businesses which have yielded synergy savings from back office, transport and materials pull-through.

Adbri continues to pursue its strategy of acquiring quality and complementary downstream businesses that enhance its long-term competitive position and create shareholder value.

In the past 12 months, the Group has commenced operations at Scotchy Pocket quarry located in the Sunshine Coast, Queensland. The Pinkenba concrete plant, located in close proximity to the Brisbane market was commissioned in 1Q20, and is now in full operation. Vertically integrated build-out opportunities are also being considered to complement existing operations, providing important pull-through opportunities for the Group's existing businesses. Land acquired at Badgerys Creek within the western Sydney aerotropolis precinct will be used to expand our concrete position in the future.

In July 2020, the Group acquired land containing aggregate reserves previously leased as part of Sellicks quarry in South Australia.

The Rosehill concrete plant has been identified by the New South Wales Government for compulsory acquisition. In consultation with Government, an alternate site has been identified for temporary use, until a permanent property is secured. The Rosehill plant will remain operational until 2022.

4. Increase exposure to infrastructure

Projections for infrastructure spending remain very strong in spite of the COVID-19 pandemic. Stimulus provided by all levels of government is expected to increase demand for construction materials. Adbri has participated with industry bodies that continue to work closely with Government to fast-track shovel ready projects. Adbri is well positioned to service the infrastructure sector across Australia's major markets.

The strong pipeline of projects is being actively tendered by our business development team, with recent wins across a number of different areas – roads, rail, airports, defence and schools.

5. Maximise value of land holdings

The Company's land portfolio provides a significant earnings and value creation opportunity over the medium to long term.

The sale of surplus land holdings will be brought forward to recycle capital where possible in the near term. Opportunities being pursued include the Batesford Quarry land which already forms part of the City of Greater Geelong growth strategy. At this stage a significant portion of our land holding is under consideration for rezoning. In addition, with the completion of demolition works at the Hilltop site in Geelong now complete marketing activities for this site can be progressed.

Financial Review

Cash flow and working capital

Cash flow from operations was higher by $71.5 million compared to 1H19 increasing to $116.3 million as a result of improved debtor collections, lower income tax payments, and deferred GST payments (as a result of COVID-19 stimulus measures). Debtor days decreased by two days to 46.7 days at June 2020.

Capital expenditure of $73.2 million was $28.8 million higher compared to 1H19. Capital expenditure included stay in business capital expenditure of $31.1 million and development projects of $42.1 million. Major development capital spending during the period included land purchases at Kewdale and Badgerys Creek, Pinkenba concrete plant, South Wharf concrete plant and an upgrade to the Birkenhead drymix plant.

Dividend payments paid during the period totalled $32.6 million.

Net debt and gearing

Adbri adopts a conservative approach to capital management with the following broad objectives:

- Ensure an efficient balance sheet to optimise cost of capital and thereby shareholder returns through utilisation of a prudent level of debt
- Maintain investment grade metrics to optimise funding cost
- Retain balance sheet flexibility to fund capital projects and acquisitions
- Distribute surplus capital to shareholders in an efficient manner

Excluding lease liabilities, net debt at the end of the period was $413.8 million, a decrease of $9.5 million, from December 2019 with debt drawn during the half being held as cash for additional liquidity.

In assessing capital requirements and balance sheet risk, Adbri considers its leverage and gearing ratios. The leverage ratio is the ratio of period end net debt to 12-month trailing Underlying EBITDA. This measure compares net debt levels to recent cash generation rather than to historical book value. As such, it offers a more responsive measure of capital management and better reflects the Group's ability to service debt obligations.

Under this measure, net debt at 30 June 2020 was 1.5 times 12-month trailing Underlying EBITDA, which compares with the Board target range of between 1.0 to 2.0 times.

The current leverage ratio is prudent and within the intermediate band for credit rating purposes, and therefore the Company is well within the investment grade band.

The net debt to book equity gearing ratio decreased to 34.6% at 30 June 2020 and is in the middle of the Company's target range of 25% to 45%. Net Debt to net debt plus equity also decreased to 25.7% indicative of our strong balance sheet.

The Board has declared an interim dividend of 4.75 cents per share, fully franked, for the period ending 30 June 2020. This represents a payout ratio of 65% on underlying earnings, which is within the Company's target range.

Funding facilities – financial flexibility

In November 2019, the Group refinanced its funding facilities increasing total facilities to $900 million. These facilities have the following maturity periods:

Maturity	**Limit**
21 November 2024	$750 million
21 November 2026	$ 50 million
21 November 2029	$100 million

Finance cost and tax

Higher debt levels were drawn in the half to provide additional liquidity as a result of the uncertainty associated with COVID-19 and possible impacts on the business. Debt drawn is held as cash with net debt levels decreasing during the period. Net finance costs of $9.9 million were $0.7 million higher than 1H19 primarily due to the increase in drawn debt facilities which offset lower market interest rates.

The tax rate on reported earnings of 25% is marginally lower than the prior period. Adbri continues to expect its tax rate to be in the range of 27% to 28% on underlying earnings, although this may be lower in periods when the benefit of capital tax losses is recognised as a reduction to income tax expense.

Reconciliation of underlying profit

The Board considers that the depiction of “underlying” earnings improves understanding of the Company’s operational performance and longer-term trends. “Underlying” measures of profit exclude significant items of revenue and expenses, such as the costs related to restructuring, rationalisation and acquisitions, to highlight the underlying financial performance across reporting periods. Profits from the Group’s long-term land sales program are included in underlying profit despite the timing being difficult to predict.

The following table reconciles underlying earnings measures to statutory results.

Half year ended 30 June $million	**2020**			2019		
	Profit / (loss) before tax	**Income tax**	**Profit/ (loss) after tax**	Profit/ (loss) before tax	Income tax	Profit/ (loss) after tax
Statutory profit / (loss)	**38.8**	**(9.7)**	**29.1**	(24.8)	6.9	(17.9)
Impairment	**20.5**	**(6.2)**	**14.3**	96.1	(26.2)	69.9
Doubtful debts	**0.1**	**-**	**0.1**	0.7	(0.2)	0.5
Corporate restructuring costs	**5.9**	**(1.8)**	**4.1**	3.9	(1.2)	2.7
Acquisition expenses	**-**	**-**	**-**	0.1	-	0.1
Underlying profit	**65.3**	**(17.7)**	**47.6**	76.0	(20.7)	55.3

Impairment

The Group has recognised a pre-tax non-cash impairment charge of $20.5 million primarily associated with cessation of the Alcoa contract in July 2021 and consequential placement of kiln 5 assets at Munster into care and maintenance. In the prior comparative period, a pre-tax non-cash impairment charge of $96.1 million was recognised, reflecting the updated outlook for the Group and the re-assessment of carrying values following a review of business plans and strategies.

Doubtful debts

In late 2017, Adbri became aware of certain financial discrepancies which related to transactions whereby it had been underpaid for products supplied. The Group completed its analysis with the assistance of forensic accountants KPMG and recognised a provision for doubtful debts and costs in its 2017 results. Further costs relating to the recovery of unpaid amounts have been incurred in the period of $0.1 million ($0.7 million prior comparative period). The Group expects, in time, that amounts recovered will exceed the costs incurred in the recovery process.

Corporate restructuring costs

Redundancies and one-off employment costs of $5.9 million were recognised in the period ($3.9 million in prior comparative period). These costs related to restructuring within the Group including a provision of $5.0 million to improve operational efficiency incorporating closure of kiln 5 at Munster. Underlying administration costs have declined compared to the prior comparative period, despite increases in investment in business development capability and market driven increases in insurance costs.

Acquisition expenses

No acquisition costs were expensed during the period compared to $0.1 million in the prior comparative period.

2020 Outlook

Due to the inherent market uncertainty associated with COVID-19, earnings guidance previously provided for FY20 remains withdrawn.

To date, Adbri's operations have continued, largely uninterrupted by COVID-19. Adbri's earnings benefit from a diverse pool of customers in the construction and mining sectors, selling products into states and territories of Australia. Trading performance in July continued in line with expectations. August trading was weaker, impacted by stage 4 restrictions in Victoria and a soft New South Wales market.

The construction materials sector is likely to continue to benefit from stimulus from all levels of government, particularly stimulus to fast-track construction projects including infrastructure spending, home-building grants and stamp duty relief. These, in combination with a low interest rate environment, will help support ongoing demand for construction materials.

Capital expenditure is expected to be approximately $130 million for 2020. The Kwinana upgrade project is currently in final feasibility, with an expected $150 million spend over 2 – 3 years, if approved by the Board.

From July 2021, the impact of non-renewal of the Alcoa contract is expected to lower future annual revenue by $70 million. The business is evaluating strategies to mitigate the future loss of earnings from this contract.

Adbri's priorities are to:

- Minimise impacts of COVID-19 and the loss of Alcoa lime earnings from July 2021;
- Prudently manage capital spend;
- Continue to contain costs and right-size the business to improve performance;
- Remain competitive against imports; and
- Maintain balance sheet flexibility for reinvestment and growth.

Directors' Report

The Directors present their report on the consolidated entity ("the Group") consisting of Adbri Limited ("the Company") and the entities it controlled at the end of, or during, the half year ended 30 June 2020.

Directors

Deputy Chairman and Lead Independent Director Mr Zlatko Todorcevski resigned on 15 June 2020.
Dr Vanessa Guthrie was appointed as Lead Independent Director on 15 June 2020 and Deputy Chair on 25 August 2020.

The Directors of the Company at any time during or since the end of the half year and up to the date of this report are:

RD Barro (Chairman)
VA Guthrie (appointed Lead Independent Director 15 June 2020 and Deputy Chair 25 August 2020)
KB Scott-Mackenzie
GR Tarrant
RR Barro
ER Stein
Z Todorcevski (former Lead Independent Director and Deputy Chairman resigned 15 June 2020)

Review of operations

A review of the operations of the Group during the half year ended 30 June 2020 is set out on pages 2 to 13 of this report.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 28.

Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) instrument 2016/191, relating to the "rounding off" of amounts in the Directors' Report and financial report. In accordance with that instrument, amounts in the Directors' Report and financial report have been rounded off to the nearest hundred thousand dollars unless otherwise stated.

Dated 26 August 2020.

This report is made in accordance with a resolution of the Directors.

Raymond Barro
Chairman

Consolidated income statement

For the half year ended 30 June 2020

$million	Notes	**2020**	2019
Revenue from continuing operations	3	**700.7**	755.7
Cost of sales		**(458.9)**	(501.9)
Freight and distribution costs		**(136.8)**	(138.4)
Gross profit		**105.0**	115.4
Other income	3	**4.6**	2.8
Marketing costs		**(11.1)**	(11.9)
Administration costs		**(39.9)**	(41.9)
Finance costs	3	**(11.2)**	(10.2)
Impairment		**(20.5)**	(96.1)
Share of net profits of joint venture and associate entities	6	**11.9**	17.1
Profit / (loss) before income tax		**38.8**	(24.8)
Income tax (expense) / credit		**(9.7)**	6.9
Profit / (loss) for the half year		**29.1**	(17.9)
Profit / (loss) attributable to:			
Equity holders of the Company		**29.1**	(17.9)
Non-controlling interests		**-**	-
		29.1	(17.9)

	Cents	Cents
Earnings / (loss) per share for profit from continuing operations attributable to the ordinary equity holders of the Company:		
Basic earnings / (loss) per share	**4.5**	(2.7)
Diluted earnings / (loss) per share	**4.4**	(2.7)

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

For the half year ended 30 June 2020

$million	2020	2019
Net profit / (loss) for the half year	**29.1**	(17.9)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**0.7**	0.2
Changes in the fair value of cash flow hedges	**0.8**	1.1
Income tax expense associated with these items	**(0.2)**	(0.3)
Items that will not be reclassified to profit or loss		
Actuarial losses / (gain) on retirement benefit obligation	**(3.3)**	1.2
Income tax expense / (credit) associated with these items	**1.0**	(0.4)
Other comprehensive income for the half year, net of tax	**(1.0)**	1.8
Total comprehensive income / (loss) for the half year	**28.1**	(16.1)
Total comprehensive income / (loss) for the half year attributable to:		
Equity holders of the Company	**28.1**	(16.1)
Non-controlling interests	**-**	-
Total comprehensive income / (loss) for the half year	**28.1**	(16.1)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet
As at 30 June 2020

$million	30 June 2020	31 December 2019
Current assets		
Cash and cash equivalents	**481.7**	116.8
Trade and other receivables	**213.3**	218.7
Inventories	**150.5**	155.2
Current tax assets	**24.1**	28.5
Total current assets	**869.6**	519.2
Non-current assets		
Receivables	**43.3**	43.6
Retirement benefit asset	**1.0**	4.5
Joint arrangements and associates	**194.8**	184.8
Property, plant and equipment	**1,038.9**	1,033.7
Right-of-use assets	**85.6**	84.6
Intangible assets	**282.3**	283.3
Total non-current assets	**1,645.9**	1,634.5
Total assets	**2,515.5**	2,153.7
Current liabilities		
Trade and other payables	**138.6**	144.9
Lease liabilities	**3.8**	5.7
Provisions	**38.8**	33.8
Other liabilities	**22.3**	8.6
Total current liabilities	**203.5**	193.0
Non-current liabilities		
Borrowings	**895.5**	540.1
Lease liabilities	**86.3**	81.9
Deferred tax liabilities	**71.7**	74.6
Provisions	**64.0**	66.7
Other non-current liabilities	**0.1**	0.1
Total non-current liabilities	**1,117.6**	763.4
Total liabilities	**1,321.1**	956.4
Net assets	**1,194.4**	1,197.3
Equity		
Share capital	**740.1**	739.0
Reserves	**2.0**	0.2
Retained earnings	**449.9**	455.7
Capital and reserves attributable to owners of the Company	**1,192.0**	1,194.9
Non-controlling interests	**2.4**	2.4
Total equity	**1,194.4**	1,197.3

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half year ended 30 June 2020

	Attributable to owners of Adbri Limited					
$million	Contributed Equity	Reserves	Retained Earnings	Total	Non-controlling interests	Total Equity
Balance at 1 January 2020	**739.0**	**0.2**	**455.7**	**1,194.9**	**2.4**	**1,197.3**
Profit / (loss) for the half year	-	-	29.1	29.1	-	29.1
Other comprehensive income for the half year	-	1.3	(2.3)	(1.0)	-	(1.0)
Total comprehensive income / (loss) for the half year	**-**	**1.3**	**26.8**	**28.1**	**-**	**28.1**
Deferred hedging gains and losses and costs of hedging transferred to the carrying value of inventory purchased in the period	-	0.4	**-**	0.4	-	0.4
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	-	-	(32.6)	(32.6)	-	(32.6)
Employee Share Plan	1.1	0.1	-	1.2	-	1.2
	1.1	0.1	(32.6)	(31.4)	-	(31.4)
Balance at 30 June 2020	**740.1**	**2.0**	**449.9**	**1,192.0**	**2.4**	**1,194.4**
Balance at 1 January 2019	**734.4**	**4.2**	**504.5**	**1,243.1**	**2.5**	**1,245.6**
Profit / (loss) for the half year	-	-	(17.9)	(17.9)	-	(17.9)
Other comprehensive income for the half year	-	1.0	0.8	1.8	-	1.8
Total comprehensive income / (loss) for the half year	-	**1.0**	**(17.1)**	**(16.1)**	-	**(16.1)**
Deferred hedging gains and losses and costs of hedging transferred to the carrying value of inventory purchased in the period	-	(1.2)	0.1	(1.1)	-	(1.1)
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	-	-	(97.8)	(97.8)	-	(97.8)
Employee Share Plan	3.3	(1.7)	-	1.6	-	1.6
	3.3	(1.7)	(97.8)	(96.2)	-	(96.2)
Balance at 30 June 2019	**737.7**	**2.3**	**389.7**	**1,129.7**	**2.5**	**1,132.2**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the half year ended 30 June 2020

$million	Notes	2020	2019
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**770.7**	815.7
Payments to suppliers and employees (inclusive of goods and services tax)		**(640.7)**	(742.5)
Joint venture distributions received		**1.4**	10.6
Interest received		**1.7**	0.9
Interest paid		**(11.7)**	(10.0)
Other income and receipts		**2.6**	2.0
Income taxes paid		**(7.7)**	(31.9)
Net cash inflow from operating activities		**116.3**	44.8
Cash flows from investing activities			
Payments for property, plant, equipment and intangibles		**(73.2)**	(44.4)
Proceeds from sale of property, plant and equipment		**2.0**	0.6
Repayment of loans from other parties		**0.1**	0.3
Net cash (outflow) from investing activities		**(71.1)**	(43.5)
Cash flows from financing activities			
Proceeds from issue of shares		**1.1**	4.3
Proceeds from borrowings		**355.0**	60.0
Repayment of lease principal		**(4.0)**	(1.9)
Dividends paid to Company's shareholders	4	**(32.6)**	(97.8)
Net cash inflow / (outflow) from financing activities		**319.5**	(35.4)
Net increase / (decrease) in cash and cash equivalents held		**364.7**	(34.1)
Cash and cash equivalents at the beginning of the half year		**116.8**	93.9
Net impact of foreign exchange on cash		**0.2**	-
Cash and cash equivalents at the end of the half year		**481.7**	59.8

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the half year ended 30 June 2020

1 Basis of preparation of half year report

This condensed consolidated interim financial report for the half year reporting period ended 30 June 2020 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2019 and any public announcements made by Adbri Limited during the interim reporting period in accordance with continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of new and amended standards as set out below. The Group adopted AASB 16 from 1 January 2019.

In applying AASB 16 for the first time, the Group used the following practical expedients permitted by the standard:

– the use of a single discount rate across a portfolio of leases with reasonably similar characteristics in relation to lease term;

– the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases which are recognised on a straight-line basis as expense; and

– the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2 Segment reporting

(a) Description of segments

Management has determined the operating segments that are evaluated regularly in order to assess performance.

A disaggregation of revenue using existing segments and the timing of the transfer of goods and services (at a point in time versus over time) is considered by management to be adequate for the Group’s circumstances.

The two reportable segments are based on the product groupings and have been identified as follows:

- Cement, Lime, Concrete and Aggregates
- Concrete Products

The operating segments, Cement, Lime, Concrete and Aggregates individually meet the quantitative thresholds required by AASB 8 as well as meeting the aggregation criteria allowing them to be reported as one segment. In considering aggregation of these segments, management assessed revenue growth and gross margin as the economic indicators to determine that the aggregated operating segments share similar economic characteristics.

Concrete Products meets the quantitative threshold and is therefore reported as a separate segment.

Joint arrangements and associates related to the reportable segments form part of the above two reportable segments.

The major end-use of Adbri's products includes residential and non-residential construction, engineering construction, industrial manufacturing and mining sectors within Australia.

Notes to the financial statements

For the half year ended 30 June 2020

2 Segment reporting (continued)

(b) Segment information provided to the Chief Executive Officer (CEO)

The segment information provided to the CEO for the reportable segments is as follows:

2020 $million	**Cement, Lime, Concrete & Aggregates**	**Concrete Products**	**Unallocated**	**Total**
Total segment operating revenue	610.3	72.0	-	682.3
Less: Inter-segment revenue	(44.3)	-	-	(44.3)
Revenue from external customers	**566.0**	**72.0**	**-**	**638.0**
Timing of revenue recognition				
At a point in time	561.5	72.0	-	633.5
Over time	4.5	-	-	4.5
	566.0	**72.0**	**-**	**638.0**
Depreciation and amortisation	(41.9)	(3.0)	(2.4)	(47.3)
Impairment	(20.5)	-	-	(20.5)
Underlying EBIT (excluding property)	90.5	4.2	(19.5)	75.2
Share of net profits of joint venture and associate entities	11.9	-	-	11.9
2019 $million				
Total segment operating revenue	670.0	71.0	-	741.0
Less: Inter-segment revenue	(46.8)	-	-	(46.8)
Revenue from external customers	**623.2**	**71.0**	**-**	**694.2**
Timing of revenue recognition				
At a point in time	619.8	71.0	-	690.8
Over time	3.4	-	-	3.4
	623.2	**71.0**	**-**	**694.2**
Depreciation and amortisation	(42.1)	(3.4)	(2.3)	(47.8)
Impairment	(61.7)	(30.6)	(3.8)	(96.1)
Underlying EBIT (excluding property)	101.4	1.9	(18.1)	85.2
Share of net profits of joint venture and associate entities	17.1	-	-	17.1

Sales between segments are carried out at arm's length and are eliminated on consolidation.

The operating revenue includes revenue from external customers and a share of revenue from the joint ventures and associates in proportion to the Group's ownership interest, excluding freight, interest and royalty revenue. A reconciliation of segment operating revenue to revenue from continuing operations is provided as follows:

$million	**2020**	**2019**
Total segment operating revenue	**682.3**	741.0
Inter-segment revenue elimination	**(44.3)**	(46.8)
Freight revenue	**60.5**	57.3
Other product revenue	**1.9**	3.8
Royalties	**0.3**	0.4
Revenue from continuing operations	**700.7**	755.7

Notes to the financial statements

For the half year ended 30 June 2020

2 Segment reporting (continued)

(b) Segment information provided to the CEO (continued)

The performance of the operating segments is based on a measure of underlying Earnings Before Interest and Tax (EBIT), excluding property profits. This measurement basis excludes the effect of net interest. A reconciliation of the EBIT to operating profit before income tax is provided as follows:

$million	2020	2019
Underlying EBIT (excluding property)	**75.2**	85.2
Significant items	**(26.5)**	(100.8)
Net finance cost	**(9.9)**	(9.2)
Profit /(loss) before income tax	**38.8**	(24.8)

3 Operating profit / (loss)

$million	2020	2019
Revenue from continuing operations		
Revenue from contracts with customers	**700.4**	755.3
Royalties	**0.3**	0.4
	700.7	755.7
Other income		
Net profit/(loss) related to sale of property, plant and equipment	**0.8**	(0.2)
Rental income	**0.6**	0.7
Insurance recovery	**0.6**	-
Interest revenue	**1.3**	1.0
Miscellaneous income	**1.3**	1.3
Total other income	**4.6**	2.8
Revenue and other income	**705.3**	758.5
Impairment		
Receivables and other debtors	**-**	0.4
Inventory	**-**	24.5
Property, plant and equipment	**20.5**	58.0
Intangible assets	**-**	13.2
	20.5	96.1

Notes to the financial statements

For the half year ended 30 June 2020

3 Operating profit / (loss) (continued)

$million	2020	2019
Finance cost		
Interest and finance charges	**9.8**	8.6
Unwind of the discount on leases	**1.5**	1.5
Unwind of the discount on restoration provisions and retirement benefit obligation	**0.3**	0.5
Gross finance cost	**11.6**	10.6
Interest capitalised in respect of qualifying assets	**(0.4)**	(0.4)
Total finance cost recognised in the income statement	**11.2**	10.2
Less interest income	**(1.3)**	(1.0)
Net finance cost	**9.9**	9.2

4 Dividends

$million	2020	2019
Dividends provided or paid during the half year		
2019 final dividend of 5.0 cents (2018 –15.0 cents) per fully paid ordinary share, franked at 100% (2019 – 100%) paid on 28 April 2020	**32.6**	97.8
Total dividends paid in cash	**32.6**	97.8
Dividends not recognised at the end of the half year		
Since the end of the half year the Directors have declared the payment of an interim ordinary dividend of 4.75 cents per fully paid ordinary share franked at 100% (June 2019 – N/A). The aggregate amount of the proposed dividend expected to be paid on 7 October 2020, representing 65% of underlying earnings and 107% of reported earnings, not recognised as a liability at the end of the half year, is:	**31.0**	-

5 Equity

Securities issued – Issue of ordinary shares during the half year

	2020 Shares	2019 Shares	**2020 $m**	2019 $m
Shares issued under the Executive Performance Share Plan	-	887,363	-	2.2
Shares issued under the Employee Share Plan	543,240	225,158	1.1	1.1

Notes to the financial statements

For the half year ended 30 June 2020

6 Investments in joint arrangements and associate

Investments in joint arrangements are classified into Joint Ventures, which are accounted for in the consolidated financial statements using the equity method of accounting, and Joint Operations, which are accounted for using the proportional consolidation method. Associates are accounted for using the equity method.

		Ownership interest	
		2020	**2019**
Name of joint arrangement / associate	**Nature of relationship**	**%**	**%**
Aalborg Portland Malaysia Sdn. Bhd.	Associate	**30**	30
Batesford Quarry	Joint operation	**50**	50
Burrell Mining Services JV	Joint operation	**50**	50
EB Mawson & Sons Pty Ltd and Lake Boga Quarries Pty Ltd	Joint venture	**50**	50
Independent Cement & Lime Pty Ltd	Joint venture	**50**	50
Peninsula Concrete Pty Ltd	Joint venture	**50**	50
Sunstate Cement Ltd	Joint venture	**50**	50

$ million	**2020**	**2019**
Contribution to net profit before tax		
Sunstate Cement Ltd	**0.8**	5.9
Independent Cement & Lime Pty Ltd	**8.2**	7.7
Other joint ventures and associates	**2.9**	3.5
Share of net profits of joint venture and associate entities	**11.9**	17.1
Profit from joint operations	**1.4**	1.4
Total profit from joint arrangements and associates	**13.3**	18.5

7 Contingencies

Details and estimates of maximum amounts of contingent liabilities are as follows:

Guarantees		
Bank guarantees - $ million	**38.1**	34.5

No material losses are anticipated in respect of the above contingent liabilities.

Notes to the financial statements

For the half year ended 30 June 2020

8 Impairment

Goodwill is not subject to amortisation and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it may be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets known as cash-generating units 'CGUs'. Non-financial assets, other than goodwill that suffered an impairment, are reviewed for possible reversal of the impairment at each reporting date.

(a) Goodwill

Goodwill is allocated to the Group's CGUs and a summary of the goodwill allocation is presented below.

	Consolidated	
$million	**30 June 2020**	31 Dec 2019
Cement and Lime	**134.0**	134.0
Concrete and Aggregates	**138.5**	138.5
Cement, Lime, Concrete and Aggregates segment	**272.5**	272.5
Concrete Products segment	**-**	-
	272.5	272.5

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on latest financial forecasts approved by the Board, external forecasts of market growth rates and expected operating margins and capital expenditure. Projected cash flows are forecast for a period of greater than 5 years to incorporate the construction cycle into demand assumptions for modelling purposes.

(b) Key assumptions used for value-in-use calculations

	Growth rate[1]		Discount rate[2]	
%	**30 June 2020**	31 Dec 2019	**30 June 2020**	31 Dec 2019
Cement, Lime, Concrete and Aggregates	**1.3%**	1.3%	**9.6%**	10.2%
Concrete Products	**1.4%**	1.4%	**10.0%**	10.7%

1 Weighted average growth rate used to extrapolate cash flows beyond the specific market forecast period.

2 Pre-tax discount rate applied to cash flow projections.

Significant estimate – key assumptions used for value-in-use calculations

The Group tests annually, or when there are indicators of impairment, whether goodwill, other intangible assets with an indefinite life and other non-current assets have incurred impairment. The recoverable amounts of CGUs have been determined utilising value-in-use calculations.

Estimates and judgements are continually evaluated utilising historical experience coupled with expectations of future events that may have a financial impact on the Group and that are believed to be reasonable.

Notes to the financial statements

For the half year ended 30 June 2020

8 Impairment (continued)

With the uncertainty presented by COVID-19 a low case sensitivity has been utilised for the purposes of the impairment test. Declines in sales growth rates has been used to assess the impact on earnings potential, in conjunction with a "U" shaped recovery. Long-term growth rates used for the purpose of the impairment test are low.

The discount rates used are pre-tax and reflect specific risks relating to relevant segments.

(c) Impairment charge

An impairment charge has been taken against specific assets expected to be placed into care and maintenance. The impairment charge relates primarily to plant and equipment that was specifically utilised in servicing of the Alcoa contract which ceases in July 2021.

The following table summarises the total impairment recorded as a result of value-in-use cash flow modelling and balance sheet review in the period by segment.

2020 $million	Cement, Lime, Concrete and Aggregates	Concrete Products	Unallocated	Total
Receivables and other debtors	-	-	-	-
Inventory	-	-	-	-
Property, plant and equipment	20.5	-	-	20.5
Intangible assets	-	-	-	-
Goodwill	-	-	-	-
	20.5	**-**	**-**	**20.5**

2019 $million	Cement, Lime, Concrete and Aggregates	Concrete Products	Unallocated	Total
Receivables and other debtors	0.4	-	-	0.4
Inventory	10.8	13.7	-	24.5
Property, plant and equipment	47.9	8.1	2.0	58.0
Intangible assets	2.6	-	1.8	4.4
Goodwill	-	8.8	-	8.8
	61.7	**30.6**	**3.8**	**96.1**

9 Events occurring after reporting date

Land adjacent to Sellicks Hill quarry, previously leased, was acquired in July 2020.

In early July, Alcoa informed the Company of its intention to cease the contractual purchase of lime from Cockburn Cement Limited from 1 July 2021. Assessments have been made on the impact of this announcement and have been brought to account in the earnings for the period. Future impacts on earnings have been estimated and discussed in this report.

Other than the Alcoa announcement, no matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

(a) The Group's (consolidated entity) operations in future financial years, or
(b) The results of those operations in future financial years, or
(c) The Group's state of affairs in future financial years

In the Directors' opinion:

(a) The financial statements and notes set out on pages 15 to 26 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half year ended on that date.

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Raymond Barro
Chairman

Dated 26 August 2020

Auditor's Independence Declaration

As lead auditor for the review of Adbri Limited for the half-year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Adbri Limited and the entities it controlled during the period.

M. T. Lojszczyk
Partner
PricewaterhouseCoopers

Adelaide
26 August 2020

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Independent auditor's review report to the members of Adbri Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Adbri Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Adbri Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Adbri Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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M. T. Lojszczyk
Partner

Adelaide
26 August 2020