



Shaping the Board for Retention and Independence

Company/ASX Code	ADBRI Limited (ABC)
AGM date	Thursday, 19 May 2022
Time and location	10.00 am AEST The Gold Melting Room, The Mint, 10 Macquarie Street, Sydney, New South Wales 2000
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitors	Des Moriarty assisted by Malcolm Keynes
Pre AGM Meeting?	Yes with Chair Raymond Barro and lead NED, Vanessa Guthrie AO

An individual (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

With the accession of CEO Nick Miller to the Board in October 2021, shareholders had a board of eight, four of whom were independent and one of those being in his twelfth year of service to the company. Issues of independence are addressed at this AGM with two additional independent candidates standing for election. Going beyond board constitution, however, is a resolution that commissions Mr Miller to reshape the company into 'one cohesive whole', adapting it from a set of acquisitions and joint ventures gathered over the years and mindful of possibilities for further acquisitions. Included in the incentives for Mr Miller is a one-off Performance Award, which raised issues for us.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Adbri reports a pleasing net profit after tax increase of 25% on a revenue increase of 8%. This is despite COVID issues in the supply chain impacting its cost base and reduced sales to Alcoa. The company initiated a recovery program resulting in new contracts with Northern Star, Newmont and South 32. Gearing (debt to equity) stands at 34.5%.

Governance and culture

The company has a nine-member board with two members appointed during the intervening year. Four of the board members are female, thus female membership is at 44% and within ASA guidelines. We have reviewed the board skills matrix and practices and are generally satisfied that they meet the ASX Corporate Governance Principles and Recommendations. At the pre-AGM meeting we explored the company's goal of achieving net zero carbon emissions by 2050 and were given an undertaking that a roadmap would be issued prior to the AGM. The roadmap has

been duly issued by Mr Nick Miller. We also referred the Chairman to the board skill matrix to the category ‘Innovation Technology and Marketing’ where the awareness was high but deep expertise and direct practical experience were low. The Chairman acknowledged the need for board development in these areas.

Financial performance

The company has had its best financial performance in the past three years with a total dividend of 12.5 cents per share, up from 12 cents in the previous year. Earnings per share on an underlying basis are 18.3 cents up 0.6 cents on the previous year.

Key events

The company is expanding its footprint in NSW, Vic and Qld with three acquisitions – Milbrae, the Metro Quarry group with Zannows (completed) – each allowing for vertical integration with the company’s present operations. The company has no buy-backs or capital raisings at present.

Key Board or senior management changes

Nick Miller was appointed Managing Director (and continues as Chief Executive officer) on 5 October 2021.

Michael Wright was appointed as an independent Non-executive Director on 25 June 2021.

(Current year) Samantha Hogg was appointed as an independent Non-executive Director on 29 March 2022.

In January 2021, Brett Brown and Andrew Dell were appointed to the newly created roles of Chief Operating Officer, Cement and Lime and Chief Operating Officer, Concrete Aggregates and Masonry respectively.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	116.7	93.7	47.3	185.3	182.7
UPAT (\$m)	191.1	115.6	197.8	190.9	197.8
Share price (\$)	f2.82	3.35	3.46	4.27	6.52
Dividend (cents)	12.5	12	5	28	24.5
Simple TSR (%)	-12.09	0.3	-17.8	-30	24.6
EPS (cents)	18.3	14.4	7.3	28.5	28.1
CEO total remuneration, actual (\$m)	3.1	2.6	1.8	5.8	1.9

For 2021, the CEO's total actual remuneration was **33 times** the Australian Full-time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics)

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

There were no changes to fixed executive income and Non-executive fees in the year despite the exceptional circumstances. ASA notes that given an increase in net profit after tax (25%) the Board, taking into account the unusual circumstances met through the year together with moderating factors, decided that all key management personnel received 80% of the maximum STI potential. In regard to LTI awards no vesting was made as the company did not achieve its threshold hurdles in regard to TSR growth and earnings per share. ASA notes that the Board did not exercise its discretion to make an award in the face of the unusual circumstances met in the year.

CEO Rem Framework for 2021	Fixed / Target	% of Total	Max. Opportunity \$	% of Total
Fixed Remuneration	1,497,750	48%	1,497,750	43%
STI - Cash	658,124	21%	748,875	17%
STI – Equity inc deferred rights	658,124	21%	748,875	17%
LTI	212,839	7%	1,497,750	33%
Underpayment in 2020	44264			
Total	3,097,351		4,4493,250	100%

Mr Miller's total pay for 2021 on data taken from the 2021 GRG All Industries KMP Remuneration Guide projections for 2021 for industrial and services companies (75 percentile) suggests that on average a CEO/MD receives total remuneration of \$3,100,000 for company with Adbri's capitalisation, so an exact fit. However the LTI percentage is low – consistent with a robust Board evaluation of company performance.

Item 3	Re-election of Mr Geoff Tarrant as a Director
ASA Vote	For

Summary of ASA Position

Mr Geoff Tarrant was appointed to the Board as a non-executive Director in February 2018. He is a Member of the Audit, Risk and Compliance Committee. Mr Tarrant brings over 25 years' experience to the Board gained in Australia, the United Kingdom and Asia. Mr Tarrant was nominated as a Director of the Company by Barro Properties Pty Ltd and Barro Group Pty Ltd. He has a financial interest in Vue Australia Pty Ltd, a Barro Group Pty Ltd controlled company. He is not considered an independent director.

Item 4	Election of Mr Michael Wright as a Director
ASA Vote	For

Summary of ASA Position

Mr Michael Wright was appointed to the Board as an Independent non-executive Director in June 2021. He is a member of the Safety, Health, Environment and Sustainability Committee, People and Culture Committee, and Nomination and Governance Committee. Given his background in significant ASX listed companies with responsibilities ranging from sustainable mining services, construction, engineering and environmental oversight, we accept his nomination.

Item 5	Election of Ms Samantha Hogg as a Director
ASA Vote	For

Summary of ASA Position

Ms Samantha Hogg was appointed to the Board as an Independent non-executive Director on 29 March 2022. Ms Hogg, formerly a Chief Financial Officer at Transurban Group, is presently Chair of the Irrigation Board of Tasmania and a Non-executive Director of Cleanaway Waste Management. Her election to the Board will mean the Board maintains a majority of independent directors. If elected, we believe Ms Hogg will bring a breadth of diversity to the Board, ensuring new perspectives.

Item 6(a)	Approval of the Issue of Awards to the Managing Director and CEO, in respect of the FY22–25 LTI
ASA Vote	For

Summary of ASA Position

Mr Miller will be granted 494,069 Awards should this item be approved. The number of Awards has been calculated by dividing the offer value (being 100% of his fixed annual remuneration of \$1,562,100 by \$3.1617, being the volume-weighted average price of a share calculated over 10 trading days, comprising the five trading days on either side of the release of the Company's 2021 annual results. The FY22–25 LTI will be subject to achievement of financial performance conditions (TSR, EPS and Return On Capital Employed) over a four-year performance period. As noted in Item 2, the grant of these Awards will allow, at maximum, the equivalent of his fixed annual salary.

We include a detailed breakdown of the CEO's/ MD's salary and added in STI and LTI data for 2022 but not allowing for Item 6(b).

CEO remuneration	\$ Actual 2021	% of Total (rounded)	Max Actual or Potential payments 2022 ¹	% of total rounded assuming Item 6(a)
Fixed Remuneration	1,497,750	48	1,562,100 ²	33%
STI - Cash	658,124	21	781,050	16.5%
STI - Equity	658,124	21	781,050	16.5%
LTI	212,839	7	1,562,100	33%
Post-employment superannuation benefit	26,250	1		
Under payment in 2020	44,264	1		
Total	\$3,097,351		\$4,686,300	

¹ Not including any post-employment superannuation benefit.

² Executive FAR has been increased by some 3% in 2022.

The total maximum remuneration inclusive of Item 6(a) but excluding 6(b) places Adbri's CEO pay in the range of company with a market capitalisation of \$5-10b on the GRG All Industries KMP Remuneration Guide projections for 2022 for industrial and services companies (75 percentile). Against that, we note that the Board in 2021-22 has not exercised discretionary powers to make awards when hurdles have not been met even in the special circumstances of Covid-19 and the disruptions to business beyond management's control. The Board has also instituted a new holding period on vested shares to May 2026 which better aligns the Awards to Shareholder interests.

Item 6(b)	Approval of the issue of Awards to the Managing Director and CEO, in respect of the MD Performance Award
ASA Vote	Against

Summary of ASA Position

We see the commissioning of Mr Miller to bring about a 'one' Adbri, optimising its asset base and developing the company into an inclusive, climate-aware organisation will be very much in the long-term interests of shareholders. If approved Mr Miller will be granted a maximum 470,080 Awards under the Plan. One purpose of this plan is to differentiate Mr Miller's remuneration, given his accession to the Board, from that of other executives. Another purpose of the Plan is to support the delivery of the Company's transformation and growth agenda and as a retention incentive. We wonder why the Board has chosen a method of achieving those purposes that would not count as part of his termination benefits cap. We see the work to be performed for the Awards as an integral and necessary part of Mr Miller's workday, indeed their very purpose as argued in the Notice of Meeting indicates just that, and as such should be counted in his termination benefits cap. For this reason and principally for this reason, we will vote our open proxies against this Item.

Nevertheless the resolution, if approved, means Mr Miller's total annual maximum remuneration in 2022 would increase by \$282,000 (assuming 20% of the Awards vest, for simplicity, at \$3.00) followed by \$423,000 in 2023 (30% vesting at \$3.00) and then \$705,000 in 2024 (50% vesting at \$3.00). Boral, a comparator company, has a maximum potential payment in F2022 for its Managing Director/CEO of \$4m whereas Adbri allows \$5m. In light of these figures, we sought further information from Adbri which we attach with Adbri's permission.

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.

Attachment: Letter to Lead Monitor from Sarah McNally, General Manager Corporate Finance and Investor Relations, Adbri regarding executive and MD's remuneration.

Dear Mr Moriarty

Thank you for your email, which has I've shared with Mr Barro.

First, on your point of possible total remuneration package, please note two thirds of the package is at risk, i.e. the STI and LTI components. Also the majority of that at risk component is in equity, not cash.

With regards to resolution 6(b), as announced to the ASX on 5 October 2021, Mr Miller's appointment to the Board included a review of his remuneration arrangements to understand market competitiveness and the impact of the expansion of his responsibilities in conjunction with his Board appointment. Based on the review, the Board determined a remuneration adjustment was warranted as Mr Miller has been instrumental in setting the transformational agenda for Adbri and is critical to the delivery of the Company's long-term strategy, which will drive shareholder value creation.

The 2021 review indicated that the target opportunity of the MD Performance Award would bring the MD/CEO's maximum total remuneration in line with Adbri's preferred remuneration market positioning of between the 50th and 75th percentile of the benchmarking peer group (i.e. sector peers within the ASX 150 index that Adbri is most likely to compete with for Mr Miller's talent given his background and experience). The Board determined to provide an increase to Mr Miller's long-term incentive (LTI) opportunity, as the benchmarking data indicated that Adbri's LTI for the MD/CEO was positioned below the average among its peers, as well as to align with shareholder interests.

Given Adbri's rapidly changing industry and tight labour market conditions, a separate equity award to the existing LTI was considered appropriate in order to support retention, and to provide a link to strategic and sustainable growth initiatives specific to the MD and CEO. In addition, the Board did not wish to create a large divergence in LTI opportunity (as a % of fixed remuneration) between the MD/CEO and other executives within the existing LTI plan.

Whilst the performance rights are tested annually over a three-year performance period, half of the total grant is tested after three years. Furthermore, any shares that

vest at the end of years 1 and 2 will be subject to a holding lock until the end of the performance period (i.e. 3 years), supporting long-term shareholder alignment.

The Board acknowledges the absence of disclosed performance targets, which are currently commercial in confidence. However, the Board assures that it has carefully established strategic performance targets that are:

- suitably challenging;
- not already embedded in other incentives; and
- considered to be critical drivers of Adbri's growth agenda and long-term shareholder value growth.

For each annual tranche, Adbri will publish the performance outcomes against the specific targets retrospectively, in the remuneration report for the relevant financial year.

Overall, the Board strongly believes that the MD/CEO's remuneration not only reflects his expertise, knowledge and skillset, but is commensurate with the expansion of his responsibilities. The Board recognises that it is key to consider not only benchmarking data, but also factors such as the company's growth trajectory and strategic priorities, surrounding market conditions and sentiment, individual competency and skillsets, changes in role complexity, and retention risks in a highly competitive talent market.

Kind regards

Sarah McNally

General Manager Corporate Finance and Investor Relations

9 May 2022