



Adelaide Brighton Ltd

ANNUAL GENERAL MEETING

14 MAY 2003

CHAIRMAN'S ADDRESS

Performance

We are pleased with the result for Adelaide Brighton's financial year in 2002. This outcome together with the strategic acquisitions made in 2002 have strengthened us as an integrated construction materials company and has delivered improved returns for our shareholders.

- Net profit after tax was \$50.7 million, a 66% increase over 2001;
- Revenue of \$489.4 million was 25% ahead of the previous year;
- Earnings per share increased 52% from 6.5 cents per share to 9.9 cents per share; and
- Return on shareholders' funds increased to 9.7%, up from 6.8% in 2001.

Free cash flow increased to \$59.8 million for the year compared with \$37.3 million for 2001. Active capital management helped to minimise the effect of the increase in working capital which resulted from the strong growth in revenue.

The Company has continued to effectively manage its working capital, and delivered strong cash flows, allowing net debt to be further reduced. Our gearing has been reduced to 34.6%, down from 45.6% in 2001.

This year's result can be attributed to continuing good operational performance combined with increased demand for all products leading to higher sales volume and prices.

Shareholder returns

The final dividend declared was 2.75 cents per share, franked to 35%, making a total dividend of 5.75 cents per share for the year, an increase of 31% over the previous year.

Adelaide Brighton's strategic direction and performance has been reflected in our share price which has shown steady recovery over the 12 months and has outperformed the ASX All Ordinaries Index by 40% in what has been, in general, an uncertain period in corporate performance.

Strategy

During 2002 we saw the first stages in the implementation of our strategic plan to improve operational efficiencies and extract cost reductions; expand our lime operations and develop our downstream positions to provide platforms for growth and security for cement and clinker outlets.

The Board are pleased to report that the company has made good progress in the implementation of the strategic plan. Our Managing Director, Mark Chellew, will elaborate further on progress of our strategy.

An important factor in enabling our strategy was the successful 1:7 Rights Issue which rewarded our loyal shareholders who took up these Rights and generated \$50 million. The completion of the underwritten Rights Issue has provided the capacity to implement the acquisitions and enable future strategic investments to be made which meet our exacting hurdles for return.

Safety and environment

An important element of our business is the strong drive for improvement in our safety record. Key safety standards have been defined and are being adopted consistently across all operations. Early signs of our improvement were seen at Birkenhead where only one lost time accident occurred from June to December last year.

Our environmental compliance is a key focus of our business with a number of our operations located either adjacent to or within close proximity to residential areas. We have made significant efforts to reduce our impact on the community and environment and all of our sites have demonstrated a high degree of compliance with environmental regulation. We remain committed to developing and maintaining excellent relations with the communities in which we operate and we work hard to earn their support for our operations

Key events

In response to strong market demand, the core production plants at Birkenhead, Angaston and Munster achieved increased and consistent levels of output, meeting customer demand in both the cement and lime sectors. Birkenhead also delivered on its commitment to produce the volumes for the Victorian market following the closure of the Geelong plant in June 2001.

The company continues to focus upon the lime business working closely with its major customers to ensure that the product features and benefits meet their demanding technical specifications. This competitive edge, together with low cost of supply is a critical success factor to our lime business.

During 2002 approval was obtained from the Western Australian Minister for the Environment for long-term dredging of shellsand, the core raw material for cement and lime manufacture at the Munster operations. The company recognises the sensitive and important nature of environmental management of the seagrass habitat in the areas in which it dredges. We work closely with environmental authorities and support research into the development of sea grass rehabilitation.

In the process of reaching further operating efficiencies at Birkenhead the company regrettably experienced five weeks of industrial action in mid 2002. Through the commitment of the wider workforce, no loss in production was experienced, supply was maintained to our customers and essential maintenance was carried out. An agreement was reached on a two-year Enterprise Bargaining Agreement for the Birkenhead operations allowing us the necessary flexibility to achieve essential workplace reforms.

Board changes

I would like to acknowledge the valuable contribution made by the late Harry Perkins to the Adelaide Brighton Board. Mr Perkins served as a Director from June 1999 until his death late last year. His broad industry knowledge and experience was immeasurable and his foresight during his service to the Company was significant.

I would also like to acknowledge John McNerney who joined the Board in June last year. Mr McNerney is the Managing Director of Readymix plc, a listed construction materials company based in Ireland and a 62% owned subsidiary of our major shareholder RMC Group p.l.c. Mr McNerney has over 35 years experience in the construction materials industry and his background and experience has proved valuable.

I am pleased to advise this meeting that the Board agreed yesterday to invite Mr Les Hosking to join the Board. Mr Hosking is the Chief Executive Officer of Axiss Australia, a position he has held since January 2000. His role at Axiss has been to develop and implement a strategy for the Australian Government to position Australia as a centre for global financial services. Prior to joining Axiss he spent over thirty years in the Australian Futures industry, the last fifteen of those as Chief Executive of the Sydney Futures Exchange. Mr Hosking will also take up the position of Managing Director of the National Electricity Market Management Company in July 2003.

Mr Hosking brings extensive experience in commercial and financial matters and provides a valuable personal connection to the eastern seaboard.

Conclusion

On behalf of the Board, I would like to congratulate our Managing Director, Mark Chellew, and his team and all employees for their hard work and adaptability that has significantly contributed to our improved performance.

I would now like to hand over to Mark Chellew, to review the operational and strategic issues facing us.



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MANAGING DIRECTOR'S ADDRESS : MR MARK CHELLEW

Thank you Chairman and good morning ladies and gentlemen.

I am pleased that in 2002 Adelaide Brighton achieved all of the goals that we set for the year. Our excellent performance was underpinned by our improved strategic position which enabled us to recover prices in our market place, enjoy improved volumes in all major markets and begin our delivery of improved operational performance.

Results for 2002

The improved performance of \$50.7 million net profit after tax has resulted from four key areas:

- The recovery in cement prices from the very low levels in 2000/2001;
- Buoyant markets in the construction sector which reinforced the company's goal to increase its market position in New South Wales and Queensland;
- Increased output and consistency from our core plants, Angaston, Birkenhead and Munster; and
- The first gains from our performance improvement programme.

Each one of these gains resulted from the efforts, commitment and quality of the people within Adelaide Brighton.

Strategic developments

In early 2002, the Company announced a key strategic plan to build a focused vertically integrated business to provide further platforms for growth and to strengthen our position as a cement producer by providing security of outlets for cement and clinker.

We have made significant progress in implementing this strategy. During 2002 Adelaide Brighton established a modest strategic downstream position in the critical east coast markets.

Acquisitions

In March 2002 we acquired the construction materials company Premier Resources Limited and in December 2002 we acquired the assets of ready mixed concrete manufacturer Neil Mansell Concrete. The total cost of the Premier Resources and Neil Mansell Concrete acquisitions amounted to \$61.4 million.

The acquisition of Premier Resources has given us a position in the ready mixed concrete market in Sydney and Melbourne. The acquisition of the assets Neil Mansell Concrete has allowed us to establish a ready mixed concrete position in the Sunshine Coast area of South East Queensland. Adelaide Brighton now operates a total of 21 ready mixed concrete plants under the banner of Hy-Tec Concrete.

Through the acquisition of Premier we acquired additional cement grinding capacity at Port Kembla providing us with further flexibility in our seaborne cement supply chain.

The acquisition of Premier included an aggregate reserve quarry at Hartley, near Lithgow, west of Sydney. The Hartley quarry provides us with a strategic position for the future supply of aggregates to the Sydney market.

Our downstream move has proved to be particularly timely in view of ongoing industry consolidation among our competitors on the east coast. The combination of cement making and grinding assets gives us increased flexibility to supplement local production.

We will continue to review opportunities to enhance our integration strategy. We apply most stringent evaluation criteria, and will only make acquisitions and undertake capital investments that add shareholder value.

Lime development

Mining and other resource processing developments are expected to lead to increased lime demand.

We thus continue to monitor opportunities to develop our lime business. During 2002, acquisitions were considered, but rejected as they did not meet our investment criteria.

Operations

Our continued focus on standardised operational performance has resulted in sustained reliability of production of lime, clinker and cement at all plants. In particular, significant progress was made on cement milling capability and ship loading at Birkenhead. We experienced some disruption at Birkenhead due to gas outages, but expect the new pipeline being installed from Victoria to South Australia will eliminate this disruption. Efforts will be concentrated on ensuring ongoing reliability, while at the same time working towards reducing production costs.

In 2002 we commenced the implementation of a three-year program of step change improvement in our cost structure. This cost reduction strategy is methodical and is well embedded in the organisation. The key focus of this element of our strategy is the reduction of operating costs by maximising the utilisation of our existing assets, increased labour efficiencies, procurement savings, use of alternative fuels and raw materials and logistics efficiencies.

During 2002, as part of this program, we delivered cost reductions of around \$3 million. Major reductions resulted from successful re-negotiation of power costs for the Dongara and Munster operations in Western Australia, procurement savings, use of alternative raw materials, and workplace reforms at Birkenhead.

Our Pavement Technology business which provides specialist construction, maintenance and rehabilitation services to the road pavement industry remained profitable and cash positive despite the decline in activity following changes in governments in South Australia, Northern Territory and Western Australia. Activity is expected to recover as a result of forecast increase in infrastructure spending.

The Chairman highlighted the progress made on safety during the year. It remains a fundamental right of our employees to return home safely each day and we are committed to implementing the safety standards and risk assessments that have been systematically defined by the company. During the year our safety performance has remained steady. The management of safety remains a high priority for the Board, management and employees.

Cement and concrete markets

The Australian construction market in 2002 was relatively buoyant. Australian demand for cement and ready mixed concrete increased in 2002 compared with 2001 primarily as a result of increased housing activity.

National concrete production was 14% higher in volume than in the year to December 2001. Ready mixed concrete showed the largest growth in Queensland, Victoria and New South Wales. These are areas in the readymix concrete market which we were previously unrepresented.

Increased sales volumes and prices for our cement were a driver of our increased performance in 2002.

A major focus last year was the recovery of the lost margins which occurred in 2000 resulting from insufficient industry consolidation and the threat of imports.

Lime market

Performance from our lime business is strong with lime sales continuing to increase and generating strong cash levels. Robust demand from the resources and mining sectors has continued to be a positive feature.

Our Cockburn Cement operation in Western Australia was called on to supply additional lime into the Kalgoorlie region as a result of the temporary closure of one of its competitors' kilns.

Early in 2003 we commenced production and sales of 'aglime' from Geelong quarry. This is expected to give us a modest contribution to profit in 2003.

There remains little doubt that the low \$A over the last 2 years have set in train further projects that will utilise lime. The rise of gold and nickel prices have encouraged producers to maximise production - this means they use more lime.

Our ongoing focus on lime will be to ensure we "sweat" the existing assets to supply the growing lime markets in WA, SA and NT and to consider investment options for new capacity.

Unlike cement, lime is not a cyclical business and is a steady contributor.

Outlook

Volumes in the first four months of 2003 have been in line with expectations.

We now have a more strategically and geographically balanced portfolio of assets in the construction materials and lime producing industries. We will continue to examine opportunities to further develop our cement and lime businesses.

The company will take a full year benefit from its ownership of its concrete operations in 2003 and is continuing to make steady progress in its operational improvement programme.

While some easing of market demand is predicted in the residential sector in the second half of the year, we believe that stronger cement and concrete demand from the non-residential and engineering sectors will offset any weakening in the residential sector. Demand in 2003 is anticipated to be level or slightly higher as a result.

We are now benefiting from price gains achieved during 2002 and expect further, though much more modest, price increases during 2003. We are mindful of the rising Australian dollar and the potential negative impact this can have on margins.

However, the industry consolidation which has occurred over the last three years and the improved strategic positioning of Adelaide Brighton, will assist in minimising these potential negative effects.

During 2003 we expect demand for lime by the mining and resource sectors to increase marginally.

Overall, we are cautiously optimistic about the outlook for demand and prices in 2003. There is at this stage, no evidence of deterioration of economic conditions or any significant cost pressures. We are however mindful of the relatively uninspiring growth conditions throughout the rest of the world. Ongoing operational improvements and our continued focus on our cost reduction programme are expected to deliver further benefits as we strive to deliver our performance targets.

Conclusion

I would like to acknowledge the sound and considered judgement in decision making provided by the Board. I also offer my personal thanks and appreciation to all our people at Adelaide Brighton for their commitment and dedication during the year.

We have good reasons to be satisfied with the company's achievements in the last year. Significantly we now have an important presence in all the cement markets of Australia. Our position in our lime markets has been considerably enhanced. The company moves forward with focussed programs for cost reduction in place. While there are no doubt continuing challenges ahead, the Company is well positioned for the future.