Financial results

Andrew Poulter
Chief Financial Officer

A fourth consecutive year of profit improvement has delivered a 43.4% compound average growth rate in shareholder return since 2000. The 40.0% increase in the fully franked annual dividend to 10.5 cents per share is underpinned by the continued low levels of gearing and the Board's view of the sustainability of future profits.

Profits
Adelaide Brighton's net profit after tax attributable to members before tax consolidation benefits was $87.8 million, an 10.8% increase over 2004. The underlying profit before tax was $120.1 million, a 14.5% increase over 2004.

The 2005 result benefited from strong demand from the construction and resource sectors, particularly in Western Australia, South Australia and Northern Territory. Profits were also supplemented by cement price increases, which were achieved in most markets and implemented across the year.

Further performance improvements within the cement operations resulted in increases in clinker output which provided a direct profit benefit due to the lower cost of Adelaide Brighton produced clinker versus imports. However, imports continued to play an important role in meeting increasing overall market demand in the Independent Cement and Lime and Sunstate Cement joint ventures and in Victoria and the Northern Territory respectively. The improvements achieved in Adelaide Brighton's deep water and coastal logistics management also made an important contribution to the 2005 result.

Cost pressures continue with regard to primary materials, fuels, energy and labour costs and increased steel prices continue to impact the cost of major capital projects of a structural nature. These pressures were the key drivers behind the cement price increases realised during the year.

Sales revenue
Sales revenue at $723.2 million showed a 5.0% increase over the prior year. This improvement was underpinned by the increase in demand from the mining and resources sectors and higher spending on engineering and infrastructure projects. Demand from the residential construction sector was robust in all markets with the exception of New South Wales. Lime volumes were level as anticipated increases in demand from the gold and steel sectors were delayed until 2006.

Dividends and earnings per share
The Board approved a final dividend of 6.25 cents per share giving a total fully franked dividend for 2005 of 10.5 cents per share, a 40.0% increase over 2004. The payment of this increased dividend has been made possible both by the improved profitability, the available franking credits and low levels of gearing. Earnings per share improved to 16.2 cents per share, an 11.0% increase over the prior year and represents the sixth consecutive year of growth for the Company.

Cash flow
Cash flow from operating activities increased by $7.7 million over the prior year to $123.4 million. Tax payments were $28.0 million, a $7.0 million increase over 2004 as the improved profitability was reflected in the increase in quarterly tax instalments paid during the year. Free cash flow at $23.6 million showed a $42.7 million reduction over the prior year due to the planned increases in capital expenditure.

Borrowings
Net debt at 31 December 2005 increased by 16.2% over 2004 to $226.8 million. As a result, gearing (net debt to equity) increased to 35.8% versus 33.1% in 2004, but remains at relatively low levels.

The Company increased its multi-option bank facility with ANZ from $240 million to $260 million during the year and extended this facility until 31 March 2006. The Company has now projected its medium term borrowing needs and is in the final stages of negotiating its medium term borrowing facility requirements with several leading Australian banks.

Interest
Net interest expense decreased to $14.0 million due to lower average net borrowings during the year. The interest charge includes for the first time the AIFRS accounting requirements of AASB 119 as relates to defined benefit superannuation liabilities and AASB 137 as relates to the provisioning for quarry remediation.

Each of these standards requires the projected costs of these long term liabilities to be discounted back to present value costs. Each year the increased cost arising from the unwinding of the net present value discount calculation is required to be charged annually to interest expense. The additional interest expense for 2005 with regard to this adjustment was $2.1 million.

The liquidity ratio, EBITDA/net interest, increased to 12.9 from 11.6 in 2004 and this, together with the low levels of gearing, puts the Company in a good position with regard to both its existing and future borrowing covenants.

Capital investments
Capital expenditure increased to $102.7 million during the year due to the large planned capital projects of Austen Quarry, the Birkenhead alternative fuels handling and firing plant, the C&M Brick plant upgrades and the Munster Kiln 4 electrostatic precipitator. Additional investments were also made to improve clinker and lime kiln operating efficiencies at Birkenhead, Angaston and Munster.

In the final quarter, the opportunity was taken to purchase the leased land, buildings and plant of the Morgan Cement facility at Port Kembla in New South Wales and the Hy-Tec Mascot ready mixed plant site for a combined cost of $21.0 million.

The 2005 capital investment expenditure was significantly ahead of the $47.0 million annual depreciation charge. This was due to the strategic and development nature of many of the investments made during the year. The underlying sustaining capital investment including the Munster Kiln 4 electrostatic precipitator was $41.1 million.

Taxation

Following the implementation of AASB 112, the annual tax charge for Adelaide Brighton will become more consistent and will fundamentally comprise the 30% base rate of corporation tax less the franking credits received from joint venture dividends. The tax consolidation internal assessments were completed during the year and this has allowed a further $3.1 million one-off tax credit to be brought to account in 2005 in addition to the $14.0 million benefit reported in 2004.

Australian equivalents to International Financial Reporting Standards (AIFRS)

The 2005 annual accounts have been prepared for the first time under AIFRS. The opening balance sheet at 1 January 2004, the transition date, together with the balance sheet and profit and loss account for 31 December 2004, has been restated in accordance with these standards. These restated financial accounts, together with their reconciliation to the statements as previously reported under Australian Generally Accepted Accounting Provisions (AGAAP), are set out in detail in the notes to the financial accounts in this annual report.

The cessation of amortisation of goodwill and its replacement with rigorous impairment testing has had the largest impact on the accounts, increasing the reported profits for both the current and prior year as shown in Note 43 to these accounts. In restating the 2004 profit and loss account comparison, the reversal of the 2004 goodwill amortisation charge has been taken to retained earnings in accordance with the standard.

The cessation of amortisation of goodwill has been replaced by the discounted cash flow based impairment testing of specific cash generating units. This has confirmed the carrying value of goodwill in the balance sheet at both the transitional and current reporting dates.

A second material impact of AIFRS arises from the application of AASB 119 with regard to employee benefits. This standard requires for the first time the inclusion of superannuation defined benefit plans and, specifically, the recognition of plan surpluses or deficits on the balance sheet. The actuarial valuations are based on the net present value of the future defined benefit obligations. Adelaide Brighton has a defined benefit superannuation plan, which has been closed to new members since August 2000.

Under AASB 119 the actuarial valuation methodology for future retirement obligations also changed and, at the transition date of 1 January 2004, this revaluation created a $4.246 million shortfall in the Company's plan assets compared with the previous small surplus under AGAAP. As at 31 December 2004 the actuarial valuation shortfall had reduced to $0.829 million. At 31 December 2005 the shortfall had increased by $0.589 million to $1.418 million.

Within the provisions of AASB 119, Adelaide Brighton has elected to take annual actuarial gains and losses directly to retained earnings in order to allow the consistent reporting of the operational profitability of the Company.

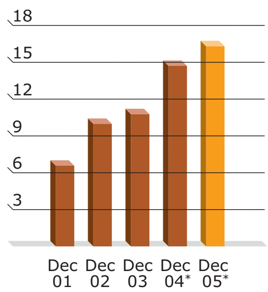
The other major changes required by AIFRS which principally impact the Company's balance sheet are set out in Note 43 to these accounts and are summarised below.

AASB 137 defines the need to recognise the future costs of quarry remediation and, where finite leases mandate a future cessation of operations, operating plant closures. This standard was adopted and the result was a net $10.806 million increase in remediation provisions, a $3.242 million increase in deferred tax assets and a corresponding $7.564 million net reduction in retained earnings.

AASB 112 for tax effect accounting has changed the calculation of deferred taxes from a profit and loss to balance sheet based approach. Under previous AGAAP deferred tax was not provided for on amounts that were recognised directly in equity. This change has, therefore, required the first recognition of deferred tax liabilities on both revaluations of fixed assets and acquisition fair value accounting adjustments.

AASB 112 has had a significant impact on Adelaide Brighton principally due to its revalued mineral reserves, which have a small tax asset base and large book asset value. The first recognition of AASB 112 gave rise to a $30.483 million net increase in the Company's deferred tax liability at the transition date.

Earnings per share C/share



*Before adjustments for the tax benefit on implementation of tax consolidation and reported under AIFRS

Interest cover EBITDA basis Times