Managing Director's statement

Adelaide Brighton reported an $87.8 million net profit after tax and before tax consolidation benefits, another record result for the Company. The full year dividend was increased by 40.0% to 10.5 cents fully franked.

Mark Chellew
Managing Director

Adelaide Brighton delivered another year of substantial progress, recording a record profit for the fourth successive year - a good result for all stakeholders. The $87.8 million net profit after tax and before tax consolidation benefits was a 10.8% increase over 2004. The underlying profit before tax increased to $120.1 million, a 14.5% increase over the prior year.

The result was underpinned by the continued strength of most markets and further improvements in both operating performance and in managing the shipping supply chain.

During 2005, regional market growth in Western Australia, South Australia, Victoria and Northern Territory was driven by increased demand from the resources sector and robust demand from the engineering and infrastructure sectors. While cost pressures were absorbed in respect of primary materials, fuels and labour, it was possible to recover these in sales price increases in most markets.

Demand in New South Wales was weak throughout 2005 continuing the trend established in the final quarter of 2004, which largely impacted the Hy-Tec concrete and C&M Brick operations in that State. This weakness was predominant in the residential sector where housing starts were 22% below 2004 and which adversely impacted C&M Brick's concrete product sales mix, from lower sales of higher margin decorative paving and wall products.

The Company's operating performance was a fundamentally important factor in achieving the 2005 result with record clinker output being produced at the Birkenhead plant and a significant improvement in output at Angaston, both in South Australia. This performance was complemented by stable production at Munster, Dongara and Kwinana in Western Australia, the security of our long-term imported clinker supply contracts and the logistics supply chain flexibility which is provided by our deepwater port facilities and interstate shipping networks.

While demand for cement in Western Australia was strong, the expected organic growth opportunities in lime from the mining and resource sectors provided little benefit in 2005. Lime volumes fell short of internal volume targets due to production delays experienced in customer expansion capacity in the resource sector and to some variable demand from the alumina sector. Demand for both lime and cement from the Northern Territory was ahead of expectations and the operations in Darwin and Mataranka made an important contribution to the full year result.

Last year saw the completion of key capital investments in C&M Brick's program of plant consolidation and upgrades. The 2005 result, therefore, includes specific one-off costs both for redundancy and operational inefficiency as the new plant at Nowra and upgrades at Adelaide, Moorebank and Newcastle were completed.

With the plant investments now largely complete and processes established, the business is well placed to supply the full C&M product range economically to all south eastern markets with the potential to grow the concrete products market and lower both operational and distribution costs.

2005 was a challenging year for the Hy-Tec concrete operations as the business sought to pass on substantial raw material price increases into the ready mixed concrete market. Limited progress was made in New South Wales and Queensland, as both states experienced weaker volumes. Queensland demand was largely weather affected and some losses in market share in New South Wales were due to the conclusion of major CBD contracts earlier in the year.

While concrete volumes were maintained in Victoria in a buoyant market, pricing was weaker due to strong competition.

Adelaide Brighton continues to progress its strategy of performance improvement and limited downstream integration into concrete and concrete products sectors. In addition the Company has now begun to make progress in entering the important upstream sand and aggregates sector.

Phase 1 of the Austen Quarry near Hartley in New South Wales was completed during the final quarter of 2005. The Company began commercial operations in November, initially supplying aggregates internally to the Hy-Tec concrete plants in western Sydney. The quality of the aggregate has exceeded expectations with regard to both its density and dimensions. Phase 2 of the quarry project will be undertaken progressively throughout 2006 as the operations prepare for the longer term plan to serve the western Sydney market following the exhaustion of the Penrith Lakes reserves, predicted to be toward the end of the decade.

An investment in sand reserves in New South Wales was made during the year and progress was also made in developing Company owned sand reserves in Western Australia. The Company will continue to evaluate sand opportunities as they arise.

The 2005 capital investment program at $102.7 million was higher than in previous years due to the carry forward of projects delayed in 2004 and several key developmental, operational and environmental investments made during the year. In addition to the Austen Quarry and C&M plant investments mentioned above, the Birkenhead alternative fuel handling plant and the Munster electrostatic precipitator project investments were completed during the year. Further operational investments were also made on the Birkenhead and Munster kilns in support of the improved operating performance.

Demolition wood waste storage and feed facility at Adelaide Brighton Cement's Birkenhead plant in South Australia

The opportunity was also taken to purchase two strategically important sites in New South Wales - the Morgan Cement land, buildings and plant at Port Kemba, until now operated through a long lease from Orica, and the Mascot concrete plant site. These investments have secured the long term operating capabilities of cement and concrete supply to the central New South Wales and southeastern Sydney markets respectively.

Outlook

In 2006 cement demand is projected to continue at levels similar to those in 2005 and any regional and sector demand fluctuations are expected to offset each other. Demand in Victoria is predicted to be at levels similar to 2005 and a weakening in demand in South Australia is projected to be offset by a modest second half recovery in the residential sector in New South Wales and further measured growth in Western Australia. Cement demand from Olympic Dam will be heavily weighted towards the second half of 2006 with overall volumes expected to be similar to 2005.

Lime demand is forecast to begin a pattern of steady growth by the middle of 2006 as additional capacity is brought on-stream in the steel, gold and alumina resource sectors. If all projects identified in the resource sector eventuate and are successfully commissioned, lime demand is expected to increase by over 300,000 tonnes by end of 2010.

Input pricing pressures are expected to continue in labour, materials, fuel and energy costs, particularly from Western Australian gas pricing and availability. The Company anticipates that these will be recovered through price increases across all product sectors.

It is expected timing of major maintenance expenditure on our cement and lime kilns and some one-off minor maintenance upgrades will occur in the first half of 2006 as compared to 2005, when it was more evenly spread throughout the year. This, along with demand from Olympic Dam, is expected to affect the first half result of 2006, although leave Adelaide Brighton well positioned for the second half result.

The recovery in New South Wales, growth in lime demand subject to the timing and successful commissioning of resource projects, and price improvement will be key drivers of further increases in profitability during 2006.

Hy-Tec's Mascot plant supplied 38000m^3 of 100Mpa high strength concrete for the 40-storey office tower at 126 Phillip Street, Sydney

Australian dwelling units approved '000