



Mark Chellev
Managing Director

Adelaide Brighton achieved another increase in earnings through the early adoption of price increases to recover escalation in costs, the successful engagement of its Profit Optimisation Program, a 54.7% reduction in net borrowings and a 50.4% reduction in interest expense.

This was achieved despite a 15% national decline in cement demand.

2009 performance

For 2009, the Company reported increased net profit after tax of \$123.1 million, up 1.9% over the previous corresponding period (pcp).

This record result was achieved despite a 3.4% decline in sales revenue to \$987.2 million over the pcp, predominantly as a result of reduced cement and concrete demand. Turnover also included the first full year's trading from Hanson Building Products, acquired on 1 July 2008. Normalising for this impact, underlying sales were 7% below 2008.

EBIT margin increased slightly to 18.8% (18.5% pcp) as a result of higher selling prices and \$15 million of cost reductions achieved through the Profit Optimisation Plan.

Profit before tax increased by 8.6% to \$168.6 million, due to reduced interest expense as a result of lower borrowings and lower bank interest rates.

Despite the improvement in after tax profit, 2009 earnings per share dipped to 20.4 cents (compared with 22.2 cents in the pcp) following the increase in issued share capital which flowed from the institutional equity raising and the Share Purchase Plan.

The latter was a key contributor to the 54.7% reduction in net borrowings to \$175.4 million and the resulting 50.7% reduction in net finance expense to \$16.7 million.

Adelaide Brighton's key cement markets declined 11% - less than the overall decline in the national market, which was in the order of 15%. The Company has a greater exposure to resource sector demand in Western Australia and South Australia and lesser exposure to Queensland and New South Wales, which were the states showing the largest annual decline in cement demand.

We managed the demand reduction by lowering the volume of our cement and clinker imports. This enabled the Company's cement kilns to continue to produce at capacity and was a key factor in optimising profitability. The decrease in sales of imported product improved overall average cement gross margins due to the higher cost of imported versus domestic manufactured product.

Supported by increased demand from the alumina and gold sectors, lime sales were on a par with the previous year. The flexibility of the Company's significant lime production base allowed us to address peak customer demand.

Munster cement Kiln 2 was switched to lime manufacture for a six week campaign and lime was supplied to the Northern Territory from the Angaston plant in South Australia.

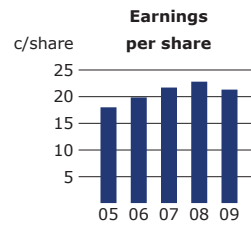
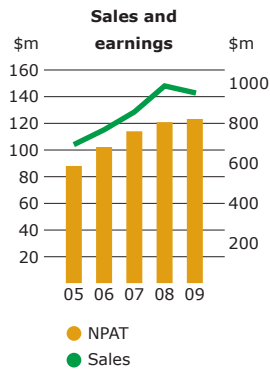
Lime prices increased by an average 6%. This offset the rise in input costs and supported margins at the levels required to justify sustainable future investment in lime producing assets.

Strategic development

The Company continued its strategy of focused downstream integration through the merger of C&M Brick with the former Hanson Building Products business under the new brand of Adbri Masonry. This process delivered forecast \$3 million annual integration synergies. The sizing of plant capacities and configuration to meet predicted market demand has put the Company in a strong position to take advantage of increases in market demand. These operations delivered a \$4.4 million full year EBIT, up from break even at the half year.

Adelaide Brighton continues to make measured progress in growing its aggregate positions from the Austen Quarry in Hartley, New South Wales and the Hurd Haulage quarries in the Port Macquarie region.





Both operations benefited from sales of road base materials to highway construction projects.

The 2009 year was also strong for the Mawsons joint venture, which operates in regional north central Victoria. The Company benefited from increased mining and water infrastructure demand, which offset softer construction activity.

Our people

The skills and tenacity of our employees has contributed to a much stronger, more experienced and focussed Company. I would like to thank all employees for their efforts and loyalty during the year. As a Company, I believe we are well positioned to face our future challenges and meet our targets.

Outlook

Adelaide Brighton anticipates that concrete demand across Australia will be similar to that of 2009. The timing of the recovery in regional cement demand is still uncertain and, while the recovery in the housing sector is underway, there is concern about the sustainability of demand in a tightening cash rate cycle.

Infrastructure spend is expected to increase but there is weakness in the commercial construction sector, which is experiencing poor access to finance.

Prices for cement, concrete and possibly lime may be constrained in 2010 if the current strength of the Australian dollar and subdued shipping costs continue. Both contribute to lower import parity pricing. In addition, the potential threat of small scale opportunistic lime imports is emerging.

Lime volume is predicted to be similar to that of 2009. To address expected medium term demand, the Company is re-evaluating lime capacity expansion, which was postponed during the global financial crisis. This may see a further \$25 million phased investment in the Munster lime assets over the next two years, improving plant throughput and environmental performance.

To ensure increased supply to meet growing resource sector demand, the Company also plans to invest approximately \$40 million over the next few years to increase the capacity of its Mataranka plant in the Northern Territory by approximately 50 kt per annum.

Adelaide Brighton continues to focus on operating costs to retain savings from the 2009 Profit Optimisation Program. However, it foresees continued pressure on energy prices and, in particular, gas costs. In managing this risk, the Company has entered into long term gas purchase and supply contracts. These will incur higher gas costs in the earlier years but offer better security of supply. The overall impact of higher energy prices is estimated to increase costs by \$8 - \$10 million in 2010.

Subject to any acquisitions, 2010 borrowing levels will be below those of 2009. However, there will be upward pressures on interest expense due to the rising cash rate and the refinancing of the \$310 million two year debt facilities by mid year. The Company is currently assessing its future financing needs and is in advanced discussions with its bankers.

Adelaide Brighton expects another good result in 2010 despite the uncertain and potential volatile world economic conditions.



Photograph courtesy of the Department for Transport, Energy and Infrastructure