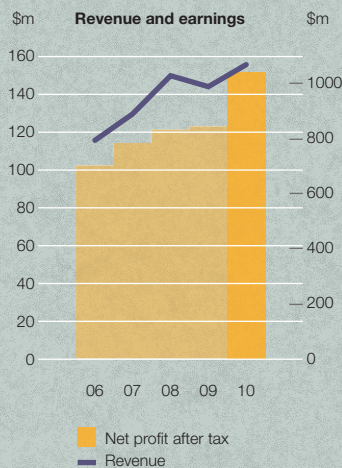
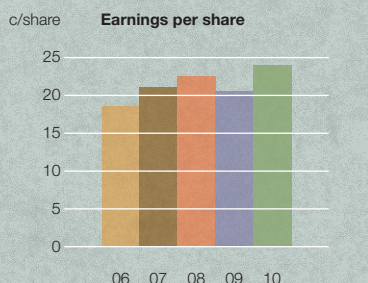




Mark Chellew

# Managing Director's Report

**Adelaide Brighton reported a record net profit after tax of \$151.5 million, as demand recovered in key markets and price increases and cost management programs improved margins.**



## 2010 performance

Demand for construction materials in Australia recovered in 2010 following a cyclical downturn in 2009. Demand in Adelaide Brighton's major markets recovered particularly strongly - driven mainly by infrastructure projects in South Australia and resources activity in Western Australia. This helped Adelaide Brighton achieve record sales and profit for the year ended 31 December 2010.

Earnings before interest and tax (EBIT) increased 16.7% to \$216.2 million, due to increased selling prices, the effective management of costs and improved import margins supported by the strong Australian dollar. Cost management programs delivered benefits of \$10 million and helped offset the \$10 million increase in our energy costs for the year. Overall, the Company's EBIT margin increased to 20.2% (18.8% in 2009).

Net interest reduced by 16.2% to \$14.0 million on lower levels of debt, offset partially by increased interest rates. Profit before tax increased 19.9% to \$202.2 million. After tax profit totalled \$151.5 million an increase of 23.1%.

Adelaide Brighton's sales volumes outperformed the national cement market, which was up about 4%. This is primarily because the Company has significant business in the higher growth states of South Australia, Western Australia and Victoria.

Cement margins improved as price increases and the benefits from cost management helped offset input cost pressures, particularly in energy. The clinker kilns again ran at capacity in 2010. Our successful import strategy saw sales volumes in excess of domestic production being met through imports of both clinker and cement. The higher Australian dollar improved import margins by about \$13 million.

Lime sales volumes increased due to strong demand from the Western Australian non-alumina sector. Lime margins improved as price increases and efficiency improvements more than covered input cost increases. Continued growth in demand sustained full capacity production at the major lime plants. In Western Australia, the threat of small-scale lime imports remains, however we are cautiously confident that we can maintain our competitive position because of our cost structure.

## Strategy

Adelaide Brighton continues to grow shareholder returns through its successful long term strategy of focused vertical integration, operational improvement and development of the lime business.

The Board has approved \$60 million of expenditure for the expansion of cement milling at Birkenhead, in South Australia. This project will bring operational improvements and add 750,000 tonnes per annum to the plant's capacity, reducing the Company's reliance on imported cement. The project budget includes expenditure for upgrading the ship loading facilities at Birkenhead and this will bring environmental benefits through improved dust collection.



A contract to supply cement to a major customer in South Australia and Western Australia has been agreed in principle. For the South Australian component, supply has been secured for two years, from 1 January 2011, with a further one-year option exercisable by the customer. The Western Australian part of the contract is for one year, with a one year extension option exercisable by the customer.

Contract renegotiations with Independent Cement and Lime Pty Ltd (ICL) have been agreed in principle subject to ICL unit-holder approval. We are cautiously confident that the agreements which expire at the end of 2011 will be renewed on not materially different terms.

The Board has approved expenditure of \$34 million for two projects at the Munster kiln 6 in Western Australia. This will increase lime production capacity by 100,000 tonnes per annum and will bring environmental benefits.

In December 2010, Adelaide Brighton executed a Heads of Agreement with a major alumina producer for the continued supply of their lime requirements in Western Australia, subject to finalisation of formal agreement and any appropriate approvals. Once finalised, the new agreement will replace the current agreement which expires on 30 June 2011. The Heads of Agreement covers supply for periods ranging between five and ten years and will be effective from 1 July 2011.

Our strategy of focused vertical integration continues. During 2010, the Company acquired the Masta-Mix Concrete operations at Lithgow, in New South Wales. Masta-Mix will buy aggregates internally thereby providing security for our expanding Austen Quarry operations, west of Sydney.

In January 2011, Adelaide Brighton acquired the concrete and aggregate business KMM based in the Kingaroy region of Queensland. This business is well positioned to benefit from infrastructure and mining projects in the region. The South Coast Equipment concrete business, based in the Wollongong region of New South Wales, was acquired in March 2011.

Adelaide Brighton continues to evaluate acquisition opportunities to advance its strategy of selected downstream vertical integration. Growing our aggregates business will continue to be a key element of this strategy.

### **Our people**

The enthusiasm, flexibility and skills of our employees have been an essential part of the success of the Company. I would like to recognise the contribution made by our employees in delivering the 2010 result and the continued improvement in our safety record. The dedication and application of our workforce as a whole, are defining factors in the performance and growth of the Company.

### **Outlook**

Adelaide Brighton anticipates Australian national demand for cement in 2011 to be similar to 2010 levels.

Demand remains robust in South Australia due to infrastructure projects and in Western Australia as a result of mining projects. Due to the expected timing of projects, volumes are likely to be higher in the second half of 2011 than the first half. We expect to lose some market share in Western Australia due to the loss of a 200kt cement contract and to incur an additional \$5 million of major maintenance costs, mainly in the first half of 2011.

The company is assessing the short term impact of the recent earthquake and tsunami in Japan on our clinker supply chain. At this stage we do not expect a material impact on 2011 earnings.

In 2011, lime sales volumes are expected to be approximately the same as 2010 levels. The threat of small scale lime imports in Western Australia remains.

Weakness in the concrete masonry market is expected to continue in 2011 due to difficult conditions in the commercial and the multi-residential segments.

Adelaide Brighton has long had a rigorous focus on cost management across the Group, with particular emphasis on energy efficiency. The Company will continue to focus on operating costs to maintain margins.

The strength of the Australian dollar is expected to have a positive impact on margins of imported products. The strength of the dollar does, however, create a risk of greater import competition in cement and lime. At present we expect earnings in 2011 to be similar to the record results achieved in 2010.