

Cement and Lime Operations

Results summary

\$millions	6 months ended		12 months ended	
	Dec 2000	Dec 1999	Dec 2000	Dec 1999*
Sales	174.0	210.5	370.7	344.5
EBITA - wholly owned operations	24.8	30.6	55.4	49.2
EBITA - joint ventures	2.6	3.0	5.6	8.8
EBITA - Total Cement and Lime	27.4	33.6	61.0	58.0

* includes Cockburn Cement for 6 months and proforma adjustment for depreciation/depletion

The Cement Market

Concrete production has grown strongly over the last 5 years and on the back of a GST induced spike in the housing industry, demand peaked in the first half of 2000.

Despite an estimated 14% fall in concrete production in the second half of the year, the total amount produced for the whole year was marginally higher than 1999.

The markets that have experienced the largest falls are NSW (15%), Victoria (10%) and Queensland (15%).

Australian cement production was an estimated 7.6 million tonnes in 2000, marginally less than the estimate for 1999's

peak of 7.7 million tonnes. This fall is attributed to a reduction in exports, an increase in imports and the continued growth in the usage of extenders (ie fly ash, slags etc) by concrete producers.

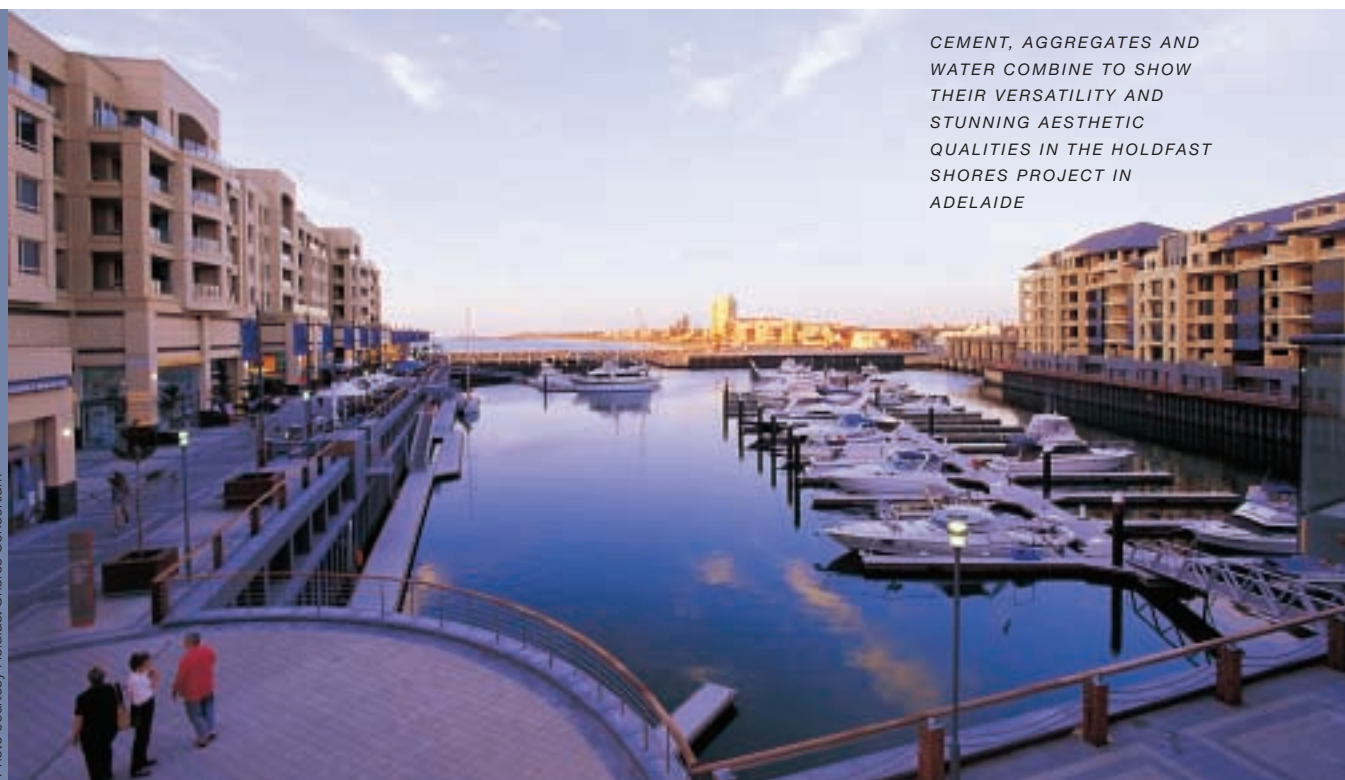
Cement demand peaked in the latter part of 1999 and has been reducing since. Year on year this reduction aligns with the normal building cycle. However, within the year sales were unevenly distributed into the first half owing to the effect of the introduction of the GST in June 2000. This exacerbated the decline in demand in the second half of the year.

Annual demand for cement is expected to fall further in 2001 as a consequence of the cyclical downturn in construction activity with current estimates for total cement demand of between 6.5 and 6.7 million tonnes.

Sales

Cement and lime operations constitute approximately 90% of the Company's turnover. These in turn are more or less equally divided between Cockburn Cement in Western Australia, and Adelaide Brighton Cement, being the eastern operations including South Australia, Northern Territory, Victoria and Queensland. The Company has only a low exposure to New South Wales.

Cement: Underlying sales volumes (ie including Cockburn Cement as if it were owned for the full year ended December 1999) were 8.5% lower than in the previous year against a static market in the states in which the Company operates. This is largely due to an estimated loss to imports of 230 000 tonnes, 130 000 more than the prior year. The effect was more pronounced in the last six months of the year.



CEMENT, AGGREGATES AND WATER COMBINE TO SHOW THEIR VERSATILITY AND STUNNING AESTHETIC QUALITIES IN THE HOLDFAST SHORES PROJECT IN ADELAIDE

As significant as the loss of volume has been the price suppression caused by dumped imports in eastern Australia. Sales in Western Australia have only been marginally affected as this market has been at import parity levels for a number of years.

The Company estimates that imports have cost it \$35 million in earnings before interest and tax ("EBIT") in 2000. This is an estimated \$20 million increase over the corresponding previous period (\$8 million more for the six months ended December compared to the corresponding prior period).

South Australia: The market in South Australia was driven by a strong housing market in the first half of the year, but this fell away significantly in the second half with the result that cement demand fell by 7% from the previous year. There were few major projects that had an impact, most of which are now complete. The more significant ones are the Heysen Tunnels, the Hindmarsh Island Bridge, the extension to the Southern Expressway, the Exhibition Centre and the Holdfast Shores project.

Looking forward, the housing market is expected to remain flat and the only potential major project being the proposed third river crossing in Port Adelaide.

Northern Territory: The market in the Northern Territory continued to decline and cement demand was down by 30%. This was due to low housing demand and reduced government spending on infrastructure projects.

Looking forward, we expect the Alice Springs to Darwin rail project to commence construction and there is evidence that several resource projects will provide an opportunity for our cement and lime products.

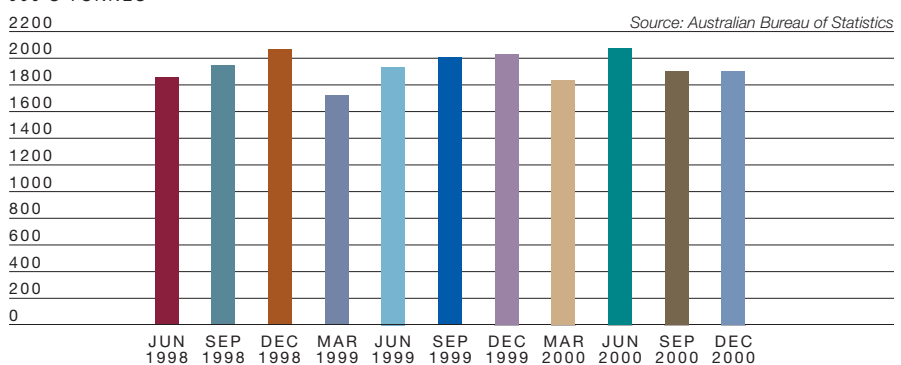
Western Australia: Demand for cement was only slightly less than the previous year, but as for the eastern states markets, housing construction fell significantly during the second half and is expected to remain subdued for the next 12 months.



COCKBURN CEMENT'S SPECIAL LOWHEAT CEMENT WAS USED TO GOOD EFFECT IN PERTH'S NEW NORTHBRIDGE TUNNEL, THE MAIN CITY EAST/WEST BYPASS

PORTLAND CEMENT PRODUCTION

000'S TONNES



Queensland: Demand for cement in Queensland, whilst similar on a year on year basis fell markedly in the last quarter of 2000. This was brought about largely by a fall in housing construction, however, some of this was off-set by demand from several major projects. The more significant of these are the upgrade of the Pacific Highway at Tandys Lane, the Airtrain City Link, the Milmerran Power Station and the Nundah Bypass Tunnel.



SUNSTATE CEMENT USED BIRKENHEAD CLINKER TO PRODUCE THE SPECIAL SHRINKAGE LIMITING CEMENT THAT WAS USED IN THE CONSTRUCTION OF THE EIGHT LANE CONCRETE PAVEMENT OF THE PACIFIC MOTORWAY PROJECT BETWEEN BRISBANE AND THE GOLD COAST

Looking forward, we expect demand in this market to continue to contract with a recovery expected to take place from mid 2002. Despite this there are several exciting road projects that will commence construction including the upgrade of the Pacific Highway between Chinderah and Yelgun, the Bruce Highway Duplication, the Tarong Extension and the Port of Brisbane Road.

Victoria: Cement demand in the Victorian market remained very strong until the third quarter. As has happened elsewhere in Australia, demand for housing fell as a consequence of the GST impact and we saw the completion of many of the infrastructure projects such as the CityLinks Project and Docklands Stadium.

Looking forward, housing demand is expected to remain flat for at least the next 12 months and the number of commercial projects currently under construction are not expected to offset the reduced demand for cement from housing.

EXPANSION OF THE MELBOURNE CEMENT FACILITY AT PORT MELBOURNE TO CATER FOR THE SHIPMENT OF CEMENT FROM BIRKENHEAD AND ALLOW THE CLOSURE OF GEELONG CEMENT COMPLETION SCHEDULED FOR MAY 2001



Lime: Lime volumes were stable year on year. Despite the closure of a number of gold mines during the year, lime volumes in Western Australia were up nearly 2% on the previous year. This was due to additional demand from the alumina sector as new capacity was brought on line and a modest improvement in our share of the resources sector. We have also enjoyed modest increases in sales of lime from both our Angaston and Mataranka operations. Lime remains a growth opportunity for ABL and several market opportunities are currently being assessed.

Geelong Cement production was achieved with improved quality and lower costs, which is a credit to its management and employees particularly as the plant is scheduled to close in June 2001.

Geelong Cement's closure will reduce the Company's production capacity by an annualised rate of 600 000 tonnes reducing the Company's capacity in line with falls in demand.

QUICKLIME FROM COCKBURN CEMENT IS A VITAL REAGENT IN THE PRODUCTION OF ALUMINA AT ALCOA'S KWINANNA REFINERY SOUTH OF PERTH

Capital Expenditure

Rationalisation: Capital projects associated with the closure of Geelong Cement and the rationalisation of the South Australian/Victorian operations are well advanced.

The new silo at Birkenhead and upgrade of cement milling capacity were close to completion by the end of the year and will be commissioned on time and well in advance of when required.

Completion of the new Melbourne cement terminal was delayed by two months, as a result of industrial disruption, soon after project initiation. There has been little slippage since and closure of Geelong Cement is still planned for June 2001.

The Geelong Cement plant site is to be disposed of following closure and an innovative 'remediate and transfer' agreement has been entered into. Under this contract, ownership of the site will transfer following its remediation, as part settlement of remediation costs. This approach has materially reduced expected remediation costs; provides certainty of outcome by removing the real estate risk; and allows the Company to concentrate on its core business.

During the year a reassessment was made of the IT strategy associated with the Merger and plans changed to adopt a staged approach with significant reductions in the capital requirements.

These initiatives have reduced to less than \$5 million the previously announced additional \$16 million capital cost of implementing the rationalisation. Work is on going to try and reduce this further.

AN EXTENSIVE RANGE OF COCKBURN CEMENT'S PRE-MIXED BAGGED PRODUCTS DESIGNED FOR THE BUILDER AND HOME IMPROVER ARE CARRIED THROUGH 'BUNNINGS WAREHOUSE', WESTERN AUSTRALIA'S LARGEST HARDWARE RETAIL WAREHOUSE. LEFT TO RIGHT: BRIAN COWLEY, TRADE MANAGER AT BUNNINGS WAREHOUSE BALCATTIA, STEVE MOLLER, COCKBURN CEMENT SALES REPRESENTATIVE AND NATALIE ABBOTT, SALES ASSISTANT, BUNNINGS WAREHOUSE



Photo courtesy of Alcoa World Alumina, Australia

Production and Costs

Adelaide Brighton Cement: During the year Birkenhead production reached its highest level for three years and set new records in terms of continuous running. Significantly improved understanding of our operating process has resulted in improved process stability. For example, the number of kiln/calcliner stops per month has fallen from an average 15 to three a month and the mean time between stops has increased from two to eight days. Standardisation of the process, together with a development blueprint, will lead to progressive improvements in Birkenhead output over the next two years.

Angaston production is being optimised and it is expected that one of Angaston's three kilns will be placed on care and maintenance during 2001 for no reduction in output.

Cockburn Cement: The rationalisation and restructuring program has been completed and the associated \$8 million in Merger benefits have been achieved on an annualised basis. All bagging activities are now carried out on one site at Kwinana. Standardisation is being introduced, starting with lime production and bagging operations, and progressive improvements in performance are expected.



BELOW: BIRKENHEAD'S STANDARDISATION TEAM HAS PLAYED A VITAL ROLE IN IMPROVING PRODUCTION PERFORMANCE. SEEN HERE RIGHT TO LEFT ARE RAELENE BENNETTS, VINCE AURORA AND GAVIN BOWDEN WITH CONTROL ROOM OPERATOR DOUG JONES



“performance improvement starts by setting STANDARDS”

Improving operational performance to become a “well run, profitable operation for the long term” was a key goal set at the start of 2000. One of the foundations for achieving this has been the setting of standards. Standards dealing with Safety, Process Control, Equipment Efficiency, Material/Product Quality, Environment, Employee competence and behaviour are being established across all operations. The progressive implementation of these standards is delivering process improvement; productivity improvement; waste elimination; improved equipment effectiveness; improved quality of product to our customers; and improved safety and environmental performance.

The benefits of this approach are already being seen at the Birkenhead operation where there has been a significant lift in process stability with less plant stoppages. Product quality has improved measurably and output is up. The same approach of standardisation is now being applied across all major processes in each operation in accordance with agreed timetables and priorities. As an example, during the last quarter of the year, both Cockburn Cement and Adelaide Brighton Cement applied systematic improvement to our sales planning and logistics processes. Improvements are already noticeable in measures developed to track customer service and this will be an ongoing focus until we reach ‘world class’.

Customs Inquiry into Cement Dumping

After nearly two years of analysis and investigation by the Australian Customs Service, a decision has still not yet been made in the Cement Dumping Inquiry. Imports of dumped cement continue to arrive in Australia, and despite the sustained low exchange rate, cement prices from importers of dumped cement have not increased.

Customs has already agreed:

- Cement from Indonesia (33-134% dumping margin), Malaysia (16% margin) and Thailand (78% margin) has been dumped into the Australian market;
- Price undercutting from dumped imports over the past two years had caused injury and that price depression and price suppression has adversely impacted on the profitability of the Australian industry;
- Australian producers have suffered lost volume and market share, reductions in margins, and declining profitability over the past 12 to 15 months; and
- There has been price depression and loss of profitability from sales of the closely related clinker and blended cement markets in Australia.

Customs however failed to find evidence of dumping from China despite Chinese exporters causing the majority of damage.

As of December 2000, the responsible Minister rejected the Custom’s findings on China and issued a Ministerial directive bringing Australian anti-dumping legislation in line with European Union and Canadian practices thereby instructing Customs on how to interpret dumping rules in relation to emerging economies where prices are not determined by free-market forces.

A second unaddressed issue relates to what is the real export price. Taking the Australian selling price of Chinese cement and deducting from this the costs of getting it here, it appears that the exports are coming out of China at a loss. This is a clear breach of Australian legislation established to counter such predatory pricing.

It is impossible to predict how long it will take for a conclusion to be reached in this extremely important inquiry but calls have been made for this to be resolved by 30 June 2001.

DWELLING UNITS APPROVED - SEASONALLY ADJUSTED

