

Towards world class establishing a firm foundation



PHIL WRIGHT
MANAGING DIRECTOR

The last year has seen the initiation of wide-ranging changes designed to improve operating capability and reduce debt. This program is on-going and has had a positive effect on many aspects of our business.

The twin goals set at the beginning of 2000 were:

- Achieving the full Merger benefits; and
- Establishing the Company as a well run, profitable operation for the long-term.

Significant progress has been made. A lot remains to be done.

Period covered by the Report

As the Company's year-end changed from June to December, the Financial Statements cover an 18 month period in respect of the current period with a 12 month period as the comparative. The results reported as the comparative, being for the 12 months ended 30 June 1999, are prior to the Merger transaction with

The Rugby Group PLC, whereby Adelaide Brighton Limited (ABL) acquired Cockburn Cement, and the 49% of Adelaide Brighton Cement not previously owned. The unequal periods, and the significant change following the Merger, make comparative analysis difficult.

To facilitate analysis of performance we have included, in the Financial Overview section, proforma results for the 12 months ended December 2000 and 1999. These have been restated to reflect consistent accounting policies. The 12 months ended December 1999 include Cockburn Cement for six months July to December 1999.

This review draws on the proforma 12 months results.

Results for the Year

The 12 month result before abnormals was \$29.1 million compared with \$23.8 million on a like basis¹ for the corresponding period. An increase of 22%.

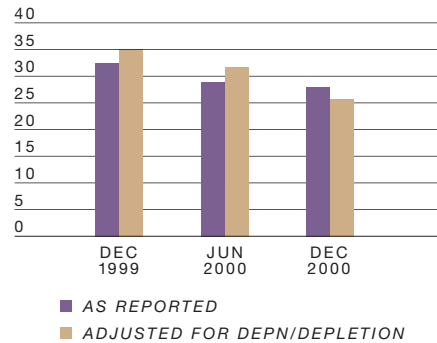
The increase in profit reflects many positive developments taking place including:

- The Merger in June 1999 of Cockburn Cement and the acquisition of the remaining 49% of Adelaide Brighton Cement;
- Benefits arising following the Merger;
- Improvements in the Company's production and cost base; and
- The absence of a tax charge, as prior year losses are utilised.

The improvement in profit would have been substantially higher had it not been for the effect of dumped imports. The combined effect of volume losses and price suppression caused by imports are estimated to have cost the Company \$35 million in lost earnings in the last 12 months. This is an estimated increase of \$20 million over the previous corresponding period.

Analysing the underlying results by looking at the half-yearly trends shows a decline in EBITA², owing to the impact of imports considerably outweighing cost and efficiency improvements.

TREND IN HALF-YEARLY EBITA
\$ MILLIONS



As expected, trading conditions have been difficult during the year. Sales volumes are down in line with the market. More significant has been the effect of offers of Asian cement into Australia's eastern states at dumped prices. This has depressed the market price of cement, particularly in the eastern states. Sales in Western Australia continue to be only marginally affected as this market has been at import parity levels for a number of years.

The long running cement dumping case, which was initiated in June 1999, has failed to deliver outcomes during the year. While the Company remains confident that a favourable outcome will eventually emerge, we are extremely disappointed that a continuing series of issues underlying the case have been allowed to drag on unresolved for an extended period totalling almost two years.

We believe it is fair enough to expect import-exposed industry sectors to be internationally competitive. When they are, it is unacceptable to have to wait for such a long period while predatory import competition in the form of blatant dumping by some Asian exporters is causing material damage and injury to Australian industry.

Merger Benefits

In the Explanatory Memorandum issued in June 1999, benefits of \$23 million per annum were forecast to emerge by June 2001 as a result of the Merger. A capital investment of \$40 million was associated with achieving these benefits. In March 2000, shareholders were advised that the Merger benefits of \$23 million, outlined in the Explanatory Memorandum, were expected to be realised however capital expenditure associated with the achievement of these benefits was expected to increase by \$16 million from the \$40 million indicated in the Memorandum. The latest assessment of this is as follows:

- Annual savings in excess of \$10 million were being achieved by year end and the balance, bringing the overall rate of savings up to an estimated \$23 million, will emerge following the closure of Geelong Cement in June 2001; and
- The additional capital cost of implementing the rationalisation has reduced to less than \$5 million (from \$16 million) as a result of an innovative approach to the remediation and disposal of the Geelong Cement site and a revised approach to implementing new IT systems. Continued effort is being applied to reduce this further.

Financial Strength

The financial position of the Company has greatly improved over the last 18 months. The most outstanding aspect of this is the free cash flow³ that has been generated since the Merger in June 1999. This has amounted to \$77 million of which \$44 million has arisen in the last 12 months. This is the clearest indication possible of the underlying strength of the Company as this free cash flow is used to retire debt and build the capacity allowing for future growth and development.

Significantly, net debt has reduced by \$37 million in the last 12 months and the Company's gearing⁴ has improved from 62.4% to 51.8% at December 2000.

Our debt structure has also greatly improved following the refinancing in June 2000 whereby a single loan facility negotiated with RMC Group p.l.c. replaced a complicated funding structure involving cross guarantees and negative pledge undertakings to a range of banks. Financial instruments are used, in conjunction with this facility, to achieve a maturity profile in accordance with Board approved guidelines. The refinancing arrangements achieved estimated cost savings of over \$500 000 a year.

Our interest costs are expected to improve further over the next 12 months. The Company announced an on market buyback of its Convertible Notes⁵ in August 2000 and based on current expectation of interest rates, an improvement of some \$2 million per annum in interest costs is expected following the final retirement of the Convertible Notes in December 2001.

Operational Improvements

Considerable changes have been implemented in the last 12 months consistent with our goal of being a well run profitable operation by June 2001 and, beyond this, to be 'among the best in the world' by 2005 in terms of safety, customer satisfaction and cost.

The more material changes and achievements, in addition to those noted above, are:

- Establishment of a new management team;
- Implementation of a company-wide planning process identifying clear operational strategy and targets;
- Establishment of clear personal accountabilities for managers;
- Development and implementation of a new safety, health and environmental management system;
- A strong focus on improving customer service;
- Improved production at Birkenhead based on a strategy of standardisation. This approach is being progressively applied to all the Company's key operating processes in accordance with the goal of achieving world class by 2005; and

- Major changes in the basis of employment and the provision of competitive remuneration based on identified better practices and designed to support the overall goals of the business.

Strategy

Adelaide Brighton is focused on increasing returns to shareholders by improving the performance and efficiency of its businesses. It has also been an active participant in improving industry structure through mergers and acquisitions.

We are continuing to pursue our strategy based on:

- Developing strong management and operating capability;
- Reducing debt to provide capacity for new investment post 2001; and
- Remaining alert to opportunities for further improvements in industry structure in Australia believing such evolution is inevitable and desirable.

The fruits of this strategy are expected by 2002 with the Company re-entering a growth phase in conjunction with an expected turn in the economic cycle.

People

I would like to recognise the hard work and effort of people in all areas of the Company's operations. Many small consistent steps along a well-defined path, combined with adaption and innovation, are what is required to deliver world class operating performance and open up the opportunities to generate the returns of which we believe the Company to be capable.

¹ Depreciation/depletion has been adjusted in the 1999 result to accord with the basis applied in 2000, thus enabling like-for-like comparison.

² EBITA - earnings before interest, tax and amortisation of goodwill.

³ Free cash flow - total operating cash flow less investing cash flow i.e. the cash surplus available for dividends and debt repayment.

⁴ Gearing - the percentage of net debt to equity i.e. at 31 December 2000 the Company's net debt is \$227 million compared to total shareholders' funds of \$449 million and total debt plus equity of \$676 million.

⁵ Convertible Notes - 11% Convertible Note securities that are listed on the Australian Stock Exchange under the symbol "ABCG". There were approximately 29 million Convertible Notes issued, each note having a face value of \$2.00.