

# Managing Director's report

Adelaide Brighton reported a record \$67.5 million net profit before tax consolidation. The full year dividend was increased by 25% to 7.5 cents fully franked.



Mark Chellev  
Managing Director

A handwritten signature in blue ink that reads "M. Chellev".

Adelaide Brighton's record performance for the third successive year was underpinned by continued robust demand from the construction sector and further operational improvements.

2004 also incorporated the first full year results from C&M Brick Pty Ltd, acquired in July 2003, and excluded the results of Pavement Technology Limited which was sold effective 1 January 2004. Underlying sales showed an 8.7% growth driven by demand from the infrastructure, resource and mining industries.

The record result was satisfying given the numerous challenges faced by the Company during 2004, particularly those relating to external energy supply and the Boral takeover bid. The latter proved to be a challenge for senior management, in terms of managing the substantial demands placed upon them for information from third parties.

With regard to the operations, our ability to meet market demand was threatened in early 2004 when the Moomba gas supply disruption caused production interruptions at our Birkenhead plant. The resulting lost output was supplemented by additional imported cement, albeit at a higher cost due to the need to pay short-term 'spot' freight and product prices.

These supply problems were compounded by the need to intermittently turn off the Birkenhead cement mills in the first quarter 2004 in order to mitigate the impact of repeated spikes in South Australian electricity prices caused by peak summer demands and supply interruptions.

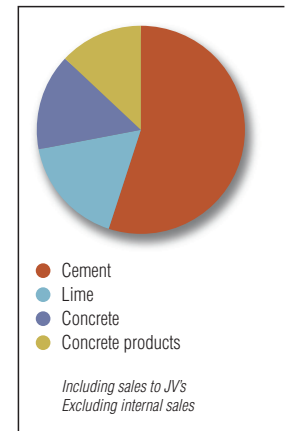
While the impact upon our logistics supply chain was significant, I am pleased to report that the Company was able to meet all customer needs during this period and subsequently to recover the supply balance. This recovery in operating stability enabled Adelaide Brighton to meet the second quarter 2004 planned maintenance shutdown timings to set up the plants for their record annual outputs which were achieved through consistent second half year performance.

Our strategic and capital investment programmes for 2004 were also materially impacted by the Boral takeover bid. With the delays now behind us, the strategic momentum of Adelaide Brighton has been restored.

Adelaide Brighton continues to progress its strategy of performance improvement and limited downstream integration into concrete and concrete products sectors. The Company also recognises the strategic importance of aggregate supply in the Australian construction materials markets and will seek to extend its positioning and supplier relationships in this important sector.



**Turnover segmentation**



***'Liberty Towers' residential complex in Adelaide constructed using precast concrete panels made from high early strength cement***

In order to further improve the focus and accountability within the Company, three distinct divisions were established. These comprise:

***Cement and Lime***

- Cockburn Cement - Western Australia
- Adelaide Brighton Cement - South Australia
- Northern Cement - Northern Territory
- Morgan Cement - New South Wales

***Concrete and Aggregates***

- Hy-Tec - Victoria, New South Wales and Queensland
- Austen Quarry - New South Wales
- Alternative Fuel Company - South Australia

***Concrete Products***

- C&M - South Australia, Victoria and New South Wales.

While varying in scale, each provides a significant strategic advantage to Adelaide Brighton.

Within this structure, the Company's downstream integration strategy has continued with the optimisation of performance of the Hy-Tec concrete and C&M Brick concrete products businesses. This position has been further complemented by the decision to progress the investment in Austen Quarry, a potential 200 million tonne aggregate reserve acquired as part of the Premier Resources acquisition in 2002. The projected future depletion of the Penrith Lakes reserves in 2010 has brought forward the timing of investment in Austen Quarry.

The quarry will be a key strategic supplier of concrete aggregates and road base to the Western Sydney markets and will supply the internal needs of Hy-Tec in New South Wales.

The Company continues to invest in new initiatives for its operations to further reduce the impact on communities adjacent to its operating facilities. Adelaide Brighton is acutely aware of the need to work with its key stakeholders in prioritising investments in this critically important area. During the year, an \$8.0 million investment was approved at Munster for the introduction of an electrostatic precipitator, which will further reduce stack emissions to environmental best practice levels. In addition, a new \$12 million, three-year environmental improvement plan has been approved for the Birkenhead plant, building upon the past investments and improved plant performance.

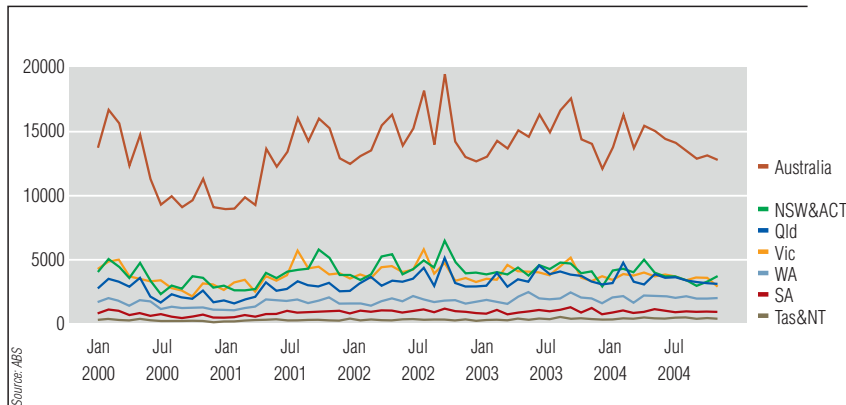
### Our people

The abilities and resolve of our employees has been severely tested during 2004 and I am pleased to report that Adelaide Brighton has, as a result, emerged a 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

Cement demand is expected to continue at levels similar to those in 2004 as stronger demand from the commercial, infrastructure and resource sectors offsets expected declines in residential activity. Demand is also expected to vary by state, with current softening in New South Wales, and to a lesser degree, Victoria, being offset by continued strong demand in Queensland, Western Australia and South Australia. Lime demand is expected to experience growth with the addition of further capacity in the steel and alumina resource sectors.

**Australian dwelling units approved**



**Australian cement production**

