

HALF YEAR REPORT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 DECEMBER 1998

REVIEW OF OPERATIONS

Overview

Adelaide Brighton Ltd recorded a profit after tax and before abnormal items for the six month period ended 31 December 1998 of \$5.5 million.

While this result represents a reduction of 16% over the corresponding period last year, the result indicates a slight improvement in operating performance over the previous six month period.

This improvement in performance is attributable to a number of factors:

- An increase in sales revenue to \$157.7 million, 3% up on the corresponding period last year.
- Improved utilisation of Birkenhead's capacity as a result of an export contract to the USA.
- Preliminary results from the business improvement initiatives detailed at the annual general meeting.
- A reduction in corporate overhead expenditure of approximately 13% as a result of various rationalisation initiatives.

However, the company has announced a number of abnormal items as a result of up front provisions associated with the business improvement program, the impact of the Victorian gas outage and the settlement of a legal claim against former subsidiary Humes Steelpipe Limited. These provisions total \$8.4 million and have resulted in a post abnormal loss of \$2.9 million for the six month period.

Adelaide Brighton Ltd's Managing Director, Mr Richard Hammond said that, while the results indicated that the company's operating performance had not deteriorated further as a result of the Asian economic crisis, the outlook for the construction industry remains uncertain after the end of the year 2000. This emphasises the need for continuing vigilance in the implementation of the business improvement initiatives.

In view of the overall result after abnormal items, the directors do not propose to pay an interim dividend in respect to six months ended 31 December 1998.

Further analysis of the results and the outlook for the company are detailed below.

Financial Results

The table below sets out the detailed financial results for the Adelaide Brighton Ltd Group:

	Financial Year (1998-1999)		Financial Year (1997-1998)	
	First Half		Second Half	First Half
	\$m		\$m	\$m
Sales*	157.7	165.1	153.1	
Depreciation	(13.1)	(12.2)	(10.8)	
Earnings before interest & tax	18.8	16.4	22.7	
Net interest expense	(7.7)	(7.6)	(7.2)	
Net profit before tax, abnormal and extraordinary items	11.1	8.8	15.5	
Income tax expense	(3.8)	(1.3)	(5.0)	
Outside equity interests	(1.8)	(2.1)	(3.9)	
Net profit after tax and outside equity interests before abnormal and extraordinary items	5.5	5.4	6.6	
Abnormal & extraordinary items after tax and outside equity interests	(8.4)	1.4	(1.1)	
Net profit (loss) after tax, abnormal and extraordinary items	(2.9)	6.8	5.5	

**Sales only includes transactions with parties external to ABL Group.*

Note: The above analysis differs in the format included in the half year financial statements which is prescribed by the Corporations regulations. The directors believe that it is more relevant to focus on net profit after tax and outside equity interests before abnormal items. Abnormal items are also shown as after income tax and outside equity interests.

Abnormal Items

In the half year to 31 December 1998, three items of abnormal expense have been identified and separately classified as such for the purposes of reporting. The after tax and minority interest effects of those were as follows:

	1998 \$m
Rationalisation costs:	
Adelaide Brighton Cement Ltd	3.4
Other Adelaide Brighton Ltd Group companies	1.2
Impact of Victoria gas outage	0.3
Settlement of Humes Steelpipe Ltd claim	3.5
Total abnormal items after tax and minority interests	8.4

Details of the items are as follows:

a) Rationalisation costs

\$4.6 million was incurred in relation to one-off rationalisation costs. These included redundancy costs and the impact of strike action following the implementation of business improvement initiatives.

b) Impact of Victorian gas outage

Additional direct costs and unapplied fixed costs as a result of the Victorian gas outage amounted to \$0.3 million. The gross cost to Adelaide Brighton Cement Ltd was in fact \$1.0 million.

c) Settlement of legal claim

Humes Steelpipe Limited, formerly a wholly owned subsidiary of the company, has now settled all aspects of a claim in respect of the supply of defective materials and workmanship for the manufacture and supply of a steel pipeline in New South Wales. Adelaide Brighton Ltd had previously indemnified the purchasers of Humes Steelpipe Limited. The original claim was for \$4,164,027 being the assessed cost for the reconstruction and replacement of the pipeline, plus interest and legal costs in preparing the claim. A final settlement has now been agreed between all parties of \$3.5 million which includes legal fees and insurance recoveries.

Gearing

Net financial debt to equity is currently 67%, compared with 61% at 30 June 1998. The increase is mainly as a result of fluctuations in the level of working capital and settlement of the Humes Steelpipe Limited claim.

ADELAIDE BRIGHTON CEMENT LTD

	Financial Year	Financial Year	
	(1998-1999)	(1997-1998)	
	First Half	Second Half	First Half
	\$'m	\$m	\$m
Sales	129.3	141.1	121.7
Earnings before interest & tax	13.9	12.1	17.4
Interest expense	(5.9)	(5.7)	(4.8)
Net profit before tax & abnormal items	8.0	6.4	12.6
Income tax expense	(3.8)	(1.7)	(4.6)
Net profit after tax before abnormal items	4.2	4.7	8.0
Outside equity interests	(1.8)	(2.3)	(3.9)
Net profit after tax & outside equity interests before abnormal items	2.4	2.4	4.1
Abnormal Items (after tax and outside equity interest)	(3.7)	6.6	(1.1)
Net profit after tax and abnormal items attributable to members of Adelaide Brighton Ltd	(1.3)	9.0	3.0
Funds employed (100%)	394.4	409.2	410.6

Sales volumes increased by over 3%, largely as a result of increased clinker sales which carry lower margins than cement.

Highlights of the period included:

- The conclusion of the Taiheiyo Cement Corporation contract from Birkenhead. While margins on this business are low, the significance in this US contract lies in its ability to allow Birkenhead to operate at close to maximum capacity and efficiency.
- The stabilisation of Swan Cement's market share following the disruption of the relocation to Kwinana.

OTHER CORE CEMENT AND LIME OPERATIONS

Sunstate Cement Ltd, Northern Cement Ltd, Independent Cement and Lime, Pavement Technology Ltd, Fuel and Combustion Technology Ltd and others

	Financial year (1998-1999)	Financial Year (1997-1998)	
	First Half \$m	Second Half \$m	First Half \$m
Sales	28.4	24.1	31.4
EBIT (pre-distributions)	4.2	2.6	4.2
Partnership distributions before tax	2.8	3.5	3.4
Dividends received (franked)	1.4	1.0	1.4
Group overheads & other unallocated costs	(3.4)	(2.8)	(3.7)
Funds employed	100.6	122.3	104.3

Other cement and lime operations showed significantly improved sales over the previous six months and maintained the EBIT level of the corresponding period last year.

Sunstate Cement Ltd benefited from the long awaited commencement of the Pacific Highway, with both sales revenue and volumes increasing by around 11%.

Depressed demand in the Northern Territory led to a decline in sales, but profit increased as a result of better plant performance and a range of other management initiatives.

Partnership distributions are lower due to the sale of the Hawaiian Cement operations last year. Independent Cement and Lime continues to perform strongly in a buoyant Victorian market and the performance of Pavement Technology Ltd has improved following new contracting opportunities in some States.

The review of the business operations of Fuel and Combustion Technology Ltd is continuing.

MARKET OUTLOOK

Demand for cement across Australia continues to be heavily concentrated in Victoria and New South Wales.

In Queensland a slight increase in demand is expected over the next twelve months. However, the market there is significantly affected by the threat of imports. Since the last reporting period one importer has established and another is expected to follow sometime in 1999.

The South Australian market is sluggish. While there are some major projects underway at present – David Jones retail store redevelopment, the Southern expressway and the Holdfast Bay Shores development, there are no projects expected to take their place. Sales are therefore expected to fall towards the end of the year 2000.

In Western Australia the next twelve months are expected to see a decline in demand in both the resources and the housing sectors.

There is a prospect of some previously closed gold mines reopening in the Northern Territory. Mount Todd's and Tom Gully's mines are expected to recommence operations in mid-1999. This will have a positive impact on lime sales. Nevertheless, imports continue to threaten the cement market in the Territory.

While there is some indication that the company has experienced the worst of the Asian crisis, the longer-term impacts remain, with imports continuing to be a real threat to all our plants.

Given the situation in Asia, the directors have closed the South East Asian office, as there is no intention to seek to expand operations within the region at the present time. This will save approximately \$700,000 per annum.

INDUSTRY RATIONALISATION

Adelaide Brighton has previously reported that it is in negotiations with the Rugby Group plc on moves to strengthen and add value to the business of Adelaide Brighton. Further rationalisation of the cement industry will follow a successful conclusion of these negotiations.

These negotiations, along with the ongoing business improvement initiatives as outlined earlier remain the directors' highest priority.

R J B MOODY
Company Secretary

16 March 1999