Managing Director's review

Adelaide Brighton achieved a record result in 2002 due to increased margins and sales volumes, a stable operational performance, and the initial benefits flowing from the acquisition of Premier Resources.

Mark Chellew
Managing Director

Group EBIT increased to $80.0 million from $46.9 million in 2001, a 71% increase. NPAT increased to $50.7 million from $30.6 million, a 66% increase, after incurring a tax expense of $16.2 million, an effective tax rate of 24% - previous year nil.

The Company benefited from increased demand for all products in all regions. This was underpinned by increased house building activity driven by consumer demand buoyed in part by the first time home owner's grant. The country also enjoyed almost perfect construction conditions with few weather related interruptions. The lime business also benefited from growth in the mining sector and our position of low cost supplier of a high quality, consistent product to our customers.

The Company continued to implement its strategy of focused and relevant vertical integration, expansion of its lime business and improved operational efficiencies and cost reductions.

In line with this strategy, in March 2002 we acquired the construction materials company Premier Resources Limited. In December 2002 we acquired the assets of ready mixed concrete manufacturer Neil Mansell Concrete. As a result, we now have a modest strategic downstream position in the important east coast markets of Sydney, Melbourne and South East Queensland.

Premier also brought additional grinding capacity at the Port Kembla plant that gave further flexibility to our seaborne cement supply chain. Premier's aggregate reserves at Hartley, near Lithgow, west of Sydney, also provide a strategic aggregate position for the future supply to the Sydney market.

Costs and operational performance

Continued focus on standardised operational performance resulted in sustained reliability of production of lime, clinker and cement at all plants.

Our cost reduction strategy is methodical and is well embedded in the organisation. A three-year program is underway, and this has delivered tangible results in 2002.

A major element of the program is workplace reform, and the new Enterprise Bargaining Agreement certified for Birkenhead was a major step forward. Regrettably the company suffered a five week strike at the Birkenhead plant, which was eventually settled amicably and efforts were then focused upon the implementation of the new agreement. The flexibility of our workforce remains a key element in achieving benchmark costs and thus the ability to remain competitive with Asian imports.

A second key element is the progressive use of alternative fuels to substitute our consumption of our primary fuel, natural gas. Trials are now underway in South Australia using inert materials that would otherwise be land filled.

The final element is cost reduction through improved efficiencies and performance improvement. A consistent tracking process has been implemented at all plants to manage and report progress against each component of this programme, while encouraging a culture of continuous improvement to embrace further initiatives as they arise. The Company continues to share best practice in all aspects of its operations to improve the quality and availability of products to the customer.

A further significant achievement in the year was to secure long term dredging rights to recover the shellsand reserves from Owen Anchorage in Western Australia. In addition to providing the security of lime supplies, a key raw material to the Australian mining industry, this dredging will provide the additional benefit of improving shipping access to Port Fremantle.

Outlook

During 2002 the Company was strengthened by strategic acquisitions and focused on operational improvements. Strong demand for our products delivered considerably improved margins. 2003 will benefit from a full year's ownership of our concrete business and the improved market outlook from its new plants in Sydney and Melbourne.

We now have a more strategically and geographically balanced portfolio of assets in the construction materials and lime producing industries. We continue to examine opportunities to further develop our cement and lime businesses.

We believe that stronger cement and concrete demand from the non-residential and engineering sectors will offset the projected weakening in the residential sector in some regional markets in the second half of the year. 2003 demand is forseen to be level or slightly higher as a result. We are now benefiting from price gains achieved during 2002 and expect further, though more modest, price increases during 2003. We expect consumption of lime by the mining and resource sectors to remain strong.

Overall, we are cautiously optimistic about the outlook for demand and prices in 2003. Ongoing operational improvements and our cost reduction programme are expected to deliver further benefits as we strive to deliver our performance targets.

In conclusion, our clear strategic direction and focus on operational performance places the Company in a strong position going forward.

People

I would like to thank all our people at Adelaide Brighton for their commitment and dedication during the year. The financial results reflect their achievements and I also thank them for their continuing support in 2003 as we implement our strategy to ensure the long-term success of the Company.