Restructure

The last year has seen momentous change at Adelaide Brighton.

The company finally achieved the major restructure which it had been pursuing for some time. The merger of Adelaide Brighton with the Rugby Group's Australian operations was achieved after almost two years of exhaustive analysis and negotiation with a number of key industry players.

The restructure, which was approved by Adelaide Brighton shareholders on 14 May 1999, was the subject of substantial communication to the financial markets and to shareholders and I do not intend to repeat the benefits of the restructure in this report.

The focus now for the new Board and management is the relentless pursuit of the opportunities that this restructure has presented.

Mr Hammond will outline progress towards this objective in his overview (on pages 6-13) but I have been greatly encouraged by the results we have achieved so far. Rationalisation of our operations in Western Australia is proceeding well, and the centralisation of head office functions and the planning for the necessary capital works is well advanced.

Throughout the negotiations, I was pleased to work with Mr Peter Johnson (Chief Executive, The Rugby Group PLC) and Mr Peter Crowley (Executive Director Cement and Lime, The Rugby Group PLC). I believe we developed a healthy respect for the history and the vision of our respective companies, which should assist in the development of our strategy for the merged company.

Results

The company reported a profit after tax and before abnormals for 1998/99 of $11.5 million, compared with $12 million last year. This result includes some changes in accounting policies, which prior to, the Group showed profits for the second half of the year, which indicated a modest improvement over the first half on a lower level of sales.

The restructure has involved significant costs which are reflected in the large one-off abnormal costs reported for the 1998/99 year. This cost of $106 million included major restructuring and rationalisation costs which were stated at the time of the restructure.

Dividend

There was no dividend paid for the year ended 30 June 1999. This was partly in recognition of the difficult circumstances facing the company. However, an essential element of the restructuring proposal was a distribution to shareholders of 3.5 cents per share, which was in recognition of the lack of declared dividend.

The Board

As a result of the merger with the Rugby Group, the new Adelaide Brighton Board comprises a number of new members. Mr Peter Crowley and Mr David Harding, senior Rugby executives have joined the Board. Mr Harry Perkins has also joined the Board and his experience in Western Australia will be invaluable. Dr Peter Bowen has been appointed as their alternate. Mr Chris Harris has remained on the Board and Mr Richard Hammond will remain until the appointment of his successor.

I would like to thank Mr Richard England and Mr Neil Hamilton, who retired from the Board following completion of the restructure. Their contribution to formulating the strategy which led to the successful restructure was invaluable.

I am also pleased that Mr David Barro, the founder and driving force behind the Barro Group, has agreed to join the Board, subject to shareholder approval. Mr Barro and his company maintained their commitment throughout the protracted negotiations and I am pleased that the Barro Group will be represented at Board level.

The new Board is working well and I have been gratified by our new partner's commitment to growing Adelaide Brighton and ensuring it a place in the global strategy for the Rugby Group.

Management

At the time of negotiation leading to the restructure, the Managing Director, Mr Richard Hammond, made it clear that he saw his role as completing the transaction and remaining only for a transitional period. He has agreed to remain with the company until the end of November 1999, by which time a new Managing Director is expected to have been appointed.

It also became apparent that Mr Rick Moody, Group General Manager, Finance and Administration, would not continue with the company and he has now left for a senior position within another public company.

Both executives deserve strong praise for their role in negotiations on the restructure and their conduct since the merger was announced. Mr Hammond's knowledge of the industry and the confidence the industry had in his integrity were significant features in the successful outcome of our negotiations. I would like to express my personal thanks to both gentlemen and to all members of the Adelaide Brighton executive.

Outlook

One of the main drivers behind our need to restructure and rationalise is the increasingly competitive nature of the Australian cement industry.

The reality of competition has become even more apparent this last year when in almost every State where we operate, there have been imports of cement. We have worked effectively with Federal Government agencies, such as the Australian Competition and Consumer Commission, to achieve a restructure which has led to a significant step in the rationalisation and competitiveness of our industry. I believe it would be inconsistent of the Federal Government not to take a stance against the import of cement to Australia at dumped prices and we will maintain our pressure on the government over this issue.

Competitive forces will be heightened in the next few years. Although the construction sector is in the middle of a strong upturn, virtually all commentators are predicting a major decline after the year 2000, primarily in the non-residential sector. This will be due to a variety of factors: interest rates, completion of Olympic-related construction and other large projects and a weaker resources sector.

There are considerable pressures on cement producers world-wide, with excess capacity and an inevitable trend towards rationalisation and economy of scale in production facilities. This may well change the way in which the export market operates.

It is possible that in the foreseeable future, clinker could be produced and sold on a world market, with purchasers 'value adding' through the provision of the necessary grinding capacity. Such a scenario would see the development of a world-wide commodity price for clinker.

Adelaide Brighton is well placed to gain from such a development, with access to clinker grinding capacity and terminals in all mainland states and the Northern Territory. Adelaide Brighton is located in the Asian region where there is likely to be the most pressure for rationalisation and where the Rugby Group has plans for expansion.

We are now a very different Group from a year ago. We have new, international partners, we have a new focus on the lime market and we have a new Board and management structure.

Our business is and will continue to be under constant review, both as a consequence of the restructure and the nature of the industry, but we are confident of a strong future.

Malcolm Kinnaird

Malcolm Kinnaird AO
Chairman