

## The Business Unit

AM&S Metals is the CRA Group Business Unit which is responsible for CRA's base metal smelting and refining activities in Australia and Asia, with markets predominantly in Australia, New Zealand and Asia. (Our name was changed from Australian Associated Smelters on 1 February, 1988.)

AM&S Metals encompasses three principal operating companies:



Broken Hill Associated Smelters (BHAS), Port Pirie, South Australia.



Electrolytic Refining and Smelting Company of Australia (ER&S), Port Kembla, New South Wales.



Sulphide Corporation (SC), Cockle Creek, New South Wales.

The Business Unit also has interests in secondary lead smelting operations in Australia and Taiwan.

Our Business Unit is one of the largest in the CRA Group. With annual production and sales of metals in excess of 400,000 tonnes, we are also one of the major participants in the primary metals industry in the Australian and Asian region.

The goal of AM&S Metals is to be an internationally competitive producer of base metals - lead, zinc and copper, as well as precious metals and other by-products. To achieve this goal:

our production facilities should be technically, operationally and environmentally efficient;

our sales and marketing activities should be competitive and customer focused; and,

our total business should generate acceptable levels of return on the money invested in it.

Success in each of these areas will provide a base to secure our longer term future.

## Results in Brief

	Earnings (After Tax)	
	1987/\$M	1986/\$M
Earnings after deducting B/Unit Financing Costs	1.1	(3.1)
	Tonnes	
	1987/'000	1986/'000
BHAS - Lead	201.7	156.2
- Zinc	39.6	39.0
SC - Zinc	74.2	74.4
- Lead Bullion	31.0	31.4
ER&S - Copper	36.6	33.8
Employees at Year End	2,575	2,652

## 1987 In Review

The international environment in 1987 was a little better than expected. Continued economic growth in the major economies led to increases in commodity prices. The price increases have held for longer than expected, despite concerns about an economic downturn following the October sharemarket crash. During 1987, virtually all metal producers continued the process of cost reduction, productivity improvements and rationalization.

Our business has followed similar lines to those of our competitors. Heavy emphasis has been placed on each of these important performance improvement factors, with the prime objective of improving our overall financial performance. In this regard it is encouraging that some success has been achieved, and our "bottom line" financial position has improved. In 1987, we reported to CRA the first Business Unit net profit since the Business Unit was established in 1983. It was only a small profit but, nonetheless, it is a move in the right direction.

Each site had its share of notable achievements which contributed to the improved results. At BHAS lead production exceeded targets due to strong Sinter Plant performance in the second half of the year. Zinc production at Sulphide Corporation was just below the 1986 record level, and at ER&S copper cathode production reached the highest level since 1983. We also achieved good sales results for zinc in a most competitive market and likewise for copper. Lead sales however were adversely affected by regional conditions in Asia, India and the Middle East. This resulted in total lead sales for the year being considerably lower than metal produced.

The cost of financing working capital tied up in each of our smelting operations continues to be a significant drain on profits and cash flow. In 1987, the average value of working capital items, such as stocks of unused smelter feed materials, metals in process, unsold finished products, stocks of consumable stores and sales debtors tied up in our business totalled \$150 million. The cost of financing these items in 1987 was in excess of \$20 million. Unfortunately, this high cost trend has continued into 1988 and we must make every effort to reduce working capital items to acceptable minimum levels.

The contribution of our total workforce during 1987 is greatly appreciated. Everyone, no matter what his or her role, is a participant in the business and can contribute to our success. It is pleasing to report that some 40% of those in our Business Unit took the opportunity to acquire options for shares in CRA under the CRA Employees' Share Scheme. This provides an added incentive to ensure the success of our business.

## Major Issues and Future Directions

1987 was an important year for AM&S Metals because initiatives taken or in process during the year will have an important bearing on the future direction of the business.



At BHAS, the \$58 million Environment and Economic Improvement Plan (EEIP) was approved and implementation has commenced. The EEIP is a four year programme encompassing some 18 separate capital projects. The involvement of the workforce, unions and South Australian Government in commitments to the EEIP was important and very pleasing. The EEIP should assure the future of BHAS operations at Port Pirie for many years.



At ER&S, intensive studies on future options for the operation continued. There are only two realistic options available - to "get in" or "get out". A decision has been deferred until mid 1988 and the efforts to resolve the future for ER&S are continuing. An option to expand production capacity to 80,000 tonnes per annum, with a new technology smelter and associated facilities at a cost in excess of \$150 million, is being studied. The involvement and commitment of the workforce, unions and the New South Wales Government will be key elements for success.



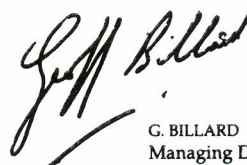
At Sulphide Corporation, the \$11 million ventilation project is under way and the new 84 metre stack has been completed. Studies into further improving site productivity are in progress.



In Melbourne, a significant development was the establishment of a single, integrated sales and marketing division for AM&S Metals from 1 February, 1988. This will eliminate duplication and inefficiencies from the previously separate BHAS and Sulphide Corporation Sales Departments, and will permit much greater focus on efficient and effective marketing of Business Unit products.

In looking to 1988 and beyond, the main priority must continue to be to improve our overall financial performance. Our business requires a large amount of capital expenditure in the next few years. We cannot ask shareholders to invest new money if we cannot generate acceptable returns on the existing business.

The challenge and responsibility lies with us all. I am sure that each of us can respond to this challenge and contribute to establishing a strong and positive future for our Business Unit.



G. BILLARD  
Managing Director  
April, 1988.