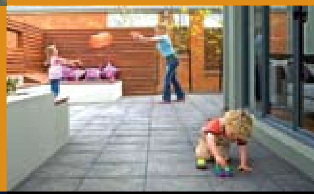
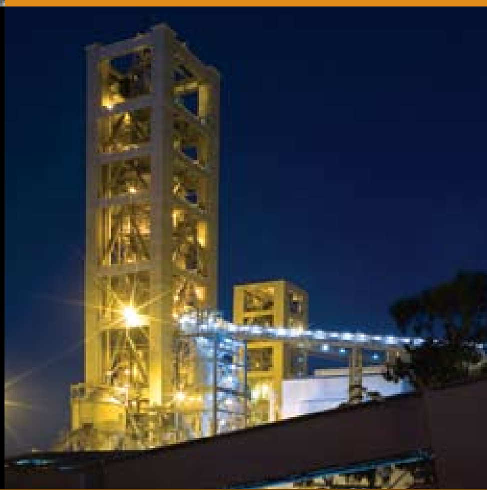
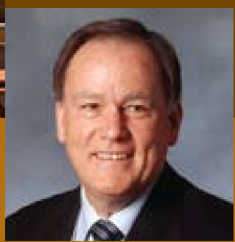
review of operations

The 2007 record profit was assisted by fairly consistent growth in construction materials markets in most states. Some regional weaknesses in residential construction were offset by further growth in the engineering, infrastructure and resource sectors.



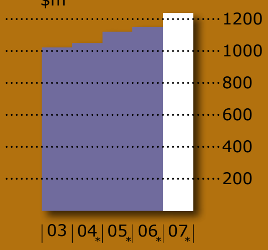




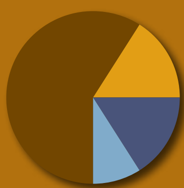
Tom Douglas
Executive General Manager
Marketing and Sales

Michael Kelly
Executive General Manager
Strategy and Business Development

Total assets
$m



* *Reported under AIFRS*



Turnover segmentation
- Cement
- Lime
- Concrete
- Concrete products

Sales by geographical segmentation
- Western Australia
- Victoria
- South Australia
- New South Wales
- Queensland
- Northern Territory

Cement and Lime sustained overall operating performance with an improved output. The operational cost improvement programme is embedded in the division and is beginning to deliver cost and volume benefits.

Adelaide Brighton Cement Ltd COCKBURN CEMENT Northern Cement LIMITED MCI Swan Cement

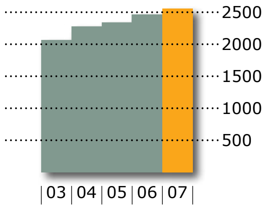
The delivery of demanding production targets to meet rising market demand was a key factor in the performance of the Cement and Lime division during the year. With all plants operating at close to capacity, the achievement of planned levels of uptime and consistent levels of output and quality were critical factors in achieving this result.

The South Australian plants at Birkenhead and Angaston worked in tandem to meet the increased demand both in local markets and in the seaborne supply of cement to Adelaide Brighton's joint ventures, Independent Cement and Lime Pty Ltd in Victoria and Sunstate Cement Limited in Queensland. Birkenhead cement milling efficiency was improved with record output and Angaston increased its lime output in order to meet increased market demand in the Northern Territory.

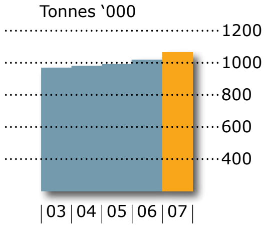
In the first half year, Birkenhead successfully managed peak electric power demand constraints, turning off cement mills when forecast pricing peaked to the benefit of both plant operating costs and overall demands on the local grid and South Australian power supply. However, despite these actions, underlying South Australian electricity pricing rose by approximately 40% over the prior year, a fundamental increase in cement manufacturing cost.

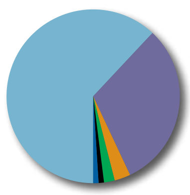
In the Northern Territory, both the Darwin based cement milling and the Mataranka lime operations increased output to maximum capacity in order to meet local demand.

Adelaide Brighton cement ground
(including imported clinker)
Tonnes '000



Adelaide Brighton lime production
Tonnes '000





Adelaide Brighton lime sales market sector demand
- Alumina
- Other mineral processing
- Building and construction
- Environmental
- Agriculture
- Other

Feasibility studies are underway to evaluate the options for increasing lime capacity at Mataranka with the likelihood of doubling capacity to meet forecast lime demand from the resources sector. The Angaston lime volumes used to supplement supply in 2007 were made at narrow margins due to the high transportation costs and are not sustainable in the long term.

In Western Australia, high levels of demand placed further output pressures on the operations at Munster, Kwinana and Dongara. The progressive realisation of the projected increased lime demand pushed Munster lime kilns 5 and 6 beyond their rated capacity limits and it was necessary to switch cement kiln 3 to lime production for a six week period in order to meet peaks in lime demand. As a result, additional clinker imports were made into Kwinana to meet the increased demand for cement.

Western Australian gas supply constraints became even more acute during 2007 necessitating the acceleration of the Munster lime kiln 6 coal milling, handling and firing investment. This $19 million investment was commissioned on New Year's Eve, and was critical in sustaining fuel supplies to Munster when gas supplies were constrained early in 2008. This investment has over halved the dependency on natural gas fuel at the Munster plant and will be essential in maintaining future uninterrupted fuel supply to the Munster operations.

This investment has also been complemented by the securing of long term coal and rail freight supply contracts and the switching of gas supplier to a preferred strategic partner.

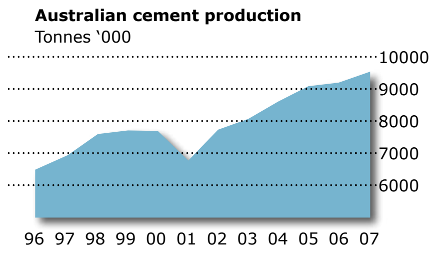
Meeting production targets was a key factor in the performance of the Cement and Lime division

Photograph courtesy of Robert Frith/Acorn Photo Agency

Transperth Canning Bridge Train Station. A part of the Public Transport Authority of Western Australia's Perth to Mandurah rail line, which required 250,000 concrtete sleepers over 72km of double track railway. Cockburn Cement supplied a range of cements for various applications.

The Cement and Lime division continues to progress the use of alternative fuels in order to optimise manufacturing cost, and reduce Adelaide Brighton's carbon footprint. The use of demolition wood waste as a replacement for natural gas was increased at the Birkenhead plant as was the oil combustion at Mataranka. The Company continues to explore opportunities to increase the use of alternative fuels and reduce its dependency on primary fuel resources.

The delivery of the 2007 - 2011 operational improvement programme has become the key priority in meeting future increases in cement and lime demand and optimising the Company's financial performance. Key capital projects designed to increase the capacity of the Munster lime kilns through eliminating process bottlenecks and improving plant uptime were approved during the year. At Birkenhead, plans have been put in place which are designed to extend refractory life and kiln uptime with the benefit of increasing clinker capacity. The benefits of these investments will begin to flow through in 2008.



Martin Brydon
Executive General Manager
Cement and Lime

Projects have been put in place at Birkenhead to extend refractory life and kiln uptime

CONCRETE AND AGGREGATES

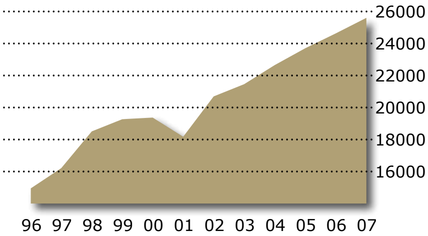
Continued focus on operating efficiency, optimisation of concrete mix designs and margins provided the basis for a record result for the Concrete and Aggregates division, together with strong concrete markets in Queensland and Victoria, and the growth in internal aggregate sales in New South Wales.

Concrete and Aggregates reported a record result for 2007 based on stronger demand in Queensland, improved operating performance and the achievement of operating scale performance at the Austen Quarry in New South Wales.

The performance in Queensland was complemented by the opening of the Beerwah plant in January which quickly achieved target volumes due to the increase in regional market activity. The New South Wales market remained depressed though overall state performance improved due to optimisation of concrete mix costs, the recovery of raw material cost increases in selling price and the first time contribution from the Austen Quarry.

Austen Quarry is operating at a scale sufficient to recover its fixed overheads and make a positive contribution to earnings. The switch of the western Sydney Hy-Tec concrete plants to Austen aggregates and manufactured sand together with local supplies of road base to the Blue Mountains region, have been key factors in achieving this operating scale.

Australian concrete production
Tonnes '000m^3



Improved distribution efficiencies and mix costs also improved the Hy-Tec Victoria earnings though returns from this market continue to be challenged by higher raw material costs and lower concrete margins.

In December, the Company acquired a 50% ownership of the Mawson Group, a long established quarry, sand and concrete company based in Cohuna in northern Victoria. This joint venture ownership is aligned with Adelaide Brighton's strategy of selective vertical integration and gives the Company an important position in an emerging regional market. Mawsons brings with it long term reserves of high quality aggregates, quarrying skills and operational expertise which will complement the emerging Hy-Tec aggregates business. The Adelaide Brighton ownership will in turn secure the long term, competitive cement supply to the Mawson Group.

As demand for 'green' product grows, Hy-Tec has equipped batching plants to supply this emerging product stream

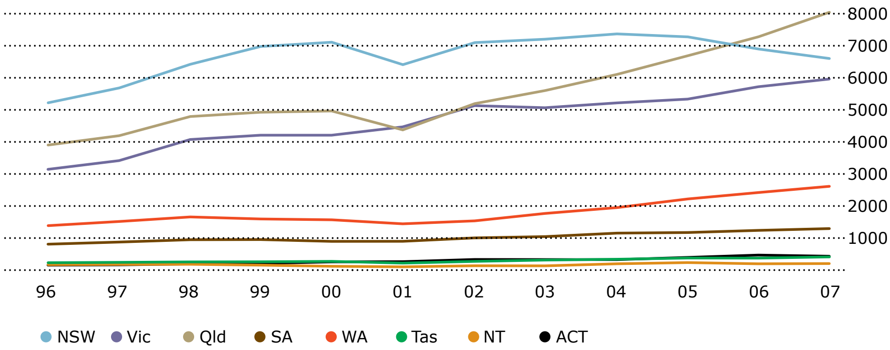
A smaller scale position was taken in the emerging north eastern New South Wales region with the acquisition of the Hurd Haulage Pty Ltd, Kancon and Port Minimix businesses to form an integrated quarry and concrete materials supply base in this region. Consistent with the overall Company strategy, these acquisitions have been successfully integrated into the Hy-Tec business and will provide a platform for future profit growth in this emerging market.

Mark Finney
Executive General Manager
Concrete and Aggregates

Hy-Tec Beerwah plant in Queensland

Fully commissioned Austen Quarry makes a positive contribution to Hy-Tec's earnings

Australian concrete production by state
Tonnes '000m³



CONCRETE PRODUCTS

The 2007 year was challenging for C&M Brick as weaker sales in its core New South Wales market and one-off restructuring costs impacted earnings. Through the delivery of plant efficiencies, customer service and product quality, the South Australian operations were able to grow for the third consecutive year.

In 2007 there was a reversal in C&M Brick's profit growth due to a further weakening of the New South Wales market as a result of reduced market demand and increased competitor activity. Overall C&M's sales revenue declined by 6.5% to $82.5 million, predominantly due to New South Wales, and earnings before interest and tax fell by $6.8 million to $2.0 million.

After one off restructuring and a prior year inventory adjustment taken in 2007, the normalised underlying earnings for 2007 were $5.3 million compared with $7.7 million in 2006.

Despite the reduction in sales turnover, it was possible to realise sales price increases in most markets to recover the underlying raw material cost increases reflecting the cost and margin pressures in the industry as a whole.

C&M Brick plant improvement initiatives have resulted in an overall improved energy efficiency by 10%

Sales in Victoria dipped in the first half year but showed some recovery in the second half. South Australia continued its earnings improvement based on increased margins through improved product mix, production efficiency and realisation of price increases.

C&M Brick continues to review its fix cost operating base to optimise future returns in line with forecast demand.

Steve Rogers
Executive General Manager
Concrete Products

C&M Brick's Stradapave® used in residential paving

JOINT VENTURES

The continued strength of markets in Queensland and Victoria has supported improved contribution to Company performance in 2007 from Sunstate Cement Limited and Independent Cement and Lime Pty Ltd.

Independent Cement and Lime Pty. Ltd.

Sunstate Cement

Sunstate Cement Limited, a joint venture between Adelaide Brighton and Blue Circle Southern Cement, is a cement milling, storage and distribution facility at Fisherman Islands, Port Brisbane. Sunstate is supplied with seaborne supply of clinker both from the Adelaide Brighton Birkenhead plant and also from imports from south east Asia. With a capacity of over one million tonnes per year of both bulk and bagged cement products, Sunstate Cement is an important scale supplier to Queensland's construction industry.

In a strong Queensland market, demand for cement products continued to grow with Sunstate Cement reaching its maximum supply capacity during periods of peak demand. Based on this increased demand and optimising its operational and logistical expertise, Sunstate Cement showed continued profit growth during 2007 providing a valuable contribution to the overall Adelaide Brighton result. In order to meet the future demand arising from projected Queensland growth, Sunstate Cement has begun its investment in additional cement milling and cement and clinker storage capacity. This expansion, which will be completed in mid 2009, will increase Sunstate Cement's capacity for the supply of bulk and bagged cement products to 1.5 million tonnes per annum.

Independent Cement and Lime Pty Ltd (ICL)

Independent Cement and Lime Pty Ltd, a joint venture between Adelaide Brighton and Barro Group Pty Ltd, is a specialist supplier of cement, cement blended products, and agricultural lime to a wide variety of industries, major retail outlets, and agricultural markets throughout Victoria and New South Wales. ICL is also supplied with cement both from Birkenhead and imported sources.

Continued buoyant demand for cement products in Victoria provided the base for further profit growth in ICL and an improved valuable contribution to Adelaide Brighton's earnings.

Further increases in demand in Victoria took the cement capacity of the shared Melbourne Cement Facility operations close to capacity levels and the construction of a new cement silo was largely completed in 2007. When commissioned, this silo will release further dedicated cement storage for ICL providing for future market growth. In addition, this will improve the supply chain efficiency and costs and enhance customer service in the Victorian market.

Alternative Fuel Company Pty Ltd (AFC)

Alternative Fuel Company Pty Ltd is a joint venture between Adelaide Brighton and Adelaide based Resourceco Pty Ltd. AFC processes selected combustible construction and demolition waste (primarily timber waste) into fuel suitable as a replacement for traditional fossil fuels. The demolition wood waste is utilised by Adelaide Brighton's Birkenhead plant as a substitute for natural gas in the kiln. This resource recovery process diverts demolition wood waste away from landfill and delivers a major environmental benefit to South Australia by reducing material going to landfill and also reducing greenhouse gas emissions by replacing natural gas.

AFC is now providing a key environmental and cost benefit to South Australia in reducing the quantities of demolition waste sent to landfill and supplementing the primary natural gas fuel stream used at Adelaide Brighton's Birkenhead plant.

The use of landfill is rapidly diminishing in developed countries due to its high environmental cost. The pressure from the introduction of landfill levies, for example, has been used in Europe to develop environmentally sound waste disposal methods. Appropriate levels of landfill levy in South Australia are now being imposed which will ensure viable waste reuse alternatives to landfill are sustainable.

Mawsons

Mawson Group (Mawsons) is a joint venture between Adelaide Brighton and BA Mawson Pty Ltd. Mawsons is the largest ready mixed concrete and quarry operator in the northern regional Victoria and southern regional New South Wales and holds leading market positions in the markets it serves.

In December 2007, Adelaide Brighton made a strategic 50% investment in Mawsons, a mid sized independent aggregates and concrete business based in northern Victoria and southern New South Wales. Mawsons is a long established and well managed integrated business renowned for high levels of customer service and product quality supply to its regional markets.

In addition to bringing a future profit stream to Adelaide Brighton consistent with its downstream integration strategy, Mawsons also will provide opportunities for skills sharing and transfer with the existing Adelaide Brighton Hy-Tec Concrete and Aggregates division.