

CORPORATE GOVERNANCE STATEMENT

This statement provides an outline of the main corporate governance practices that the Company had in place during the past financial year.

The Board is committed to conducting the Company's business ethically and in accordance with high standards of corporate governance. To this end, the Board (together with the Company's management) regularly reviews the Company's policies, practices and other arrangements governing and guiding the conduct of the Company and those acting on its behalf.

The Board believes that the Company's policies and practices have complied in all substantial respects with corporate governance best practice in Australia, including the revised ASX Corporate Governance Council Principles and Recommendations released in August 2007.

1 The Board of Directors

The Board operates in accordance with the general principles set out in its Charter, which is available from the corporate governance section of the Company's website at: www.adbri.com.au.

1.1 Role of the Board

The role of the Board of Directors is to protect and optimise the performance of the Group and accordingly the Board takes accountability for setting strategic direction, establishing policy, overseeing the financial position and monitoring the business and affairs of the Group on behalf of shareholders.

Responsibility for the day-to-day management of the Company is delegated to the Managing Director and senior management.

Responsibilities of the Board include:

- Selecting, appointing and evaluating from time to time the performance of, determining the remuneration of, and planning for the successor of, the Group Managing Director.
- Reviewing procedures in place for appointment of senior management and monitoring of its performance, and reviewing executive development activities. This includes ratifying the appointment and the removal of the Chief Financial Officer and the Company Secretary.

- Input into and final approval of management's development of corporate strategy, including setting performance objectives and approving operating budgets.
- Reviewing and guiding systems of risk management and internal control and ethical and legal compliance. This includes reviewing procedures in place to identify the main risks associated with the Company's businesses and the implementation of appropriate systems to manage these risks.
- Monitoring corporate performance and implementation of strategy and policy.
- Approving major capital expenditure, acquisitions and divestitures, cessation of any significant business activity and monitoring capital management.
- Monitoring and reviewing management processes in place aimed at ensuring integrity of financial and other reporting.
- Monitoring and reviewing policies and processes in place relating to occupational health and safety, compliance with laws, and the maintenance of high ethical standards.
- Formulating the Company's policy in relation to, and monitoring implementation of, sustainable resource use and the impact of the Company's operations on the environment, community and stakeholders.
- Performing such other functions as are prescribed by law or are assigned by the Board.

In carrying out its responsibilities and functions, the Board may delegate any of its powers to a Board committee, a Director, employee or other person subject to ultimate responsibility of the Directors under the *Corporations Act 2001*.

The respective roles and responsibilities of the Board and management are outlined further in the Board Charter.

1.2 Composition of the Board

The composition of the Board is determined using the following principles:

- The Board may, in accordance with the Constitution, comprise up to ten Directors.
- The Chairman of the Board should be an independent non-executive Director.

The Board should comprise Directors with a broad range of experience reflecting the character of the Group's business. The Board is structured in such a way that it has proper understanding and competency in the current and emerging issues facing the Company, and can effectively review and challenge management's decisions. Details of the Directors as at the date of this report, including their qualifications, experience, expertise, terms of office, other past and present Directorships, and special responsibilities are set out on page 31 of this report.

As at the end of the year, the Board had six non-executive Directors, five of whom are deemed independent under the principles set out below, and an executive Managing Director.

Directors' independence

The Board has adopted the definition of independence set out in the IFSA Blue Book (a copy of which is available at www.ifsa.com.au). The Board has developed guidelines to determine materiality thresholds for the purposes of that definition. In general, these guidelines seek to determine whether the Director is generally free of any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The Directors have concluded that the period of a Director's tenure will not automatically disqualify that Director from being regarded as independent. An assessment must be made on a case-by-case basis, with reference to the length of service, of whether the Director's ability to act in the best interests of the Company has been materially interfered with.

Having regard to these factors, the Directors are of the view that Mr D Barro is the only non-executive Director who is not considered "independent" by virtue of his position as a Director, Executive Chairman, and shareholder of Barro Group Pty Ltd, which controls 50% of the Company's joint venture, Independent Cement & Lime Pty Ltd. Independent Cement and Lime Pty Ltd has an ongoing trading relationship with the Barro Group of companies.

Mr Barro also has a shareholding in, but is not a Director of Barro Properties Pty Ltd, which is a substantial shareholder in the Company.

1.3 **Term of office and re-election**

The Company's Constitution requires one third of the Directors to retire from office at the annual general meeting each year. Retiring Directors are eligible for re-election.

The Board considers it inappropriate for a Director to offer himself or herself for re-election unless a performance appraisal has been undertaken. The Nomination and Remuneration Committee is responsible for monitoring the length of service of current Board members (although a strict tenure policy has not been adopted), monitoring the skills and expertise of Board members, considering succession planning issues and identifying the likely order of retirement by rotation of non-executive Directors.

1.4 **The roles of the Chairman and the Managing Director**

The Chairman's responsibility is to lead the Board, ensure Directors are properly informed on all matters relevant to the discharge of their role and responsibilities, facilitate constructive Board discussions and manage the Board's relationship with the Company's senior executives.

The Managing Director is responsible for the management of the Company with powers delegated to him by the Board. He is also responsible for implementing the Company's strategies and policies set by the Board.

To maintain independent oversight and an appropriate balance of power within the Company, these roles are undertaken by different individuals.

1.5 **Commitment**

Non-executive Directors are expected to devote the necessary time to discharge their duties. This means that they will commit sufficient time required in the preparation for and attendance of Board and committee meetings and associated activities.

The number of meetings of the Company's Board of Directors and each Board committee held during the year and the attendance at those meetings is set out on 36 of this report.

Prior to appointment, non-executive Directors are required to provide the Nomination and Remuneration Committee with details of other commitments and an indication of time involved and to acknowledge that they will have adequate time to meet what is expected of them.

Non-executive Directors are expected to consider their obligations to the Company and to consult with the Chairman before accepting appointments outside the Company which might conflict with or impact on the time a non-executive Director is able to devote to the Company in the role of non-executive Director of the Company.

1.6 **Conflicts of interest**

In order to ensure that any "interests" of a Director in a particular matter to be considered by the Board are known by each other Director, the Company has developed protocols, consistent with obligations imposed by the *Corporations Act 2001*, to require each Director to disclose any relationships, duties or interests held that may give rise to a potential conflict. Appropriate procedures have been adopted to ensure that, where the possibility of a material conflict arises, information is not provided to the Director, and, in accordance with the *Corporations Act 2001*, the Director does not participate in, or vote at, the meeting where the matter is considered.

1.7 **Performance evaluation**

The Board, Board committees, individual Directors and the Company's key executives are all required to participate in annual performance reviews.

Directors must provide written feedback in relation to the performance of the Board (and its committees) against a set of agreed criteria. Each committee of the Board is also required to provide feedback in terms of a review of its own performance.

Generally, feedback is collected by either the Chairman or an external facilitator and is discussed by the Board, which considers whether any steps should be taken to improve performance.

For the 2007 financial year, a performance evaluation was led by the Chairman to assess the performance of individual Directors, the Board as a whole and various aspects of the Board committees such as their performance, membership, roles and Charters.

The purpose of the review was to assess strengths and weakness, and to identify areas which might be improved if there were some change. The findings of this performance review have been considered by the Board, individual Directors and the Board committees and have been, and continue to be, taken into account in planning and conducting Board and committee matters in 2008.

Executives and managers are also subject to an annual performance review in which performance is measured against agreed business objectives. The performance of the Managing Director is assessed by the Board against objectives related to the Company's strategy and business plans.

For the 2007 financial year, the performance of the Managing Director was reviewed by the Chairman, the Nomination and Remuneration Committee and the Board against the achievement by the business and the Managing Director of agreed objectives. The performance of the Company's senior executives during 2007 was reviewed by the Managing Director, and by the Nomination and Remuneration Committee led by the Managing Director and the Executive General Manager, Human Resources.

A description of the Company's performance evaluation process is available in the corporate governance section of the Company's website at www.adbri.com.au.

1.8 **Independent professional advice**

Directors have the right, in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense, provided the costs are reasonable and the advice is specific.

Prior approval from the Chairman is required, which will not be unreasonably withheld.

2 Committees of the Board

To assist the Board in fulfilling its responsibilities, the Board has established a number of committees with responsibility for particular areas.

Each committee has a specific Charter. The Charters for the Audit, Risk and Compliance Committee and the Nomination and Remuneration Committee are available on the corporate governance section of the Company's website at: www.adbri.com.au. The Board periodically reviews each Board committee's Charter.

Generally, minutes of committee meetings are tabled at the immediate subsequent Board meeting. Additional requirements for specific reporting by the committees are addressed in the Charter of the individual committees.

2.1 **Audit, Risk and Compliance Committee**

The Audit, Risk and Compliance Committee is made up of four independent non-executive Directors: L V Hosking (Chairman), C L Harris, G F Pettigrew, and M A Kinnaird.

Details of these Directors' qualifications and attendance at Audit, Risk and Compliance Committee meetings are set out on pages 31 and 36 respectively of this report.

The Committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Company operates.

The main responsibilities of the Committee include:

- To review, assess and approve the annual financial reports, the half-year financial report and the results of external audit or review; and all other financial information published by the Company or released to the market.
- To review the appropriateness of accounting principles adopted by management in the composition and presentation of financial reports and to approve any change in the accounting principles applied in preparing the Company's reports.

- To evaluate the independence of both the non-executive Directors and external auditors and to monitor the implementation of the Board's policy in relation to the provision of non-audit services by the Company's auditor (referred to in paragraph 6.1 below).
- To recommend to the Board the appointment, removal and remuneration of the external auditors, to review the terms of their engagement, the scope and quality of the audit and to assess performance.
- To determine the scope of the internal audit function and ensure that it has adequate resources to fulfil its role, and to assess its performance, including independence.
- To determine whether new policies or training should be implemented to safeguard against possible risks or non-compliance with applicable laws, regulations or Company policies.
- To monitor compliance with the Company's policies and procedures that recognise the Company's business, environmental and statutory responsibilities.
- To report the results of the Committee's review of risk management and internal compliance and control systems to the Board.

Members of management may attend meetings of the Committee at the invitation of the Committee Chairman. It is the practice of the Committee that the Managing Director, the Chief Financial Officer and the Company Secretary attend all Audit, Risk and Compliance Committee meetings. The Group Risk Manager generally attends meetings of the Committee when non-financial risk management matters are considered.

Further, in fulfilling its responsibilities, the Committee has rights of access to management and to auditors (external and internal) without management present and may seek explanations and additional information. The Committee may, with the approval of the Board, engage any independent advisers in relation to any matter pertaining to the powers, duties and responsibilities of the Committee.

2.2 **Nomination and Remuneration Committee**

The Nomination and Remuneration Committee is made up of four independent non-executive Directors: C L Harris (Chairman), M A Kinnaird, L V Hosking and G F Pettigrew.

Details of these Directors' attendance at Nomination and Remuneration Committee meetings are set out on page 36 of this report.

The role of the Committee is to assist and advise the Board on matters relating to the appointment and remuneration of the non-executive Directors, Managing Director and other senior executives of the Company.

The Committee:

- Reviews (and recommends to the Board) the fees paid to non-executive Directors, within the limits approved by shareholders.
- Reviews (and recommends to the Board) the compensation arrangements for the Managing Director, including short term and long term incentives.
- Reviews performance targets, and approves recommendations from the Managing Director on total levels of remuneration, for senior executives.
- Oversees the implementation of the Company's short term and long term incentive arrangements, including assessing the extent to which performance conditions are satisfied and making relevant awards.
- Assesses the appropriate mix of skills, experience and expertise required on the Board and assesses the extent to which these required skills are represented on the Board.
- Establishes processes for the identification of suitable candidates for appointment to the Board, engages appropriate search firms to assist in identifying suitable candidates and makes a recommendation regarding the most appropriate candidates to the Board which ultimately will appoint the new Directors.
- Oversees or designs induction and ongoing training and education programs for the Board to ensure that non-executive Directors are provided with adequate information regarding the operations of the business, the industry and their legal responsibilities and duties.

- Monitors the tenure of Board members, considering succession planning and identifying the likely order of retirement by rotation of non-executive Directors.
- Establishes processes for the review of the performance of individual non-executive Directors, the Board as a whole and the operation of Board committees.

It has been the practice of the Nomination and Remuneration Committee on occasion to invite other Directors to attend Committee meetings. Members of management, particularly the Executive General Manager, Human Resources, may also attend meetings of the Committee at the invitation of the Committee Chairman, whenever particular matters arise that require management participation.

New Directors are provided with a letter of appointment setting out their term of appointment, powers, expectations of the Company and rights and obligations. The Company's induction process covers the operation of the Board and its committees, and the Company's financial, strategic, operational and risk management positions. All new Directors are required to become familiar with these matters through the induction process or otherwise by making enquiries of the Chairman, the Company Secretary or the Company's management.

Further information on Directors' and executives' remuneration is set out in the Remuneration Report and Note 32 to the Financial Statements.

2.3 **Safety, Health and Environment Committee**

The members of the Safety, Health & Environment Committee (SH&E Committee) are G F Pettigrew (Chairman), M A Kinnaird, J D Mc Nerney and M P Chellew (Managing Director).

The Committee has a broad role in reviewing safety, health and environmental matters across the Group. Committee meetings are also attended by the Company's Chief Financial Officer, its General Counsel, and the Executive General Manager, Human Resources.

Generally when a SH&E Committee meeting is held, it normally meets prior to a Board meeting with the SH&E Committee Chairman reporting at the Board meeting about the proceedings of the Committee.

Details of members' attendance at Safety, Health & Environment Committee meetings in 2007 are set out on page 36.

2.4 **Other Board committees**

The Corporate Governance Committee comprises L V Hosking (Chairman), M A Kinnaird and C L Harris. The role of the Committee is to oversee the Company's implementation and compliance with best practice in corporate governance applicable to the circumstances of the Company. This Committee is responsible for ensuring the periodic review of the Company's charters and policies and recommending any changes that may be necessary from time to time.

The Board established a permanent committee, the Independent Directors' Committee, on 27 October 2003. The role of the Committee is to investigate and consider corporate proposals made to the Company. The Committee comprises Directors who do not have any conflict of interest concerning the matters considered by the Committee. The present members of the Committee are M A Kinnaird (Chairman), C L Harris, L V Hosking, J D Mc Nerney, G F Pettigrew and M P Chellew (Managing Director).

3 **Director and executive remuneration**

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced personnel. Performance, duties and responsibilities, market comparison and independent advice are all considered as part of the remuneration process.

The structure and details of the remuneration paid to the Directors and senior executives during the period are set out in the Remuneration Report on pages 38 to 48 of this Report and Note 32 to the Financial Statements.

4 **Managing Director and Chief Financial Officer Certification**

The Managing Director and Chief Financial Officer have made the following certifications to the Board:

- That the Company's financial reports present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards.
- That the Company has adopted an appropriate system of risk management and internal compliance and control which implements the policies adopted by the Board and forms the basis for the statement given above.
- That the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

5 **Risk management and internal controls**

5.1 **Managing risks**

The Board, through the Audit, Risk and Compliance Committee, is responsible for ensuring there are adequate policies in relation to risk management and internal compliance and control systems. It is part of the Board's oversight role to regularly review the effectiveness of the Company's implementation of that system. Management is responsible for identifying and managing risks to the Company's businesses. The Board, through the Committee, monitors the management of these risks.

In brief, the Company's risk management framework is designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives.

5.2 Internal controls framework

A robust control environment is fundamental to the effectiveness of the Company's risk management framework. The Company has a clear organisational structure with clearly drawn lines of accountability and delegation of authority. Matters reserved for the Board are set out in the Board Charter which is available on the Company's website. All Directors, executives and employees are required to adhere to the Code of Conduct (described below) and the Board actively promotes a culture of quality and integrity.

Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures.

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will prevent all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that can be described as follows:

- Financial reporting: there is a comprehensive budgeting system with an annual budget reviewed and approved by the Board. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The Group reports to shareholders half-yearly. Procedures are also in place to ensure that price sensitive information is reported to the Australian Stock Exchange in accordance with continuous disclosure requirements.
- Operating unit controls: financial controls and procedures including information systems controls are in operation throughout the consolidated entity. Operating units complete detailed questionnaires confirming compliance with these procedures.
- Functional speciality reporting: the Group has identified a number of key areas which are subject to regular reporting to the Board, such as safety and environment, risk management, taxation, finance and administration.

- Investment appraisal: the Group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of delegated authority and due diligence requirements where businesses are being acquired or divested.
- Internal audit: assists the Board in ensuring compliance with internal controls. The Audit, Risk and Compliance Committee reviews and approves the selection and engagement of internal auditors, the internal audit programme to be conducted each financial year, and the scope of the work to be performed at each location. The internal auditors provide the Committee with their comments and recommendations about the identification of areas perceived to be of a greater level of risk than others, and any areas for other reasons requiring particular scrutiny. The Committee receives and reviews the reports of the internal auditors.
- Delegated authorities and restrictions: there is a comprehensive procedure which provides a framework that enables employees to operate and act within clearly defined and communicated parameters.

A description of the Company's risk management policy and internal compliance and control system is available from the corporate governance section of the Company's website at www.adbri.com.au.

6 External auditors

The Company and Audit, Risk and Compliance Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers remains the external auditor of the Company for the Group's financial report for the year ended 31 December 2007.

6.1 Non-audit services and Auditor independence

The Board has adopted a policy in relation to the provision of non-audit services by the Company's external auditor, which is based on the principle that work that may detract from the external auditor's independence and impartiality (or that may be perceived as doing so) should not be carried out by the external auditor.

During the year, the Company's external auditors advised on the preparation of Research and Development claims for taxation purposes and on indirect tax compliance. The Board does not believe that the provision of these non-audit services compromises the external auditors' independence.

Details and the break down of fees for non-audit services and an analysis of fees paid to external auditors are provided in Note 33 to the Financial Statements.

A copy of the auditors' independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 96 of this report.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditors' report.

7 Insurance

In order to protect shareholders' funds, the Company carries insurance which the Board considers is sufficient for the size and nature of the Company's business.

8 Code of conduct

The Company is committed to upholding the highest ethical standards of corporate behaviour. A Code of Conduct has been adopted, which requires that all Directors, senior management and employees act with the utmost integrity and honesty. It aims to further strengthen the Company's ethical climate by promoting practices that foster the Company's key values of:

- Acting with fairness, honesty and integrity.
- Being aware of and abiding by laws and regulations.
- Individually and collectively contributing to the wellbeing of shareholders, customers, the economy and the community.
- Maintaining the highest standards of professional behaviour.
- Avoiding or managing conflicts of interest.
- Striving to be a good corporate citizen, and to achieve community respect.

The Code of Conduct is publicly available on the Company's website.

The Company has also adopted policies requiring compliance with (amongst others) occupational health and safety, environmental, privacy, fair treatment, equal employment opportunity and trade practices law. There are ongoing programmes for the audit of the Company's operations. Occupational health and safety, environmental, and other risks are covered by these audits.

Employees are encouraged to attend training or seminars presented by the Company or external service providers to ensure that they remain up-to-date with relevant legal and industry developments.

The Code requires all officers, employees, contractors, agents or people associated with the Company to report any potential breaches to the Company Secretary under the whistleblower program. This may be done anonymously.

In the interest of investor confidence, the Company has a formal policy governing the trading of the Company's securities by Directors, officers and employees. A summary of this policy is set out below.

9 Shareholdings of Directors and employees

Under the Constitution (adopted at the 2005 Annual General Meeting), Directors are not required to hold any shares to qualify for appointment. The details of Directors' shareholdings are disclosed on page 36 of this report.

The Board has a policy that Adelaide Brighton Ltd Directors and employees may not buy or sell Adelaide Brighton Ltd shares except within the period of one month following the annual and half-yearly results announcements and the period from the release of the Company's annual report until one month after the annual general meeting. The policy supplements the *Corporations Act 2001* provisions that preclude Directors and employees from trading in securities when they are in possession of "insider information".

The Board has also adopted a Policy that prohibits executives from hedging (or otherwise locking in a profit over) unvested securities issued under the Company's Share Plans.

A summary of the Share Trading Policy is available on the Company's website at www.adbri.com.au.

10 Continuous disclosure and communication with shareholders

The Company is committed to providing relevant and timely information to its shareholders and to the broader market, in accordance with its obligations under the ASX continuous disclosure regime.

The Company's Continuous Disclosure Policy is available on the Company's website and sets out guidelines and processes to be followed in order to ensure that the Company's continuous disclosure obligations are met. Material information must not be selectively disclosed prior to being announced to the ASX. These policies and procedures are supplemented by the Shareholder Communications Policy (also published on the Company's website) which includes arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings.

The Company Secretary has been nominated as the person responsible for communicating with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the Listing Rules and overseeing and coordinating (with the Group Corporate Affairs Adviser) information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The Company's website contains copies of annual reports, financial accounts, presentations, media releases and other investor relations publications. All relevant announcements made to the market, and any related information, are also posted on the Company's website as soon as they have been released to the ASX.

The Board encourages full participation of shareholders at the Annual General Meeting in order to promote a high level of accountability and discussion of the Company's strategy and goals.



Marcus Clayton
General Counsel and
Company Secretary