

Corporate governance

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 ASX Corporate Governance Council Principles of Good Corporate Governance.

Role of the Board

The Board of Directors is responsible for the performance of the Company (being the parent entity and wholly owned subsidiaries) and accordingly takes accountability for setting strategic direction, establishing policy, overseeing the financial position and monitoring the business and affairs on behalf of shareholders.

Responsibility for the day-to-day management of the Company is delegated to the Managing Director and senior management. The Board is responsible for selecting, appointing and evaluating the performance of the Managing Director, as well as for reviewing the procedures that are in place for appointing and monitoring the performance of senior management.

The respective roles and responsibilities of the Board and management are outlined further in the Board charter, which can be viewed on the corporate governance section of the Company's website.

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 nine Directors; and
- 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. Details of the Directors as at the date of this report, including their qualifications and experience, are set out on page 27.

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 at the end of this statement.

As at the end of the year, the Board had six non-executive Directors and an executive Managing Director.

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. Details of each Director's period of office is set out on page 27.

Having regard to these factors, the Directors are of the view that Mr Dave Barro is the only non-executive Director who is not considered "independent" by virtue of his position as a director 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.



Marcus Clayton
General Counsel and
Company Secretary

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.

As at the date of this statement, Mr McNerney is considered to be an independent Director following the disposal during the year of the RMC Group shareholding in the Company.

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.

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 Director, the Company has developed protocols, consistent with obligations imposed by the Corporations Act, 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, the Director does not participate in, or vote at, the meeting where the matter is considered.

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.

This year, a performance evaluation was conducted to assess the performance of individual Directors and the Board as a whole. The purpose of the review was to identify areas of weakness and scope for improvement. The findings of this performance review have been used to develop a series of "action items" designed to enhance Board performance.

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.

Remuneration - non-executive Directors

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 fees for the Chairman and other non-executive Directors are set within the aggregate amount approved by shareholders, at levels that reflect the responsibilities and time commitments provided by those Directors to the Company in discharging their duties. Currently, the Chairman is paid an annual fee of \$182,060. Other non-executive Directors are each paid an annual base fee of \$48,870 plus the following remuneration for additional committee workload:

- Non-executive Directors who act as a Chairman of any of the Board Committees are paid an additional annual fee of \$6,000, and
- Non-executive Directors who are members of any of the Board Committees are paid an additional annual fee of \$4,750.

The Chairman receives no additional fees for Committee work.

Non-executive Directors generally also have the benefit of an additional contribution of 10% of fees towards superannuation. This additional 10% is not made available for Messrs Kinnaird, Barro and McNerney, for whom no superannuation contributions are made.

Currently, the total maximum aggregate amount of fees payable to the Chairman and non-executive Directors is \$500,000 per annum, which was set by shareholders at the 2003 Annual General Meeting.

It is proposed to seek shareholder approval of an increase in the maximum aggregate amount which can be paid as remuneration to non-executive Directors at the 2005 Annual General Meeting from \$500,000 to \$700,000 per annum. In the past, the Company did not pay fees to the two Directors who were representatives of the RMC Group. Following the disposal of the RMC Group shareholding in the Company, Mr Brooks resigned as a Director. Mr McNerney, at the request of the Board, remains a Director given his level of experience in the industry in which the Company operates and now receives fees for his services as a Director of the Company. The Company has also appointed an additional independent Director to the Board. The increase is being sought to ensure that the Company has sufficient flexibility to pay fees to Directors commensurate with those fees paid by the Company's peers in order to attract and retain Directors of sufficient calibre. Further details regarding this proposal are set out in the Notice of Annual General Meeting.

Full details of the remuneration paid to non-executive Directors are set out in note 33 to the financial statements on page 60 of this report.

Remuneration - Managing Director and senior executives

The structure and details of the remuneration paid to the Managing Director and key executives during the period are set out in note 33 to the financial statements on page 60 of this report.

Shareholdings of Directors and employees

All Directors are required to own at least 1,000 ordinary shares in Adelaide Brighton Ltd, and the details of Directors' shareholdings are disclosed in the Directors' report.

The Board has a policy that Adelaide Brighton Ltd Directors and employees may not buy or sell Adelaide Brighton Ltd shares except within a 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 provisions that preclude Directors and employees from trading in securities when they are in possession of 'insider information'.

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.

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 (or summaries of 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 (www.adbri.com.au). The Board periodically reviews each Board Committee's charter.

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee is made up of three independent non-executive Directors: LV Hosking (Chairman), CL Harris and GF Pettigrew.

The Committee:

- oversees the financial reports and the results of external audit of these reports;
- reviews the appropriateness of accounting principles adopted by management in the composition and presentation of financial reports;
- evaluates the independence of both the non-executive Directors and external auditors;
- assesses the performance and objectivity of the internal audit function;
- determines whether new policies or training should be implemented to safeguard against possible risks or non-compliance with applicable laws, regulations or Company policies;
- monitors compliance with the Company's policies and procedures that recognise the Company's business, environmental and statutory responsibilities; and
- reports 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. The Chief Financial Officer or Company Secretary attend all Audit, Risk and Compliance Committee meetings as minute secretary.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is made up of three independent non-executive Directors: CL Harris (Chairman), MA Kinnaird and LV Hosking.

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 and employees 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;
- 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); and
- 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 may also attend meetings of the Committee at the invitation of the Committee Chairman, whenever particular matters arise that require management participation.

Other Board Committees

The OH&S Committee was constituted on 24 August 2004. It currently comprises Mr GF Pettigrew (Chairman), Mr MA Kinnaird, Mr JD McNerney and Mr MP Chellev. The role of the OH&S Committee is to review safety, health and environmental matters.

The Corporate Governance Committee was constituted on 13 May 2003. It currently comprises Mr LV Hosking (Chairman), Mr MA Kinnaird and Mr CL Harris.

While the Committee's role is to oversee the Company's implementation and compliance with best practice in corporate governance, to date corporate governance matters have been dealt with at Board level or by individual Directors to whom tasks have been delegated. This has included the Chairman of the Committee, currently Mr LV Hosking.

The Board established a permanent Committee, the Independent Directors' Committee, on 27 October 2003. Its function 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 Mr MA Kinnaird (Chairman), Mr CL Harris, Mr LV Hosking, Mr JD McNerney, Mr GF Pettigrew and Mr MP Chellev.

In addition, on 16 December 2003, the Board formed a further Committee of Directors, the Independent Directors' (Takeover Offer by Boral Ltd) Committee, to consider and manage the response to the takeover offer received from Boral Ltd. During the period of the takeover offer the members of the Committee were Mr MA Kinnaird (Chairman), Mr CL Harris, Mr LV Hosking and Mr MP Chellev. Mr D Barro was a member of the Committee until 7 January 2004, when he informed the Committee that he would cease to be a member due to a potential conflict of interest. The Committee's function concluded with the closure of Boral's takeover offer.

Managing risks

Management is responsible for identifying and managing risks to the Company's businesses. The Board, through the Audit, Risk and Compliance Committee, monitors management of these risks.

Internal controls and framework

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 preclude 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 approved by the Directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The consolidated entity 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 consolidated entity has identified a number of key areas which are subject to regular reporting to the Board, such as safety and environment and finance and administration.
- *Investment appraisal*: the consolidated entity 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 approves the internal audit programme to be conducted each financial year, and the scope of the work to be performed at each location.
- *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.

In accordance with best practice, a system is being developed to provide appropriate assurances to the Board. This will include the Chief Executive Officer and Chief Financial Officer being required to provide written assurances to the Board as to the integrity of the Company's risk management and internal compliance and control systems and financial reports. This will include declarations that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

External auditor

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 carried out an Auditor's Due Diligence on behalf of the Company in relation to a potential business acquisition. The Board does not believe that the provision of this non-audit service compromises the external auditor's independence.

An analysis of fees paid to external auditors including fees for non-audit services is provided in note 34 to the financial statements.

The Company will invite the external auditor to 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 auditor's report.

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.

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 well-being of shareholders, customers, the economy and the community;
- maintaining the highest standards of professional behaviour;
- avoiding or managing conflicts of interest; and
- striving to be a good corporate citizen, and to achieve community respect.

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

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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 audit of the Company's operations. Occupational health and safety, environmental, and other risks are covered by these audits.

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

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 Australian Stock Exchange.

The Company's website contains copies of our 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 Australian Stock Exchange.

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.

Availability of charters and policies on Company website

The Company's website (www.adbri.com.au) contains the charters and policies (or summaries of the relevant charters and policies) that form the nucleus of the Company's corporate governance practices (as summarised in this statement).

Directors' meetings

The number of Directors' meetings and meetings of committees of Directors held during the financial year and the number of meetings attended by each Director are as follows:

Director	Board Meetings		Audit, Risk and Compliance Committee		Nomination and Remuneration Committee		Independent Directors' Committee		Board Sub-Committee of Independent Directors' (takeover offer by Boral Ltd)		OH&S Committee	
	A	H	A	H	A	H	A	H	A	H	A	H
MA Kinnaird	16	16	-	-	6	6	3	3	7	7	3	3
CL Harris	16	16	6	6	6	6	3	3	7	7	-	-
D Barro ³	13	16	-	-	-	-	-	-	1	1	-	-
LV Hosking ⁴	16	16	6	6	5	5	3	3	7	7	-	-
JA Brooks ¹	7	8	2	2	1	1	-	-	-	-	-	-
JD McNerney	12	16	-	-	-	-	2	3	-	-	3	3
GF Pettigrew ²	3	3	2	2	-	-	2	2	-	-	2	2
MP Chellew	16	16	-	-	-	-	3	3	7	7	3	3

A = Number of meetings attended

H = Number of meetings held during period of office

¹ JA Brooks resigned 29 April 2004

² GF Pettigrew appointed 27 August 2004

³ D Barro Member of Board Sub-Committee of Independent Directors (Takeover Offer by Boral Ltd) from 16/12/03 - 07/01/04

⁴ LV Hosking Member of Nomination and Remuneration Committee from 24/05/04 - Current

The business of the Corporate Governance Committee was dealt with at Board Meetings, led by the Chairman of the Corporate Governance Committee.