

# Corporate governance

**The Board of Directors is responsible for the performance of the Company and the consolidated entity and accordingly takes accountability for setting strategic direction, establishing policy, overseeing the financial position and monitoring the business and affairs on behalf of shareholders. To assist in this, the Board appoints a Managing Director and delegates responsibility to him for the day-to-day activities.**

## Composition of the Board

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

- > The Board may comprise up to nine Directors. This may be increased when additional expertise is required.
- > The Chairman of the Board should be an independent non-executive Director.
- > The Board should comprise both independent non-executive Directors and executive Directors.
- > The Board should comprise Directors with a broad range of experience reflecting the national and international character of the Group's business.

The Board currently comprises six Directors: two non-executive independent Directors (including the Chairman), three non-executive representatives of substantial shareholders and the Managing Director.

The composition of the Board is consistently monitored to ensure the appropriate mix of expertise, experience and competence. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board selects a panel of candidates with the appropriate expertise and experience. Potential candidates are identified by the Board with advice from external consultants. The Board then appoints the most suitable candidate, who must stand for election at the next annual general meeting of shareholders.

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.

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.

## Dealings in Adelaide Brighton Ltd shares by Directors

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 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 the Finance and Audit Committee and a Remuneration Committee with responsibility for these particular areas.

## Finance and Audit Committee

The Finance and Audit Committee is made up of two non-executive Directors. The Managing Director and Chief Financial Officer attend Finance and Audit Committee meetings by invitation.

The Committee:

- > monitors compliance with statutory responsibilities relating to accounting policy and disclosure;
- > liaises with, assesses the quality and reviews the scope of work and reports of the internal and external auditors;
- > assesses the adequacy of accounting, financial and operating controls;
- > monitors the Company's performance, reviews valuation and hedging policies and considers asset underwriting proposals;
- > reviews broad financial issues and strategies and acts for the Board on financial matters as requested; and
- > reviews specific funding proposals.

## Remuneration Committee

The Remuneration Committee is made up of two non-executive Directors.

The Committee:

- > determines the fees paid to non-executive Directors, within the limits approved by shareholders, and executive remuneration; and
- > establishes and reviews the compensation arrangements for the Managing Director and other senior executives taking into account performance evaluation and comparative remuneration.

## Managing Risks

Management is responsible for identifying and managing risks to the consolidated entity's businesses. The Board, through the Finance and Audit 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 finance and administration, human resources, safety and environment.
- > *Investment appraisal:* the consolidated entity has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.
- > *Internal audit:* assists the Board in ensuring compliance with internal controls. The Finance and Audit Committee approves the internal audit program 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.

## 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		Finance and Audit Committee		Remuneration Committee	
	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held
MA Kinnaird	12	12	–	–	–	–
CL Harris	12	12	4	4	3	3
D Barro	11	12	–	–	–	–
JA Brooks	12	12	4	4	–	–
JD McNerney	5	5*	–	–	–	–
MP Chellew	12	12	–	–	–	–
CH Perkins†	9	12	–	–	2	3
GE Clark*	–	7*	–	–	–	–

\* Number of meetings held while a Director or committee member

† Mr CH Perkins died on 14 December 2002

## Ethical standards

In pursuing high standards of corporate governance and without adopting a formal code of ethics, all Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity.

## 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.

## Compliance

The Company has adopted policies requiring compliance with occupational health and safety, environmental and trade practices law.

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