



**ADELAIDE BRIGHTON LTD  
AND ITS CONTROLLED ENTITIES  
ABN 15 007 596 018**

**FINANCIAL REPORT  
FOR THE 12 MONTH PERIOD  
1 JANUARY 2014 TO 31 DECEMBER 2014**

**Adelaide Brighton Ltd registered office:  
Level 1, 157 Grenfell Street, Adelaide SA 5000**

## Adelaide Brighton Ltd and its controlled entities

### Directors' report

The Directors present their report on the consolidated entity (the Group) consisting of Adelaide Brighton Ltd (the Company) and the entities it controlled at the end of, or during, the year ended 31 December 2014.

#### Directors

The Directors of the Company, at any time during or since the end of the financial year and up to the date of this report, are:

L V Hosking  
 R D Barro  
 G F Pettigrew  
 K B Scott-Mackenzie  
 A M Tansey  
 M P Chellew (retired 21 May 2014)

#### Principal activities

During the year the principal activities of the Group consisted of the manufacture and distribution of cement, and cementitious products, lime, premixed concrete, aggregates, sand and concrete products.

#### Review of operations

A summary of the financial results for the year ended 31 December 2014 is set out below:

| <b>Statutory Results</b>                         | <b>2014</b>       | <b>2013</b>       |
|--|-------------------|-------------------|
|  | <b>\$ million</b> | <b>\$ million</b> |
| <b>Revenue</b>                                   | <b>1,337.8</b>    | <b>1,228.0</b>    |
| Depreciation, amortisation and impairments       | (75.0)            | (70.6)            |
| <b>Earnings before interest and tax ("EBIT")</b> | <b>247.5</b>      | <b>222.7</b>      |
| Net finance cost                                 | (15.0)            | (14.1)            |
| <b>Profit before tax</b>                         | <b>232.5</b>      | <b>208.6</b>      |
| Income tax expense                               | (59.9)            | (57.5)            |
| <b>Net profit after tax</b>                      | <b>172.6</b>      | <b>151.1</b>      |
| Attributable to:                                 |                   |                   |
| Members of Adelaide Brighton Ltd ("NPAT")        | 172.7             | 151.1             |
| Non-controlling interests                        | (0.1)             | -                 |
| Basic earnings per share (cents)                 | 26.9              | 23.7              |
| Ordinary dividend per share (cents)              | 17.0              | 16.5              |
| Special dividend per share (cents)               | -                 | 3.0               |
| Franking (%)                                     | 100%              | 100%              |
| Net debt (\$ million)                            | 359.8             | 248.0             |
| Net debt/equity (%)                              | 31.7%             | 23.4%             |

2014 net profit after tax attributable to members of the Company increased 14.3% compared to the prior year to \$172.7 million. The results were impacted by a number of significant items. The table below sets out the underlying financial results for the year ended 31 December 2014 which have adjusted for the significant items. An explanation of the significant items and reconciliation to statutory results is provided on page 6.

| <b>Underlying Results</b>  | <b>2014</b>       | <b>2013</b>       |
|--|-------------------|-------------------|
|  | <b>\$ million</b> | <b>\$ million</b> |
| <b>Revenue</b>   | <b>1,337.8</b>    | <b>1,228.0</b>    |
| Underlying depreciation and amortisation                               | (73.0)            | (70.6)            |
| <b>Underlying earnings before interest and tax ("Underlying EBIT")</b> | <b>245.2</b>      | <b>226.0</b>      |
| Net finance cost   | (15.0)            | (14.1)            |
| <b>Underlying profit before tax</b>                                    | <b>230.2</b>      | <b>211.9</b>      |
| Underlying income tax expense  | (63.8)            | (58.5)            |
| <b>Underlying net profit after tax</b>                                 | <b>166.4</b>      | <b>153.4</b>      |
| Attributable to:   |                   |                   |
| Members of Adelaide Brighton Ltd ("Underlying NPAT")                   | 166.5             | 153.4             |
| Non-controlling interests  | (0.1)             | -                 |
| Underlying basic earnings per share (cents)                            | 26.0              | 24.0              |

## **Adelaide Brighton Ltd and its controlled entities**

Underlying net profit after tax attributable to members of the Company (Underlying NPAT) of \$166.5 million was \$13.1 million (8.5%) higher than 2013. Revenue of \$1,337.8 million increased by 8.9% due to the contribution from recent acquisitions, continued demand from the resources sector in Western Australia and the Northern Territory, a recovery in residential construction in the eastern states and higher pricing, particularly for cement and lime. Revenue growth was partially offset by weaker demand for cement in South Australia and Victoria, and a slight decline in lime volumes.

Underlying earnings before interest and tax (Underlying EBIT) increased by 8.5% to \$245.2 million, resulting in an Underlying EBIT margin (Underlying EBIT divided by revenue) of 18.3% compared to 18.4% in 2013. The decline in Underlying EBIT margin was the result of contributions from lower margin businesses acquired in 2014 as part of the strategy to focus on vertical integration. On a heritage basis, where the impact of acquisitions is removed, Underlying EBIT margins were stable. Higher cement, concrete, aggregates and concrete products volumes, combined with improved pricing across most markets and products, offset the impact of input cost pressures, particularly energy, and a reduction in contribution from joint ventures. Operational improvement initiatives delivered \$19.7 million in benefits in the year, including \$5.0 million from the rationalisation of clinker manufacture at the Munster, Western Australia, site.

Underlying profit before tax increased 8.6% to \$230.2 million. Net finance cost increased by 6.4% to \$15.0 million due to higher borrowing levels.

### **Cement**

Cement and clinker sales volumes increased by 3% in 2014. Demand from the residential sector in New South Wales and Queensland, and resource projects in the Northern Territory and Western Australia offset a decline in general construction in Victoria and softer demand for back fill binder in the South Australian mining sector. A reduction in demand from projects in the South Australian market was offset by an improvement in the residential sector. In March 2014 Adelaide Brighton announced the expected loss of supply of approximately 120,000 tonnes of cement per annum to a major South Australian customer. In line with guidance, this did not impact 2014 volumes.

EBIT margins increased as improved volumes and higher than inflation increases to selling prices offset higher energy costs and the impact of production issues in the first half at the Birkenhead (South Australia) plant. The repeal of the carbon tax from 1 July 2014, rationalisation of clinker production and operational improvements assisted earnings in the period.

Rationalisation of clinker production at the Munster facility began in early 2014. Production of clinker largely ceased in the first quarter of 2014, with manufacture of specialty products continuing until December 2014. The rationalisation delivered cost savings of \$5 million in 2014, with further savings anticipated in 2015.

The rationalisation of clinker manufacture at Munster led to an increase in Adelaide Brighton's importation of cementitious material to over two million tonnes in 2014, representing approximately 20% of the Australian market. Adelaide Brighton is Australia's largest importer of cement and clinker and has an unmatched network of import terminals that provide cost competitive access to all mainland capital city markets and regional north west Western Australia.

The devaluation of the Australian Dollar against Adelaide Brighton's major trading currencies of the US Dollar and Japanese Yen reduced profitability of imports by approximately \$5 million in 2014 compared to 2013.

The \$60 million investment to upgrade the Birkenhead plant delivered further incremental benefits of \$1.1 million in 2014 over and above the \$8.0 million of benefits delivered in 2013. Total returns on the project in 2014 of \$9.1 million represent a return on funds employed of 15.3%, which exceeds the cost of capital.

In July 2014, Adelaide Brighton secured a contract with a major independent customer in South Australia and, in December 2014, a contract with another major customer in the same market for 12 months. These agreements and the integrated operations underpin the utilisation of the efficient Birkenhead cement works.

### **Lime**

Lime sales volumes declined by approximately 7% in 2014. Demand from the non-alumina sector was lower due to gold mine closures in 2013 and a disruption at a Northern Territory customer in the first half of the year.

Contracted prices to a major alumina customer in Western Australia increased in June 2014. Average lime selling prices increased at slightly less than inflation despite the sharp decline in sales to the higher priced gold sector. Nonetheless, lower volumes impeded fixed cost recovery, compressing full year margins and earnings for lime.

### **Concrete and Aggregates**

Recent acquisitions and stronger residential demand in New South Wales and Queensland lifted concrete and aggregate volumes in 2014. Excluding acquisitions, volumes increased which were led by the stronger residential market.

Demand for aggregate was assisted by the Pacific Highway upgrade and pull through demand from concrete operations.

Prices remained under pressure in some markets, particularly Victoria and south east Queensland. However meaningful price increases were realised in New South Wales for both concrete and aggregates.

Full integration of the Webb, Penrice Quarry & Mineral and Direct Mix / Southern Quarries acquisitions was completed during 2014. The integration encompassed governance, management, back office functions, accounting, information systems, and health, safety and environment processes. Realisation of synergies from the acquisitions is well progressed. Overall the financial benefit from these acquisitions was in line with initial expectations.

## Adelaide Brighton Ltd and its controlled entities

### **Concrete Products**

Higher volumes and prices lifted Concrete Products sales revenue by 10.5% in 2014. Price growth was slightly ahead of inflation. Sales volumes increased due to an improvement in demand across the majority of regions and an increase in toll production on behalf of other distributors. Demand from the residential sector was strong and activity in the commercial sector also improved.

Mothballing of excess capacity and simplifying the organisation structure delivered significant cost savings while maintaining flexibility to participate in the market recovery. Operational improvements, together with stronger revenue, combined to lift Concrete Products EBIT 190% to \$6.1m in 2014.

### **Joint Arrangements and Associate**

Independent Cement and Lime's (ICL) earnings declined in 2014 due to lower volume, rising input costs and limited opportunity to recover those cost increases. Volumes increased in New South Wales through the year, demand for slag-based products remained resilient and Victorian demand strengthened in the second half. Despite this, contribution to EBIT was down from \$13.1 million in 2013 to \$9.1 million in 2014.

Sunstate Cement's contribution to EBIT increased from \$6.7 million in 2013 to \$8.1 million in 2014. Although the south east Queensland market remains competitive, improved demand in the region led to higher sales volume, margins and earnings in 2014.

Earnings from the Mawsons Group have more than doubled since the acquisition of a 50% interest in 2007. Following a stronger second half, the 2014 EBIT contribution of \$3.0 million was in line with 2013.

Equity accounted earnings from Aalborg Portland Malaysia Sdn. Bhd. (APM) were similar to the prior year and in line with expectations. The US\$18.6 million capacity expansion was completed on budget in the second half of 2014. While demand for product was strong, the benefit from the capacity expansion was not available until late in the year. Shipment of white clinker to Adelaide Brighton's operations in Western Australia commenced in late 2014.

### **Strategic Developments**

Adelaide Brighton continues its successful long term strategy of growing shareholder value through three key areas:

1. Cost reduction and continuous improvement across the Company;
2. Growth in the lime business to supply the resources sector in WA, SA and NT; and
3. Focused and relevant vertical integration into downstream aggregates, concrete and concrete products businesses.

During 2014, the Group delivered on a significant number of initiatives in line with its long term strategy.

1. Cost reduction and continuous improvement

#### Operational improvement

Operational improvement programs delivered benefits of \$19.7 million in 2014. Key initiatives were a corporate restructure, Munster clinker rationalisation and energy efficiency programs.

- Corporate restructure delivers savings of \$4.0 million

During the first half, a group wide review of operational, human resources, information technology and administration functions was undertaken. This resulted in restructuring costs of \$5.4 million for the year. Pre-tax benefits from the corporate restructure were \$4.0 million in 2014.

- Munster clinker rationalisation delivers savings of \$5.0 million

In line with the strategy to grow shareholder returns through improving efficiency and leveraging an industry leading import capability, Adelaide Brighton ceased the production of all clinker at Munster, Western Australia, in December 2014.

The capacity rationalisation delivered EBIT improvements of \$5.0 million in 2014. Results for 2014 include redundancy costs of \$5.6 million, related to the reduction of 42 full time equivalent positions at Munster, and an impairment charge of \$2.0 million relating to plant and equipment associated with clinker production at the site.

- Energy efficiency programs benefit of \$4.9 million

Adelaide Brighton has an ongoing focus on the management of its power and fuel costs. Benefits of \$4.9 million were delivered in 2014 through the increased use of alternative fuels, electricity demand management, fuel switching and plant efficiency.

- Other initiatives \$5.8 million

Further benefits of \$5.8 million were delivered through a variety of other initiatives, including transport efficiencies, raw materials sourcing and a range of procurement initiatives.

## Adelaide Brighton Ltd and its controlled entities

### Import strategy underpins competitive supply into key markets

Following the rationalisation of clinker manufacture at Munster, Adelaide Brighton's imports of cementitious products, including clinker, cement and blast furnace slag, increased to more than two million tonnes in 2014, which represents approximately 20% of Australian industry demand.

Since the mid-1990s, the growth of import capacity to replace ageing, less efficient domestic manufacturing has been a key element of Adelaide Brighton's strategy to secure its long term position in the Australian market and grow value for shareholders. The use of imported materials allows Adelaide Brighton to supply customers with competitively priced product into a range of markets where demand exceeds the Company's manufacturing capacity.

Today the Company is Australia's largest importer of cementitious materials (cement, clinker and blast furnace slag) and has an unmatched network of import terminals that provide highly competitive access to all mainland capital city markets as well as regional north Western Australia and north Queensland.

Adelaide Brighton's industry leading import scale delivers supply chain efficiencies in procurement, transport, storage and distribution. The strategy is supported by unique long term agreements with two Japanese suppliers for grey clinker; Aalborg Portland Malaysia (30% owned by Adelaide Brighton) for white clinker; and a major Japanese trading house for the supply of granulated blast furnace slag.

Given limited clinker capacity expansion by the Australian industry in the last two decades, cement and clinker demand growth has been largely met by increased imports. Imports are now estimated to represent more than 50% of the Australian market for cement and clinker and as such domestic prices can be influenced by import costs.

### Land sales releasing capital

One of the benefits of the rationalisation and improvement program is the release of surplus land assets. The Group is actively engaged in preparing these properties for sale to maximise value. The program has delivered approximately \$16 million in revenue since the beginning of 2013, including a sale that contributed \$9 million in cash and \$1 million profit before tax in 2014.

## 2. Lime growth

Following the completion of major upgrades to both Munster (Western Australia) kilns in 2013, improvements in production capacity, efficiency and environmental performance of the kilns have been realised.

Efficiency gains partially offset the impact of lower volumes and increased energy costs during 2014. Despite a decline in lime volumes in 2014, following the 2013 closure of some gold mines, the long term prospects for lime demand remain strong.

## 3. Downstream integration - Concrete and Aggregates

### Acquisitions in South Australia and Queensland

In 2014, Adelaide Brighton acquired BM Webb Construction Materials in Queensland, and Penrice Quarry & Minerals and Direct Mix / Southern Quarries in South Australia at an overall enterprise value of \$172 million. These acquisitions are consistent with the strategy of focused and relevant vertical integration. The overall year one acquisition multiple is 7.8 times EBITDA after synergies.

The assets acquired include strategic quarrying operations producing approximately 2 million tonnes per annum of aggregates. The acquired businesses also produce more than 250,000 cubic metres of concrete annually, securing a significant volume of the Company's cement sales in the South Australian market.

Integration of the acquisitions, including the information systems, has been completed on an accelerated time frame delivering synergy benefits in logistics operations, procurement and back office functions. Earnings from the acquisitions were in line with expectations for the period to December 2014.

### Strategic attractions of Sydney aggregates

Adelaide Brighton has a significant investment in aggregates in the Sydney market through its Austen Quarry at Hartley, New South Wales. Aggregates earnings increased in 2014 in New South Wales supported by a recovery in the Sydney construction materials market.

### Emerging Concrete and Aggregates position

Adelaide Brighton continues to make progress on its downstream strategic plan. The Group now produces more than 1.5 million cubic metres per annum of pre-mix concrete and more than 6 million tonnes per annum of aggregates. The footprint of this business now reaches from South Australia through Victoria and New South Wales, to south east and northern Queensland.

## Adelaide Brighton Ltd and its controlled entities

### Operational results

#### Cash flow

Operating cash flow declined by \$33.3 million to \$194.0 million in 2014. The decline was largely due to non-recurring items from an acceleration of the income tax payments system and carbon tax related payments. Excluding these items, cash flow was ahead of expectations in the second half.

Income tax paid increased \$23.2 million primarily due to:

- The Federal Government's introduction of monthly tax instalments (previously quarterly), added \$11 million to payments in 2014. Payments will revert to normal levels in 2015;
- The timing of payments related to the carbon tax which increased income tax payments in 2014 by \$6 million. This will reverse in 2015 following the repeal of the carbon tax;
- Tax instalments related to revenue from the 2014 acquisitions of \$1.5 million; and
- Increased tax instalments due to higher 2014 earnings.

Excluding acquisitions, capital expenditure totalled \$60.4 million in 2014, a decline of \$6.5 million from 2013 following the completion of organic growth projects. Cash proceeds from asset sales of \$13.6 million primarily related to the sale of land in north Queensland. The profit impact of these sales was circa \$1 million.

#### Balance sheet

The balance sheet was impacted by acquisitions in 2014, increasing asset and liability balances compared to 2013.

Excluding acquisitions, working capital increased by \$12.8 million or 6.0% which was less than revenue growth in 2014. Inventory and trade debtors increased \$13.9 million and \$9.5 million respectively, while trade and other payables increased \$4.7 million. Outstanding debtor days averaged 44.3 days compared to 47.6 days in 2013. Payments for the now repealed carbon tax increased \$14.3 million in 2014.

Due to strong second half cash flow net debt increased a lower than expected \$111.8 million to \$359.8 million. Net debt to equity gearing of 31.7% at year end was well within the targeted range of 25% to 45%.

To maximise shareholder returns, Adelaide Brighton seeks to ensure the balance sheet is efficiently utilised while retaining the flexibility to fund the long term growth strategy as opportunities are identified.

The Company refinanced debt facilities during 2014, increasing the term and lowering borrowing margins. Total facilities were increased by \$40 million to \$540 million with the following maturity profile:

|                      |               |               |
|----------------------|---------------|---------------|
| Facility expiry date | January 2018  | January 2019  |
| Facility value       | \$330 million | \$210 million |

#### Income statement

Other income increased by \$21.4 million to \$26.1 million in 2014 primarily due to the recognition of a gain of \$17.8 million as a result of the fair value accounting on an acquisition and the receipt of \$4.7 million relating to the settlement of a legal claim with an equipment supplier.

Despite higher borrowings following the major acquisitions, net finance costs increased only modestly to \$15.0 million in 2014. Interest costs benefited from lower borrowing margins on the new facilities and lower underlying interest rates. Capitalised interest was lower due to the completion of major capital expenditure projects.

Tax expense of \$59.9 million, an increase of \$2.4 million in 2014, represents an effective tax rate of 25.8% (2013 – 27.6%). The lower tax rate was largely due to a \$17.8 million non-taxable gain on fair value accounting. Adjusting for the impact of this item, the effective tax rate of 27.9% was within the expected range of 27% to 28%.

An actuarial loss of \$1.2 million related to the defined benefit liability was recognised through other comprehensive income compared to an actuarial gain of \$7.6 million in 2013. The current year loss was primarily due to the reduction in discount rate used to calculate the defined superannuation benefit liability, which partially reversed the position from 2013 where the discount rate increased.

## Adelaide Brighton Ltd and its controlled entities

### Reconciliation of Underlying Profit

“Underlying” measures of profit exclude significant items of revenue and expenses, such as the costs related to restructuring, rationalisation and acquisitions, in order to highlight the underlying financial performance of the business across reporting periods.

The following table reconciles underlying earnings’ measures to statutory results.

| Year ended 31 December<br>\$ million  | 2014                 |               |                     | 2013                 |            |                     |
|---------------------------------------|----------------------|---------------|---------------------|----------------------|------------|---------------------|
|                                       | Profit<br>before tax | Income tax    | Profit after<br>tax | Profit<br>before tax | Income tax | Profit after<br>tax |
| <b>Statutory profit</b>               | <b>232.5</b>         | <b>(59.9)</b> | <b>172.6</b>        | 208.6                | (57.5)     | 151.1               |
| Rationalisation of clinker production | 7.6                  | (2.3)         | 5.3                 | -                    | -          | -                   |
| Corporate restructuring costs         | 5.4                  | (1.6)         | 3.8                 | 3.3                  | (1.0)      | 2.3                 |
| Acquisition expenses                  | 6.2                  | (1.1)         | 5.1                 | -                    | -          | -                   |
| Gain on bargain purchase              | (17.8)               | -             | (17.8)              | -                    | -          | -                   |
| Claim settlement                      | (3.7)                | 1.1           | (2.6)               | -                    | -          | -                   |
| <b>Underlying profit</b>              | <b>230.2</b>         | <b>(63.8)</b> | <b>166.4</b>        | 211.9                | (58.5)     | 153.4               |

- **Rationalisation of clinker production**

The Group announced the rationalisation of clinker production at the Munster site in February 2014. As part of the rationalisation, a number of employees were made redundant at a cost of \$5.6 million. In addition, assets not required following the cessation of clinker manufacture at the site were considered impaired and an impairment charge of \$2.0 million was recognised.

- **Corporate restructuring costs**

Redundancies and one-off employment costs were \$5.4 million for the year which included the retirement of the previous Managing Director and restructuring across the Company. Savings, in the form of reduced costs, were realised during the year.

- **Acquisition expenses**

The costs associated with acquisitions, including stamp duty, legal and other consulting costs, fluctuate with transaction activity. External costs relating to acquisitions and potential acquisitions recognised as an expense in the income statement totalled \$6.2 million during the year.

- **Acquisition fair value gain**

A gain of \$17.8 million relating to acquisition fair value accounting has been recognised as other income in the income statement.

- **Claim settlement**

Adelaide Brighton settled a long standing litigation claim and received a payment of \$4.7 million in the year, which has been recognised as other income. The settlement amount, less legal costs of \$1.0 million, is included in the significant items.

### Dividends paid or declared by the Company

During the 2014 financial year, the following dividends were paid:

- A final dividend in respect of the year ended 31 December 2013 of 12.0 cents per share (fully franked) was paid on 15 April 2014. This dividend totalled \$76,614,803; and
- An interim dividend in respect of the year ended 31 December 2014 of 7.5 cents per share (fully franked) was paid on 20 October 2014. This dividend totalled \$48,040,159.

Since the end of the financial year the Directors have approved the payment of a final ordinary dividend of 9.5 cents per share (fully franked). The final dividend is to be paid on 16 April 2015.

### State of affairs

Other than set out in the Review of Operations, no significant changes occurred in the state of affairs of the Group during the financial year.

### Events subsequent to the end of the financial year

As at the date of this report, no matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the Group’s operations, the results of those operations, or the Group’s state of affairs in future financial years.

## **Adelaide Brighton Ltd and its controlled entities**

### **Likely developments and expected results of operations**

In 2015, Adelaide Brighton anticipates sales volumes of cement and clinker to be similar to or greater than 2014. Reduced cement sales from January 2015 to a major customer in South Australia are expected to be offset by:

- Sales of other cementitious products to that customer;
- Increased sales in Western Australia; and
- Improved demand in Victoria, New South Wales and Queensland.

Lime sales volume is anticipated to be similar to or slightly higher than 2014 and average realised prices are likely to increase. The threat of small scale lime imports in Western Australia and the Northern Territory remains, however the weaker Australian dollar is likely to reduce the competitiveness of imports relative to Adelaide Brighton's low cost operations.

Price increases have been announced for March and April 2015 in cement, clinker, aggregates, concrete and concrete products.

Price increases achieved in 2015 are expected to exceed those achieved last year. A number of factors are supportive of higher prices including strengthening demand and capacity utilisation and the weakening Australian dollar, which increases the cost of import substitutes.

First half 2015 imports have been fully hedged, however, the deterioration in the Australian dollar will increase the direct cost of imported materials for Adelaide Brighton. Assuming the Australian dollar remains at around Yen90 and USD0.75, costs are expected to increase by approximately \$7 million in a full year, prior to any off-set through price increases. Gas costs in South Australia are now expected to increase by \$2 million pre-tax in 2015.

There are a number of items which are anticipated to support EBIT:

- The repeal of the carbon tax to benefit circa \$3 million compared to 2014;
- Potential transport costs savings of \$4 million from lower fuel costs;
- Further Munster rationalisation benefits of \$5 million; and
- Full year benefits from the 2014 corporate rationalisation of \$2 million.

Adelaide Brighton has a land portfolio that is expected to release a total of \$130 million in cash in the medium to long term. The Group is actively engaged in preparing these properties for sale to maximise value

The Sydney market is transitioning to aggregate sources supplied from outside the metropolitan area, following reserves at existing competitor quarries being exhausted. Due to the structural change it is expected that Sydney aggregate prices will increase well above CPI in the short to medium term. Adelaide Brighton's Austen Quarry is expected to benefit from growth in prices and demand, which could increase annual EBIT by \$8 million to \$10 million over the next three to five years.

### **Environmental performance**

The Group is subject to various Commonwealth, State and Territory laws concerning the environmental performance of Adelaide Brighton's operations.

Environmental performance is monitored by site and business division, and information about the Group's performance is reported to and reviewed by the Group's senior management, the Board's Safety, Health & Environment Committee, and the Board.

The Group's major operations have ongoing dialogue with the relevant authorities responsible for monitoring or regulating the environmental impact of Group operations. As part of this, Group entities respond as required to requests, including requests for information and site inspections.

During 2014, seven minor matters concerning environmental performance were raised with regulatory authorities. Four of these concerned the minor escape or spillage of materials, two related to blasting, and one related to noise. All of these minor incidents were quickly addressed and, where applicable, reviews were undertaken to minimise the risk of recurrence.

No fines or penalties were incurred arising from the Group's environmental performance, and no prosecutions for breach of environmental requirements were commenced against any Group entity in 2014.

In 2011, the WA Department of Environment Regulation commenced a prosecution against Cockburn Cement Ltd ("Cockburn") alleging non-compliance with Cockburn's environmental licence and alleging breaches of the Environment Protection Act 1986 (WA), arising from the conduct of a contractor at Munster in 2010. The prosecution discontinued one of the two charges in December 2013. During May 2014 a trial was held at the Magistrates Court in Perth, and all the charges brought were dismissed and Cockburn was fully acquitted.



## Adelaide Brighton Ltd and its controlled entities

### Director profiles

| Director   | Experience  | Special responsibilities   |
|--|---|--|
| Les Hosking<br>Age 70                                | <p>Independent non-executive Director since June 2003.</p> <p>Extensive experience in commercial and financial matters with 16 years experience as Chief Executive of the Sydney Futures Exchange and former Chief Executive Officer of Axiss Australia, and Managing Director of National Electricity Market Management Company (NEMMCO).</p> <p>Director, AGL Energy Limited (appointed November 2008) and Australian Energy Market Operator Limited (appointed July 2009 and retired 6 November 2014) and Chairman, Carbon Market Institute Limited (appointed October 2010 and retired 27 November 2014).</p>   | <p>Appointed Chairman 17 May 2012</p> <p>Member, Audit, Risk and Compliance Committee</p> <p>Member, Nomination, Remuneration and Governance Committee</p> <p>Member, Independent Directors' Committee</p>                     |
| Raymond Barro<br>BBus, CPA, FGIA, FCIS<br>Age 53     | <p>Non-executive Director since August 2008.</p> <p>Over 24 years experience in the premixed concrete and construction materials industry.</p> <p>Managing Director of Barro Group Pty Ltd.</p>   | <p>Member, Safety, Health and Environment Committee</p>  |
| Graeme Pettigrew<br>FIPA, FAIM, FAICD<br>Age 66      | <p>Independent non-executive Director since August 2004.</p> <p>Extensive experience in the building materials industry and former Chief Executive Officer of CSR Building Products and broad management experience gained in South East Asia and the United Kingdom through former positions as Managing Director of Chubb Australia Limited and Wormald Security Australia Pty Ltd.</p> <p>Director, Capral Ltd (appointed June 2010) and Holocentric Pty Ltd (appointed 18 September 2012 and retired 19 August 2014). Former Director, Bisalloy Steel Group Ltd (formerly Atlas Group Holdings Ltd) (appointed April 2006 and resigned 30 September 2013), Knauf Plasterboard Pty Limited (formerly Lafarge Plasterboard Pty Ltd) (appointed June 2005 and resigned November 2012).</p> | <p>Chairman, Audit, Risk and Compliance Committee</p> <p>Member, Nomination, Remuneration and Governance Committee</p> <p>Member, Safety, Health and Environment Committee</p> <p>Member, Independent Directors' Committee</p> |
| Ken Scott-Mackenzie<br>BE(Mining), Dip Law<br>Age 64 | <p>Independent non-executive Director since July 2010.</p> <p>Mining Engineer with over 40 years experience in infrastructure, construction and mining services gained in Australia and Africa, as well as extensive experience in financial, legal and commercial aspects of projects.</p> <p>Chairman, Linking Melbourne Authority (appointed May 2013). Former Chairman, Macmahon Holdings Limited (appointed Chairman in November 2009 and a Director in May 2009 and retired 21 March 2014) and former Chairman, Murchison Metals Ltd (appointed Director in May 2011 and Chairman in July 2011. Resigned November 2012).</p>  | <p>Chairman, Safety, Health and Environment Committee</p> <p>Member, Nomination, Remuneration and Governance Committee</p> <p>Member, Independent Directors' Committee</p>   |

## Adelaide Brighton Ltd and its controlled entities

| Director                                       | Experience   | Special responsibilities  |
|--|--|---|
| Arlene Tansey<br>FAICD, MBA, JD, BBA<br>Age 57 | Independent non-executive Director since April 2011. Extensive experience as a senior executive in business and the financial services industry gained in Australia and the United States with a background in investment banking and securities law.<br><br>Director, Primary Health Care (appointed August 2012), Lend Lease Funds Management Limited (appointed October 2010), Lend Lease Real Estate Investments Limited (appointed October 2010), Hunter Phillip Japan Limited (appointed March 2013), Urbanise.com Limited (appointed 27 June 2014) and Australian Research Alliance for Children and Youth Limited (appointed September 2013). External member of Infrastructure New South Wales (appointed June 2014). Former Director, Pacific Brands Limited (appointed March 2010 and retired October 2013) and Police Citizens Youth Clubs NSW Ltd (appointed June 2004 and retired in July 2012). External Member, Serco Asia Pacific Advisory Board. | Chairman, Nomination, Remuneration and Governance Committee<br><br>Member, Audit, Risk and Compliance Committee |

### 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 is as follows:

| Director                 | Board Meetings |    | Audit, Risk and Compliance Committee |   | Nomination, Remuneration & Governance Committee |   | Independent Directors' Committee |   | SH&E Committee |   |
|--------------------------|----------------|----|--------------------------------------|---|---|---|----------------------------------|---|----------------|---|
|                          | A              | H  | A                                    | H | A   | H | A                                | H | A              | H |
| L V Hosking              | 10             | 10 | 4                                    | 4 | 5   | 5 | 0                                | 0 |                |   |
| R Barro                  | 10             | 10 |                                      |   |   |   |                                  |   | 2              | 2 |
| G F Pettigrew            | 10             | 10 | 4                                    | 4 | 5   | 5 | 0                                | 0 | 2              | 2 |
| K B Scott-Mackenzie      | 9 <sup>1</sup> | 10 |                                      |   | 4 <sup>1</sup>                                  | 5 | 0                                | 0 | 2              | 2 |
| A M Tansey               | 10             | 10 | 4                                    | 4 | 5   | 5 |                                  |   |                |   |
| M P Chellew <sup>2</sup> | 4              | 4  |                                      |   |   |   | 0                                | 0 |                |   |

A Number of meetings attended.

H Number of meetings held during period of office.

1 Apology – on leave overseas.

2 MP Chellew retirement effective from the conclusion of the Company's Annual General Meeting on 21 May 2014.

## Adelaide Brighton Ltd and its controlled entities

### Directors' interests

The relevant interest of each Director in the share capital of the Company at the date of this report is as follows:

|                     | <b>Ordinary shares</b> |
|---------------------|------------------------|
| L V Hosking         | 4,851                  |
| R D Barro           | 217,869,876            |
| G F Pettigrew       | 7,739                  |
| K B Scott-Mackenzie | 5,000                  |
| A M Tansey          | 10,000                 |

Full details of the interests in share capital of Directors of the Company are set out in the Remuneration Report on pages 14 to 33 of this report.

### Director and executive remuneration

Details of the Company's remuneration policies and the nature and amount of the remuneration of the Directors and certain senior executives are set out in the Remuneration Report on pages 14 to 33 of this report.

### Company Secretaries

The Company's principal Company Secretary is Marcus Clayton, who has been employed by the Company in the two separate offices of General Counsel and Company Secretary since 24 February 2003. He is a legal practitioner admitted in South Australia with 27 years experience.

Two other employees of the Company also hold the office of Company Secretary to assist with secretarial duties should the principal Company Secretary be absent: the Company's Chief Financial Officer, Michael Kelly, a Certified Practising Accountant who has been a Company Secretary since 23 November 2010 and the Group's Corporate Affairs Adviser, Luba Alexander, who has been a Company Secretary since 22 March 2001.

### Indemnification and insurance of officers

Rule 9 of the Company's constitution provides that the Company indemnifies each person who is or who has been an "officer" of the Company on a full indemnity basis and to the full extent permitted by law, against liabilities incurred by that person in their capacity as an officer of the Company or of a related body corporate.

Rule 9.1 of the constitution defines "officers" to mean:

- Each person who is or has been a Director, alternate Director or executive officer of the Company or of a related body corporate of the Company who in that capacity is or was a nominee of the Company; and
- Such other officers or former officers of the Company or of its related bodies corporate as the Directors in each case determine.

Additionally the Company has entered into Deeds of Access, Indemnity and Insurance with all Directors of the Company and its wholly owned subsidiaries. These deeds provide for indemnification on a full indemnity basis and to the full extent permitted by law against all losses or liabilities incurred by the person as an officer of the relevant company. The indemnity is a continuing obligation and is enforceable by an officer even if he or she has ceased to be an officer of the relevant company or its related bodies corporate.

The Company was not liable during 2014 under such indemnities.

Rule 9.5 of the constitution provides that the Company may purchase and maintain insurance or pay or agree to pay a premium for insurance for "officers" (as defined in the constitution) against liabilities incurred by the officer in his or her capacity as an officer of the Company or of a related body corporate, including liability for negligence or for reasonable costs and expenses incurred in defending proceedings, whether civil or criminal.

During the year the Company paid the premiums in respect of Directors' and Officers' Liability Insurance to cover the Directors and Secretaries of the Company and its subsidiaries, and the General Managers of each of the divisions of the Group, for the period 1 May 2014 to 30 April 2015. Due to confidentiality obligations under that policy, the premium payable and further details in respect of the nature of the liabilities insured against cannot be disclosed.

## **Adelaide Brighton Ltd and its controlled entities**

### **Proceedings on behalf of the Company**

No person has applied for leave of the Court to bring proceedings on behalf of the Company or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

### **Non-audit services**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's experience and expertise with the Company and the Group are important.

Details of the amounts paid or payable to PricewaterhouseCoopers for audit and non-audit services provided during the year are set out in Note 29 to the Financial Statements on page 87 of this report.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set in Note 29, did not compromise the auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

### **Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 98.

### **Rounding off**

The Company is of a kind referred to in ASIC Class Order 98/100 relating to the "rounding off" of amounts in the Directors' report. In accordance with that Class Order, amounts in the financial report and Directors' report have been rounded off to the nearest one hundred thousand dollars, unless otherwise stated.

### **Shares under option**

The details of shares under option at the date of this report are set out in Note 28.

### **Registered Office**

The registered office of the Company is Level 1, 157 Grenfell Street, Adelaide, South Australia 5000.

Dated 12 March 2015

Signed in accordance with a resolution of the Directors



**LV Hosking**  
Chairman

## Adelaide Brighton Ltd and its controlled entities

Level 1  
157 Grenfell Street  
Adelaide SA 5000

GPO Box 2155  
Adelaide SA 5001



Telephone (08) 8223 8000  
International +618 8223 8000  
Facsimile (08) 8215 0030  
www.adbri.com.au

### Adelaide Brighton Ltd

ACN 007 596 018

Dear Shareholder

On behalf of the Board, I am pleased to introduce by way of this letter the 2014 Remuneration Report of Adelaide Brighton.

The remuneration policies of Adelaide Brighton continue to focus on retaining a strong management team and rewarding that team in a way that is consistent with creating shareholder value. In that regard I am pleased to present the results for 2014 which are relevant to, and consistent with those remuneration policies.

In 2014, Adelaide Brighton continued to perform well with the Company posting record revenue of \$1,337.8 million. At the same time reported earnings before interest and tax (EBIT) rose 11.1% to \$247.5 million, and reported net profit after tax (NPAT) increased 14.3% to \$172.7 million, both records for the Company.

Over the four year measurement period of the long term incentive (January 2010 to December 2013) Adelaide Brighton delivered Total Shareholder Return (TSR) of 75.2%, including share price growth of 40.8%. This strong performance in shareholder returns resulted in half of the long term incentive Award vesting associated with the TSR. However, notwithstanding continued improvement in earnings per share (EPS) over this period, the rate of growth achieved was just below the threshold level required for vesting of any part of the Award under the EPS performance condition and therefore half of the long term incentive Award tested in 2014 subject to the EPS performance condition lapsed (and cannot be re-tested).

Adelaide Brighton's financial performance resulted in profit before tax (PBT) growth of more than 10%. This met Group and Divisional STI financial targets. In its annual assessment of STI's the Board may adjust for exceptional, abnormal or extraordinary items which affected results for the year. In 2014 this process resulted in downward adjustments to the PBT for STI purposes for the Group and one Division. The Board set relevant and challenging non-financial targets for the individual KMP in 2014. Performance against these non-financial targets was assessed impacting individual KMP outcomes. The overall result was short term incentives for KMP vested in the range of 86.9% to 89.8% of their potential maximum, down from the previous year. I would also point out that no short term incentive payment was made to the former Managing Director, Mark Chellew, for the 2014 year.

The Board recognises its responsibility to maintain shareholder confidence in Adelaide Brighton's leadership and remuneration practices, and to implement new practices as appropriate for the Group's circumstances, strategy and direction. The Board remains focused on delivering sustainable value for our shareholders and aligning the Group's executive remuneration framework to this objective.

As part of that process in 2014 the Board revised some KMP service agreements (where required) to provide for a new form of executive contract. The key goal of this was to align executives and shareholders. It provides for:

- Board discretion for short term and long term incentive arrangements;
- Termination on six months' notice by either party (or payment in lieu by the Company);
- Immediate termination by the Company for cause;
- Post employment restraint of up to six months;
- Clawback of incentives paid due to the executive's material non-compliance with any financial reporting requirement, or misconduct, including fraud, dishonesty, or breach of duty; and
- Other provisions commonly found in contemporary executive service agreements.

The Board is currently conducting a holistic review of the Group's remuneration structure over the next 12 months. In 2016, we will consider implementing the deferral of a portion of the STI consistent with claw back provisions, and assess any further changes resulting from that review.

Succession planning continues to be a key priority for the Board, including developing internal candidates as well as reviewing and assessing appropriate external candidates. This process led to the promotion of Martin Brydon (a long term serving executive of the Company) to the position of CEO from 21 May 2014. The transition of leadership responsibilities has been smooth and the Company has continued to deliver shareholder value.

The Directors recognise that Board renewal is an ongoing process. During 2014, Directors reviewed the Board's composition utilising a Board skills matrix. The Board's composition will continue to be monitored and reviewed during 2015.

During 2014, the Board has been focused on driving alignment of KMP with long term shareholder value, resulting in change to remuneration practices as outlined above.

The Board is pleased to present the 2014 Remuneration Report to shareholders.

**Arlene Tansey**  
Chairman of Nomination, Remuneration and Governance Committee

## Adelaide Brighton Ltd and its controlled entities

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## Remuneration Report

The Directors of Adelaide Brighton Limited (the Company) present the Remuneration Report (Report) for the Company and the Group for the financial year ended 31 December 2014. The Report outlines the remuneration arrangements in place for the Key Management Personnel (KMP) of the Company and is prepared in accordance with section 300A of the *Corporations Act 2001*. This Report, which forms part of the Directors' Report, has been audited by PricewaterhouseCoopers.

### Section 1 – Remuneration Summary

#### 1.1 Financial highlights for the 2014 financial year

The Directors are pleased to present Adelaide Brighton Ltd's strong financial performance for 2014, with the Company posting record revenue, earnings before interest and tax (EBIT) and profit before tax (PBT). In summary:

- Net profit after tax (NPAT) increased by \$21.6 million or 14.3% on 2013.
- Revenue increased by \$110 million, up 8.9% on 2013.
- Earnings before interest and tax (EBIT) was up \$24.8 million, or 11.1% on 2013.

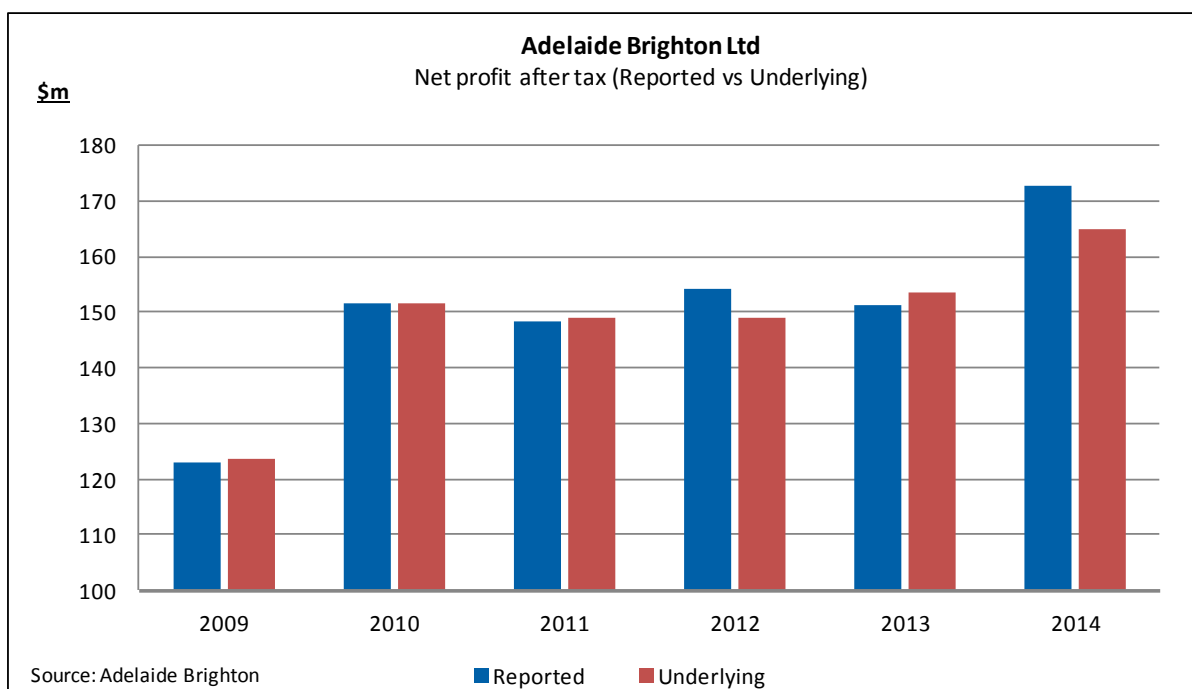
These results have been driven by the implementation of a clear strategic plan delivering:

- Improved construction materials volumes.
- Increased pricing for construction materials and lime.
- Tight control of costs, with:
  - Operational improvement programs delivering a benefit of \$19.7 million in 2014.
  - Major initiatives included rationalisation of the Western Australian cement operations and a corporate restructuring program.
- Successful completion of a major acquisition program in South Australia and north Queensland.

2014 reported Group PBT was 112% of budget, while underlying Group PBT was 111% of budget. Taking into account a range of considerations, including budget assumptions and management initiatives, the Board adjusted Group PBT and one Division's financial outcomes used for STI purposes downwards to \$223.5 million, which was 108% of budget.

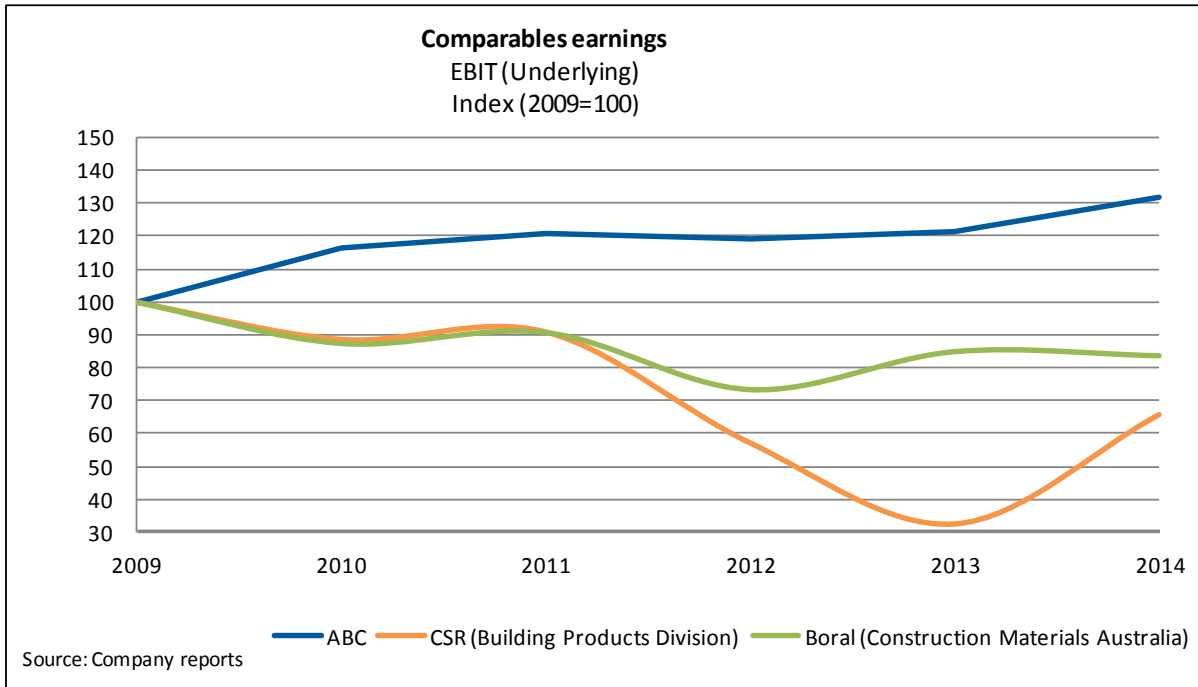
#### 1.2 Long term financial highlights

Adelaide Brighton has delivered 7.0% compound annual growth in reported NPAT over the last five years. Through our strategy of operational improvement, downstream investment and growth in the lime business, Adelaide Brighton has managed to increase profitability over this period delivering value to shareholders in what has been challenging market conditions.

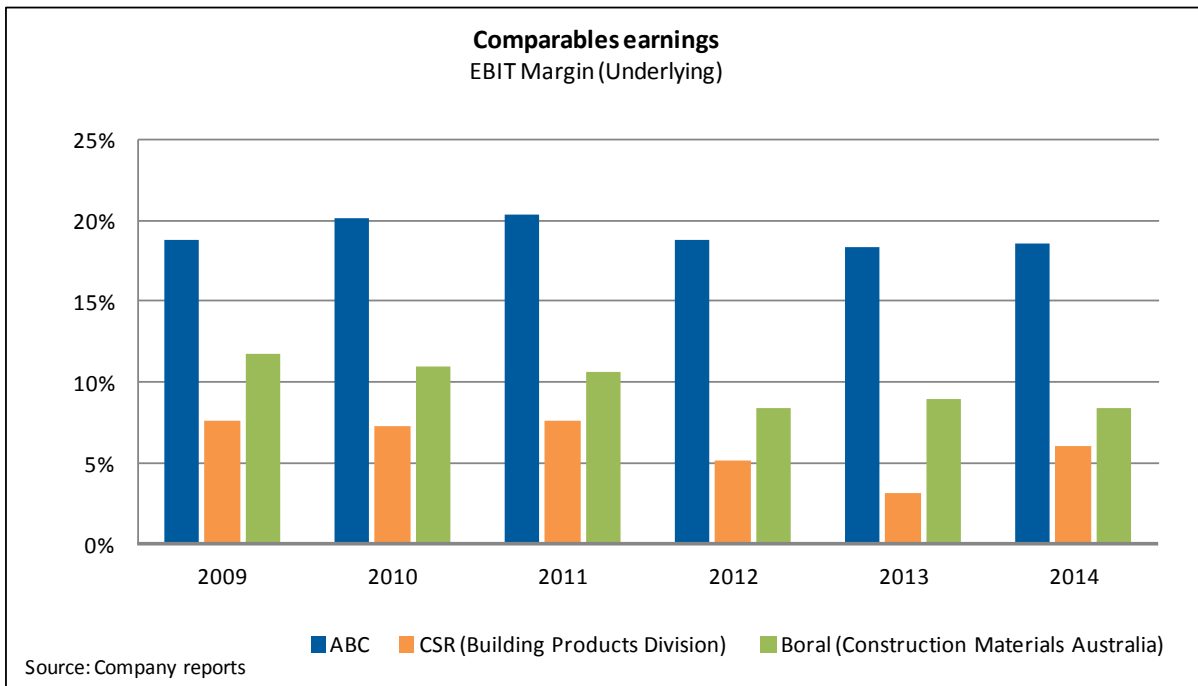


**Adelaide Brighton Ltd and its controlled entities**

As can be seen in the graph below Adelaide Brighton's EBIT performance compares favourably to its listed peers.



The Company has also maintained its leading EBIT margin %.

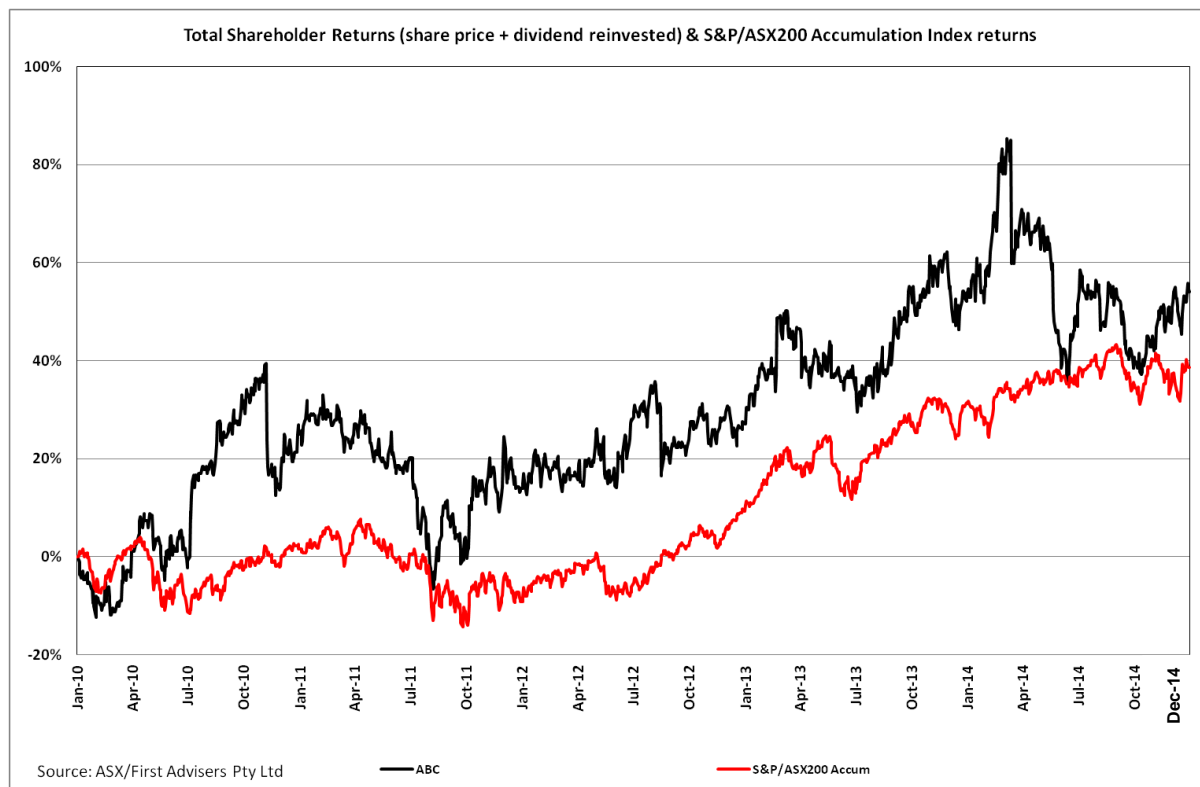




## Adelaide Brighton Ltd and its controlled entities

Over this period, Adelaide Brighton's total return to shareholders has outperformed the Comparator Group<sup>1</sup> and as can be seen in the graph below, outperformed the ASX200 Accumulation Index.

<sup>1</sup> Comparator Group is the companies in the S&P/ASX200 Accumulation Index, excluding all GICS financial companies and selected resources companies



### 1.3 Strategy highlights

Adelaide Brighton is focussed on delivering long term shareholder value. During 2014, management undertook a range of initiatives that delivered cost savings of \$19.7 million. These initiatives included a restructure of its Western Australian cement operations and its corporate functions. These two initiatives delivered benefits of \$9.0 million in 2014, and are expected to deliver further incremental savings of \$7.0 million in 2015 (total benefits of \$16.0 million). Management also secured long term contracts for the supply of essential business inputs of raw materials and energy; successfully delivered capital expenditure projects within budget and renewed supply contracts with major customers on favourable terms.

Adelaide Brighton has a consistent approach of investing for operational improvement and growth while returning surplus capital, a strategy which has supported strong total shareholder returns for more than a decade. The acquisition of three construction materials businesses during 2014 in South Australia and Queensland for \$172 million (on an enterprise value basis) is consistent with our strategy of downstream investment and strengthens our capacity for organic and acquisitive growth. The acquisitions have strengthened our position in the South Australian market and have given the Company an important position for cement distribution in north Queensland. During the year, management has been focused on the integration of these acquisitions. The Company is now realising synergy benefits ahead of initial expectations through successful back office integration including governance, safety, health and environment, procurement and information systems.

### 1.4 Remuneration highlights for 2014

The Company's success growing profit over an extended period has been achieved by a long term stable management team. This was exemplified by the internal promotion of Martin Brydon to the position of Chief Executive Officer (CEO), succeeding long term Managing Director and CEO Mark Chelley, and various internal promotions made as a consequence of Martin's promotion. Our Company has continued to perform well in challenging market conditions, with our NPAT growing strongly in 2014.

Our remuneration policies focus on rewarding achievement and stabilising our management team through long term incentives which are consistent with shareholders' returns.

## Adelaide Brighton Ltd and its controlled entities

An overview of the key 2014 remuneration related matters is set out below:

|  |  |
|--|--|
| <p><b>Executive remuneration</b></p>   | <p>The CEO's fixed remuneration was set at \$1.3 million per annum upon his appointment to that role during the 2014 financial year. This was materially lower than for the previous long serving CEO.</p> <p>Following annual remuneration reviews concluded in late 2013, some senior executives received a 2% increase over 2013 fixed remuneration, to address internal relativities and reflecting the fact that fixed remuneration for these executives was originally set a little below market while the executives gained experience in their current roles. Fixed remuneration for other senior executives for the 2014 financial year were held at the same level as 2013.</p>  |
| <p><b>Short term incentive outcomes</b></p>  | <p>The annual short term incentive for the CEO and Chief Financial Officer (CFO) is split 80% Group financial target and 20% non-financial targets.</p> <p>For executives other than the CEO and CFO the split is 60% Group financial target, 20% Divisional financial target and 20% non-financial targets.</p> <p>2014 Reported Group PBT was 112% of budget, while Underlying Group PBT was 111% of budget. The Board adjusted the PBT used for STI purposes downwards to \$223.5 million, which was 108% of budget.</p> <p>The Board considered items individually taking account of a range of matters, including budget assumptions and management initiative, making the following adjustments:</p> <ul style="list-style-type: none"> <li>• the impact of acquisitions which were unbudgeted were excluded (fair value gain and acquisition earnings less transaction costs); and</li> <li>• restructuring charges, net of benefits derived during the year were excluded.</li> </ul> <p>The same approach was taken to the Divisional Financial targets. Overall this resulted in the Divisional financial target being met at 100%.</p> <p>Non-financial targets for the CEO and Executives were met at between 73% and 83%.</p> |
| <p><b>Long term incentive outcomes – Total Shareholder Return of 75.2% over the measurement period (2010 – 2013)</b></p> | <p>During 2014, Tranche 3 of the 2010 Awards was tested for earliest exercise in May 2014. These Awards vested at 50%:</p> <ul style="list-style-type: none"> <li>• While operating conditions remained challenging, the senior executive team was effective in delivering Total Shareholder Return of 75.2% over the measurement period.</li> <li>• The Total Shareholder Return component (representing 50% of the long term incentive) fully vested with the Total Shareholder Return of 75.2% which was at the 81st percentile of the Comparator Group.</li> <li>• The Earnings Per Share (EPS) component (representing 50% of the long term incentive) did not vest as the EPS target was not met. This is despite continued growth in EPS over the performance period and notwithstanding challenging trading conditions that resulted in some competitors suffering declines in earnings.</li> </ul>  |
| <p><b>Non-executive Director remuneration</b></p>  | <p>There were no increases in Board or Committee fees in financial year 2014.</p>  |

## **Adelaide Brighton Ltd and its controlled entities**

### **1.5 Changes during the 2014 financial year**

The overall structure and philosophy of Adelaide Brighton's approach to remuneration remained consistent throughout 2014.

Mr Martin Brydon replaced the Company's long serving Managing Director and CEO Mr Mark Chellew at the Company's Annual General Meeting on 21 May 2014. As disclosed in last year's Remuneration Report, the Board reviewed the terms of employment for the CEO at the time of his appointment and Mr Brydon has been employed as the Company's CEO on terms embodying best practice, which superseded and replaced his previous executive service agreement (as Executive General Manager, Cement and Lime). Mr Brydon's smooth succession to CEO is indicative of the inherent value of a long standing senior executive team at Adelaide Brighton.

The Company has also taken the opportunity to ensure that all KMP have now transitioned to a new form of executive service agreement, removing older style termination benefit arrangements and replacing them with provisions that provide alignment between executives and shareholders by more closely linking the rewards which accrue to senior executives to the creation of value for shareholders. A new form of executive service agreement will be used for all new senior executive appointments. It provides for:

- Board discretion for short term and long term incentive arrangements;
- Termination on six months' notice by either party (or payment in lieu by the Company);
- Immediate termination by the Company for cause;
- Post employment restraint of up to six months (paid);
- Clawback of incentives paid due to the executive's material non-compliance with any financial reporting requirement, or misconduct, including fraud, dishonesty, or breach of duty; and
- Other provisions commonly found in contemporary executive service agreements.

Our senior executives' remuneration levels were benchmarked during the year, and generally sit around the median percentile of similar roles within comparable companies in the ASX 51-150. Actual salaries at any time may reflect individual experience and knowledge and so may deviate from the median percentile.

The Board again considered the Company's LTI arrangements in 2014. While the four year performance period and Total Shareholder Return (TSR) and EPS targets continued as the current structure of the LTI for the 2014 financial year, the level of participation in the LTI was reduced for all senior executives.

### **1.6 Looking forward**

The Board is alert to the need to keep up with shareholder and community expectations concerning executive remuneration, and to implement new practices as appropriate for the Group's circumstances, strategy and direction. In the interests of ensuring that our senior executive remuneration and incentive arrangements are fit for purpose and reflect the Company's future plans and strategies, rather than implementing change on an ad hoc basis, the Board has resolved to conduct a holistic review of our senior executive pay levels, pay mix, short term incentives and long term incentives over the next 12 months. Any changes that are determined appropriate as a result of this review will be introduced in the 2016 financial year, including, as we have previously foreshadowed to the market, deferring a component of the Group's short term incentive.

The governance of remuneration outcomes remains a key focus of the Board and the Nomination, Remuneration and Governance (NRG) Committee, and we regularly review our policies to ensure that remuneration for our executives continues to be aligned with Company performance and that it appropriately motivates, rewards and retains our senior executive team in the context of the broader community sentiment regarding executive pay.

## Adelaide Brighton Ltd and its controlled entities

### Section 2 – Executive remuneration framework

#### 2.1 Key Management Personnel (KMP)

The KMP of Adelaide Brighton comprises all Directors and those Executives who have authority and responsibility for the planning, directing and controlling of the activities of the Group. In this Report, 'Executives' refers to members of the Group executive team identified as KMP.

The KMP detailed in this report are:

**Table 1**

| Name   | Role   |
|--|--|
| <b>Executives</b>                            |  |
| M Brydon <sup>(1)</sup>                      | Chief Executive Officer (CEO)                      |
| M Kelly                                      | Chief Financial Officer (CFO)                      |
| G Agriogiannis                               | Executive General Manager, Concrete and Aggregates |
| S B Rogers                                   | Executive General Manager, Concrete Products       |
| <b>Former Managing Director (MD) and CEO</b> |  |
| M P Chellew <sup>(2)</sup>                   | Former MD and CEO                                  |
| <b>Directors</b>                             |  |
| L V Hosking                                  | Non-executive Chairman                             |
| G F Pettigrew                                | Non-executive Director                             |
| K B Scott-Mackenzie                          | Non-executive Director                             |
| A M Tansey                                   | Non-executive Director                             |
| R D Barro                                    | Non-executive Director                             |

<sup>(1)</sup> Deputy CEO until 21 May 2014, Executive General Manager, Cement and Lime until 1 February 2014

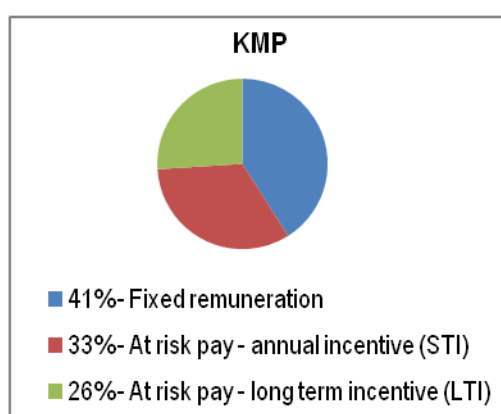
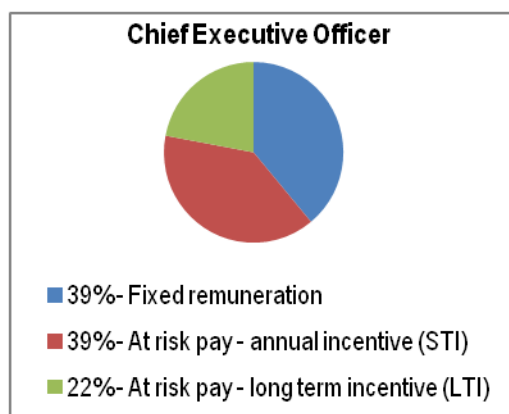
<sup>(2)</sup> MD and CEO until 21 May 2014

#### 2.2 Remuneration framework

Our executive remuneration framework consists of the following components:

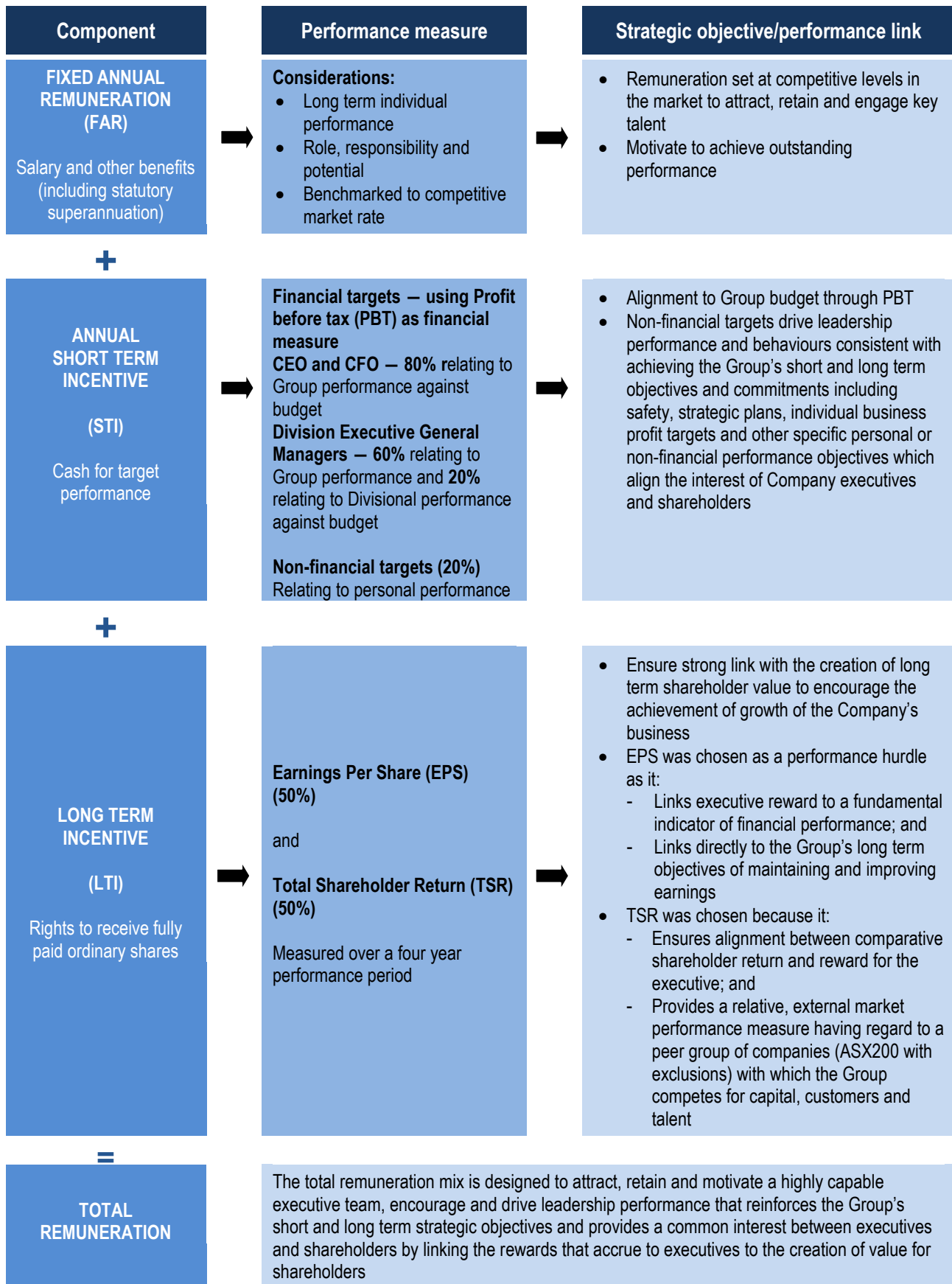
- Fixed annual remuneration
- An annual short term incentive
- A long term incentive

Adelaide Brighton's mix of fixed and at risk components for the Executives disclosed in this Report, as a percentage of potential maximum total annual remuneration for the 2014 financial year, is as follows:



## Adelaide Brighton Ltd and its controlled entities

The diagram below provides a summary of our remuneration framework, and illustrates the way in which each element of remuneration has been structured to support our Group business objectives and to align with the generation of shareholder wealth.



**Adelaide Brighton Ltd and its controlled entities**

**Section 3 – Company performance and remuneration outcomes for 2014**

**3.1 Overview of Company performance**

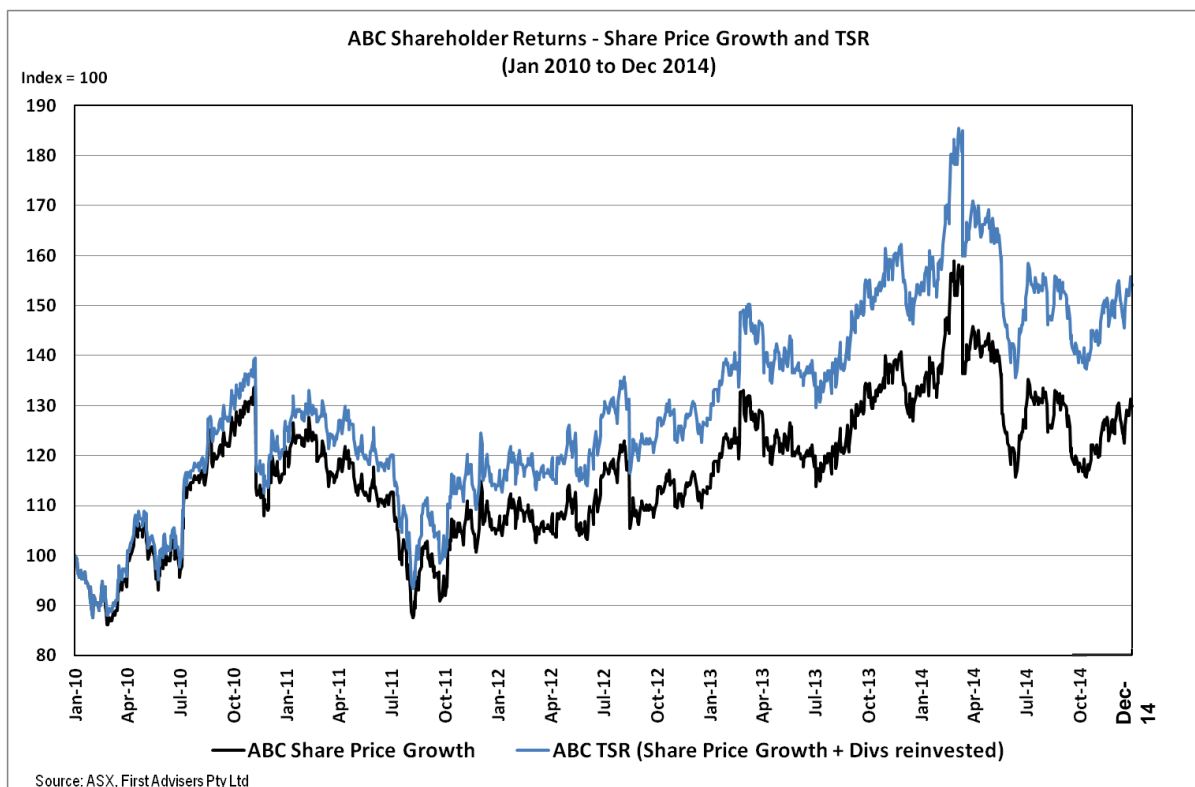
As can be seen from the table below, the key profit measures for 2014 versus 2013 show an improvement of between 7% and 14% (depending on the metric), on revenue growth of 9%. This represents a record year for Adelaide Brighton in respect to all metrics including revenue, EBIT, PBT and NPAT, both on a reported and underlying profit basis.

**Table 2**

|         | 2013<br>Reported<br>\$m | 2013<br>Underlying<br>\$m | 2014<br>Reported<br>\$m | 2014<br>Underlying<br>\$m | Reported<br>vs LY<br>% | Underlying<br>vs LY<br>% |
|---------|-------------------------|---------------------------|-------------------------|---------------------------|------------------------|--------------------------|
| Revenue | 1,228.0                 | 1,228.0                   | 1,337.8                 | 1,337.8                   | 9%                     | 9%                       |
| EBITDA  | 293.3                   | 296.6                     | 322.5                   | 318.2                     | 10%                    | 7%                       |
| EBIT    | 222.7                   | 226.0                     | 247.5                   | 245.2                     | 11%                    | 8%                       |
| PBT     | 208.6                   | 211.9                     | 232.5                   | 230.2                     | 11%                    | 9%                       |
| NPAT    | 151.1                   | 153.4                     | 172.6                   | 166.4                     | 14%                    | 8%                       |

Adelaide Brighton has performed well against the S&P/ASX200 Accumulation Index delivering total shareholder return of 75.2% against the Comparator Group over the measurement period of the long term incentive tested in 2014 (Tranche 3 of the 2010 Award).

As per the graph below this shareholder value has been delivered through a combination of share price growth and dividends.



## Adelaide Brighton Ltd and its controlled entities

The table below provides an overall view of the Company's financial performance and operating cash flow over the past six financial years to 31 December 2014.

**Table 3 - Shareholders' wealth improvement from year 2009 to year 2014**

| Financial year ended 31 December           | 2009*    | 2010*               | 2011*    | 2012     | 2013                | 2014     |
|--|----------|---------------------|----------|----------|---------------------|----------|
| Closing share price (\$) as at 31 December | 2.75     | 3.30                | 2.89     | 3.12     | 3.67                | 3.57     |
| Total dividends per share (cash)           | 13.5     | 21.5 <sup>(2)</sup> | 16.5     | 16.5     | 19.5 <sup>(1)</sup> | 17.0     |
| Franked dividends                          | 100%     | 100%                | 100%     | 100%     | 100%                | 100%     |
| Operating cash flow                        | \$188.1m | \$188.5m            | \$151.3m | \$186.9m | \$227.3m            | \$194.0m |
| Earnings per share (cents)                 | 20.4     | 23.9                | 23.3     | 24.0     | 23.7                | 26.9     |

<sup>(1)</sup> Includes 3.0 cent special dividend

<sup>(2)</sup> Includes 5.0 cent special dividend

\* Comparative information for these years has not been restated to reflect changes to accounting policies. Refer Note 42 to the 2013 Financial Statements.

### 3.2 Linking remuneration to Company performance

This section explains how the Group's performance has driven Short Term Incentive and Long Term Incentive outcomes for our Executives during 2014. Strong Company performance across key indicators is reflected in the remuneration outcomes during the year.

#### 3.2.1 Short Term Incentive – key performance outcomes

| Performance measure  | Outcome   |
|----------------------|---|
| Financial            | <p>The annual short term incentive for the CEO and Chief Financial Officer (CFO) is split 80% Group financial target and 20% non-financial targets.</p> <p>For executives other than the CEO and CFO the split is 60% Group financial target, 20% Divisional financial target and 20% non-financial targets.</p> <p>The adjusted Group PBT for STI purposes was approximately 108% of budget, while divisional PBTs exceeded 110% of budget. This resulted in financial target being met at 100.0%.</p>   |
| Non-financial        | <p>Non-financial targets (being the remaining 20% of the potential STI opportunity) for the Executives were met at between 73% and 83% during 2014.</p> <p>Examples of personal non-financial target objectives achieved by the CEO and Executives during 2014 included:</p> <ul style="list-style-type: none"> <li>• Development and execution of Adelaide Brighton's strategic plan.</li> <li>• Acquiring targeted concrete and aggregates businesses within value parameters. Successful integration of these businesses into ABL systems and delivery of synergies.</li> <li>• Successful restructure of the Munster cement operations: incorporating workforce downsizing without disruption; obtaining relevant Government approvals; securing long term port access for imports.</li> <li>• Successful completion of Malaysian joint venture kiln upgrade and transition of Western Australian operations to import of specialty off-white clinker from Malaysia.</li> <li>• Successful commissioning of capacity expansion projects within budget.</li> <li>• Renegotiation of long term business critical and strategic supply contracts on favourable terms.</li> <li>• Securing strategic supply contracts with major customers on favourable terms.</li> </ul> <p>A number of these objectives and projects contributed to the Group's performance in 2014 and will reinforce future performance.</p> |
| Overall STI outcomes | <p>Overall, the achievement of the Financial and Non-financial Targets resulted in the STI opportunity being awarded at 86.9% to 89.8% of the potential STI.</p>  |

## Adelaide Brighton Ltd and its controlled entities

### 3.2.2 Short Term Incentive – actual outcomes

The short term incentive payments shown in the table below reflect the performance achieved and amounts payable for Executives for the 2014 financial year.

**Table 4**

| For the financial year ended 31 December 2014 | Maximum potential STI opportunity as % of FAR | % of the maximum STI opportunity achieved | % of the STI maximum opportunity not achieved <sup>(1)</sup> | Maximum potential STI opportunity (\$) <sup>(1)</sup> | Actual STI payment \$ <sup>(2)</sup> |
|---|---|---|--|---|--------------------------------------|
| <b>Executives</b>                             |   |   |  |   |                                      |
| M Brydon                                      | 100   | 86.9                                      | 13.1   | 1,255,147   | 1,091,041                            |
| M Kelly                                       | 80  | 87.5                                      | 12.5   | 553,186   | 484,178                              |
| G Agriogiannis                                | 80  | 87.8                                      | 12.2   | 386,808   | 339,594                              |
| S B Rogers                                    | 80  | 89.8                                      | 10.2   | 383,853   | 344,677                              |
| <b>Former MD &amp; CEO</b>                    |   |   |  |   |                                      |
| M P Chellev <sup>(3)</sup>                    | 100   | -   | 100  | 671,701   | -                                    |

<sup>(1)</sup> Where the actual STI payment is less than the maximum potential, the difference is forfeited and does not become payable in subsequent years.

<sup>(2)</sup> The 2014 STI was determined in conjunction with the finalisation of 2014 results and paid in February 2015.

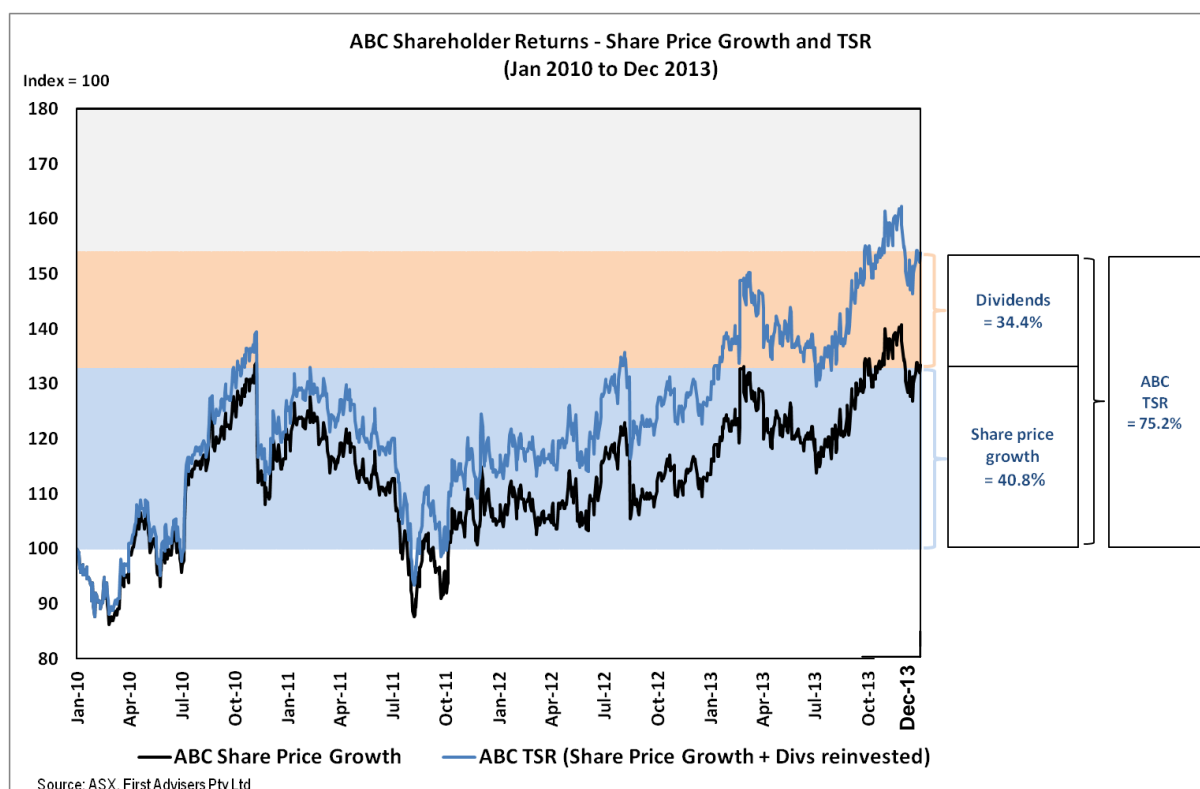
<sup>(3)</sup> No short term incentive payment was made to Mr Chellev for the 2014 year.

### 3.2.3 Long Term Incentive – key performance outcomes

During 2014, Tranche 3 of the 2010 Awards was tested for earliest exercise in May 2014 and vested at 50%:

- The Total Shareholder Return component fully vested with the Company achieving a Total Shareholder Return of 75.2% being the 81st percentile of the Comparator Group.
- The average EPS growth over the 2009 to 2013 financial period was 4.2% which was less than the minimum EPS target of 5.2% 2.5% + CPI. Therefore, the EPS component did not vest. This is despite continued growth in EPS over the performance period and notwithstanding challenging trading conditions that resulted in some competitors suffering declines in earnings.

The chart below illustrates Adelaide Brighton's total shareholder return over the measurement period for Tranche 3 of the 2010 Award. The Total Shareholder Return of 75.2% resulted from share price growth and payment of ordinary and special dividends totalling 70.0 cents fully franked over the period.





## Adelaide Brighton Ltd and its controlled entities

### 3.2.4 Long Term Incentive – actual outcomes

Details of the movement in Awards held by Executives during the 2014 financial year are set out below.

**Table 5**

| For the financial year ended 31 Dec 2014 | Number held at 1 Jan 2014 | Number granted during the year <sup>(1)</sup> | Number exercised / vested during the year | Number lapsed / forfeited during the year <sup>(3)</sup> | Number held at 31 Dec 2014 | Value of Awards at grant date <sup>(4)</sup><br>\$ | Value per share at the date of exercise <sup>(5)</sup><br>\$ | Value at lapse date <sup>(6)</sup><br>\$ |
|--|---------------------------|---|---|--|----------------------------|--|--|--|
| <b>Executives</b>                        |                           |   |   |  |                            |  |  |  |
| M Brydon                                 | 1,032,040                 | 354,223                                       | 120,000 <sup>(2)</sup>                    | 120,000  | 1,146,263                  | 665,941  | 3.55   | 3.90                                     |
| M Kelly                                  | 763,897                   | 131,890                                       | 100,000 <sup>(2)</sup>                    | 100,000  | 695,787                    | 247,953  | 3.89   | 3.90                                     |
| G Agriogiannis                           | 427,628                   | 65,873  | 65,000 <sup>(2)</sup>                     | 65,000   | 363,501                    | 123,843  | 3.89   | 3.90                                     |
| S B Rogers                               | 425,355                   | 65,370  | 65,000 <sup>(2)</sup>                     | 65,000   | 360,725                    | 125,184  | 3.34   | 3.90                                     |
| <b>Former MD &amp; CEO</b>               |                           |   |   |  |                            |  |  |  |
| M P Chellew                              | 2,847,568                 | -   | 1,498,466 <sup>(7)</sup>                  | 1,349,102  | N/A                        | -  | 3.80   | 3.80                                     |

<sup>(1)</sup> This represents the maximum number of Awards granted in 2014 that may vest to each Executive. As the Awards granted in 2014 only vest on satisfaction of performance conditions which are to be tested in future financial periods, none of the Awards as set out above vested or were forfeited during the year. At the end of the applicable performance period, any Awards that have not vested will expire.

<sup>(2)</sup> These Awards which were exercisable during 2014 were in fact exercised, being Tranche 3 of the 2010 Awards. The number of Awards that vested during the period and exercisable at 31 December 2014 is NIL. The number of Awards that vested but not yet exercisable at 31 December 2014 is NIL.

<sup>(3)</sup> This includes the portion of Tranche 3 of the 2010 Awards that reached the end of its performance period on 31 December 2013 that did not meet the performance conditions and was forfeited.

<sup>(4)</sup> Fair value of Awards granted during 2014 as at grant date.

<sup>(5)</sup> The value per share at the date of exercise is the Volume Weighted Closing Price which is the average of the closing price and number of Adelaide Brighton Limited shares traded on the Australian Securities Exchange for the five trading days before the exercise date, but not including the day of exercise. The aggregate value of Awards that vested during the year is \$6,968,355 based on the Volume Weighted Closing Price.

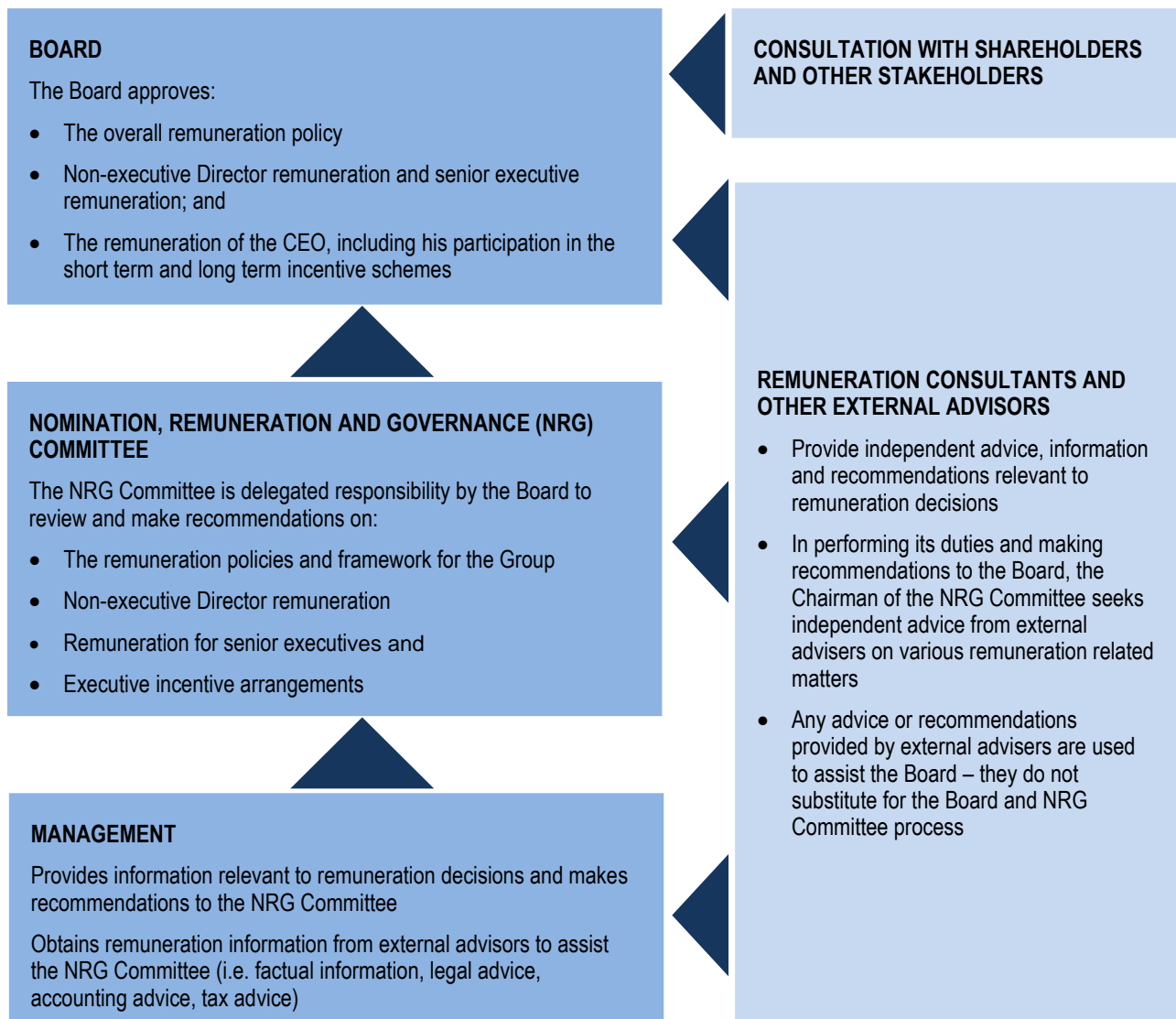
<sup>(6)</sup> The value at lapse date of Awards that were granted as part of remuneration and that lapse during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

<sup>(7)</sup> All Awards that remained outstanding under the Plan as at Mr Chellew's retirement date of 21 May 2014 vested on a pro-rated basis. This included 728,324 Awards comprising Tranche 1 of the 2012 grant, 728,324 Awards comprising Tranche 2 of the 2012 grant and 670,920 Awards comprising the 2013 grant. The total number of Awards that vested during the year and which were exercisable by Mr Chellew also included Tranche 3 of the 2010 grant.

Section 4 – Remuneration governance

4.1 Responsibility for setting remuneration

Our governance framework for determining executive remuneration is outlined below:



## Adelaide Brighton Ltd and its controlled entities

Details on the composition of the NRG Committee are set out on page 40 of this Annual Report. The NRG Committee's Charter is available on the Corporate Governance section of the Company's website at [www.adbri.com.au](http://www.adbri.com.au).

From time to time during the financial year ended 31 December 2014, the Company engaged external consultants to provide insights on remuneration trends, regulatory and governance updates and market data in relation to the remuneration of non-executive Directors, the CEO and other executives. No remuneration recommendations as defined in section 9B of the *Corporations Act 2001* were obtained during the financial year ended 31 December 2014.

### 4.2 Remuneration policy

The Company's remuneration strategy and policy are set by the Board and overseen by the NRG Committee. The Board ensures remuneration policies are clearly aligned with the Group strategy, which is focused on maintaining and growing long term shareholder value.

In determining executive remuneration, the Board has adopted a policy that aims to:

- **Be competitive in the markets** in which the Group operates in order to attract, reward, motivate and retain a highly capable executive team and each individual's remuneration is set with reference to the degree of individual performance, role, responsibility and future potential within the Group and in the context of the broader community sentiment regarding executive pay.
- **Drive leadership performance and behaviours** that reinforce the Group's short and long term strategic and operational objectives
- **Provide a common interest between executives and shareholders** by linking the rewards that accrue to executives to the creation of long term value for shareholders
- Have regard to **market practice and market conditions**; and
- **Provide transparency and clarity** on what is paid, to whom and on what basis remuneration has been paid.

## Section 5 – Executive remuneration

### 5.1 Fixed annual remuneration

The amount of fixed remuneration for an individual executive (expressed as a total amount of salary and other benefits, including superannuation contributions) is set with regard to the size and nature of an executive's role, the long term performance of an individual, his or her future potential within the Group and market practice. The Company's stated approach is also to set fixed remuneration levels at relatively modest levels compared to peers for executives who are new to their roles and to then progressively increase remuneration based on individual performance in that role.

Fixed remuneration is reviewed annually having regard to relevant factors including performance, market conditions (both generally and in the markets in which the Group operates), growth and comparable roles within peer companies and similar roles across a Comparator Group comprising those companies in the ASX 51-150. Section 1.4 details the changes for Executives arising from the review of fixed remuneration by the Board and NRG Committee for the 2014 financial year.

### 5.2 At-risk remuneration – Short Term Incentive

Adelaide Brighton's STI is the Company's at risk short term incentive component of the remuneration mix for senior executives, including Executives.

A summary of the key features of the 2014 STI is as follows:

| Form and purpose of the STI                                   |  |
|---|--|
| Who participates in the STI?                                  | Participation in the STI is generally offered to the CEO and senior executives who are able to have a direct impact on the Group's performance against the relevant performance hurdles.   |
| Why does the Board consider the STI an appropriate incentive? | The STI is designed to put a meaningful proportion of senior executives' remuneration at risk, to be delivered on the achievement of performance targets linked to the Group's annual business objectives, ensuring senior executives create sustainable value for shareholders.   |
| Does the STI comprise a deferred component?                   | The Board has determined that it would be appropriate to introduce a deferred component to the STI for the 2016 STI (see section 1.6).<br>The NRG Committee has considered this in the context of Adelaide Brighton's current remuneration framework, including the long term incentive which is subject to a four year performance period. On the basis that, at any time, senior executives have at least four years' worth of LTI opportunity subject to share price fluctuations, the Committee considers that senior executives' interests are sufficiently aligned to those of our shareholders. |

## Adelaide Brighton Ltd and its controlled entities

| Performance conditions   |   |                   |                                     |                  |            |                  |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
|--|---|-------------------|-------------------------------------|------------------|------------|------------------|--|--|-----------|--|---------------|--|-------|--|-----|------------------|-----|------------------|-----|------------------|-----------|----|----|-----|-----|-----|-----|------------|-----------|-----------|-----|-----|-----------|-----------|-------------|-----------|-----------|-----|-----|-----------|-----------|--------------|-----------|-----------|-----|-----|------------|-----------|
| When and how are the STI performance conditions set?                                       | <p>The performance criteria are set by the Board and agreed with the executive, in general, by the end of February in each year.</p> <p>In approving Financial Targets under the STI, the Board considers a number of factors, including the industry in which we operate and the extraneous factors including market conditions that impact our financial performance and those of our competitors. These include the dynamics of the construction and resources industries, exchange rates and energy considerations.</p> <p>Our management team has responded well to external pressures over recent years, and has generated positive return for longer term shareholders in a challenging environment with the Company outperforming our industry competitors. Accordingly, the Board strongly believes that our STI targets need to be set in this context in order to continue to attract and motivate a highly capable senior executive team who can drive the continued delivery of strong results for shareholders over the longer term.</p>    |                   |                                     |                  |            |                  |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
| Reward opportunity   |   |                   |                                     |                  |            |                  |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
| What level of reward can be earned under the STI?  | <p>The maximum STI opportunities able to be earned are expressed as a percentage of fixed remuneration:</p> <table border="1"> <thead> <tr> <th rowspan="3">% of PBT achieved</th> <th colspan="6">Potential - % of fixed remuneration</th> </tr> <tr> <th colspan="2">Financial</th> <th colspan="2">Non-financial</th> <th colspan="2">Total</th> </tr> <tr> <th>CEO</th> <th>Other Executives</th> <th>CEO</th> <th>Other Executives</th> <th>CEO</th> <th>Other Executives</th> </tr> </thead> <tbody> <tr> <td>Below 95%</td> <td>0%</td> <td>0%</td> <td>20%</td> <td>16%</td> <td>20%</td> <td>16%</td> </tr> <tr> <td>95% - 100%</td> <td>40% - 48%</td> <td>32% - 38%</td> <td>20%</td> <td>16%</td> <td>60% - 68%</td> <td>48% - 54%</td> </tr> <tr> <td>100% - 105%</td> <td>48% - 60%</td> <td>38% - 48%</td> <td>20%</td> <td>16%</td> <td>68% - 80%</td> <td>54% - 64%</td> </tr> <tr> <td>105% - 110 %</td> <td>60% - 80%</td> <td>48% - 64%</td> <td>20%</td> <td>16%</td> <td>80% - 100%</td> <td>64% - 80%</td> </tr> </tbody> </table> | % of PBT achieved | Potential - % of fixed remuneration |                  |            |                  |  |  | Financial |  | Non-financial |  | Total |  | CEO | Other Executives | CEO | Other Executives | CEO | Other Executives | Below 95% | 0% | 0% | 20% | 16% | 20% | 16% | 95% - 100% | 40% - 48% | 32% - 38% | 20% | 16% | 60% - 68% | 48% - 54% | 100% - 105% | 48% - 60% | 38% - 48% | 20% | 16% | 68% - 80% | 54% - 64% | 105% - 110 % | 60% - 80% | 48% - 64% | 20% | 16% | 80% - 100% | 64% - 80% |
| % of PBT achieved  | Potential - % of fixed remuneration   |                   |                                     |                  |            |                  |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
|  | Financial   |                   | Non-financial                       |                  | Total      |                  |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
|  | CEO   | Other Executives  | CEO                                 | Other Executives | CEO        | Other Executives |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
| Below 95%  | 0%  | 0%                | 20%                                 | 16%              | 20%        | 16%              |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
| 95% - 100%   | 40% - 48%   | 32% - 38%         | 20%                                 | 16%              | 60% - 68%  | 48% - 54%        |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
| 100% - 105%  | 48% - 60%   | 38% - 48%         | 20%                                 | 16%              | 68% - 80%  | 54% - 64%        |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
| 105% - 110 %   | 60% - 80%   | 48% - 64%         | 20%                                 | 16%              | 80% - 100% | 64% - 80%        |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
| Governance   |   |                   |                                     |                  |            |                  |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
| How is performance against the performance conditions assessed?                            | <p>All performance conditions under the STI are clearly defined and measurable.</p> <p>In respect of the Financial Targets, the Board compares the actual PBT earned against the budgeted PBT for the year, and assesses the degree to which the Group met these targets. The Board may adjust for exceptional, abnormal or extraordinary factors which may have affected the Group's performance during the year.</p> <p>In assessing the 2014 STI, the Board adjusted the PBT used for STI purposes to a level that was lower than both reported and underlying PBT. The Board considered items individually taking account of a range of matters, including budget assumptions and management initiatives.</p> <p>The Board also considers the NRG Committee's assessment of the CEO's performance against the agreed non-financial targets, and that of the senior executives (based on the recommendation of the CEO).</p>   |                   |                                     |                  |            |                  |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |
| When is performance against the performance conditions determined and the cash award paid? | <p>Assessment of performance against the performance hurdles for the relevant year is determined at the February meeting of the NRG Committee and the Board, in conjunction with finalisation of the Group's full year results, and is normally paid to the executive following release of the Company's full year results in February.</p>   |                   |                                     |                  |            |                  |  |  |           |  |               |  |       |  |     |                  |     |                  |     |                  |           |    |    |     |     |     |     |            |           |           |     |     |           |           |             |           |           |     |     |           |           |              |           |           |     |     |            |           |

### 5.3 At-risk remuneration – Long Term Incentive

The Company makes annual grants of Awards under the Executive Performance Share Plan (Plan) to all senior executives who are eligible to participate.

A summary of the key features of the Plan as it applies to the 2014 LTI Award is as follows:

| Driving performance   |  |
|---|--|
| Who participates and how does the Plan drive performance and align participants' interests with shareholders? | <p>The LTI is offered to senior executives whose behaviour and performance have a direct impact on the Group's long term performance. Its purpose is to focus executives on the Group's long term business strategy to create and protect shareholder value over a four year performance period, thus aligning executives' interests more closely with shareholders.</p> |

## Adelaide Brighton Ltd and its controlled entities

| Vesting, performance conditions and reward opportunity                         |  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
|--|--|--|---|--------------------------------------|----------|--------------|------|------------------------------|----------|------------------------|-------------------------------|-----|-----|
| What is the vesting / performance period?                                      | The 2014 Awards will be tested and become exercisable to the extent of any vesting from 1 May 2018.  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| What happens on the exercise of Awards?  | Shares are delivered to the executive on the exercise of the Awards. Awards are granted at no cost to the executive and no amount is payable by the executive on the exercise of the Awards.<br><br>Any unexercised 2014 Awards will expire on 30 September 2018.  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| How is the TSR performance condition measured and what amount can be earned?   | The Company's TSR performance must equal or exceed the growth in the returns of the median companies of the S&P / ASX 200 Accumulation Index (XJO AI), excluding all GICS Financial companies and selected resources companies over the period from 31 December 2013 to 31 December 2017.<br><br>The 2014 Awards vest progressively in accordance with the following scale: <table border="1"> <thead> <tr> <th>TSR growth relative percentile ranking</th> <th>% of Awards subject to TSR hurdle to vest</th> </tr> </thead> <tbody> <tr> <td>Below 50%</td> <td>Nil</td> </tr> <tr> <td>50%</td> <td>50%</td> </tr> <tr> <td>Between 50% and 75%</td> <td>Pro rata</td> </tr> <tr> <td>75% or above</td> <td>100%</td> </tr> </tbody> </table>   | TSR growth relative percentile ranking | % of Awards subject to TSR hurdle to vest | Below 50%                            | Nil      | 50%          | 50%  | Between 50% and 75%          | Pro rata | 75% or above           | 100%                          |     |     |
| TSR growth relative percentile ranking   | % of Awards subject to TSR hurdle to vest  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| Below 50%  | Nil  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| 50%  | 50%  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| Between 50% and 75%  | Pro rata   |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| 75% or above   | 100%   |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| How is the EPS performance condition calculated and what amount can be earned? | The EPS performance hurdle requires the compound annual growth in EPS of the Company over the relevant performance period to equal or exceed 5% per annum before any Awards will vest.<br><br>Awards under the 2014 Award are to vest progressively in accordance with the following scale: <table border="1"> <thead> <tr> <th>Compound annual growth in EPS</th> <th>% of Awards subject to EPS hurdle to vest</th> </tr> </thead> <tbody> <tr> <td>Below 5% per annum</td> <td>Nil</td> </tr> <tr> <td>5% per annum</td> <td>50%</td> </tr> <tr> <td>Between 5% and 10% per annum</td> <td>Pro rata</td> </tr> <tr> <td>10% per annum or above</td> <td>100%</td> </tr> </tbody> </table>   | Compound annual growth in EPS          | % of Awards subject to EPS hurdle to vest | Below 5% per annum                   | Nil      | 5% per annum | 50%  | Between 5% and 10% per annum | Pro rata | 10% per annum or above | 100%                          |     |     |
| Compound annual growth in EPS  | % of Awards subject to EPS hurdle to vest  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| Below 5% per annum   | Nil  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| 5% per annum   | 50%  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| Between 5% and 10% per annum   | Pro rata   |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| 10% per annum or above   | 100%   |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| Is re-testing permitted?   | No. Re-testing of either of the performance conditions applicable to a tranche of Awards is not permitted.   |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| Structure of Awards  |  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| What are the participation levels in the 2014 Awards for Executives?           | The Executives participated in the 2014 Awards at the following levels: <table border="1"> <thead> <tr> <th></th> <th>Target<br/>(% of fixed remuneration)</th> <th>Maximum<br/>(% of fixed remuneration)</th> </tr> </thead> <tbody> <tr> <td>M Brydon</td> <td>50%</td> <td>100%</td> </tr> <tr> <td>M Kelly</td> <td>35%</td> <td>70%</td> </tr> <tr> <td>G Agriogiannis and S B Rogers</td> <td>25%</td> <td>50%</td> </tr> </tbody> </table><br>Participation levels were reviewed during 2013 and have been reduced for all senior executives for the 2014 Award.  |  | Target<br>(% of fixed remuneration)       | Maximum<br>(% of fixed remuneration) | M Brydon | 50%          | 100% | M Kelly                      | 35%      | 70%                    | G Agriogiannis and S B Rogers | 25% | 50% |
|  | Target<br>(% of fixed remuneration)  | Maximum<br>(% of fixed remuneration)   |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| M Brydon   | 50%  | 100%                                   |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| M Kelly  | 35%  | 70%                                    |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| G Agriogiannis and S B Rogers  | 25%  | 50%                                    |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| Governance   |  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| Is there ability to 'claw back' in appropriate circumstances?                  | Yes. The rules of the Plan have, for some time, provided the Board with a broad ability to claw back Awards on offer to an executive and to make adjustments to any unvested Awards, if considered appropriate.<br><br>The Board continues to review these arrangements in light of contemporary practice and is considering the need for an additional formal Clawback Policy (in addition to the provisions of the Plan Rules).  |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |
| What other conditions apply to the Awards?                                     | An executive's entitlement to shares under an Award may also be adjusted to take account of capital reconstructions and bonus issues.<br><br>The rules of the Plan contain a restriction on removing the 'at-risk' aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the 'at-risk' aspect of an instrument before it becomes exercisable (eg. hedging the Awards).<br><br>Until the Awards vest, executives have no legal or beneficial interest in Adelaide Brighton Ltd shares, no entitlement to receive dividends and no voting rights in relation to any securities granted under the 2014 Award, or any of the other Awards.<br><br>Any shares allocated to the executive following exercise of an Award may only be dealt with in accordance with the Company's Share Trading Policy and subject to the generally applicable insider trading prohibitions. |  |   |                                      |          |              |      |                              |          |                        |                               |     |     |

## Adelaide Brighton Ltd and its controlled entities

| Cessation of employment or a change of control                                  |  |
|---|--|
| What happens to Awards that are not yet exercisable on cessation of employment? | <p>If an Executive resigns or is terminated for cause, the Awards in respect of any tranche that is not exercisable will generally be forfeited.</p> <p>The rules of the Plan provide that in other circumstances, and at the discretion of the Board, a pro rata number of Awards, reflecting the part of the LTI earned or accrued up to termination, may become exercisable either at the time of termination of employment or at the end of the original performance period applicable to a tranche.</p> |
| How would a change of control of the Group impact on LTI entitlements?          | In the event of a takeover bid (or other transaction likely to result in a change in control of the Company), an executive will only be allowed to exercise his or her Awards to the extent determined by the Board as provided under the rules of the Plan.   |

### Section 6 – Executive Service Agreements

The remuneration and other terms of employment for Executives are set out in formal employment contracts referred to as Service Agreements. All Service Agreements are for an unlimited duration and details of Executives' entitlements on termination are set out below. All Service Agreements may be terminated immediately for serious misconduct, in which case Executives are not entitled to any payment on termination other than remuneration and leave entitlements up to the date of termination.

As discussed in section 1.5 above, all Executives have now been transitioned to the new general form of Service Agreement embodying best current practice.

**Table 6**

| Name           | Notice periods  | Separation payments <sup>(1)</sup>   |
|----------------|---|--|
| M Brydon       | 6 months' notice by either party (or payment in lieu) | 6 months fixed annual remuneration where the Company terminates on notice.                 |
| M Kelly        | 3 months' notice by either party (or payment in lieu) | 12 months fixed annual remuneration where the Company terminates on notice. <sup>(2)</sup> |
| G Agriogiannis | 3 months' notice by either party (or payment in lieu) | 9 months fixed annual remuneration where the Company terminates on notice.                 |
| S B Rogers     | 6 months' notice by either party (or payment in lieu) | 6 months fixed annual remuneration where the Company terminates on notice.                 |

<sup>(1)</sup> In the case of resignation, no separate payment is made to the Executive (only amounts due and payable up to the date of ceasing employment including accrued leave entitlements and unpaid salary).

<sup>(2)</sup> No separation payment will exceed the limit under the *Corporations Act 2001*.

On termination of employment for any reason, the CEO and other Executives are prohibited from engaging in any activity that would compete with the Group for a period of six months in order to protect the Group's business interests. In the event of resignation, at the option of the Company, Mr Brydon, Mr Kelly and Mr Rogers may be paid a monthly amount equivalent to the Executive's monthly fixed remuneration at the time of termination during the period of restraint to support the enforceability of the restraint.

## Adelaide Brighton Ltd and its controlled entities

### Section 7 – Non-executive Directors' fees

#### 7.1 Policy and approach to setting fees

| <b>Overview of policy</b>                         | <p>Non-executive Directors receive a base fee in relation to their service as a Director of the Board, and an additional fee for membership of, or for chairing a committee.</p> <p>The Chairman, taking into account the greater time commitment required, receives a higher fee but does not receive any additional payment for service on the respective committees.</p> <p>The total amount of fees paid to non-executive Directors is determined by the Board on the recommendation of its NRG Committee within the maximum aggregate amount approved by shareholders. The remuneration of the non-executive Directors consists of Directors' fees, committee fees and superannuation contributions. These fees are not linked to the performance of the Group in order to maintain the independence and impartiality of the non-executive Directors.</p> <p>In setting fee levels, the NRG Committee takes into account:</p> <ul style="list-style-type: none"><li>• Independent professional advice;</li><li>• Fees paid by comparable companies;</li><li>• The general time commitment and responsibilities involved; and</li><li>• The level of remuneration necessary to attract and retain Directors of a suitable calibre.</li></ul>   |                          |           |           |                                       |         |  |                        |         |  |                       |                        |                         |                                      |        |        |   |        |        |  |        |        |
|---|--|--------------------------|-----------|-----------|---------------------------------------|---------|--|------------------------|---------|--|-----------------------|------------------------|-------------------------|--------------------------------------|--------|--------|---|--------|--------|--|--------|--------|
| <b>Aggregate fees approved by shareholders</b>    | Total fees, including committee fees, were set within the maximum aggregate amount of \$1,300,000 per annum approved at the 2013 Annual General Meeting.   |                          |           |           |                                       |         |  |                        |         |  |                       |                        |                         |                                      |        |        |   |        |        |  |        |        |
| <b>Base fees for 2014</b>                         | <p>As set out in the 2013 Remuneration Report, following a review of the fees paid to non-executive Directors, the Chairman's annual fee (at his request) has been reduced by 12.5% in the 2014 year (previously \$354,756). The base fee for non-executive Directors remains at the same level as for 2013.</p> <table border="1"><thead><tr><th><b>Base fees (Board)</b></th><th><b>\$</b></th><th><b>\$</b></th></tr></thead><tbody><tr><td>Non-executive Chairman <sup>(1)</sup></td><td>310,500</td><td></td></tr><tr><td>Non-executive Director</td><td>103,500</td><td></td></tr><tr><th><b>Committee fees</b></th><th><b>Committee chair</b></th><th><b>Committee member</b></th></tr><tr><td>Audit, Risk and Compliance Committee</td><td>24,840</td><td>13,973</td></tr><tr><td>Nomination, Remuneration and Governance Committee</td><td>24,840</td><td>13,973</td></tr><tr><td>Safety, Health and Environment Committee</td><td>15,525</td><td>10,350</td></tr></tbody></table> <p><sup>(1)</sup> The Chairman of the Board receives no additional fee for Committee work.</p> <p>In accordance with the Company's constitution, Directors are also permitted to be paid additional fees for special duties or exertions. Such fees may or may not be included in the aggregate amount approved by shareholders, as determined by the Directors. No such fees were paid during the year.</p> <p>Directors are also entitled to be reimbursed for all business related expenses, including travel, as may be incurred in the discharge of their duties.</p> | <b>Base fees (Board)</b> | <b>\$</b> | <b>\$</b> | Non-executive Chairman <sup>(1)</sup> | 310,500 |  | Non-executive Director | 103,500 |  | <b>Committee fees</b> | <b>Committee chair</b> | <b>Committee member</b> | Audit, Risk and Compliance Committee | 24,840 | 13,973 | Nomination, Remuneration and Governance Committee | 24,840 | 13,973 | Safety, Health and Environment Committee | 15,525 | 10,350 |
| <b>Base fees (Board)</b>                          | <b>\$</b>  | <b>\$</b>                |           |           |                                       |         |  |                        |         |  |                       |                        |                         |                                      |        |        |   |        |        |  |        |        |
| Non-executive Chairman <sup>(1)</sup>             | 310,500  |                          |           |           |                                       |         |  |                        |         |  |                       |                        |                         |                                      |        |        |   |        |        |  |        |        |
| Non-executive Director                            | 103,500  |                          |           |           |                                       |         |  |                        |         |  |                       |                        |                         |                                      |        |        |   |        |        |  |        |        |
| <b>Committee fees</b>                             | <b>Committee chair</b>   | <b>Committee member</b>  |           |           |                                       |         |  |                        |         |  |                       |                        |                         |                                      |        |        |   |        |        |  |        |        |
| Audit, Risk and Compliance Committee              | 24,840   | 13,973                   |           |           |                                       |         |  |                        |         |  |                       |                        |                         |                                      |        |        |   |        |        |  |        |        |
| Nomination, Remuneration and Governance Committee | 24,840   | 13,973                   |           |           |                                       |         |  |                        |         |  |                       |                        |                         |                                      |        |        |   |        |        |  |        |        |
| Safety, Health and Environment Committee          | 15,525   | 10,350                   |           |           |                                       |         |  |                        |         |  |                       |                        |                         |                                      |        |        |   |        |        |  |        |        |

Adelaide Brighton Ltd and its controlled entities

Section 8 – Key Management Personnel disclosure tables

8.1 Non-executive Directors' statutory remuneration

Details of non-executive Directors' remuneration are set out in the following table:

Table 7

| Non-executive Director                             | Year | Fees and allowances                               |   |                | Post-employment benefits                          |
|--|------|---|---|----------------|---|
|  |      | Directors' base fees (incl. superannuation)<br>\$ | Committee fees (incl. superannuation)<br>\$ | Total<br>\$    | Superannuation contributions <sup>(1)</sup><br>\$ |
| L V Hosking <sup>(2)</sup><br><b>(Chairman)</b>    | 2014 | 310,500   | -   | 310,500        | 23,449  |
|  | 2013 | 354,746   | -   | 354,746        | 23,449  |
| R D Barro  | 2014 | 103,500   | 10,350                                      | 113,850        | 9,758   |
|  | 2013 | 103,500   | 10,350                                      | 113,850        | 9,520   |
| G F Pettigrew                                      | 2014 | 103,500   | 49,163                                      | 152,663        | 13,878  |
|  | 2013 | 103,500   | 49,163                                      | 152,663        | 13,878  |
| K B Scott-Mackenzie                                | 2014 | 103,500   | 29,498                                      | 132,998        | 11,400  |
|  | 2013 | 103,500   | 29,498                                      | 132,998        | 11,121  |
| A M Tansey <sup>(3)</sup>                          | 2014 | 103,500   | 38,813                                      | 142,313        | 12,198  |
|  | 2013 | 103,500   | 45,506                                      | 149,006        | 12,463  |
| <b>Total non-executive Directors' remuneration</b> | 2014 | <b>724,500</b>                                    | <b>127,824</b>                              | <b>852,324</b> | <b>70,683</b>                                     |
|  | 2013 | 768,746   | 134,517                                     | 903,263        | 70,431  |

<sup>(1)</sup> Superannuation contributions are made on behalf of non-executive Directors which satisfy the Group's obligations under applicable Superannuation Guarantee Charge legislation.

<sup>(2)</sup> Following a review of the fees paid to non-executive Directors, the Chairman's annual fee (at his request) was reduced by 12.5% in 2014.

<sup>(3)</sup> Ms Tansey's fees have reduced for 2014 as the Corporate Governance Committee (of which she was Chairman) has been dissolved.



Adelaide Brighton Ltd and its controlled entities

8.2 Executive statutory remuneration

Table 8

|                                     | Year | Short term employee benefits |                            |                        | Post employment benefits                |                      | Share based payment expense <sup>(3)</sup> |                  | Total | % of remuneration consisting of awards <sup>(4)</sup> |
|-------------------------------------|------|------------------------------|----------------------------|------------------------|---|----------------------|--|------------------|-------|---|
|                                     |      | FAR                          | STI payment <sup>(1)</sup> | Other benefits         | Super-annuation benefits <sup>(2)</sup> | Termination benefits | Long term incentive                        |                  |       |   |
|                                     |      | \$                           | \$                         | \$                     | \$                                      | \$                   | \$   | \$               | %     |   |
| <b>Executives</b>                   |      |                              |                            |                        |   |                      |  |                  |       |   |
| M Brydon                            | 2014 | 1,243,194                    | 1,091,041                  | 166,667 <sup>(5)</sup> | 27,823                                  | -                    | 270,053                                    | 2,798,778        | 10    |   |
|                                     | 2013 | 935,078                      | 752,619                    | -                      | 17,122                                  | -                    | 217,527                                    | 1,922,346        | 11    |   |
| M Kelly                             | 2014 | 663,566                      | 484,178                    | -                      | 27,917                                  | -                    | 179,279                                    | 1,354,940        | 13    |   |
|                                     | 2013 | 652,925                      | 532,036                    | -                      | 25,000                                  | -                    | 170,157                                    | 1,380,118        | 12    |   |
| G Agriogiannis                      | 2014 | 463,510                      | 339,594                    | -                      | 20,000                                  | -                    | 99,828                                     | 922,932          | 11    |   |
|                                     | 2013 | 454,030                      | 371,640                    | -                      | 20,000                                  | -                    | 155,049                                    | 1,000,719        | 15    |   |
| S B Rogers                          | 2014 | 454,816                      | 344,677                    | 100,000 <sup>(6)</sup> | 25,000                                  | -                    | 94,276                                     | 1,018,769        | 9     |   |
|                                     | 2013 | 445,408                      | 368,800                    | -                      | 25,000                                  | -                    | 102,107                                    | 941,315          | 11    |   |
| <b>Former MD &amp; CEO</b>          |      |                              |                            |                        |   |                      |  |                  |       |   |
| M P Chellew                         | 2014 | 665,560                      | -                          | 869,000 <sup>(7)</sup> | 6,250                                   | 291,877              | 1,126,198                                  | 2,958,885        | 38    |   |
|                                     | 2013 | 1,713,800                    | 1,697,069                  | -                      | 25,000                                  | -                    | 752,820                                    | 4,188,689        | 18    |   |
| <b>Total executive remuneration</b> | 2014 | <b>3,490,646</b>             | <b>2,259,490</b>           | <b>1,135,667</b>       | <b>106,990</b>                          | <b>291,877</b>       | <b>1,769,634</b>                           | <b>9,054,304</b> |       |   |
|                                     | 2013 | 4,201,241                    | 3,722,164                  | -                      | 112,122                                 | -                    | 1,397,660                                  | 9,433,187        |       |   |

(1) STI payment includes payments relating to 2014 performance accrued but not paid as at 31 December 2014.

(2) Includes Company contributions to superannuation and allocations by employees made by way of salary sacrifice of fixed remuneration.

(3) In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The notional value of equity instruments is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that the individual Executives may ultimately realise should the equity instruments vest. The notional value of Awards as at the date of their grant has been determined in accordance with the accounting policy Note 1(v)(iv).

(4) % of remuneration for the financial year which consists of the amortised annual value of Awards issued under the Adelaide Brighton Limited Executive Performance Share Plan.

(5) Living Away from Home Allowance payment made pursuant to Mr Brydon's Service Agreement to assist him in discharging his duties from the Company's Sydney office.

(6) Payment made to Mr Rogers to cash out certain entitlements as part of Mr Roger's transition to a new fully compliant Service Agreement.

(7) Payment made pursuant to Mr Chellew's Service Agreement to support enforceability of the restraint for the period 22 May 2014 to 22 November 2014.

## Adelaide Brighton Ltd and its controlled entities

### 8.3 Equity holdings of Key Management Personnel

A summary of Executives' and non-executive Directors' current shareholdings in the Company as at 31 December 2014 is set out below.

While the Board has considered minimum shareholding guidelines for non-executive Directors, it has determined that it does not currently consider it to be appropriate to require a particular holding, given that this is a matter for individual preference.

On the basis that Executives have four years' worth of LTI opportunity (as set out in section 5.3 of this Remuneration Report), the Board has decided not to introduce minimum shareholding guidelines for Executives. The Board considers that Executives' interests are sufficiently aligned (through the LTI as the LTI is subject to share price fluctuation) to those of our shareholders.

**Table 9**

|                                | Balance at beginning of year <sup>(1)</sup> | Granted as remuneration during the year | Net movement due to other changes | Balance at end of year |
|--------------------------------|---|---|-----------------------------------|------------------------|
| <b>Executives</b>              |   |   |                                   |                        |
| M Brydon                       | 8,400                                       | 120,000                                 | (120,000)                         | 8,400                  |
| M Kelly                        | -   | 100,000                                 | (100,000)                         | -                      |
| G Agriogiannis                 | -   | 65,000                                  | (65,000)                          | -                      |
| S B Rogers                     | -   | 65,000                                  | (65,000)                          | -                      |
| <b>Former MD &amp; CEO</b>     |   |   |                                   |                        |
| M P Chellew <sup>(2)</sup>     | 448,366                                     | 1,498,466                               | (1,946,832)                       | -                      |
| <b>Non-executive Directors</b> |   |   |                                   |                        |
| L V Hosking                    | 4,739                                       | -                                       | 112                               | 4,851                  |
| R D Barro <sup>(3)</sup>       | 209,875,800                                 | -                                       | 7,994,076                         | 217,869,876            |
| G F Pettigrew                  | 7,739                                       | -                                       | -                                 | 7,739                  |
| K B Scott-Mackenzie            | 5,000                                       | -                                       | -                                 | 5,000                  |
| A M Tansey                     | 10,000                                      | -                                       | -                                 | 10,000                 |

<sup>(1)</sup> The balances reported in this Table 9 include shares held directly, indirectly or beneficially by each KMP or close members of their family or an entity over which the person or the family member has either direct or indirect control, joint control or significant influence as at 31 December 2014.

<sup>(2)</sup> M P Chellew retired 21 May 2014, therefore his equity holding has been reduced to nil at 31 December 2014 through "Net movement due to other changes".

<sup>(3)</sup> The balances relating to Raymond Barro include shares owned by entities over which Raymond Barro has a significant influence, or which he jointly controls, but he does not control these entities himself.

## Adelaide Brighton Ltd and its controlled entities

### Corporate Governance Statement

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.

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

The Board believes that the Company's policies and practices are consistent in all substantial respects with good corporate governance practice in Australia appropriate for the circumstances of the Company, including the ASX Corporate Governance Council Principles and Recommendations (2nd edition).

### ASX Corporate Governance Council Principles and Recommendations (ASX Principles)

The following table summarises how the Company complies with the ASX Principles (as applicable to the Company for the 2014 financial year), and provides reference to where the specific recommendations are dealt with in this statement:

|                     | ASX Principle / Recommendation   | Compliance | Reference                      |
|---------------------|--|------------|--------------------------------|
| <b>Principle 1:</b> | <b>Lay solid foundations for management and oversight</b>  |            |                                |
| 1.1                 | Establish the functions reserved to the Board and those reserved to management   | ☑          | Section 1.1                    |
| 1.2                 | Disclose the process for evaluating the performance of senior executives   | ☑          | Section 1.2.3                  |
| 1.3                 | Provide the information indicated in the Guide to reporting on Principle 1   | ☑          |                                |
| <b>Principle 2:</b> | <b>Structure the Board to add value</b>  |            |                                |
| 2.1                 | A majority of the Board should be independent Directors  | ☑          | Section 1.2.1                  |
| 2.2                 | The chair should be an independent Director  | ☑          | Section 1.2                    |
| 2.3                 | The roles of chair and chief executive officer should not be exercised by the same individual  | ☑          | Section 1.2                    |
| 2.4                 | The Board should establish a nomination committee  | ☑          | Section 2.1                    |
| 2.5                 | Disclose the process for evaluating the performance of the Board, its committees and individual Directors  | ☑          | Section 1.2.3                  |
| 2.6                 | Provide the information indicated in the Guide to reporting on Principle 2   | ☑          |                                |
| <b>Principle 3:</b> | <b>Promote ethical and responsible decision-making</b>   |            |                                |
| 3.1                 | Establish a code of conduct and disclose the code or a summary of the code   | ☑          | Section 4.1                    |
| 3.2                 | Establish a diversity policy and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.                                    | ☑          | Section 1.2.6 and pages 45, 46 |
| 3.3                 | Disclose the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards them.  | ☑          | Pages 45, 46                   |
| 3.4                 | Disclose the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.  | ☑          | Page 47                        |
| 3.5                 | Provide the information indicated in the Guide to reporting on Principle 3   | ☑          |                                |
| <b>Principle 4:</b> | <b>Safeguard integrity in financial reporting</b>  |            |                                |
| 4.1                 | The Board should establish an audit committee  | ☑          | Section 2.1                    |
| 4.2                 | The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists only of non-executive Directors</li> <li>• consists of a majority of independent Directors</li> <li>• is chaired by an independent chair, who is not chair of the Board, and</li> <li>• has at least three members</li> </ul> | ☑          | Section 2.1                    |
| 4.3                 | The audit committee should have a formal charter   | ☑          | Section 2                      |
| 4.4                 | Provide the information indicated in the Guide to reporting on Principle 4   | ☑          |                                |

## Adelaide Brighton Ltd and its controlled entities

|   |   |                                     |             |
|---|---|-------------------------------------|-------------|
| <b>Principle 5: Make timely and balanced disclosure</b> |   |                                     |             |
| 5.1   | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies   | <input checked="" type="checkbox"/> | Section 5.1 |
| 5.2   | Provide the information indicated in the Guide to reporting on Principle 5  | <input checked="" type="checkbox"/> |             |
| <b>Principle 6: Respect the rights of shareholders</b>  |   |                                     |             |
| 6.1   | Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy  | <input checked="" type="checkbox"/> | Section 5.2 |
| 6.2   | Provide the information indicated in the Guide to reporting on Principle 6  | <input checked="" type="checkbox"/> |             |
| <b>Principle 7: Recognise and manage risk</b>           |   |                                     |             |
| 7.1   | Establish policies for the oversight and management of material business risks and disclose a summary of those policies   | <input checked="" type="checkbox"/> | Section 3.1 |
| 7.2   | The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks                            | <input checked="" type="checkbox"/> | Section 3.1 |
| 7.3   | The Board should disclose whether it has received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the <i>Corporations Act</i> is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks | <input checked="" type="checkbox"/> | Section 3.1 |
| 7.4   | Provide the information indicated in the Guide to reporting on Principle 7  | <input checked="" type="checkbox"/> |             |
| <b>Principle 8: Remunerate fairly and responsibly</b>   |   |                                     |             |
| 8.1   | The Board should establish a remuneration committee   | <input checked="" type="checkbox"/> | Section 2.1 |
| 8.2   | The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent Directors</li> <li>• is chaired by an independent chair, and</li> <li>• has at least three members</li> </ul>  | <input checked="" type="checkbox"/> | Section 2.1 |
| 8.3   | Clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives   | <input checked="" type="checkbox"/> | Section 2.1 |
| 8.4   | Provide the information indicated in the Guide to reporting on Principle 8  | <input checked="" type="checkbox"/> |             |

## Adelaide Brighton Ltd and its controlled entities

### 1 The Board lays solid foundations for management and oversight

#### 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 reviewing and approving strategic direction, establishing policy, overseeing the financial position and monitoring the business and affairs of the Group on behalf of shareholders.

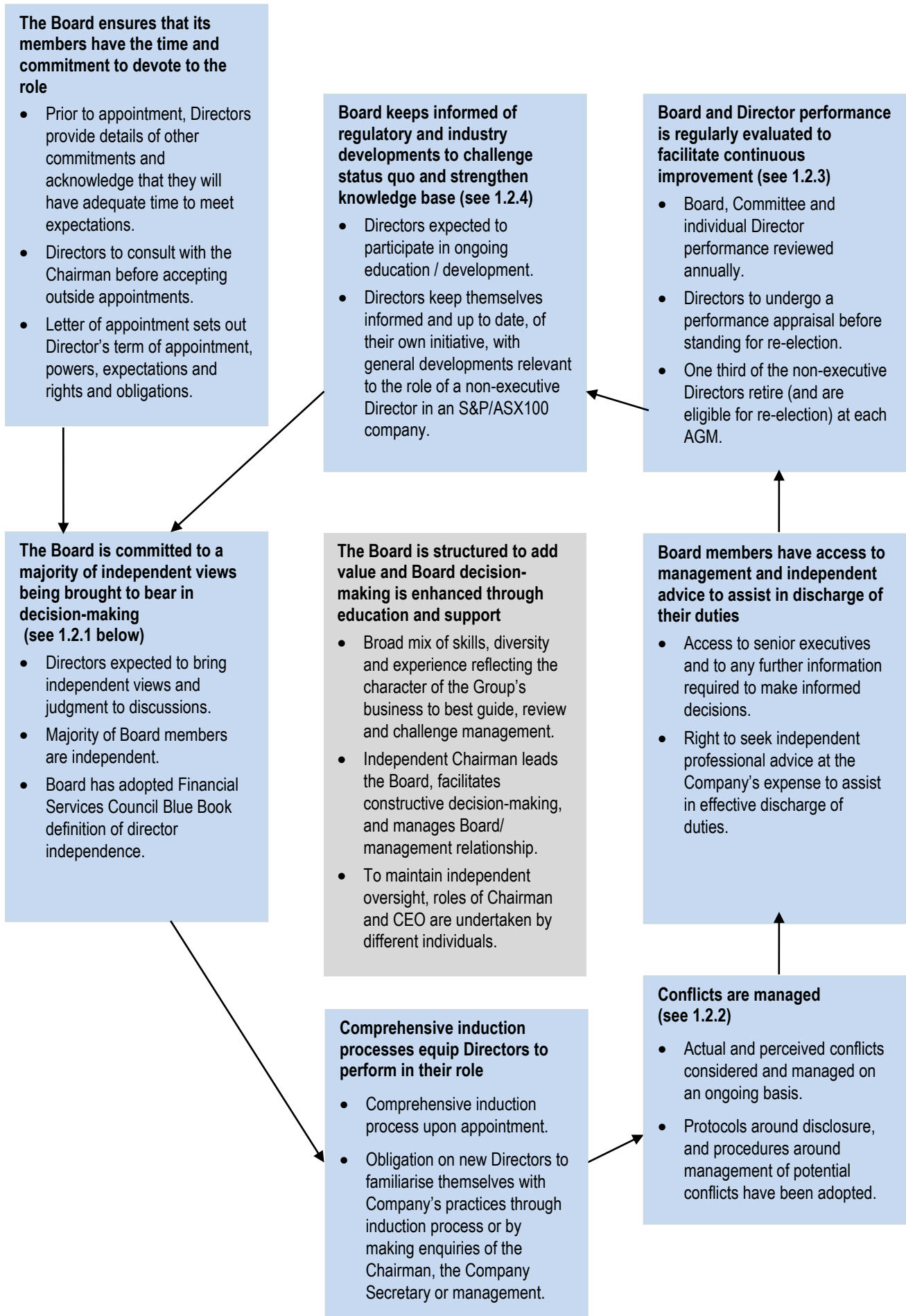
The Board operates in accordance with the general principles set out in its charter, which is available from the corporate governance section of the Company's website at [www.adbri.com.au](http://www.adbri.com.au).

In accordance with the provisions of the Company's constitution, the Board has delegated a number of powers to Board committees (see section 2), and responsibility for the day-to-day management of the Company's business affairs and development and implementation of the Company's strategy to the Chief Executive Officer (CEO). The Board and CEO are supported by senior management who report to the CEO. The respective roles and responsibilities of the Board and management are outlined further in the Board charter.

The Board has also reserved for itself the following specific responsibilities:

| <b>Strategy and monitoring</b>   | <b>Monitoring the business and affairs / relations with management</b>   | <b>Risk management, compliance and internal controls</b>   |
|--|--|--|
| <ul style="list-style-type: none"><li>• Input into and approval of management's development of corporate strategy, including setting performance objectives and approving operating budgets.</li><li>• Monitoring and reviewing corporate performance and implementation of strategy and policy.</li></ul> | <ul style="list-style-type: none"><li>• Selecting, appointing and evaluating from time to time the performance of, determining the remuneration of, and planning for the successor of, the CEO.</li><li>• Reviewing procedures for appointment of senior management, monitoring performance and reviewing executive development activities. This includes ratifying the appointment and the removal of the Chief Financial Officer, the Company Secretary and all the Company's senior executives who report to the CEO.</li><li>• Approval of the Company's capital structure and gearing targets.</li><li>• Approval of specified matters exceeding delegated authority levels, including major capital expenditure and major acquisitions and divestitures.</li></ul> | <ul style="list-style-type: none"><li>• Reviewing, guiding and monitoring systems of risk management and internal control and ethical and legal compliance.</li><li>• Monitoring and reviewing processes aimed at ensuring integrity of financial and other reporting, and providing assurance to approve the Group's financial reports.</li><li>• Monitoring and reviewing policies and processes in place relating to occupational health and safety, compliance with laws, and the maintenance of high ethical standards.</li><li>• Input into and approval of 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.</li></ul> |

1.2 The Board is structured to add value



### 1.2.1 Directors' independence

The Board reviews, at least annually, the independence of Directors. In general, Directors are considered independent where they are free of any interest and any business or other relationship which could, or could reasonably be perceived, to interfere materially with the Director's ability to act in the best interests of the Company. An assessment will be made on a case-by-case basis of whether the Director's ability to act in the best interests of the Company has been materially impaired.

In ensuring that the Board comprises Directors with a broad range of skills and experience reflecting the character of the Group's business, the Board may from time to time appoint Directors who are not considered to be independent. It is, however, the Board's policy that it should comprise a majority of independent Directors to ensure that independent oversight is maintained.

Having regard to the guidelines of independence adopted by the Board, the Directors are of the view that Mr R D Barro is the only non-executive Director who is not considered "independent", by virtue of his position as the Managing Director and a shareholder of Barro Group Pty Ltd (which has a 50% interest in the joint venture, Independent Cement & Lime Pty Ltd (ICL), and is a substantial shareholder in the Company). ICL has an ongoing trading relationship with the Barro Group of companies.

The Board has also considered the length of service of each Director on the Board and concluded that no Director has been a Director of the Company for such a period that their independence may be compromised. Details of each Director's period of office is set out on page 8 and 9 of this report.

### 1.2.2 Conflicts of interest

Determinations regarding independence do not change any Director's obligations in managing any conflict of interest. Directors have a continuing obligation to avoid any action, position or interest which conflicts (or may be perceived to conflict) with their position as a Director of the Company. In particular, the Board is cognisant of Mr Barro's interest in Barro Group Pty Ltd.

During the year, in order to avoid actual and/or perceived conflicts of interest in Board decision-making, Board procedures were followed such that where the possibility of a material conflict arose, the Board considered the nature and extent of the potential conflict and whether it would be appropriate for the relevant Director to participate in Board discussion and decision-making in relation to the issue. Where there was a real potential for a conflict of interest, information was not provided to the Director, and, in accordance with the *Corporations Act 2001*, the Director did not participate in, or vote at, the meeting where the matter was considered.

### 1.2.3 Performance evaluation

The Board reviews its performance annually, as well as the performance of individual Committees and individual Directors (including the performance of the Chairman as Chairman of the Board).

For the 2014 financial year, a performance evaluation was led internally by the Chairman to assess the performance of individual Directors, the Board as a whole, various aspects of the Board committees such as their performance, membership, roles and charters, and the Board's and Directors' interaction with management.

As part of this comprehensive review of the Board's performance, processes and operations, the Chairman facilitates individual discussions with each Director which also reviews their individual performance. The discussions also included a peer review of the Board Chairman's performance by the other Directors.

The Chairman reports to the Board concerning the performance evaluation process and the findings of these reviews. As a result of recommendations arising from the internal Board review, initiatives are introduced to ensure the continued effectiveness of the Board's performance and to enable its sustained focus on key issues for the Company. The implementation of these initiatives is overseen by the Chairman.

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

For the 2014 financial year, the performance of the CEO and the CEO's achievement of the agreed objectives was reviewed by the Chairman, the Nomination, Remuneration and Governance Committee and the Board. The performance of the Company's senior executives during 2014 was reviewed by the CEO, the Nomination, Remuneration and Governance Committee and the Board.

### 1.2.4 Director induction training and ongoing education

All newly appointed Directors are provided with an induction, which includes information relevant to their new role, attendances at key sites and introductions to key staff, which is provided or coordinated by the CEO, the Chief Financial Officer and the Company Secretary. This induction includes briefings on the Company's business, strategy, financial, operational and risk management matters and factors relevant to the sectors and environments in which the Company operates.

Ongoing Director education is provided throughout the year. The Board and its Committees are provided with updates and information from both management and external experts on various topics relevant to the Company's circumstances. The Board is informed by expertise from within the Company on matters such as energy supply arrangements and business and product development.

## **Adelaide Brighton Ltd and its controlled entities**

### **1.2.5 Board and CEO succession planning**

The Board regularly reviews the size and composition of the Board to ensure the appropriate skills, perspective and expertise are represented.

During 2014, The Board led by the Chairman and the Chairman of the Nomination, Remuneration and Governance Committee, reviewed the Board's composition, and utilised a Board skills matrix in doing this (details of the Board skills matrix will be disclosed when the Company adopts the 3rd edition of the ASX Principles). The Board is satisfied that its present composition is appropriate for the circumstances of the Company. It recognises that consideration of Board renewal is an ongoing process, and accordingly the Board's composition will continue to be monitored and reviewed during 2015.

The Board's long term management succession plan for the CEO was implemented during 2014, leading to Martin Brydon assuming the Chief Executive Officer role upon Mark Chellew's retirement following the Annual General Meeting in May 2014, ensuring a smooth transition of leadership responsibilities within the Company.

The Nomination, Remuneration and Governance Committee and the Board also reviewed the succession plans for the senior management team during the year, to ensure that appropriate plans have been implemented for the mid to long term.

### **1.2.6 Diversity**

The Board, having adopted a Diversity Policy for the Group in 2011, established measurable diversity objectives (which are reviewed and assessed annually) to enhance gender and other diversity across the organisation. Further information about the Group's diversity objectives and progress achieved (in accordance with the ASX Corporate Governance Council Principles and Recommendations) is set out on pages 45 to 47. The Group's overarching Diversity Policy will be reviewed during 2015.

## **2 Composition and responsibilities of Board Committees**

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

- Audit, Risk and Compliance Committee;
- Nomination, Remuneration and Governance Committee;
- Safety, Health and Environment Committee; and
- Independent Directors' Committee.

Each committee has a specific charter or constitution. The charters for the Audit, Risk and Compliance Committee and the Nomination, Remuneration and Governance Committee are available on the corporate governance section of the Company's website at [www.adbri.com.au](http://www.adbri.com.au). The Board periodically reviews each Board committee's charter, role and responsibilities.

Details on the number of meetings held by the Board and its Committees during 2014, and attendance by Board members, can be found on page 9 of this report. Information on the relevant skills, experience and expertise of each Director can also be found on page 8 and 9 of this report.

### **2.1 Key standing committees – Audit, Risk and Compliance and Nomination, Remuneration and Governance**

The composition and responsibilities of the Audit, Risk and Compliance and Nomination, Remuneration and Governance Committees are set out in the following table:



Adelaide Brighton Ltd and its controlled entities

|                                   | <b>Audit, Risk and Compliance Committee</b>  | <b>Nomination, Remuneration and Governance Committee</b>  |
|-----------------------------------|--|---|
| Roles and responsibilities        | <p>The Audit, Risk and Compliance Committee:</p> <ul style="list-style-type: none"> <li>assists the Board in relation to the reporting of financial information, the appropriate application and amendment of accounting policies, the appointment, independence and remuneration of the external auditor, and performance of the internal audit function (including independence, effectiveness and appropriate coordination with external auditors).</li> <li>provides a forum for communication between the Board, management and both the internal and external auditors.</li> <li>reviews and reports to the Board on the effectiveness of the Company's ongoing risk management program and policies and procedures.</li> <li>reviews and reports to the Board regarding the appropriateness of the Company's compliance procedures.</li> <li>provides a conduit to the Board for external advice on audit, risk management and compliance matters.</li> </ul> | <p>The Nomination, Remuneration and Governance Committee:</p> <ul style="list-style-type: none"> <li>assists and advises the Board on matters relating to the appointment, remuneration and processes for review of the performance of the non-executive Directors, the CEO and other senior executives, and best practice corporate governance appropriate to the circumstances of the Company.</li> <li>oversees the implementation of the Company's short term and long term incentive arrangements, including reviewing performance targets for senior executives, reviewing recommendations from the CEO on senior executives' participation in short and long term incentive schemes, making relevant awards and assessing the extent to which performance conditions are satisfied.</li> <li>reviews management and Board succession planning and assesses the appropriate mix of skills, experience and expertise required on the Board.</li> <li>oversees the implementation of diversity measures to facilitate the achievement of the Company's diversity objectives.</li> </ul> |
| Composition                       | <p>Composition requirements include:</p> <ul style="list-style-type: none"> <li>there must be a minimum of three independent non-executive Directors on the Committee.</li> <li>the Chair must be an independent non-executive Director who is not Chairman of the Board.</li> <li>Committee members shall, between them, have sufficient accounting and financial knowledge to allow them to discharge their duties and actively challenge information presented by management, internal and external auditors.</li> </ul>  | <p>Composition requirements include:</p> <ul style="list-style-type: none"> <li>there must be a minimum of three independent non-executive Directors on the Committee.</li> <li>each Committee member is expected to be familiar with the legal and regulatory disclosure requirements in relation to remuneration and have adequate knowledge of executive remuneration issues, including executive retention and termination policies, and short term and long term incentive arrangements.</li> </ul>  |
| Membership as at 31 December 2014 | <p>G F Pettigrew (Chairman)<br/>L V Hosking<br/>A M Tansey</p>   | <p>A M Tansey (Chairman)<br/>L V Hosking<br/>G F Pettigrew<br/>K B Scott-Mackenzie</p>  |
| Consultation                      | <p>Members of management may attend meetings of the Committee at the invitation of the Committee Chairman. It is practice of the Committee that the CEO, the Chief Financial Officer and the Company Secretary attend all</p>  | <p>It is practice of the Committee, on occasions when relevant, to invite other Directors to attend Committee meetings. Additionally, two Committee meetings in 2014 were held concurrently with Board meetings.</p>  |

## Adelaide Brighton Ltd and its controlled entities

|  | <b>Audit, Risk and Compliance Committee</b>  | <b>Nomination, Remuneration and Governance Committee</b>   |
|--|--|--|
|  | <p>Committee meetings. The Group Risk Manager generally attends meetings of the Committee when non-financial risk management matters are considered.</p> <p>In fulfilling its responsibilities, the Committee has rights of access to management and to internal and external auditors in the absence of management and may seek explanations and additional information.</p> <p>It is the practice of the Committee to meet with the Company's external auditors, without any member of management present.</p> | <p>Members of management, particularly the CEO, the General Manager HR, the Chief Financial Officer or the Company Secretary, may also attend meetings of the Committee at the invitation of the Committee Chairman, whenever particular matters arise that require management participation, such as reviewing senior executive performance, succession planning or the CEO's recommendations to the Committee.</p> <p>The Committee obtains external advice from independent remuneration consultants in determining the Company's remuneration practices and executive service agreements where considered appropriate.</p> |

## 2.2 Other Board committees

### 2.2.1 Safety Health and Environment Committee

The members of the Safety, Health and Environment Committee (SH&E Committee) during 2014 were K B Scott-Mackenzie (Chairman), G F Pettigrew, and R D Barro.

The Committee has a broad role in reviewing general and specific occupational health and safety and environmental matters across the Group. Committee meetings are also attended by the CEO and the Company's General Manager-HSE, Chief Financial Officer and its General Counsel.

### 2.2.3 Independent Directors' Committee

The role of the Independent Directors' 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 members of the Committee during 2014 were L V Hosking (Chairman), G F Pettigrew and K B Scott-Mackenzie. There was no requirement for this Committee to meet during 2014.

3 The Board recognises and manages risk and safeguards the integrity of financial reporting

3.1 Framework – The Board has approved the following framework within which the Company discharges its risk management function:

**Leading culture of compliance and ensuring that risk management practices are appropriate and effective in the context of the Company's business objectives.**  
**Oversight:** The Board, through the Audit, Risk and Compliance Committee, is responsible for reviewing and guiding the Company's risk management policies and compliance and control systems. These policies and systems provide for management to identify and manage both financial and non-financial risks to the Company's businesses. The Board, through the Committee, regularly reviews the effectiveness of the Company's risk management system and management of identified business risks.  
**Purpose:** 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.

**Internal controls framework**

- A robust control environment is fundamental to the effectiveness of the Company's risk management framework. Delegations of authority and Board and management accountability is clearly demarcated.
- 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.
- Accounting, financial reporting and internal control policies and procedures designed to manage business risks (both financial and non-financial) have been established at the Board and executive management levels. These are designed to safeguard the assets and interest of the Company, and ensure the integrity of financial reporting. The Board nonetheless acknowledges that it has ultimate responsibility for the accuracy and approval of the Group's financial reports. The Board acknowledges that it is also responsible for the overall internal control framework, and to assist in discharging this responsibility, the Board has instigated an internal control framework that can be described as follows:

**Financial risk:** The CEO 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 position and performance of the Company and the consolidated entity and are in accordance with accounting standards in all material respects;
- That the Company has a sound system of risk management and internal control which implements the policies adopted by the Board and forms the basis for the statement given above; and
- That the Company's risk management and internal control system to the extent it relates to financial reporting, is operating efficiently in all material respects.

**Non-financial risk:** Management regularly reports to the Board, including through reports to the Audit, Risk and Compliance Committee, on strategic and operational issues, including an assessment of the material business risks facing the Company and the effectiveness of the system and policies in place to manage those risks.

**Financial reporting**

- 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.
- Procedures to ensure that price sensitive information is reported to the ASX in a timely manner (see section 5 below).

**Operating unit controls**

- Financial controls and procedures including information systems controls are in operation throughout the consolidated entity.
- Operating units confirm compliance with these procedures to the Board annually.

**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:**

- Clearly defined guidelines for capital expenditure eg annual budgets, detailed appraisal and review procedures, and levels of delegated authority 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 program to be conducted, and the scope of the work to be performed.
- Internal auditors provide the Committee with comments and recommendations about the identification of areas perceived to be of a greater level of risk than others, and any areas requiring particular scrutiny.
- The Committee receives and reviews the reports of the internal auditors.

**Delegated authorities and restrictions:**

- Comprehensive procedure which provides a framework that enables employees to operate and act within clearly defined and communicated parameters.

## **Adelaide Brighton Ltd and its controlled entities**

### **3.2 Audit Services**

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 considered annually. PricewaterhouseCoopers remains the external auditor of the Company for the Group's financial report for the year ended 31 December 2014.

The Board has adopted a policy in relation to the provision of non-audit services by the Company's external auditor. It 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. Details and the break down of fees for non-audit services and an analysis of fees paid or payable to external auditors are provided in Note 29 to the Financial Statements.

## **4 The Board is committed to promoting ethical and responsible decision-making**

### **4.1 Code of conduct and whistleblower program**

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;
- Providing a safe and healthy work environment for all employees;
- 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; 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 at [www.adbri.com.au](http://www.adbri.com.au).

The Code of Conduct was reviewed during the year to ensure that it remains relevant to the Company's values and practices. The outcomes from this review are currently being considered by the Company.

The Company has also adopted policies requiring compliance with (among others) occupational health and safety, environmental, privacy, diversity, equal employment opportunity, harassment, fair treatment, and competition and consumer law. The Company monitors the effectiveness of these policies.

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 industry and regulatory 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.

### **4.2 Shareholdings of Directors and employees**

The Board has a policy that in general, Directors and Officers may not buy or sell Adelaide Brighton Ltd shares except during periods (known as 'Trading Windows') provided that prior approval is obtained. The Trading Windows cover the period of one month following the annual and half year results announcements in addition to the period from the release of the Company's annual report until one month after the annual general meeting. The policy also defines certain periods where trading is not permitted under any circumstances (known as 'Blackout Periods'), which cover the two months preceding lodgement of half year and annual results announcements, in addition to any instance when a Director is trading for short-term gain. In all cases, Directors and Officers are prohibited from trading in securities when they are in possession of "inside information".

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

The Company's Share Trading Policy and the Award/Share Hedging Policy are available on the Company's website at [www.adbri.com.au](http://www.adbri.com.au).

## **Adelaide Brighton Ltd and its controlled entities**

### **5 The Board is committed to timely and balanced disclosure and respects the rights of shareholders**

#### **5.1 Continuous disclosure**

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 *Corporations Act 2001* and the ASX continuous disclosure regime.

The Company's Continuous Disclosure Policy is available on the Company's website at [www.adbri.com.au](http://www.adbri.com.au) 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 and overseeing and coordinating (with the Group Corporate Affairs Adviser) information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

#### **5.2 Communication with shareholders**

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. Shareholders can elect to receive communications from the Company by electronic means. Shareholders can communicate with the share registry and the Company by electronic means.

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 Group's strategy and goals.

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.

## Adelaide Brighton Ltd and its controlled entities

### Diversity Report

Adelaide Brighton is committed to the promotion of diversity within our organisation, and recognises that removing barriers to diversity enables us to attract and retain the best people with the appropriate skills to contribute to the continuing success of our business. Our Diversity Policy outlines five core objectives which form the foundations of our approach to diversity and upon which we measure our performance in this area.

An overview of these objectives, and our progress towards achieving these objectives for the 2014 financial year, are set out below:

| Objectives   | Diversity measures to facilitate achievement of objectives   | Progress   |
|--|--|--|
| To promote a culture of diversity (which includes gender, skills, experience, and cultural background) | <ul style="list-style-type: none"> <li>Leadership programs targeted at our female management and frontline employees focusing on their strengths and contribution to the broader workplace to be rolled out across the organisation.</li> </ul>  | <ul style="list-style-type: none"> <li>Leadership programs and coaching continue to be available for female employees. In 2014, we implemented a broader program aimed at our managers and supervisors.</li> </ul>   |
|  | <ul style="list-style-type: none"> <li>Company-wide training in workplace policies (including diversity, bullying and harassment, Equal Employment Opportunity).</li> </ul>  | <ul style="list-style-type: none"> <li>Employee inductions include information on Company policies such as equal employment opportunity and bullying.</li> <li>Introduced assessable compliance training for management.</li> </ul>  |
|  | <ul style="list-style-type: none"> <li>The Board and Nomination, Remuneration and Governance Committee review Adelaide Brighton's diversity achievements relative to the industry structure in which the Company operates.</li> </ul>  | <ul style="list-style-type: none"> <li>In 2014, the Board and then Nomination and Remuneration Committee discussed the Company's diversity measures and the need to develop a positive workplace culture.</li> </ul>   |
| To ensure that recruitment and selection processes are based on merit                                  | <ul style="list-style-type: none"> <li>Internal review of Adelaide Brighton's recruitment practices and systems to ensure that employment decisions are made without regard to factors that are not applicable to the inherent requirements of a position and that unconscious gender bias does not influence outcomes.</li> </ul> | <ul style="list-style-type: none"> <li>Recruitment mentoring training continues across the business with a view to eliminate any unconscious bias that may occur. 16% of all new hires in 2014 were female.</li> <li>Selection of recruitment agencies employed by Adelaide Brighton is based on their commitment to providing diverse candidate pools.</li> </ul> |
| To provide talent management and development opportunities for all employees                           | <ul style="list-style-type: none"> <li>Ongoing talent recognition and in-house leadership programs for employees.</li> </ul>   | <ul style="list-style-type: none"> <li>Various development programs provided for recognised employees and tailored to individual needs ranging from external training and education, mentoring and/or specific on the job training.</li> </ul>   |
|  | <ul style="list-style-type: none"> <li>Sponsor or encourage professional networking, coaching and mentoring programs to give female employees the opportunity to connect with other professionals.</li> </ul>  | <ul style="list-style-type: none"> <li>Where identified, these programs continue to be supported across the organisation.</li> </ul>   |
|  | <ul style="list-style-type: none"> <li>Sponsor MBA or post-graduate studies for high potential female employees.</li> </ul>  | <ul style="list-style-type: none"> <li>Adelaide Brighton supports external study and development for high potential employees.</li> </ul>  |

## Adelaide Brighton Ltd and its controlled entities

|  |  |   |
|--|--|---|
| <p>To provide talent management and development opportunities for all employees (cont'd)</p> | <ul style="list-style-type: none"> <li>• In recognition of the low numbers of females entering into engineering and manufacturing vocations:             <ul style="list-style-type: none"> <li>– implement programs designed to engage female graduate engineers;</li> <li>– offer undergraduate scholarship opportunities and sponsor vacation work programs to engage female students who are entering tertiary education to consider engineering as a career option; and</li> <li>– strive for gender balance in the recruitment of graduates each year.</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>• Continued sponsorship of the Women in Engineering program at the University of Wollongong in 2014 that provides both a financial benefit and a work placement opportunity.</li> <li>• The Company has attended career expos at the University of Adelaide and sponsored Engineering awards at University of Wollongong.</li> </ul> |
|  | <ul style="list-style-type: none"> <li>• Support the creation of employment opportunities for Indigenous and Torres Strait Islanders.</li> </ul>   | <ul style="list-style-type: none"> <li>• Support and participation in the South Australian Indigenous Law Student Mentoring Program.</li> <li>• Support for a scholarship for aboriginal students to complete Year 12 High School at Prince Alfred College.</li> </ul>  |
| <p>To reward and remunerate fairly</p>   | <ul style="list-style-type: none"> <li>• Adelaide Brighton has a policy to provide equal pay for equal work.</li> <li>• As part of the annual salary review process, Adelaide Brighton undertakes a review of pay parity.</li> <li>• Pay parity is also considered at the time of hiring new employees, to eliminate potential gaps in pay arising from hiring decisions.</li> </ul>   | <ul style="list-style-type: none"> <li>• The gender pay parity review was completed in 2014 as part of Adelaide Brighton's annual remuneration review processes.</li> </ul>   |
| <p>To provide flexible work practices</p>  | <ul style="list-style-type: none"> <li>• Adelaide Brighton seeks to provide suitable working arrangements for employees returning from maternity leave.</li> <li>• Flexible working arrangements are available to all employees under our flexible work policy, to recognise that employees may have different domestic responsibilities throughout their career. This includes opportunities to work part time and from home or a remote location.</li> <li>• We also offer 12 weeks' paid parental leave for the primary carer.</li> <li>• Formal review of all part time work arrangements to ensure roles are appropriate to maintain career development.</li> </ul> | <ul style="list-style-type: none"> <li>• As per previous years, 100% of the women who commenced and finished maternity leave in 2014 have returned to work in either a full or part time capacity.</li> </ul>   |

## Adelaide Brighton Ltd and its controlled entities

Adelaide Brighton is committed to the regular review of its objectives to ensure that these continue to be appropriate and relevant. This commitment includes the completion of the workplace profile report as required by the Workplace Gender Equality Act 2012. A copy of the workplace profile report is available in the investor relations section of our website at <http://www.adbri.com.au/investorinformation.html>. The Board is committed to build upon the achievements to date and reinforce the continued efforts in promoting and cultivating a culture of diversity and inclusiveness.

The proportion of women across Adelaide Brighton's workforce is reflective of the generally low level of female representation in the building, manufacturing and construction materials industries in which we operate. We recognise that the available pool of female candidates in engineering roles relevant to our business operations is limited, and this impacts our ability to increase the number of female new hires in the short term. In an effort to make our Company (and industry) more attractive to women, we have focused on measures designed to increase the proportion of female graduates and to support the leadership development of female employees who are recognised as having future potential. We believe that, over time, our diversity objectives and measures will achieve an improvement in the level of female representation across the organisation.

Going forward, increasing focus on expanding opportunities for indigenous Australians will form part of the Company's diversity objectives.

The following table shows the proportional representation of women employees at various levels within the Adelaide Brighton Group (as at 31 December 2014):

|   |            | Male         | Female     |
|---|------------|--------------|------------|
| Board   | 20%        | 4            | 1          |
| Senior executives                                     | 0%         | 6            | 0          |
| Senior managers (direct reports to senior executives) | 16%        | 31           | 6          |
| <b>Total workforce</b>                                | <b>12%</b> | <b>1,245</b> | <b>164</b> |

In 2014, following the retirement of the Managing Director and appointment of a new CEO position, a management restructure occurred which resulted in there no longer being female representation among the senior executives. This is expected to be addressed in 2015.

A copy of Adelaide Brighton's Diversity Policy is available in the corporate governance section of Adelaide Brighton's website.



## Adelaide Brighton Ltd and its controlled entities

### Income statement

For the year ended 31 December 2014

|   | Notes | Consolidated       |                    |
|---|-------|--------------------|--------------------|
|   |       | 2014<br>\$ million | 2013<br>\$ million |
| <b>Revenue from continuing operations</b>   | 3     | <b>1,337.8</b>     | 1,228.0            |
| Cost of sales   |       | (823.5)            | (745.6)            |
| Freight and distribution costs  |       | (217.0)            | (196.1)            |
| <b>Gross profit</b>   |       | <b>297.3</b>       | 286.3              |
| Other income  | 3     | 26.1               | 4.7                |
| Marketing costs   |       | (20.2)             | (21.3)             |
| Administration costs  |       | (75.6)             | (69.4)             |
| Finance costs   | 4     | (16.8)             | (15.9)             |
| Share of net profits of joint ventures and associate accounted for using the equity method                                  | 10(a) | 21.7               | 24.2               |
| <b>Profit before income tax</b>   |       | <b>232.5</b>       | 208.6              |
| Income tax expense  | 5(a)  | (59.9)             | (57.5)             |
| <b>Profit for the year</b>  |       | <b>172.6</b>       | 151.1              |
| Profit attributable to:   |       |                    |                    |
| Owners of the Company   |       | 172.7              | 151.1              |
| Non-controlling interests   |       | (0.1)              | -                  |
|   |       | <b>172.6</b>       | 151.1              |
|   |       | <b>Cents</b>       | Cents              |
| <b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:</b> |       |                    |                    |
| Basic earnings per share  | 34    | <b>26.9</b>        | 23.7               |
| Diluted earnings per share  | 34    | <b>26.8</b>        | 23.4               |

*The above income statement should be read in conjunction with the accompanying notes.*

**Adelaide Brighton Ltd and its controlled entities**

**Statement of comprehensive income**

For the year ended 31 December 2014

|   |       | Consolidated       |                    |
|---|-------|--------------------|--------------------|
|   | Notes | 2014<br>\$ million | 2013<br>\$ million |
| <b>Profit for the year</b>                                      |       | <b>172.6</b>       | 151.1              |
| <b>Other comprehensive income</b>                               |       |                    |                    |
| <i>Items that may be reclassified to profit or loss</i>         |       |                    |                    |
| Exchange differences on translation of foreign operations       |       | <b>0.5</b>         | 1.0                |
| Income tax relating to these items                              | 5(c)  | -                  | -                  |
| <i>Items that will not be reclassified to profit or loss</i>    |       |                    |                    |
| Actuarial (losses) / gains on retirement benefit obligation     | 20(b) | <b>(1.2)</b>       | 7.6                |
| Income tax relating to these items                              | 5(c)  | <b>0.4</b>         | (2.3)              |
|   |       | <hr/>              | <hr/>              |
| <b>Other comprehensive income for the year, net of tax</b>      |       | <b>(0.3)</b>       | 6.3                |
|   |       | <hr/>              | <hr/>              |
| <b>Total comprehensive income for the year</b>                  |       | <b>172.3</b>       | 157.4              |
|   |       | <hr/>              | <hr/>              |
| <b>Total comprehensive income for the year attributable to:</b> |       |                    |                    |
| Owners of the Company   |       | <b>172.4</b>       | 157.4              |
| Non-controlling interests                                       |       | <b>(0.1)</b>       | -                  |
|   |       | <hr/>              | <hr/>              |
| <b>Total comprehensive income for the year</b>                  |       | <b>172.3</b>       | 157.4              |
|   |       | <hr/>              | <hr/>              |

*The above statement of comprehensive income should be read in conjunction with the accompanying notes.*

## Adelaide Brighton Ltd and its controlled entities

### Balance sheet

As at 31 December 2014

|  | Notes | Consolidated<br>2014<br>\$ million | 2013<br>\$ million |
|--|-------|------------------------------------|--------------------|
| <b>Current assets</b>                                      |       |                                    |                    |
| Cash and cash equivalents                                  | 6     | 31.7                               | 11.1               |
| Trade and other receivables                                | 7     | 199.3                              | 182.4              |
| Inventories  | 8     | 154.7                              | 136.3              |
| Carbon units   | 14(b) | -                                  | 52.5               |
|  |       | <u>385.7</u>                       | <u>382.3</u>       |
| Assets classified as held for sale                         | 9     | 1.5                                | 7.9                |
| Total current assets                                       |       | <u>387.2</u>                       | <u>390.2</u>       |
| <b>Non-current assets</b>                                  |       |                                    |                    |
| Receivables  | 7     | 32.7                               | 31.4               |
| Joint arrangements and associate                           | 10    | 139.9                              | 138.5              |
| Property, plant and equipment                              | 11    | 989.6                              | 889.7              |
| Intangible assets  | 13    | 263.9                              | 183.9              |
| Total non-current assets                                   |       | <u>1,426.1</u>                     | <u>1,243.5</u>     |
| <b>Total assets</b>  |       | <u>1,813.3</u>                     | <u>1,633.7</u>     |
| <b>Current liabilities</b>                                 |       |                                    |                    |
| Trade and other payables                                   | 15    | 120.4                              | 105.4              |
| Borrowings   | 16    | 1.4                                | -                  |
| Current tax liabilities                                    |       | 1.3                                | 19.0               |
| Provisions   | 17    | 24.7                               | 26.7               |
| Provision for carbon emissions                             | 14(b) | 14.0                               | 39.7               |
| Other liabilities  | 18    | 4.2                                | 20.4               |
| Total current liabilities                                  |       | <u>166.0</u>                       | <u>211.2</u>       |
| <b>Non-current liabilities</b>                             |       |                                    |                    |
| Borrowings   | 16    | 390.1                              | 259.1              |
| Deferred tax liabilities                                   | 19    | 76.8                               | 64.3               |
| Provisions   | 17    | 41.4                               | 28.5               |
| Retirement benefit obligations                             | 20(b) | 2.2                                | 0.5                |
| Provision for carbon emissions                             | 14(b) | -                                  | 8.2                |
| Other non-current liabilities                              |       | 0.1                                | 0.1                |
| Total non-current liabilities                              |       | <u>510.6</u>                       | <u>360.7</u>       |
| <b>Total liabilities</b>                                   |       | <u>676.6</u>                       | <u>571.9</u>       |
| <b>Net assets</b>  |       | <u>1,136.7</u>                     | <u>1,061.8</u>     |
| <b>Equity</b>  |       |                                    |                    |
| Contributed equity   | 21    | 727.9                              | 699.1              |
| Reserves   | 22(a) | 3.3                                | 4.3                |
| Retained earnings  | 22(b) | 402.8                              | 355.6              |
| Capital and reserves attributable to owners of the Company |       | <u>1,134.0</u>                     | <u>1,059.0</u>     |
| Non-controlling interests                                  |       | 2.7                                | 2.8                |
| <b>Total equity</b>  |       | <u>1,136.7</u>                     | <u>1,061.8</u>     |

The above balance sheet should be read in conjunction with the accompanying notes.

Adelaide Brighton Ltd and its controlled entities

**Statement of changes in equity**

For the year ended 31 December 2014

Consolidated

| Notes  | Attributable to owners of Adelaide Brighton Ltd |                        |                                 |                     | Non-controlling interests<br>\$ million | Total equity<br>\$ million |
|--|---|------------------------|---------------------------------|---------------------|---|----------------------------|
|  | Contributed equity<br>\$ million                | Reserves<br>\$ million | Retained earnings<br>\$ million | Total<br>\$ million |   |                            |
| <b>Balance at 1 January 2014</b>                             | <b>699.1</b>                                    | <b>4.3</b>             | <b>355.6</b>                    | <b>1,059.0</b>      | <b>2.8</b>                              | <b>1,061.8</b>             |
| Profit for the year  | -   | -                      | 172.7                           | 172.7               | (0.1)                                   | 172.6                      |
| Other comprehensive income                                   | -   | 0.5                    | (0.8)                           | (0.3)               | -                                       | (0.3)                      |
| <b>Total comprehensive income for the year</b>               | <b>-</b>  | <b>0.5</b>             | <b>171.9</b>                    | <b>172.4</b>        | <b>(0.1)</b>                            | <b>172.3</b>               |
| <b>Transactions with owners in their capacity as owners:</b> |   |                        |                                 |                     |   |                            |
| Dividend reinvestment plan share issues                      | 24.6  | -                      | -                               | 24.6                | -                                       | 24.6                       |
| Dividends provided for or paid                               | -   | -                      | (124.7)                         | (124.7)             | -                                       | (124.7)                    |
| Executive performance share plan                             | 4.2   | (1.5)                  | -                               | 2.7                 | -                                       | 2.7                        |
|  | <b>28.8</b>                                     | <b>(1.5)</b>           | <b>(124.7)</b>                  | <b>(97.4)</b>       | <b>-</b>                                | <b>(97.4)</b>              |
| <b>Balance at 31 December 2014</b>                           | <b>727.9</b>                                    | <b>3.3</b>             | <b>402.8</b>                    | <b>1,134.0</b>      | <b>2.7</b>                              | <b>1,136.7</b>             |
| <b>Balance at 1 January 2013</b>                             | <b>696.6</b>                                    | <b>2.1</b>             | <b>304.4</b>                    | <b>1,003.1</b>      | <b>2.8</b>                              | <b>1,005.9</b>             |
| Profit for the year  | -   | -                      | 151.1                           | 151.1               | -                                       | 151.1                      |
| Other comprehensive income                                   | -   | 1.0                    | 5.3                             | 6.3                 | -                                       | 6.3                        |
| <b>Total comprehensive income for the year</b>               | <b>-</b>  | <b>1.0</b>             | <b>156.4</b>                    | <b>157.4</b>        | <b>-</b>                                | <b>157.4</b>               |
| <b>Transactions with owners in their capacity as owners:</b> |   |                        |                                 |                     |   |                            |
| Dividends provided for or paid                               | -   | -                      | (105.2)                         | (105.2)             | -                                       | (105.2)                    |
| Executive performance share plan                             | 2.5   | 1.2                    | -                               | 3.7                 | -                                       | 3.7                        |
|  | <b>2.5</b>                                      | <b>1.2</b>             | <b>(105.2)</b>                  | <b>(101.5)</b>      | <b>-</b>                                | <b>(101.5)</b>             |
| <b>Balance at 31 December 2013</b>                           | <b>699.1</b>                                    | <b>4.3</b>             | <b>355.6</b>                    | <b>1,059.0</b>      | <b>2.8</b>                              | <b>1,061.8</b>             |

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Adelaide Brighton Ltd and its controlled entities

**Statement of cash flows**

For the year ended 31 December 2014

|   | Notes | Consolidated       |                    |
|---|-------|--------------------|--------------------|
|   |       | 2014<br>\$ million | 2013<br>\$ million |
| <b>Cash flows from operating activities</b>                               |       |                    |                    |
| Receipts from customers (inclusive of goods and services tax)             |       | 1,460.1            | 1,334.0            |
| Payments to suppliers and employees (inclusive of goods and services tax) |       | (1,227.1)          | (1,084.6)          |
| Joint venture distributions received                                      |       | 21.0               | 16.4               |
| Interest received   |       | 1.8                | 1.8                |
| Interest paid   |       | (16.0)             | (16.0)             |
| Receipts from sale of carbon units  |       | 20.0               | 20.0               |
| Other income  |       | 7.1                | 5.0                |
| Income taxes paid   |       | (72.9)             | (49.7)             |
| Income taxes refunded   |       | -                  | 0.4                |
| <b>Net cash inflow from operating activities</b>                          | 33    | <b>194.0</b>       | <b>227.3</b>       |
| <b>Cash flows from investing activities</b>                               |       |                    |                    |
| Payments for property, plant, equipment and intangibles                   |       | (60.4)             | (66.9)             |
| Payments for acquisition of businesses, net of cash acquired              |       | (155.6)            | (0.6)              |
| Payments for acquisition of interest in associate                         |       | -                  | (0.4)              |
| Proceeds from sale of property, plant and equipment                       |       | 13.6               | 6.5                |
| Loans to joint venture entities   |       | (1.9)              | (1.9)              |
| Repayment of loans from other parties                                     |       | 0.6                | 0.1                |
| <b>Net cash (outflow) from investing activities</b>                       |       | <b>(203.7)</b>     | <b>(63.2)</b>      |
| <b>Cash flows from financing activities</b>                               |       |                    |                    |
| Proceeds from issue of shares   |       | 8.1                | 3.7                |
| Proceeds from borrowings  |       | 122.2              | -                  |
| Repayment of borrowings   |       | -                  | (60.2)             |
| Dividends paid to Company's shareholders                                  | 23    | (100.1)            | (105.2)            |
| <b>Net cash inflow/(outflow) from financing activities</b>                |       | <b>30.2</b>        | <b>(161.7)</b>     |
| <b>Net increase in cash and cash equivalents</b>                          |       | <b>20.5</b>        | <b>2.4</b>         |
| Cash and cash equivalents at the beginning of the financial year          |       | 11.1               | 8.8                |
| Effects of exchange rate changes on cash and cash equivalents             |       | 0.1                | (0.1)              |
| Cash and cash equivalents at the end of the year                          | 6     | <b>31.7</b>        | <b>11.1</b>        |

The above statement of cash flows should be read in conjunction with the accompanying notes.

## **1 Summary of significant accounting policies**

Adelaide Brighton Ltd (the Company) is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

The financial report was authorised for issue by the Directors on 12 March 2015. The Directors have the power to amend and reissue the financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented. The financial statements are for the consolidated entity consisting of Adelaide Brighton Ltd and its subsidiaries.

### **(a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the financial statements.

Comparative information has been re-stated where appropriate to enhance comparability.

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, except for the circumstances when fair value method has been applied as detailed in the accounting policies below.

#### *Compliance with IFRS*

The consolidated financial statements of Adelaide Brighton Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### **(b) Principles of consolidation**

#### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by Adelaide Brighton Ltd as at 31 December 2014 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as "the Group".

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### *(ii) Employee Share Trust*

The Group has formed a trust to administer the Group's employee share scheme. The company that acts as the Trustee is consolidated as the company is controlled by the Group. The Adelaide Brighton employee share plan trust is not consolidated as it is not controlled by the Group.

#### *(iii) Associate entity*

The interest in associate is accounted for using the equity method, after initially being recorded at cost. Under the equity method, the share of the profits or losses of the associate is recognised in the income statement, and the share of post-acquisition movements in reserves is recognised in other comprehensive income. Profits or losses on transactions establishing the associate and transactions with the associate are eliminated to the extent of the Group's ownership interest until such time as they are realised by the associate on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

#### *(iv) Joint arrangements*

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of the Group to the joint arrangement.

**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
**31 December 2014**

**1 Summary of significant accounting policies (continued)**

**(b) Principles of consolidation (continued)**

*(iv) Joint arrangements (continued)*

**Joint operations**

Interests in joint operations are accounted for using the proportionate consolidation method. Under this method, the Group has recognised its share of assets, liabilities, revenues and expenses. Details of the joint operations are set out in Note 10.

**Joint ventures**

Interests in joint ventures are accounted for using the equity method. Under this method, the interests are initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income in the income statement and other comprehensive income respectively.

When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary, to ensure consistency with the policies adopted by the Group.

*(v) Non-controlling interests*

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively. The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. For purchases from or sales to non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity.

**(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

**(d) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Adelaide Brighton Ltd's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

*(iii) Foreign operations*

The results and financial position of all the foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income.

**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
**31 December 2014**

**1 Summary of significant accounting policies (continued)**

**(d) Foreign currency translation (continued)**

*(iii) Foreign operations (continued)*

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

**(e) Revenue recognition**

Revenue is measured at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

*(i) Sales revenue*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is considered probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Sales of services are recognised in the accounting period in which the services are rendered.

*(ii) Deferred income*

Income received in advance in relation to contracts is deferred in the balance sheet and recognised as income on a straight-line basis over the period of the contract.

*(iii) Interest income*

Interest income is recognised using the effective interest rate method.

*(iv) Dividends*

Dividends are recognised as revenue when the right to receive payment is established.

**(f) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit and loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

*Tax consolidation*

Adelaide Brighton Ltd and its wholly owned Australian subsidiaries implemented the tax consolidation legislation as of 1 January 2004. Adelaide Brighton Ltd, as the head entity in the tax consolidated Group, recognises current tax liabilities and tax losses (subject to meeting the "probable test") relating to all transactions, events and balances of the tax consolidated Group as if those transactions, events and balances were its own.

The entities in the tax consolidated Group are part of a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of default by the head entity, Adelaide Brighton Ltd.



**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
**31 December 2014**

**1 Summary of significant accounting policies (continued)**

**(f) Income tax (continued)**

Amounts receivable or payable under an accounting tax sharing agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense.

The wholly-owned entities fully compensate Adelaide Brighton Ltd for any current tax payable assumed and are compensated by Adelaide Brighton Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Adelaide Brighton Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

Individual tax consolidated entities recognise tax expenses and revenues and current and deferred tax balances in relation to their own taxable income, temporary differences and tax losses using the separate taxpayer within the group method. Entities calculate their current and deferred tax balances on the basis that they are subject to tax as part of the tax consolidated Group.

Deferred tax balances relating to assets that had their tax values reset on joining the tax consolidated Group have been remeasured based on the carrying amount of those assets in the tax consolidated Group and their reset tax values. The adjustment to these deferred tax balances is recognised in the consolidated financial statements against income tax expense.

**(g) Leases**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**(h) Business combinations**

The acquisition method of accounting is used to account for all business combinations, including business combinations involving equities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the income statement.

**1 Summary of significant accounting policies (continued)**

**(i) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(j) Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, term deposits and deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**(k) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful receivables. Trade receivables are typically due for settlement no more than 30 to 45 days from the end of the month of invoice.

The collectability of trade receivables is reviewed regularly. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the estimated cash flows. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the provision is recognised in the income statement. When a trade receivable for which a provision for doubtful receivables has been recognised becomes uncollectible in a subsequent period, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against expenses in the income statement.

**(l) Inventories**

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(m) Financial assets**

The Group classifies its financial assets in the following categories: loans and receivables, and financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date.

*(ii) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets where they are expected to be realised within 12 months of balance sheet date.

**1 Summary of significant accounting policies (continued)**

**(n) Derivatives**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Derivative instruments entered into by the Group do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in finance costs.

**(o) Non-current assets (or disposal groups) held for sale**

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

**(p) Property, plant and equipment**

Property, plant and equipment are shown at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

*(i) Mineral reserves*

Mineral reserves are amortised based on annual extraction rates over the estimated life of the reserves. The remaining useful life of each asset is reassessed at regular intervals. Where there is a change during the period to the useful life of the mineral reserve, amortisation rates are adjusted prospectively from the beginning of the reporting period.

*(ii) Complex assets*

The costs of replacing major components of complex assets are depreciated over the estimated useful life, generally being the period until next scheduled replacement.

*(iii) Leasehold property*

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life, whichever is the shorter. Amortisation is over 5 – 30 years.

*(iv) Other fixed assets*

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or deemed cost amounts, over their estimated useful lives, as follows:

- Buildings 20 – 40 years
- Plant and equipment 3 – 40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(i)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

**1 Summary of significant accounting policies (continued)**

**(q) Intangible assets**

*(i) Goodwill*

Goodwill is measured as described in Note 1(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of joint ventures is included in investments in joint ventures.

Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash generating units which are expected to benefit from the business combination in which the goodwill arose, for the purpose of impairment testing. Each of those cash generating units are consistent with the Group's reporting segments.

*(ii) Lease rights*

Lease rights acquired have a finite useful life. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives, which varies from 2 to 20 years.

*(iii) IT development and software*

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 5 to 10 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

**(r) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**(s) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

**(t) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 - 60 days of recognition.

**(u) Provisions**

Provisions are recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

*(i) Dividends*

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the period but not distributed at balance date.

*(ii) Workers' compensation*

Certain entities within the Group are self insured for workers' compensation purposes. For self-insured entities, provision is made that covers accidents that have occurred and have been reported together with an allowance for incurred but not reported claims. The provision is based on an actuarial assessment.

**1 Summary of significant accounting policies (continued)**

**(u) Provisions (continued)**

*(iii) Restructuring costs*

Liabilities arising directly from undertaking a restructuring program, not in connection with the acquisition of an entity, are recognised when a detailed plan has been developed, implementation has commenced, by entering into binding sales agreement or making detailed public announcements such that the affected parties are in no doubt that the restructuring program will proceed. The cost of a restructuring program provided for is the estimated future cash flows from implementation of the plan.

*(iv) Provisions for close down and restoration costs*

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are reviewed annually during the life of the operation, based on the net present value of estimated future costs.

Estimate changes resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown in finance costs.

**(v) Employee benefits**

*(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

*(ii) Other long term employee benefit obligations*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*(iii) Retirement benefit obligations*

Except those employees that opt out of the Group's superannuation plan, all employees of the Group are entitled to benefits from the Group's superannuation plan on retirement, disability or death. The Group has a defined benefit section and defined contribution section within its plan. The defined benefit section provides defined lump sum benefits on retirement, death, disablement and withdrawal, based on years of service and final average salary. The defined benefit plan section is closed to new members. The defined contribution section receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date.

The present value of the defined benefit obligation is based on expected future payments, which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, outside profit or loss directly in the statement of comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Past service costs are recognised immediately in profit or loss.

**1 Summary of significant accounting policies (continued)**

**(v) Employee benefits (continued)**

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

*(iv) Share-based payments*

Share-based compensation benefits are provided to executives via the Adelaide Brighton Ltd Executive Performance Share Plan ("the Plan").

The fair value of Awards granted under the Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the Awards.

The fair value at grant date is independently determined using a pricing model that takes into account the exercise price, the term of the Award, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the Award, the share price at grant date, the expected dividend yield and the risk-free interest rate for the term of the Award.

The fair value of the Awards granted excludes the impact of any non-market vesting conditions (e.g. earnings per share). Non-market vesting conditions are included in assumptions about the number of Awards that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of Awards that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding entry to equity.

The Plan is administered by the Adelaide Brighton employee share plan trust; see Note 1(b)(ii).

*(v) Short-term incentives*

The Group recognises a liability and an expense for short-term incentives available to certain employees on a formula that takes into consideration agreed performance targets. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

*(vi) Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

**(w) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the purpose of acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

**(x) Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assuming conversion of all dilutive potential ordinary shares.

**(y) Rounding of amounts**

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest one hundred thousand dollar, unless otherwise stated.

**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
**31 December 2014**

**1 Summary of significant accounting policies (continued)**

**(z) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

**(aa) Financial guarantee contracts**

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

**(ab) Carbon Accounting**

An entity within the Group was a Liable Entity under the Clean Energy Legislation (the Scheme) and also qualified for assistance under the Jobs and Competitiveness Program (JCP). The Scheme was repealed effective 1 July 2014 however obligations incurred up to 30 June 2014 were required to be settled. The Group was required to surrender eligible emission units to the Clean Energy Regulator (the Regulator) for covered emissions, while units were available based upon production volumes of eligible products.

*(i) Provision for Carbon Emissions*

Where a facility is anticipated to produce covered emissions in excess of the threshold in an assessment year, a provision is recognised for the cost of eligible emission units as covered emissions are emitted. A provision for unit shortfall charges is recognised at the time a shortfall in units surrendered to the Regulator occurs or at the time a shortfall has been identified. The provision is recognised in the income statement as incurred unless qualifying for an alternative treatment under another accounting standard or policy.

The measurement of the provision for carbon emissions is in accordance with the Group's accounting policy for provisions, see Note 1(u).

*(ii) Carbon Unit Asset*

An asset is recognised at fair value for JCP units as they are received or become receivable. Units received in advance are recognised as deferred income and released to the income statement as eligible production activity is undertaken.

During the initial fixed price period of the Clean Energy Legislation, units purchased from the Regulator are automatically surrendered to the Regulator as a remission of liability under the Scheme and are recognised as a reduction of the provision for carbon emissions.

Carbon units are classified into current and non-current based upon the anticipated timing of disposal of the unit, either through remission of liability under the Scheme or sale.

**(ac) Parent entity financial information**

The financial information for the parent entity, Adelaide Brighton Limited ("the Company"), disclosed in Note 37 has been prepared on the same basis as the consolidated financial statements, except as set out below.

*(i) Investments in subsidiaries, associate and joint arrangements*

Investments in subsidiaries, associate and joint arrangements are accounted for at cost in the financial statements of the Company. Such investments include both investments in shares issued by the subsidiary and other parent entity interests that in substance form part of the parent entity's investment in the subsidiary. These include investments in the form of interest-free loans which have no fixed repayment terms and which have been provided to subsidiaries as an additional source of long term capital. Trade amounts receivable from subsidiaries in the normal course of business and other amounts advanced on commercial terms and conditions are included in receivables. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

**Adelaide Brighton Ltd and its controlled entities**  
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**31 December 2014**

**1 Summary of significant accounting policies** (continued)

**(ac) Parent entity financial information** (continued)

*(ii) Tax consolidation legislation*

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The Company and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate the Company for any current tax payable assumed and are compensated by Adelaide Brighton Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Adelaide Brighton Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

*(iii) Financial guarantees*

Where the Company has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

*(iv) Share based payments*

The grant by the Company of options over its equity instruments to employees of subsidiary undertakings in the Group is treated as a receivable from that subsidiary undertaking.

**(ad) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2014 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

**AASB 9 Financial Instruments**

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. When adopted, the standard will not have a material impact on the financial statements. The standard is mandatory for financial years commencing on or after 1 January 2018.

**AASB 15 Revenue From Contracts With Customers**

AASB 15 *Revenue From Contracts With Customers* will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard replaces the existing notion of risk and rewards with the notion of control to recognise when a good or service transfers to a customer. When adopted, the standard will not have a material impact on the financial statements. The standard is mandatory for financial years commencing on or after 1 January 2017.

**AASB 11 Joint Arrangements and AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations**

The AASB has made limited scope amendments to AASB 11 *Joint Arrangements* to explicitly address the accounting for the acquisition of an interest in a joint operation. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business in AASB 3 (refer Note 1(h)). As this amendment merely clarifies the existing requirements, they do not affect the Group's accounting policies or any of the disclosures. The Group intends to apply the amendment from 1 January 2016.



1 Summary of significant accounting policies (continued)

(ad) New accounting standards and interpretations (continued)

**AASB 116 Property, Plant and Equipment, AASB 138 Intangible Assets and AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation**

The AASB has made limited scope amendments to AASB 116 *Property, Plant and Equipment* to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment, and to AASB 138 *Intangible Assets* to introduce a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. As this amendment merely clarifies the existing requirements, they do not affect the Group's accounting policies or any of the disclosures. The Group intends to apply the amendment from 1 January 2016.

**AASB 10 Consolidated Financial Statements, AASB 128 Investment in Associates and Joint Ventures and AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The AASB has made limited scope amendments to resolve a current inconsistency between AASB 10 *Consolidated Financial Statements* and AASB 128 *Investment in Associates and Joint Ventures*. The amendments confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in AASB 3 *Business Combinations*). Where the non-monetary assets constitute a business, the Group recognises the full gain or loss on the sale or contribution. If the assets do not meet the definition of a business, the gain or loss is recognised only to the extent of the other investors' interests in the associate or joint venture. As this amendment merely clarifies the existing requirements, they do not affect the Group's accounting policies or any of the disclosures. The Group intends to apply the amendment from 1 January 2016.

**Annual Improvements to IFRSs 2012-2014 cycle**

In January 2015, the AASB approved a number of amendments to Australian Accounting Standards as a result of the annual improvements project. Management does not believe that the application of the standard will have a material impact on the financial statements. The Group will apply the amendments from 1 January 2016.

2 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that are significant to the carrying amounts of assets and liabilities in the next financial year are discussed below.

(a) Provisions for close down and restoration costs

Restoration provisions are based on estimates of the cost to rehabilitate currently disturbed areas based on current costs and legislative requirements. The Group progressively rehabilitates as part of the mining process. Cost estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The detailed accounting treatment is set out in Note 1(u)(iv).

Provisions for close down and restoration costs at the end of the year was \$36.6m (2013: \$27.6m).

(b) Impairment of assets

The Group tests annually whether goodwill, other intangible assets with an indefinite life and other non-current assets have suffered any impairment, in accordance with the accounting policies stated in Notes 1(i) and 1(q). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. For detailed assumptions refer to Note 13 (b).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

(c) Defined benefit superannuation plan

The present value of defined benefit superannuation plan obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These include selection of a discount rate, future salary increases and expected rates of return. The assumptions used to determine the obligations and the sensitivity of balances to changes in these assumptions are detailed in Note 20.

**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
**31 December 2014**

**3 Revenue and other income**

|   | Consolidated |            |
|---|--------------|------------|
|   | 2014         | 2013       |
|   | \$ million   | \$ million |
| <b>Revenue from continuing operations</b>   |              |            |
| Sale of goods   | 1,335.6      | 1,225.5    |
| Interest from joint ventures  | 0.8          | 0.8        |
| Interest from other parties   | 1.0          | 1.0        |
| Royalties   | 0.4          | 0.7        |
|   | 1,337.8      | 1,228.0    |
| <b>Other income</b>   |              |            |
| Net gain on disposal of property, plant and equipment   | 1.2          | 0.4        |
| Fair value accounting gain on business acquisition  | 17.8         | -          |
| Claim settlement  | 4.7          | -          |
| Rental income   | 2.0          | 2.9        |
| Other income  | 0.4          | 1.4        |
|   | 26.1         | 4.7        |
| Revenue and other income (excluding share of net profits of joint ventures and associate accounted for using the equity method) | 1,363.9      | 1,232.7    |

**4 Expenses**

**Profit before income tax includes the following specific expenses:**

|   |       |       |
|---|-------|-------|
| Depreciation  |       |       |
| Buildings   | 4.3   | 3.8   |
| Plant and equipment   | 62.7  | 61.7  |
| Mineral reserves  | 4.5   | 3.6   |
| Total depreciation  | 71.5  | 69.1  |
| Amortisation of intangibles   | 1.5   | 1.5   |
| Impairment of plant and equipment <sup>1</sup>  | 2.0   | -     |
| Other charges   |       |       |
| Employee benefits expense   | 154.8 | 148.2 |
| Defined contribution superannuation expense   | 10.1  | 9.4   |
| Operating lease rental charge   | 2.1   | 3.3   |
| Bad and doubtful debts – trade debtors  | 2.3   | 1.5   |
| Provision for inventory   | 0.5   | 0.7   |
| Finance costs   |       |       |
| Interest and finance charges paid / payable   | 16.2  | 16.0  |
| Unwinding of the discount on restoration provisions and retirement benefit obligation | 1.2   | 1.2   |
| Exchange (gains) on foreign currency contracts  | -     | (0.1) |
| Total finance costs   | 17.4  | 17.1  |
| Amount capitalised <sup>2</sup>   | (0.6) | (1.2) |
| Finance costs expensed  | 16.8  | 15.9  |

<sup>1</sup> As a result of the rationalisation of clinker production at the Munster site, an impairment charge of \$2.0 million (2013: nil) was recognised for the excess of the written down value compared to the recoverable amount of the assets impacted by the rationalisation.

<sup>2</sup> The rate used to determine the amount of borrowing costs to be capitalised is the average interest rate applicable to the Group's outstanding borrowings during the year, in this case 3.9% p.a. (2013: 4.2% p.a.).

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**5 Income tax expense**

|   | Consolidated |              |
|---|--------------|--------------|
|   | 2014         | 2013         |
|   | \$ million   | \$ million   |
| <b>(a) Numerical reconciliation of income tax expense to prima facie tax payable</b>  |              |              |
| Profit before income tax expense  | 232.5        | 208.6        |
| Tax at the Australian tax rate of 30% (2013: 30%)   | 69.8         | 62.6         |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income:   |              |              |
| Non allowable expenses  | 1.6          | 0.3          |
| Non assessable capital profits  | (1.8)        | (0.7)        |
| Rebateable dividends  | (4.1)        | (4.4)        |
| Fair value adjustment   | (5.4)        | -            |
| Previously unrecognised tax losses used to reduce deferred tax liability  | -            | (0.5)        |
| (Over) under provided in prior years  | (0.2)        | 0.2          |
| Aggregate income tax expense  | <u>59.9</u>  | <u>57.5</u>  |
| <br>Aggregate income tax expense comprises:   |              |              |
| Current taxation expense  | 54.5         | 61.0         |
| Net deferred tax (Note 12 & 19)   | 5.5          | (3.2)        |
| (Over) provided in prior year   | (0.1)        | (0.3)        |
|   | <u>59.9</u>  | <u>57.5</u>  |
| <br><b>(b) Amounts recognised directly in equity</b>  |              |              |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly (credited) debited to equity |              |              |
| Current tax   | (1.8)        | (0.8)        |
| Net deferred tax  | 0.6          | (0.8)        |
|   | <u>(1.2)</u> | <u>(1.6)</u> |
| <br><b>(c) Tax expense relating to items of other comprehensive income</b>  |              |              |
| Actuarial (losses) / gains on retirement benefit obligation (Note 12)   | <u>(0.4)</u> | 2.3          |
| <br><b>(d) Tax losses</b>   |              |              |
| Unused tax losses for which no deferred tax asset has been recognised:  |              |              |
| Capital losses  | <u>16.8</u>  | 16.3         |

This benefit for tax losses will only be obtained if:

- (i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised,
- (ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iii) no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

The accounting policy in relation to tax consolidation legislation is set out in Note 1(f).

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**6 Cash and cash equivalents**

|                           | Consolidated |            |
|---------------------------|--------------|------------|
|                           | 2014         | 2013       |
|                           | \$ million   | \$ million |
| <b>Current</b>            |              |            |
| Cash at bank and in hand  | 29.7         | 9.1        |
| Term deposits             | 2.0          | 2.0        |
| Cash and cash equivalents | 31.7         | 11.1       |

**(a) Offsetting**

The Group has an offsetting agreement with its bank for cash facilities. The agreement allows the Group to manage cash balances on a total basis, offsetting individual cash balances against overdrafts. The gross value of the balance is as follows:

|                  |      |      |
|------------------|------|------|
| Cash balances    | 31.7 | 11.1 |
| Cash overdrafts  | -    | -    |
| Net cash balance | 31.7 | 11.1 |

**(b) Risk exposure**

The Group's exposure to interest rate risk is discussed in Note 24. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

**7 Trade and other receivables**

|  |       |       |
|--|-------|-------|
| <b>Current</b>                         |       |       |
| Trade receivables                      | 164.9 | 150.7 |
| Provision for doubtful receivables     | (1.7) | (1.6) |
|  | 163.2 | 149.1 |
| Amounts receivable from joint ventures | 27.6  | 24.1  |
| Prepayments                            | 4.7   | 5.5   |
| Other receivables                      | 3.8   | 3.7   |
|  | 199.3 | 182.4 |

**(a) Past due but not impaired**

Included in the Group's trade receivables balance are debtors with a carrying value of \$9.2 million (2013: \$8.4 million) which are past due but not impaired. The Group has not provided for these amounts as there has not been a significant change in credit quality or the amounts relate to debtors for which there is no recent history of default. The Group believes these amounts are still recoverable. The ageing analysis is as follows: 60 days \$8.1 million, over 90 days \$1.1 million (2013: 60 days \$6.8 million, over 90 days \$1.6 million).

**(b) Impaired trade receivables**

As at 31 December 2014 current trade receivables of the Group with a nominal value of \$2.2 million (2013: \$2.7 million) were impaired. The amount of the provision was \$1.7 million (2013: \$1.6 million). The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of these receivables is as follows:

|               |     |     |
|---------------|-----|-----|
| 1 to 3 months | -   | -   |
| 3 to 6 months | 0.3 | 2.0 |
| Over 6 months | 1.9 | 0.7 |
|               | 2.2 | 2.7 |

**Movement in provision for doubtful receivables**

|   |       |       |
|---|-------|-------|
| Opening balance at 1 January                                  | 1.6   | 0.7   |
| Amounts written off during the year                           | (2.4) | (0.6) |
| Provision for doubtful receivables recognised during the year | 2.5   | 1.5   |
| Closing balance at 31 December                                | 1.7   | 1.6   |

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**7 Trade and other receivables (continued)**

**(c) Fair value and credit, interest and foreign exchange risk**

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. All receivables are denominated in Australian dollars. Information concerning the fair value and risk management of both current and non-current receivables is set out in Note 24.

|                               | Consolidated |             |
|-------------------------------|--------------|-------------|
|                               | 2014         | 2013        |
|                               | \$ million   | \$ million  |
| <b>Non-current</b>            |              |             |
| Loans to joint ventures       | 29.7         | 27.8        |
| Other non-current receivables | 3.0          | 3.6         |
|                               | <b>32.7</b>  | <b>31.4</b> |

Details of the fair values, effective interest rate and credit risk are set out in Note 24. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above.

**(a) Impaired receivables and receivables past due**

None of the non-current receivables are impaired or past due but not impaired.

**8 Inventories**

**Current**

|                                    |              |              |
|------------------------------------|--------------|--------------|
| Finished goods                     | 71.8         | 58.4         |
| Raw materials and work in progress | 55.6         | 43.0         |
| Engineering spare parts stores     | 27.3         | 34.9         |
|                                    | <b>154.7</b> | <b>136.3</b> |

**Inventory expense**

Inventories recognised as expense during the year ended 31 December 2014 and included in cost of sales amounted to \$770.2 million (2013: \$686.5 million).

**9 Assets classified as held for sale**

**Current**

|                     |            |            |
|---------------------|------------|------------|
| Plant and equipment | -          | 0.6        |
| Land and buildings  | 1.5        | 7.3        |
|                     | <b>1.5</b> | <b>7.9</b> |

**10 Joint arrangements and associate**

**Non-current**

**(a) Summarised financial information for joint ventures and associate**

The following tables provide summarised financial information for the joint ventures and associate which are individually immaterial and accounted for using the equity method.

|  | Total non-material |            |            |            | Consolidated |            |
|--|--------------------|------------|------------|------------|--------------|------------|
|  | Joint ventures     |            | Associate  |            | 2014         | 2013       |
|  | 2014               | 2013       | 2014       | 2013       |              |            |
|  | \$ million         | \$ million | \$ million | \$ million | \$ million   | \$ million |
| Investment in joint ventures and associate | 104.5              | 104.8      | 35.5       | 33.7       | 139.9        | 138.5      |
| Profit from continuing operations          | 20.3               | 22.6       | 1.4        | 1.6        | 21.7         | 24.2       |
| Other comprehensive income                 | -                  | -          | -          | -          | -            | -          |
| Total comprehensive income                 | 20.3               | 22.6       | 1.4        | 1.6        | 21.7         | 24.2       |

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**10 Joint arrangements and associate (continued)**

**(b) Interests in joint arrangements and associate**

| Name  | Principal place of business    | Ownership interest |           | Activities                                     |
|---|--------------------------------|--------------------|-----------|--|
|   |                                | 2014<br>%          | 2013<br>% |  |
| Burrell Mining Services JV                                | New South Wales and Queensland | 50                 | 50        | Concrete products for the coal mining industry |
| Batesford Quarry  | Victoria                       | 50                 | 50        | Limestone products                             |
| Sunstate Cement Ltd                                       | Queensland                     | 50                 | 50        | Cement milling and distribution                |
| Independent Cement and Lime Pty Ltd                       | New South Wales and Victoria   | 50                 | 50        | Cementitious product distribution              |
| E.B. Mawson & Sons Pty Ltd and Lake Boga Quarries Pty Ltd | New South Wales and Victoria   | 50                 | 50        | Premixed concrete and quarry products          |
| Aalborg Portland Malaysia Sdn. Bhd.                       | Malaysia                       | 30                 | 30        | White clinker and cement manufacture           |
| Peninsula Concrete Pty Ltd                                | South Australia                | 50                 | -         | Premixed concrete                              |

All joint arrangements and associates are equity accounted in accordance with Note 1(b)(iv) except Burrell Mining and Batesford, which are considered joint operations and are proportionately consolidated.

Each of the above joint arrangements has a balance sheet date of 30 June which is different to the Group's balance sheet date of 31 December. Financial reports as at 31 December for the joint arrangements are used in the preparation of the Group financial statements. Aalborg has a 31 December balance date.

**(c) Contingent liabilities in respect of joint ventures**

The Group has an unrecognised contingent liability to acquire the interest it does not own in certain of its joint ventures. Acquisition of the interest is subject to the occurrence of certain future events which affect both the probability and value of the interest. The minimum value of the contingent liability is \$25 million (2013: \$25 million).

**11 Property, plant and equipment**

**Non-current**

**Consolidated at 31 December 2014**

| \$ million                                 | Freehold land | Buildings   | Leasehold property | Plant & equipment | Mineral reserves | Asset retirement cost | In course of construction | Total        |
|--|---------------|-------------|--------------------|-------------------|------------------|-----------------------|---------------------------|--------------|
| At cost                                    | 156.4         | 142.1       | 9.0                | 1,284.9           | 201.4            | 20.8                  | 22.1                      | 1,836.7      |
| Accumulated depreciation                   | -             | (54.4)      | (2.6)              | (757.4)           | (28.3)           | (4.4)                 | -                         | (847.1)      |
| <b>Net book amount</b>                     | <b>156.4</b>  | <b>87.7</b> | <b>6.4</b>         | <b>527.5</b>      | <b>173.1</b>     | <b>16.4</b>           | <b>22.1</b>               | <b>989.6</b> |
| <b>Reconciliations</b>                     |               |             |                    |                   |                  |                       |                           |              |
| Carrying amount at 1 January 2014          | 130.5         | 87.9        | 6.8                | 498.8             | 131.4            | 4.7                   | 29.6                      | 889.7        |
| Additions                                  | 6.9           | 0.2         | 0.1                | 28.7              | 0.5              | -                     | 24.5                      | 60.9         |
| Disposals                                  | (0.3)         | (0.3)       | -                  | (3.9)             | -                | -                     | -                         | (4.5)        |
| Business combinations                      | 13.4          | 2.8         | -                  | 46.7              | 45.1             | 4.7                   | -                         | 112.7        |
| Held for sale                              | (1.5)         | -           | -                  | -                 | -                | -                     | -                         | (1.5)        |
| Reclassification                           | 7.4           | 1.4         | -                  | 21.4              | -                | -                     | (32.0)                    | (1.8)        |
| Impairment                                 | -             | -           | -                  | (2.0)             | -                | -                     | -                         | (2.0)        |
| Depreciation/amortisation                  | -             | (4.3)       | (0.5)              | (62.2)            | (4.2)            | (0.3)                 | -                         | (71.5)       |
| Other                                      | -             | -           | -                  | -                 | 0.3              | 7.3                   | -                         | 7.6          |
| <b>Carrying amount at 31 December 2014</b> | <b>156.4</b>  | <b>87.7</b> | <b>6.4</b>         | <b>527.5</b>      | <b>173.1</b>     | <b>16.4</b>           | <b>22.1</b>               | <b>989.6</b> |

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11 Property, plant and equipment (continued)

Consolidated at 31 December 2013

| \$ million                                 | Freehold land | Buildings   | Leasehold property | Plant & equipment | Mineral reserves | Asset retirement cost | In course of construction | Total        |
|--|---------------|-------------|--------------------|-------------------|------------------|-----------------------|---------------------------|--------------|
| At cost                                    | 130.5         | 138.8       | 9.0                | 1,225.4           | 155.8            | 8.8                   | 29.6                      | 1,697.9      |
| Accumulated depreciation                   | -             | (50.9)      | (2.2)              | (726.6)           | (24.4)           | (4.1)                 | -                         | (808.2)      |
| <b>Net book amount</b>                     | <b>130.5</b>  | <b>87.9</b> | <b>6.8</b>         | <b>498.8</b>      | <b>131.4</b>     | <b>4.7</b>            | <b>29.6</b>               | <b>889.7</b> |
| <b>Reconciliations</b>                     |               |             |                    |                   |                  |                       |                           |              |
| Carrying amount at 1 January 2013          | 130.3         | 68.3        | 6.8                | 471.3             | 134.8            | 4.7                   | 86.3                      | 902.5        |
| Additions                                  | 5.5           | 1.3         | 0.2                | 39.0              | -                | 0.2                   | 22.9                      | 69.1         |
| Disposals                                  | (0.7)         | (0.1)       | -                  | (3.4)             | -                | -                     | -                         | (4.2)        |
| Held for sale                              | (6.4)         | (0.9)       | -                  | (0.6)             | -                | -                     | -                         | (7.9)        |
| Reclassification                           | 1.8           | 23.1        | 0.2                | 53.8              | -                | -                     | (79.6)                    | (0.7)        |
| Depreciation/amortisation                  | -             | (3.8)       | (0.4)              | (61.3)            | (3.4)            | (0.2)                 | -                         | (69.1)       |
| Other                                      | -             | -           | -                  | -                 | -                | -                     | -                         | -            |
| <b>Carrying amount at 31 December 2013</b> | <b>130.5</b>  | <b>87.9</b> | <b>6.8</b>         | <b>498.8</b>      | <b>131.4</b>     | <b>4.7</b>            | <b>29.6</b>               | <b>889.7</b> |

**Leased assets**

Plant and equipment includes the following amounts where the Group is a lessee under a finance lease:

|                          | Consolidated |            |
|--------------------------|--------------|------------|
|                          | 2014         | 2013       |
|                          | \$ million   | \$ million |
| Cost                     | 3.5          | -          |
| Accumulated depreciation | (0.2)        | -          |
| <b>Net book amount</b>   | <b>3.3</b>   | <b>-</b>   |

12 Deferred tax assets

|   | Consolidated |             |
|---|--------------|-------------|
|   | 2014         | 2013        |
|   | \$ million   | \$ million  |
| <b>Non-current</b>  |              |             |
| <b>The balance comprises temporary differences attributable to:</b> |              |             |
| Share based payment reserve   | 1.2          | 2.1         |
| Defined benefit obligations   | 0.7          | 0.1         |
| Provisions  | 27.3         | 41.9        |
| Other assets  | 2.1          | 1.2         |
| Tax losses  | 0.3          | 1.2         |
| <b>Deferred tax assets – before offset</b>                          | <b>31.6</b>  | <b>46.5</b> |
| Offset deferred tax liability (Note 19)                             | (31.6)       | (46.5)      |
| <b>Net deferred tax assets – after offset</b>                       | <b>-</b>     | <b>-</b>    |

**Movements:**

|   |             |             |
|---|-------------|-------------|
| Opening balance at 1 January – before offset          | 46.5        | 44.3        |
| Recognised in the income statement                    | (19.5)      | 2.9         |
| Recognised in other comprehensive income              | 0.4         | (2.3)       |
| Recognised in equity                                  | (0.6)       | 1.6         |
| Acquired in business combinations                     | 4.8         | -           |
| <b>Closing balance at 31 December – before offset</b> | <b>31.6</b> | <b>46.5</b> |

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**13 Intangible assets**

**Non-current**

**\$ million**

**31 December 2014**

|                                     | Goodwill     | Consolidated |                   | Total        |
|-------------------------------------|--------------|--------------|-------------------|--------------|
|                                     |              | Software     | Other intangibles |              |
| Cost                                | 246.2        | 16.4         | 7.1               | 269.7        |
| Accumulated amortisation            | -            | (5.2)        | (0.6)             | (5.8)        |
| Carrying amount at 31 December 2014 | <b>246.2</b> | <b>11.2</b>  | <b>6.5</b>        | <b>263.9</b> |
| Opening balance at 1 January 2014   | 170.6        | 10.6         | 2.7               | 183.9        |
| Reclassification                    | -            | 1.8          | -                 | 1.8          |
| Additions in current year           | -            | 0.2          | -                 | 0.2          |
| Business combinations               | 75.6         | -            | 3.9               | 79.5         |
| Amortisation charge                 | -            | (1.4)        | (0.1)             | (1.5)        |
| Closing balance at 31 December 2014 | <b>246.2</b> | <b>11.2</b>  | <b>6.5</b>        | <b>263.9</b> |

**\$ million**

**31 December 2013**

|                                     | Goodwill     | Consolidated |                   | Total        |
|-------------------------------------|--------------|--------------|-------------------|--------------|
|                                     |              | Software     | Other intangibles |              |
| Cost                                | 170.6        | 14.5         | 3.2               | 188.3        |
| Accumulated amortisation            | -            | (3.9)        | (0.5)             | (4.4)        |
| Carrying amount at 31 December 2013 | <b>170.6</b> | <b>10.6</b>  | <b>2.7</b>        | <b>183.9</b> |
| Opening balance at 1 January 2013   | 170.6        | 11.5         | 2.7               | 184.8        |
| Additions in current year           | -            | 0.5          | 0.1               | 0.6          |
| Amortisation change                 | -            | (1.4)        | (0.1)             | (1.5)        |
| Closing balance at 31 December 2013 | <b>170.6</b> | <b>10.6</b>  | <b>2.7</b>        | <b>183.9</b> |

**(a) Impairment tests for goodwill**

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segments. A segment level summary of the goodwill allocation on a non-aggregation basis is presented below.

|   | Consolidated       |                    |
|---|--------------------|--------------------|
|   | 2014<br>\$ million | 2013<br>\$ million |
| Cement and Lime                           | <b>134.0</b>       | 131.0              |
| Concrete and Aggregates                   | <b>103.4</b>       | 30.8               |
| Cement, Lime, Concrete and Aggregates CGU | <b>237.4</b>       | 161.8              |
| Concrete Products CGU                     | <b>8.8</b>         | 8.8                |
|   | <b>246.2</b>       | 170.6              |

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on 2014 actual results and 2015 financial budgets approved by management. The growth rate does not exceed the long term average growth rate for the business in which the CGU operates.

**(b) Key assumptions used for value-in-use calculations**

|                                       | Gross margin <sup>1</sup> |           | Growth rate <sup>2</sup> |           | Discount rate <sup>3</sup> |           |
|---------------------------------------|---------------------------|-----------|--------------------------|-----------|----------------------------|-----------|
|                                       | 2014<br>%                 | 2013<br>% | 2014<br>%                | 2013<br>% | 2014<br>%                  | 2013<br>% |
| Cement, Lime, Concrete and Aggregates | <b>36.0</b>               | 36.3      | <b>1.9</b>               | 1.7       | <b>7.8</b>                 | 10.0      |
| Concrete Products                     | <b>26.6</b>               | 25.1      | <b>2.0</b>               | 2.0       | <b>8.5</b>                 | 10.0      |

<sup>1</sup> Budgeted gross margin (excluding fixed production costs)

<sup>2</sup> Weighted average growth rate used to extrapolate cash flows beyond the specific market forecast period of up to 8 years.

<sup>3</sup> Pre-tax discount rate applied to cash flow projections

The assumptions have been used for the analysis of each CGU within the business segment. Management determined budgeted gross margin based on the past performance and its expectations for the future. The discount rates used are pre-tax and reflect specific risks relating to relevant segments.



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**14 Carbon asset and liability**

**(a) Background**

The Federal Government introduced a price on carbon emissions from 1 July 2012 through the introduction of the Clean Energy Legislation (the Scheme). An entity within the Group was a Liable Entity under the Scheme and is required to surrender eligible emission units to the Clean Energy Regulator (the Regulator) in order to satisfy its liability for carbon emissions. The Group is also eligible to receive assistance under the Jobs and Competitiveness Program (JCP), where the Scheme provides units to industries that qualify as Emissions Intensive Trade Exposed.

During 2014, the Scheme was repealed effective 1 July 2014. Obligations and benefits accrued before that date are not impacted by the repeal.

The Scheme requires entities with operational control of a facility where certain emissions exceed 25,000 tonnes of carbon dioxide equivalence (tCO<sub>2</sub> -e) to remit to the Regulator an equivalent number of eligible emission units to pay for their emissions. During the initial years of the Scheme, restrictions are placed on utilising eligible emission units that are not issued by the Regulator.

The Group has operational control of a large number of facilities across Australia, however as a result of the threshold, only a limited number of sites related to the production of cement clinker and lime are directly liable under the Scheme. The production of cement clinker and lime require energy use to heat raw materials to produce chemical reactions necessary for the manufacturing process. Both the energy use for heat and the chemical reaction produce emissions that are covered by the Scheme.

The accounting policy for carbon is set out in Note 1(ab).

The Group is directly liable for certain emissions associated with sites that exceed the threshold. In addition to this, the Group incurs non-direct costs associated with the Scheme as a result of suppliers passing on the cost through higher charges. These costs form part of operating costs such as electricity charges.

**(b) Carbon balances recognised**

|  | Consolidated<br><b>2014</b><br>\$ million | 2013<br>\$ million |
|--|---|--------------------|
| <i>(i) Carbon unit asset</i>                                     |   |                    |
| Carbon units on hand   | -   | 52.5               |
| Classified as:   |   |                    |
| Current  | -   | 52.5               |
| Non-current  | -   | -                  |
|  | <b>-</b>                                  | <b>52.5</b>        |
| <i>(ii) Provision for carbon emissions</i>                       |   |                    |
| Provision for carbon emissions                                   | <b>14.0</b>                               | 47.9               |
| Classified as:   |   |                    |
| Current  | <b>14.0</b>                               | 39.7               |
| Non-current  | -   | 8.2                |
|  | <b>14.0</b>                               | <b>47.9</b>        |
| The movement in provision for carbon emissions is set out below: |   |                    |
| Opening balance  | <b>47.9</b>                               | 33.6               |
| Liability for covered emissions                                  | <b>31.7</b>                               | 61.6               |
| Carbon units remitted to Regulator                               | <b>(65.6)</b>                             | (47.3)             |
| Closing balance  | <b>14.0</b>                               | 47.9               |

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15 Trade and other payables

|                                 | Consolidated |              |
|---------------------------------|--------------|--------------|
|                                 | 2014         | 2013         |
|                                 | \$ million   | \$ million   |
| <b>Current</b>                  |              |              |
| Trade payables and accruals     | 108.0        | 98.9         |
| Trade payables - joint ventures | 12.4         | 6.5          |
|                                 | <b>120.4</b> | <b>105.4</b> |

Information about the Group's exposure to foreign exchange risk is provided in Note 24.

16 Borrowings

|                        |              |              |
|------------------------|--------------|--------------|
| <b>Current</b>         |              |              |
| Finance lease          | 1.4          | -            |
| <b>Non-current</b>     |              |              |
| Bank loans – unsecured | 388.3        | 259.1        |
| Finance lease          | 1.8          | -            |
|                        | <b>390.1</b> | <b>259.1</b> |

Details of the Group's exposure to interest rate changes and fair value of borrowings are set out in Note 24.

17 Provisions

|                        |             |             |
|------------------------|-------------|-------------|
| <b>Current</b>         |             |             |
| Employee benefits      | 19.6        | 18.9        |
| Restoration provisions | 3.4         | 5.3         |
| Workers' compensation  | 1.4         | 1.3         |
| Other provisions       | 0.3         | 1.2         |
|                        | <b>24.7</b> | <b>26.7</b> |
| <b>Non-current</b>     |             |             |
| Employee benefits      | 8.2         | 6.2         |
| Restoration provisions | 33.2        | 22.3        |
|                        | <b>41.4</b> | <b>28.5</b> |

Movements in each class of provision during the financial year, other than employee benefits, are set out below.

|  | Workers'<br>compensation<br>\$ million | Restoration<br>provisions<br>\$ million | Other<br>provisions<br>\$ million |
|--|--|---|-----------------------------------|
| Opening balance at 1 January 2014                                  | 1.3                                    | 27.6                                    | 1.2                               |
| Assumed in business combinations                                   | -                                      | 4.7                                     | -                                 |
| Additional provision recognised – charged to income statement      | 0.1                                    | -                                       | -                                 |
| Additional provision recognised – charged to asset retirement cost | -                                      | 7.3                                     | -                                 |
| Charged to income statement – unwind of discount                   | -                                      | 1.2                                     | -                                 |
| Credited to income statement – reversal of amounts unused          | -                                      | -                                       | (0.1)                             |
| Payments   | -                                      | (4.2)                                   | (0.8)                             |
| Closing balance at 31 December 2014                                | <b>1.4</b>                             | <b>36.6</b>                             | <b>0.3</b>                        |

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18 Other liabilities

|                                  | Consolidated |             |
|----------------------------------|--------------|-------------|
|                                  | 2014         | 2013        |
|                                  | \$ million   | \$ million  |
| <b>Current</b>                   |              |             |
| GST liability                    | 4.2          | 3.2         |
| Deferred income – JCP assistance | -            | 17.1        |
| Other liabilities                | -            | 0.1         |
|                                  | <b>4.2</b>   | <b>20.4</b> |

19 Deferred tax liabilities

**Non-current**

**The balance comprises temporary differences attributable to:**

|                               |      |      |
|-------------------------------|------|------|
| Property, plant and equipment | 95.8 | 84.2 |
| Inventories                   | 9.3  | 8.3  |
| Other                         | 3.3  | 18.3 |

**Deferred tax liabilities – before offset**

|                                      |        |        |
|--------------------------------------|--------|--------|
| Offset deferred tax assets (Note 12) | (31.6) | (46.5) |
|--------------------------------------|--------|--------|

**Net deferred tax liabilities – after offset**

|  |      |      |
|--|------|------|
| Net deferred tax liabilities to be settled after more than 12 months | 76.4 | 63.8 |
| Net deferred tax liabilities to be settled within 12 months          | 0.4  | 0.5  |

**Movements:**

|  |              |              |
|--|--------------|--------------|
| Opening balance at 1 January – before offset   | 110.8        | 111.0        |
| Recognised in the income statement             | (15.4)       | (0.1)        |
| Acquired in business combinations              | 13.3         | -            |
| (Over) provision in prior year                 | (0.3)        | (0.1)        |
| Closing balance at 31 December – before offset | <b>108.4</b> | <b>110.8</b> |

**20 Retirement benefit obligations**

**Non-current**

**(a) Superannuation plan**

Other than those employees that have opted out, employees are members of the consolidated superannuation entity being the Adelaide Brighton Group Superannuation Plan ("the Plan"), a sub-plan of the Mercer Super Trust ("MST"). The MST is a superannuation master trust arrangement governed by an independent trustee, Mercer Investment Nominees Ltd. The Plan commenced in the MST on 1 August 2001. The Superannuation Industry (Supervision) legislation (SIS) governs the superannuation industry and provides a framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions.

Plan assets are held in trusts which are subject to supervision by the prudential regulator. Funding levels are reviewed regularly. Where assets are less than vested benefits, being those payable upon exit, a management plan must be formed to restore the coverage to at least 100%.

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries. The Trustee has the following roles:

- Administration of the Plan and payment to the beneficiaries from Plan assets when required in accordance with the Plan rules;
- Management and investment of the Plan assets; and
- Compliance with superannuation law and other applicable regulations.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

Membership is in either the Defined Benefit or Accumulation sections of the Plan. The accumulation section receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions. The following sets out details in respect of the defined benefit section only.

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal, and are guaranteed benefits to the equivalent of the notional balance they would have received as accumulation members through additional contributions from the Group. The defined benefit section of the Plan is closed to new members. All new members receive accumulation only benefits. During the 12 months to 31 December 2014, all new employees, who are members of this fund, have become members of the accumulation category of the Plan.

There are a number of risks to which the Plan exposes the Company. The more significant risks relating to the defined benefits are:

- Investment risk – the risk that investment returns will be lower than assumed and the Company will need to increase contributions to offset this shortfall.
- Salary growth risk – the risk that wages and salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk – the risk that legislative changes could be made which increase the cost of providing the defined benefits.
- Timing of members leaving service – a significant amount of benefits paid to members leaving may have an impact on the financial position of the Plan, depending on the financial position of the Plan at the time they leave. The impact may be positive or negative, depending upon the circumstances and timing of the withdrawal.

The defined benefit assets are invested in the Mercer Growth investment option. The assets are diversified within this investment option and therefore the Plan has no significant concentration of investment risk.

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**20 Retirement benefit obligations** (continued)

**(b) Balance sheet amounts**

The amounts recognised in the balance sheet and the movements in the net defined benefit obligation over the year are as follows:

|   | Present value<br>of obligation<br>\$ million | Fair value of<br>plan assets<br>\$ million | Total<br>\$ million |
|---|--|--|---------------------|
| <b>At 1 January 2014</b>  | 55.4   | (54.9)                                     | 0.5                 |
| Current service cost  | 2.1  | -  | 2.1                 |
| Interest expense/(income)   | 2.0  | (2.0)                                      | -                   |
| Transfers in  | -  | -  | -                   |
|   | <u>4.1</u>                                   | <u>(2.0)</u>                               | <u>2.1</u>          |
| Remeasurements  |  |  |                     |
| Return on plan assets, excluding amounts<br>included in interest expense/(income) | -  | (2.7)                                      | (2.7)               |
| Loss from change in financial assumptions   | 2.9  | -  | 2.9                 |
| Experience losses   | 1.0  | -  | 1.0                 |
|   | <u>3.9</u>                                   | <u>(2.7)</u>                               | <u>1.2</u>          |
| Contributions:  |  |  |                     |
| Employers   | -  | (1.6)                                      | (1.6)               |
| Plan participants   | 1.0  | (1.0)                                      | -                   |
| Payments from Plan:   |  |  |                     |
| Benefit payments  | (5.5)  | 5.5  | -                   |
| <b>At 31 December 2014</b>  | <b><u>58.9</u></b>                           | <b><u>(56.7)</u></b>                       | <b><u>2.2</u></b>   |

|   | Present value<br>of obligation<br>\$ million | Fair value of<br>plan assets<br>\$ million | Total<br>\$ million |
|---|--|--|---------------------|
| <b>At 1 January 2013</b>  | 59.0   | (51.0)                                     | 8.0                 |
| Current service cost  | 2.2  | -  | 2.2                 |
| Interest expense/(income)   | 1.7  | (1.5)                                      | 0.2                 |
| Transfers in  | 0.2  | (0.2)                                      | -                   |
|   | <u>4.1</u>                                   | <u>(1.7)</u>                               | <u>2.4</u>          |
| Remeasurements  |  |  |                     |
| Return on plan assets, excluding amounts<br>included in interest expense/(income) | -  | (7.1)                                      | (7.1)               |
| Gain from change in financial assumptions   | (2.0)  | -  | (2.0)               |
| Experience losses   | 1.5  | -  | 1.5                 |
|   | <u>(0.5)</u>                                 | <u>(7.1)</u>                               | <u>(7.6)</u>        |
| Contributions:  |  |  |                     |
| Employers   | -  | (2.3)                                      | (2.3)               |
| Plan participants   | 1.0  | (1.0)                                      | -                   |
| Payments from Plan:   |  |  |                     |
| Benefit payments  | (8.2)  | 8.2  | -                   |
| <b>At 31 December 2013</b>  | <b><u>55.4</u></b>                           | <b><u>(54.9)</u></b>                       | <b><u>0.5</u></b>   |

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**20 Retirement benefit obligations** (continued)

**(c) Categories of plan assets**

The major categories of plan assets are as follows:

|                      | 31 December 2014        |             | 31 December 2013        |             |
|----------------------|-------------------------|-------------|-------------------------|-------------|
|                      | Un-quoted<br>\$ million | in %        | Un-quoted<br>\$ million | in %        |
| Australian equity    | 15.9                    | 28%         | 14.8                    | 27%         |
| International equity | 18.1                    | 32%         | 17.0                    | 31%         |
| Fixed income         | 9.1                     | 16%         | 9.9                     | 18%         |
| Property             | 5.7                     | 10%         | 7.1                     | 13%         |
| Cash                 | 3.4                     | 6%          | 4.4                     | 8%          |
| Other                | 4.5                     | 8%          | 1.7                     | 3%          |
| <b>Total</b>         | <b>56.7</b>             | <b>100%</b> | <b>54.9</b>             | <b>100%</b> |

The assets set out in the above table are held in the Mercer Growth investment fund which does not have a quoted price in an active market. There are no amounts relating to the Company's own financial instruments, and property occupied by, or other assets used by, the Company.

**(d) Actuarial assumptions and sensitivity**

The significant actuarial assumptions used were as follows:

|                                  | Consolidated |  |
|----------------------------------|--------------|--|
|                                  | 2014<br>%    | 2013<br>%                                |
| Discount rate - % p.a.           | 2.7          | 3.9                                      |
| Future salary increases - % p.a. | 4.0          | 2.0 in first year then<br>4.0 thereafter |

The sensitivity of the defined benefit obligation to changes in the significant assumptions is:

|                         | Change in assumption | Impact on defined benefit obligation |                        |
|-------------------------|----------------------|--------------------------------------|------------------------|
|                         |                      | Increase in assumption               | Decrease in assumption |
| <b>31 December 2014</b> |                      |                                      |                        |
| Discount rate           | 0.50 ppts            | Decrease by 2.0%                     | Increase by 2.2%       |
| Future salary increases | 0.50 ppts            | Increase by 1.7%                     | Decrease by 1.6%       |
| <b>31 December 2013</b> |                      |                                      |                        |
| Discount rate           | 0.50 ppts            | Decrease by 2.1%                     | Increase by 2.2%       |
| Future salary increases | 0.50 ppts            | Increase by 1.7%                     | Decrease by 1.6%       |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the balance sheet.

**(e) Defined benefit liability and employer contributions**

From 1 July 2014, the Group made contributions to the Plan at rates of between 6% and 9% of member salaries. For the period from 1 January 2013 to 30 June 2014, the Group made contributions to the Plan at rates of between 10% and 13% of member salaries. In addition, the Group made quarterly contributions of \$150,000 during 2013.

Expected contributions to the defined benefit plan for the year ending 31 December 2015 are \$1.0 million.

The weighted average duration of the defined benefit obligation is 7 years (2013: 6 years).

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**21 Contributed equity**

|  | Consolidated |            |
|--|--------------|------------|
|  | 2014         | 2013       |
|  | \$ million   | \$ million |
| <b>(a) Share capital</b>   |              |            |
| Issued and paid up capital   |              |            |
| 648,267,667 (2013: 638,456,688) ordinary shares, fully paid                          | <b>727.9</b> | 699.1      |
| <b>(b) Movements in ordinary share capital</b>                                       |              |            |
| Opening balance at 1 January   | <b>699.1</b> | 696.6      |
| 2,078,332 shares issued under Executive Performance Share Plan (2013: 1,069,200) (i) | <b>4.2</b>   | 2.5        |
| 7,732,647 Dividend Reinvestment Plan share issues (2013: nil) (Note 21(d))           | <b>24.6</b>  | -          |
| Closing balance at 31 December   | <b>727.9</b> | 699.1      |

(i) Ordinary shares issued under the Adelaide Brighton Ltd Executive Performance Share Plan (refer Note 28).

**(c) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote and, on a poll, each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

**(d) Dividend Reinvestment Plan**

In August 2014 the Company reactivated the Dividend Reinvestment Plan (DRP), effective for the 2014 interim dividend. Under the DRP, holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the DRP at a price determined by the Board. The operation of the DRP for any dividend is at the discretion of the Board, which suspended the DRP in February 2015 with immediate effect until further notice.

**(e) Capital risk management**

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue shares as well as issue new debt or redeem existing debt. The Group monitors capital on the basis of the gearing ratio.

The gearing ratio at 31 December 2014 and 31 December 2013 was as follows:

|                                 |                |         |
|---------------------------------|----------------|---------|
| Total borrowings                | <b>391.5</b>   | 259.1   |
| Less: cash and cash equivalents | <b>(31.7)</b>  | (11.1)  |
| Net debt                        | <b>359.8</b>   | 248.0   |
| Total equity                    | <b>1,136.7</b> | 1,061.8 |
| Gearing ratio                   | <b>31.7%</b>   | 23.4%   |

**(f) Employee share scheme and options**

Information relating to the employee share schemes, including details of shares issued under the schemes is set out in Note 28.

Adelaide Brighton Ltd and its controlled entities  
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22 Reserves and retained earnings

|  | Consolidated |              |
|--|--------------|--------------|
|  | 2014         | 2013         |
|  | \$ million   | \$ million   |
| <b>(a) Reserves</b>  |              |              |
| Foreign currency translation reserve   | 1.5          | 1.0          |
| Share-based payment reserve  | 1.8          | 3.3          |
|  | <b>3.3</b>   | <b>4.3</b>   |
| <b>Foreign currency translation reserve</b>  |              |              |
| Opening balance at 1 January   | 1.0          | -            |
| Currency translation differences arising during the year   | 0.5          | 1.0          |
| Closing balance at 31 December   | <b>1.5</b>   | <b>1.0</b>   |
| <b>Share-based payment reserve</b>   |              |              |
| Opening balance at 1 January   | 3.3          | 2.1          |
| Awards expense   | 1.5          | 2.1          |
| Deferred tax   | (0.6)        | 0.3          |
| Over provision of tax in prior periods   | -            | 0.5          |
| Issue of shares to employees   | (2.4)        | (1.7)        |
| Closing balance at 31 December   | <b>1.8</b>   | <b>3.3</b>   |
| <b>Nature and purpose of reserves</b>  |              |              |
| <i>Foreign currency translation</i>  |              |              |
| Exchange differences arising on translation of foreign controlled entities and the foreign associate are recognised in other comprehensive income as described in Note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of. |              |              |
| <i>Share-based payment</i>   |              |              |
| The share-based payment reserve is used to recognise the fair value of Awards issued but not exercised.  |              |              |
| <b>(b) Retained earnings</b>   |              |              |
| Opening balance at 1 January   | 355.6        | 304.4        |
| Net profit for the year  | 172.7        | 151.1        |
| Actuarial (loss) / gain on defined benefit obligation (net of tax)   | (0.8)        | 5.3          |
| Dividends  | (124.7)      | (105.2)      |
| Closing balance at 31 December   | <b>402.8</b> | <b>355.6</b> |



**Adelaide Brighton Ltd and its controlled entities**  
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**23 Dividends**

|  | The Company |            |
|--|-------------|------------|
|  | 2014        | 2013       |
|  | \$ million  | \$ million |
| <b>Dividends paid during the year</b>  |             |            |
| 2013 final ordinary dividend of 9.0 cents (2012 – 9.0 cents) per fully paid ordinary share, franked at 100% (2012 – 100%) paid on 15 April 2014  | 57.5        | 57.4       |
| 2013 final special dividend of 3.0 cents (2012 – nil cents) per fully paid ordinary share, franked at 100% (2012 – n/a) paid on 15 April 2014  | 19.1        | -          |
| 2014 interim dividend of 7.5 cents (2013 – 7.5 cents) per fully paid ordinary share, franked at 100% (2013 – 100%) paid on 20 October 2014   | 48.1        | 47.8       |
| Total dividends  | 124.7       | 105.2      |
| Dividends paid:  |             |            |
| In cash  | 100.1       | 105.2      |
| Issue of shares through dividend reinvestment plan   | 24.6        | -          |
| Total dividends  | 124.7       | 105.2      |
| <b>Dividend not recognised at year end</b>   |             |            |
| Since the end of the year the Directors have recommended the payment of a final dividend of 9.5 cents (2013: 12.0 cents) per fully paid share, franked at 100% (2013: 100%). The aggregate amount of the proposed final dividend to be paid on 16 April 2015, not recognised as a liability at the end of the reporting period, is | 61.6        | 76.6       |

**Franked dividend**

The franked portion of the dividend proposed as at 31 December 2014 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 31 December 2015.

|  | Consolidated |            |
|--|--------------|------------|
|  | 2014         | 2013       |
|  | \$ million   | \$ million |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2013: 30%) | 116.8        | 107.3      |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of any current tax liability
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$26.4 million (2013: \$32.8 million).

## **24 Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Board approves written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ageing analysis for credit risk. The Group uses derivative financial instruments in the form of foreign exchange forward contracts to hedge certain currency risk exposures.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured at their fair value at each reporting date. The Company does not utilise hedge accounting as permitted under Australian Accounting Standards.

The Group's Corporate Treasury Function provides services to the business, co-ordinates access to domestic financial markets and monitors and manages the financial risks relating to the operations of the Group. The Group Corporate Treasury Function reports, on a monthly basis, an analysis of key market exposures.

### **(a) Market risk**

#### *(i) Foreign exchange risk*

The Group's activities through its importation of cement, clinker, slag and equipment expose it to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Japanese Yen.

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group enters into foreign exchange forward contracts to hedge its foreign exchange risk on these overseas trading activities against movements in the Australian dollar.

The Group Treasury's risk management policy is to hedge commitments for purchases for up to six months forward. Longer hedge positions are deemed too expensive versus the value at risk due to the respective currencies' interest rate spread. Derivative instruments entered into by the Group do not qualify for hedge accounting.

#### *(ii) Interest rate risk*

The Group's main interest rate risk arises from bank borrowings. Borrowings issued at variable rates expose the Group to interest rate risk. Due to the historically low levels of gearing, Group policy is to take on senior debt facilities on a one to five year term with fixed bank lending margins associated with each term. Cash advances to meet short and medium term borrowing requirements are drawn down against the senior debt lending facilities on a 30, 60 or 90 day basis, at a variable lending rate comprising the fixed bank margin applied to the daily bank bill swap rate effective at the date of each cash advance. During both 2014 and 2013, the Group's borrowings at variable rates were denominated in Australian Dollars.

The Group analyses its interest rate exposure on a dynamic basis. Periodically, various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on forecast profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions. Based on the latest calculations performed, the impact on profit and equity of a 100 basis-point movement would be a maximum increase/decrease of \$3.3 million (2013: \$2.2 million). A 100 basis-point sensitivity has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates.

#### *(iii) Summarised sensitivity analysis*

The following table summarises the sensitivity, on a pre-tax basis, of the Group's financial assets and financial liabilities to interest rate risk.

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**24 Financial risk management (continued)**

**(a) Market risk (continued)**

(iii) *Summarised sensitivity analysis (continued)*

| <b>\$ million - consolidated</b> |    | <b>2014</b>  |                       |                    | <b>2013</b>  |                       |                    |
|----------------------------------|----|--------------|-----------------------|--------------------|--------------|-----------------------|--------------------|
|                                  |    | <b>Notes</b> | <b>Carrying Value</b> | <b>Sensitivity</b> |              | <b>Carrying Value</b> | <b>Sensitivity</b> |
|                                  |    |              | <b>-1.0%</b>          | <b>+1.0%</b>       |              | <b>-1.0%</b>          | <b>+1.0%</b>       |
| <b>Financial assets</b>          |    |              |                       |                    |              |                       |                    |
| Cash                             | 6  | 31.7         | (0.3)                 | 0.3                | 11.1         | (0.1)                 | 0.1                |
| Receivables                      | 7  | 232.0        | (0.3)                 | 0.3                | 213.8        | (0.3)                 | 0.3                |
|                                  |    | <b>263.7</b> | <b>(0.6)</b>          | <b>0.6</b>         | <b>224.9</b> | <b>(0.4)</b>          | <b>0.4</b>         |
| <b>Financial liabilities</b>     |    |              |                       |                    |              |                       |                    |
| Borrowings                       | 16 | 391.5        | 3.9                   | (3.9)              | 259.1        | 2.6                   | (2.6)              |
| Payables                         | 15 | 120.4        | -                     | -                  | 105.4        | -                     | -                  |
|                                  |    | <b>511.9</b> | <b>3.9</b>            | <b>(3.9)</b>       | <b>364.5</b> | <b>2.6</b>            | <b>(2.6)</b>       |
| Total increase/(decrease)        |    |              | <b>3.3</b>            | <b>(3.3)</b>       |              | <b>2.2</b>            | <b>(2.2)</b>       |

Foreign currency risk is immaterial as the majority of sales and assets are denominated in Australian Dollars, while the Group's purchases that are in foreign currency are settled at the time of the transaction, consequently payables are generally in Australian Dollars. All borrowings are denominated in Australian Dollars.

**(b) Credit risk**

Credit risk is managed on a Group basis using delegated authority limits. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. For trading credit risk, Credit Control assesses the credit quality of the customer, taking into account its financial position, past experience, external credit agency reports and credit references. Individual risk limits are set based on internal or external ratings in accordance with delegated authority limits set by the Board. The compliance with credit limits by credit approved customers is regularly monitored by line credit management. Sales to non-account customers are settled either in cash, major credit cards or electronic funds transfer, mitigating credit risk.

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to appropriate approval.

The Group has no significant concentration of credit risk. The Group has policies and procedures in place to ensure that sales are made to customers with an appropriate credit history. In relation to a small number of customers with uncertain credit history, the Group has taken out personal guarantees in order to cover credit exposures. As at 31 December 2014, the Group held no collateral over outstanding debts. Consequently, the maximum exposure to credit risk represents the carrying value of receivables and derivatives. Derivative counterparties and cash transactions are limited to high credit quality institutions.

**(c) Liquidity risk**

The ultimate responsibility for liquidity risk management rests with the Board which has established an appropriate risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group's Corporate Treasury Function manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included below is a statement of undrawn facilities that the Group and Company has at its disposal to further reduce liquidity risk.

**Adelaide Brighton Ltd and its controlled entities**  
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**24 Financial risk management (continued)**

**(c) Liquidity risk (continued)**

**Financing arrangements**

Unrestricted access was available at balance date to the following lines of credit:

**Credit standby arrangements**

Total facilities

Bank overdrafts

Bank facilities – external parties

Consolidated  
**2014**                      2013  
**\$ million**                      \$ million

|  |       |       |
|--|-------|-------|
|  | 4.0   | 4.0   |
|  | 540.0 | 500.0 |
|  | 544.0 | 504.0 |

Used at balance date

Bank overdrafts

Bank facilities – external parties

|  |       |       |
|--|-------|-------|
|  | -     | -     |
|  | 390.0 | 260.0 |
|  | 390.0 | 260.0 |

Unused at balance date

Bank overdrafts

Bank facilities – external parties

|  |       |       |
|--|-------|-------|
|  | 4.0   | 4.0   |
|  | 150.0 | 240.9 |
|  | 154.0 | 244.9 |

Maturity profile of bank facilities. Maturing on:

1 July 2015

1 July 2016

5 January 2018

4 January 2019

|  |       |       |
|--|-------|-------|
|  | -     | 300.0 |
|  | -     | 200.0 |
|  | 330.0 | -     |
|  | 210.0 | -     |
|  | 540.0 | 500.0 |

The table below analyses the Group's financial liabilities that will be settled on a gross basis. The amounts disclosed are the contractual undiscounted cash flows. For bank facilities the cash flows have been estimated using interest rates applicable at the end of the reporting period.

**Contractual maturities of financial liabilities**

**\$million**

**31 December 2014**

Trade payables

Bank facilities

Finance leases

|  | < 6 months | 6-12 months | 1-2 years | > 2 years | Total |
|--|------------|-------------|-----------|-----------|-------|
|  | 120.4      | -           | -         | -         | 120.4 |
|  | 7.3        | 7.3         | 29.3      | 392.3     | 436.2 |
|  | 0.9        | 0.8         | 1.6       | 0.3       | 3.6   |
|  | 128.6      | 8.1         | 30.9      | 392.6     | 560.2 |

**31 December 2013**

Trade payables

Bank facilities

|  |       |     |       |   |       |
|--|-------|-----|-------|---|-------|
|  | 105.4 | -   | -     | - | 105.4 |
|  | 5.0   | 5.0 | 265.0 | - | 275.0 |
|  | 110.4 | 5.0 | 265.0 | - | 380.4 |

**25 Fair value measurements**

**Fair value hierarchy**

*(i) Recognised fair value measurements*

The Group measures and recognises financial assets at fair value through profit or loss (FVTPL) on a recurring basis. Derivative instruments entered into by the Group do not qualify for hedge accounting and are classified in this category. The only assets or liabilities measured and recognised at fair value are the asset in relation to the Carbon Tax which is measured in accordance with the price of units in the market (level 1) and the asset or liability in relation to forward exchange contracts determined using forward exchange market rates at the balance sheet date (level 1). The Group held no assets associated with the Carbon Tax (2013: \$52.5 million) or assets or liabilities in relation to forward exchange contracts (2013: \$0.1 million) at the balance sheet date.

**Adelaide Brighton Ltd and its controlled entities**  
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**25 Fair value measurements (continued)**

**Fair value hierarchy (continued)**

*(ii) Disclosed fair values*

The Group also has a number of assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of non-current receivables for disclosure purposes is based predominantly on the recoverable loan amount to joint ventures and external parties (level 3).

The interest rate for current and non-current borrowings is reset on a short term basis, generally 30 to 90 days, and therefore the carrying value of current and non-current borrowings equal their fair values (level 2).

**26 Contingencies**

Details and estimates of maximum amounts of contingent liabilities are as follows:

|  | Consolidated<br>2014<br>\$ million | 2013<br>\$ million |
|--|------------------------------------|--------------------|
| <b>(a) Guarantees</b>                  |                                    |                    |
| Bank guarantees                        | 19.8                               | 15.6               |
| Guarantees of joint venture borrowings | -                                  | 30.6               |
|  | <hr/>                              | <hr/>              |

**(b) Litigation**

At the time of preparing this financial report some companies included in the Group are parties to pending legal proceedings, the outcome of which is not known. The entities are defending, or prosecuting, these proceedings. The Directors have assessed the impact on the Group from the individual actions.

No material losses are anticipated in respect of any of the above contingent liabilities.

**27 Commitments for expenditure**

**(a) Capital commitments – property, plant & equipment**

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

|                 |                  |                  |
|-----------------|------------------|------------------|
| Within one year | <hr/> <b>5.0</b> | <hr/> <b>8.3</b> |
|-----------------|------------------|------------------|

**(b) Lease commitments – operating leases**

Commitments in relation to operating leases contracted for at the reporting date, but not recognised as liabilities, are payable as follows:

|   |                   |                   |
|---|-------------------|-------------------|
| Within one year                                   | <b>4.9</b>        | 5.3               |
| Later than one year but not later than five years | <b>9.8</b>        | 13.0              |
| Later than five years                             | <b>8.8</b>        | 17.1              |
|   | <hr/> <b>23.5</b> | <hr/> <b>35.4</b> |

Commitments for operating lease payments relate mainly to rental leases on property. The Group leases various properties under non-cancellable operating leases which contain varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are either renegotiated or the expiry date is extended under pre-negotiated terms.

**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
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**27 Commitments for expenditure (continued)**

|   | Consolidated |            |
|---|--------------|------------|
|   | 2014         | 2013       |
|   | \$ million   | \$ million |
| <b>(c) Lease commitments – finance leases</b>   |              |            |
| Commitments in relation to finance leases for various plant and equipment with a carrying amount of \$3.3m (2013: nil) contracted for at the reporting date, but not recognised as liabilities, are payable as follows: |              |            |
| Within one year   | 1.7          | -          |
| Later than one year but not later than five years   | 1.9          | -          |
| Minimum lease payments  | 3.6          | -          |
| Future finance charges  | (0.4)        | -          |
| Total lease liabilities (Note 16)   | 3.2          | -          |
| <br>The present value of finance lease liabilities is as follows:   |              |            |
| Within one year   | 1.4          | -          |
| Later than one year but not later than five years   | 1.8          | -          |
| Minimum lease payments  | 3.2          | -          |

**28 Share-based payment plans**

**(a) Employee Share Plan**

The establishment of the Adelaide Brighton Ltd Employee Share Plan was approved by special resolution at the Annual General Meeting of the Company held on 19 November 1997. Subject to the Board approval of grants, all full time employees of the Company and its controlled entities who have been continuously employed by the Company or a controlled entity for a period of one year are eligible to participate in the Plan. Casual employees and contractors are not eligible to participate in the Plan.

No shares were issued under the Employee Share Plan during the year (2013 – nil). In subsequent years, the Board will decide whether, considering the profitability of the Company and the demands of the business, further invitations to take up grants of shares should be made.

**(b) Executive Performance Share Plan**

The Adelaide Brighton Ltd Executive Performance Share Plan (“the Plan” or “EPSP”) provides for grants of Awards to eligible executives. This plan was approved by shareholders at the Annual General Meeting held on 19 November 1997. In accordance with the requirements of the ASX Listing Rules, Awards granted to the Managing Director who retired on 21 May 2014, have been approved by shareholders.

Under the Plan, eligible executives are granted Awards (each being an entitlement to a fully paid ordinary share of Adelaide Brighton Ltd, subject to the satisfaction of performance conditions) on terms and conditions determined by the Board. On exercise of the Award following vesting, participants are issued shares of the Company. Detailed discussion of performance conditions is set out in the Remuneration Report on pages 14 to 33.

The exercise price for each Award is \$nil.

**Movement in number of Awards outstanding**

|                                      | Consolidated |             |
|--------------------------------------|--------------|-------------|
|                                      | 2014         | 2013        |
| Outstanding at beginning of the year | 6,262,180    | 5,975,030   |
| Granted                              | 1,065,255    | 1,502,150   |
| Forfeited                            | (1,929,500)  | (145,800)   |
| Exercised                            | (2,078,332)  | (1,069,200) |
| Expired                              | -            | -           |
| Outstanding at the end of the year   | 3,319,603    | 6,262,180   |
| Exercisable at the end of the year   | -            | -           |

The average value per share at the earliest exercise date during the year was \$3.92 (2013: \$3.40). The value per share is calculated using the Volume Weighted Closing Price which is the average of the closing price and number of Adelaide Brighton Limited shares traded on the Australian Securities Exchange for the five trading days before the exercise date, but not including the day of exercise.

**Adelaide Brighton Ltd and its controlled entities**  
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**28 Share-based payment plans** (continued)

**(b) Executive Performance Share Plan** (continued)

Fair values of Awards at the grant date are independently determined using a pricing model that takes into account the exercise price, the term of the Awards, the lack of marketability, the impact of TSR vesting condition (applicable to 50% of Awards), the expected future dividends and the risk free interest rate for the term of the Award. For the purposes of pricing model inputs, the share price for calculation of the Award value is based on the closing published share price at grant date. The impact of the Award's performance conditions have been incorporated into the valuation through the use of a discount for lack of marketability and TSR vesting conditions. Volatility of the Company's share price has been considered in valuing the Awards, however the independent valuer has reached the conclusion that the volatility is not a factor in assessing the fair value of the Awards.

The assessed fair value at grant date of Awards granted to individual participants is allocated equally over the period from grant date to vesting date.

**Awards granted in 2014 – weighted average pricing model inputs**

|                                | <b>2014 Awards</b> | <b>2013 Awards</b> | <b>2012 Awards –<br/>Tranche 2</b> | <b>2012 Awards –<br/>Tranche 1</b> |
|--------------------------------|--------------------|--------------------|------------------------------------|------------------------------------|
| Share price at grant date      | \$3.88             | \$3.43             | \$3.43                             | \$3.43                             |
| Expected annual dividends      | \$0.17             | \$0.19             | \$0.19                             | \$0.11                             |
| Risk-free interest rate        | 3.37% p.a.         | 2.71% p.a.         | 2.71% p.a.                         | 2.71% p.a.                         |
| Lack of marketability discount | 2.50% p.a.         | 2.50% p.a.         | 2.50% p.a.                         | 2.50% p.a.                         |
| TSR condition discount         | 50%                | 50%                | 50%                                | 50%                                |
| Earliest exercise date         | 1-May-18           | 1-May-17           | 1-May-16                           | 1-May-15                           |

**Awards granted in 2013 – weighted average pricing model inputs**

|                                | <b>2013 Awards</b> |
|--------------------------------|--------------------|
| Share price at grant date      | \$3.30             |
| Expected annual dividends      | \$0.17             |
| Risk-free interest rate        | 2.81% p.a.         |
| Lack of marketability discount | 3.00% p.a.         |
| TSR condition discount         | 50%                |
| Earliest exercise date         | 1-May-17           |

The Plan does not entitle the Participants to participate in any other share issues of the Company and the unexercised Awards do not attract dividend or voting rights. The Plan is accounted for by the Company in accordance with Note 1(v)(iv), with \$1,521,941 (2013: \$2,089,093) recognised as an expense during the year.

The weighted average remaining contractual life of Awards outstanding at the end of the period was 1.8 years (2013: 1.8 years).

**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
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**29 Remuneration of auditors**

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2014           | 2013           |
|   | \$             | \$             |
| <b>(a) Audit services</b>                 |                |                |
| PricewaterhouseCoopers Australian firm    |                |                |
| Audit and review of financial statements  | 651,210        | 692,540        |
| Total remuneration for audit services     | <b>651,210</b> | <b>692,540</b> |
| <b>(b) Non-audit services</b>             |                |                |
| PricewaterhouseCoopers Australian firm    |                |                |
| Other assurance services                  | 104,073        | 92,798         |
| Total remuneration for non-audit services | <b>104,073</b> | <b>92,798</b>  |

**30 Related parties**

**(a) Compensation of key management personnel**

|                              | Consolidated |             |
|------------------------------|--------------|-------------|
|                              | 2014         | 2013        |
|                              | \$ million   | \$ million  |
| Short-term employee benefits | 7.1          | 8.8         |
| Post-employment benefits     | 1.0          | 0.2         |
| Share-based payments         | 1.8          | 1.4         |
|                              | <b>9.9</b>   | <b>10.4</b> |

**(b) Other transactions with key management personnel**

R D Barro, a Director of Adelaide Brighton Ltd, is Managing Director of Barro Group Pty Ltd. Barro Group Pty Ltd and Adelaide Brighton Ltd, through its 100% owned subsidiary, Adelaide Brighton Management Ltd, each control 50% of Independent Cement and Lime Pty Ltd, a distributor of cement and lime in Victoria and New South Wales.

During the year, the Barro Group of companies purchased goods and materials from and sold goods, materials and services to Independent Cement and Lime Pty Ltd and the Group. The Barro Group of companies also purchased goods and materials from Sunstate Cement Ltd, a company in which the Group has a 50% share, and other entities in the Group.

M P Chellev, an executive Director of Adelaide Brighton Ltd until his retirement on 21 May 2014, M Brydon, Chief Executive Officer, and M Kelly, a senior executive of Adelaide Brighton Ltd, have been Directors of Sunstate Cement Ltd during the reporting period. M Brydon was also a Director of Independent Cement and Lime Pty Ltd until 6 March 2014 and of Aalborg Portland Malaysia Sdn. Bhd. until 13 November 2014. G Agriogiannis, a senior executive of Adelaide Brighton Ltd and M Kelly are also Directors of the Mawsons Group. During the year, the Group traded significantly with Independent Cement and Lime Pty Ltd, Sunstate Cement Ltd and the Mawsons Group, which are all joint ventures of the Group.

All transactions involving the Barro Group Pty Ltd and Adelaide Brighton Ltd and its subsidiaries, Independent Cement and Lime Pty Ltd and its subsidiaries, Sunstate Cement Ltd and the Mawsons Group were conducted on standard commercial terms.

Transactions entered into during the year with Directors of the Company and the Group, or their related parties, are on standard commercial terms and conditions, and include the purchase of goods from the Group and the receipt of dividends from the Company.

|   | Consolidated |            |
|---|--------------|------------|
|   | 2014         | 2013       |
|   | \$           | \$         |
| Aggregate amounts of the above transactions with the Directors and their related parties: |              |            |
| Sales to Director related parties   | 54,853,108   | 45,019,728 |
| Purchases from Director related parties   | 44,361,860   | 41,908,399 |



**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
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**30 Related parties** (continued)

**(c) Controlled entities**

Details of interests in controlled entities are set out in Note 31. The ultimate parent company is Adelaide Brighton Ltd.

**(d) Joint arrangement and associate entities**

Details of interests in joint arrangement and associate entities are set out in Note 10(b). The nature of transactions with joint arrangement and associate entities is detailed below:

Adelaide Brighton Cement Ltd and Morgan Cement International Ltd supplied finished products and raw materials to Sunstate Cement Ltd, Independent Cement and Lime Pty Ltd and Peninsula Concrete Pty Ltd. Hy-Tec Industries Pty Ltd, Hy-Tec Industries (Victoria) Pty Ltd, Hy-Tec Industries (Queensland) Pty Ltd, Adbri Masonry Group Pty Ltd, Adelaide Brighton Cement Ltd and Cockburn Cement Ltd purchased finished products, raw materials and transportation services from Sunstate Cement Ltd, Independent Cement and Lime Pty Ltd and Aalborg Portland Malaysia Sdn. Bhd.

All transactions are on normal commercial terms and conditions and transactions for the supply are covered by shareholder agreements.

**(e) Transactions with related parties**

The following transactions occurred with related parties:

|  | Consolidated |         |
|--|--------------|---------|
|  | 2014         | 2013    |
|  | \$'000       | \$'000  |
| Sales of goods   |              |         |
| - Joint venture entities   | 199,259      | 188,147 |
| Purchases of materials and goods                                       |              |         |
| - Joint venture entities   | 76,793       | 64,008  |
| Interest revenue   |              |         |
| - Joint venture entities   | 761          | 757     |
| Dividend and distribution income                                       |              |         |
| - Joint venture entities   | 20,984       | 16,337  |
| Superannuation contributions   |              |         |
| - Contributions to superannuation funds on behalf of employees         | 11,682       | 11,666  |
| - Reimbursement of superannuation contribution by joint venture entity | -            | 22      |
| Loans advanced to/(from):  |              |         |
| - Joint venture entities   | 1,861        | 2,445   |

**(f) Outstanding balances arising from sales/purchases of goods and services**

The following balances are outstanding at the reporting date in relation to transactions with related parties:

|                                     | Consolidated |        |
|-------------------------------------|--------------|--------|
|                                     | 2014         | 2013   |
|                                     | \$'000       | \$'000 |
| Current receivables                 |              |        |
| - Joint venture entities (interest) | 393          | 378    |
| - Joint venture entities (trade)    | 27,242       | 23,690 |
| Non-current receivables             |              |        |
| - Joint venture entities (loans)    | 29,668       | 27,808 |
| Current payables                    |              |        |
| - Joint venture entities (trade)    | 12,378       | 6,450  |

Outstanding balances are unsecured and repayable in cash. No provisions for doubtful receivables have been raised in relation to any outstanding balances.

**(g) Loans to related parties**

A loan to a joint venture entity, Independent Cement and Lime Pty Ltd, has interest charged at commercial rates on the outstanding balance. Interest revenue brought to account by the Group during the reporting year on this loan was \$760,758 (2013: \$756,557).

**Adelaide Brighton Ltd and its controlled entities**  
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**31 Subsidiaries and transactions with non-controlling interests**

| Name of entity   | Place of incorporation | Class of shares | Ownership interest held by the Group |        |
|--|------------------------|-----------------|--------------------------------------|--------|
|  |                        |                 | 2014 %                               | 2013 % |
| <b>Adelaide Brighton Ltd</b>                                 |                        |                 |                                      |        |
| Adelaide Brighton Cement Ltd <sup>2</sup>                    | Australia              | Ord             | 100                                  | 100    |
| Adelaide Brighton Cement Inc                                 | USA                    | Ord             | 80                                   | 80     |
| Adelaide Brighton Cement Investments Pty Ltd <sup>2</sup>    | Australia              | Ord             | 100                                  | 100    |
| Adelaide Brighton Management Ltd <sup>2</sup>                | Australia              | Ord             | 100                                  | 100    |
| Adelaide Brighton Cement International Pty Ltd <sup>1</sup>  | Australia              | Ord             | 100                                  | 100    |
| Adelaide Brighton Intellectual Property Pty Ltd <sup>1</sup> | Australia              | Ord             | 100                                  | 100    |
| Cement Resources Consolidated Pty Ltd <sup>1</sup>           | Australia              | Ord             | 100                                  | 100    |
| Cockburn Cement Ltd <sup>2</sup>                             | Australia              | Ord             | 100                                  | 100    |
| Hy-Tec Industries (Queensland) Pty Ltd <sup>2</sup>          | Australia              | Ord             | 100                                  | 100    |
| Northern Cement Ltd <sup>2</sup>                             | Australia              | Ord             | 100                                  | 100    |
| Premier Resources Ltd <sup>2</sup>                           | Australia              | Ord             | 100                                  | 100    |
| Adbri Masonry Group Pty Ltd <sup>2</sup>                     | Australia              | Ord             | 100                                  | 100    |
| <b>Adelaide Brighton Cement Ltd</b>                          |                        |                 |                                      |        |
| Exmouth Limestone Pty Ltd <sup>1</sup>                       | Australia              | Ord             | 51                                   | 51     |
| <b>Adelaide Brighton Cement Inc</b>                          |                        |                 |                                      |        |
| Adelaide Brighton Cement (Florida) Inc                       | USA                    | Ord             | 100                                  | 100    |
| Adelaide Brighton Cement (Hawaii) Inc                        | USA                    | Ord             | 100                                  | 100    |
| Hileah (Florida) Management Inc                              | USA                    | Ord             | 100                                  | 100    |
| <b>Adelaide Brighton Management Ltd</b>                      |                        |                 |                                      |        |
| Accendo Pty Ltd <sup>1</sup>                                 | Australia              | Ord             | 100                                  | 100    |
| Global Cement Australia Pty Ltd <sup>1</sup>                 | Australia              | Ord             | 100                                  | 100    |
| Hurd Haulage Pty Ltd <sup>2</sup>                            | Australia              | Ord             | 100                                  | 100    |
| K.C. Mawson Pty Ltd <sup>1</sup>                             | Australia              | Ord             | 100                                  | 100    |
| <b>Adelaide Brighton Cement International Pty Ltd</b>        |                        |                 |                                      |        |
| Adelaide Brighton Cement Inc                                 | USA                    | Ord             | 20                                   | 20     |
| Fuel & Combustion Technology International Ltd               | United Kingdom         | Ord             | 100                                  | 100    |
| <b>Fuel &amp; Combustion Technology International Ltd</b>    |                        |                 |                                      |        |
| Fuel & Combustion Technology International Inc               | USA                    | Ord             | 100                                  | 100    |
| <b>Northern Cement Ltd</b>                                   |                        |                 |                                      |        |
| Mataranka Lime Pty Ltd <sup>1</sup>                          | Australia              | Ord             | 100                                  | 100    |
| <b>Cockburn Cement Ltd</b>                                   |                        |                 |                                      |        |
| Cockburn Waters Pty Ltd <sup>1</sup>                         | Australia              | Ord             | 100                                  | 100    |
| Hydrated Lime Pty Ltd <sup>1</sup>                           | Australia              | Ord             | 100                                  | 100    |
| Chemical Unit Trust  | Australia              | Units           | 100                                  | 100    |
| Kalgoorlie Lime & Chemical Company Pty Ltd <sup>1</sup>      | Australia              | Ord             | 100                                  | 100    |
| <b>Premier Resources Ltd</b>                                 |                        |                 |                                      |        |
| Hy-Tec Industries Pty Ltd <sup>2</sup>                       | Australia              | Ord             | 100                                  | 100    |
| Hy-Tec Industries (Victoria) Pty Ltd <sup>2</sup>            | Australia              | Ord             | 100                                  | 100    |
| Bonfoal Pty Ltd <sup>1</sup>                                 | Australia              | Ord             | 100                                  | 100    |
| Aus-10 Rhyolite Pty Ltd <sup>3</sup>                         | Australia              | Ord             | 100                                  | 100    |
| Morgan Cement International Pty Ltd <sup>2</sup>             | Australia              | Ord             | 100                                  | 100    |
| Screenings Pty Ltd <sup>2</sup>                              | Australia              | Ord             | 100                                  | -      |
| Lonsdale Sand & Metal Pty Ltd <sup>1</sup>                   | Australia              | Ord             | 100                                  | -      |
| <b>Hy-Tec Industries (Victoria) Pty Ltd</b>                  |                        |                 |                                      |        |
| CRC2 Pty Ltd <sup>1</sup>                                    | Australia              | Ord             | 100                                  | 100    |
| CRC3 Pty Ltd <sup>1</sup>                                    | Australia              | Ord             | 100                                  | 100    |
| Hy-Tec Industries (Victoria) No 1 Pty Ltd <sup>1</sup>       | Australia              | Ord             | 100                                  | 100    |
| Hy-Tec Industries (Victoria) No 2 Pty Ltd <sup>1</sup>       | Australia              | Ord             | 100                                  | 100    |
| Sheltacrete Pty Ltd <sup>1</sup>                             | Australia              | Ord             | 100                                  | 100    |
| <b>Adbri Masonry Group Pty Ltd</b>                           |                        |                 |                                      |        |
| Adbri Masonry Pty Ltd <sup>2</sup>                           | Australia              | Ord             | 100                                  | 100    |
| Adbri Mining Products Pty Ltd <sup>1</sup>                   | Australia              | Ord             | 100                                  | 100    |
| C&M Masonry Products Pty Ltd <sup>2</sup>                    | Australia              | Ord             | 100                                  | 100    |
| Betta Brick Pty Ltd <sup>1</sup>                             | Australia              | Ord             | 100                                  | 100    |
| C&M Brick (Bendigo) Pty Ltd <sup>1</sup>                     | Australia              | Ord             | 100                                  | 100    |
| C&M Design/Construct Pty Ltd <sup>1</sup>                    | Australia              | Ord             | 100                                  | 100    |
| <b>Screenings Pty Ltd</b>                                    |                        |                 |                                      |        |
| Agripeta Pty Ltd <sup>1</sup>                                | Australia              | Ord             | 100                                  | -      |
| Productivex Pty Ltd <sup>1</sup>                             | Australia              | Ord             | 100                                  | -      |
| Southern Quarries Holdings Pty Ltd <sup>2</sup>              | Australia              | Ord             | 100                                  | -      |

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**31 Subsidiaries and transactions with non-controlling interests (continued)**

| Name of entity   | Place of incorporation | Class of shares | Ownership interest held by the Group |        |
|--|------------------------|-----------------|--------------------------------------|--------|
|  |                        |                 | 2014 %                               | 2013 % |
| <b>Southern Quarries Holdings Pty Ltd</b>              |                        |                 |                                      |        |
| Direct-Mix Holdings Pty Ltd <sup>2</sup>               | Australia              | Ord             | 100                                  | -      |
| Direct-Screens Holdings Pty Ltd <sup>1</sup>           | Australia              | Ord             | 100                                  | -      |
| Southern Lime Pty Ltd <sup>1</sup>                     | Australia              | Ord             | 100                                  | -      |
| Southern Quarries Pty Ltd <sup>2</sup>                 | Australia              | Ord             | 51                                   | -      |
| <b>Direct-Screens Holdings Pty Ltd</b>                 |                        |                 |                                      |        |
| Peninsula Mixed Concrete Supplies Pty Ltd <sup>1</sup> | Australia              | Ord             | 100                                  | -      |
| <b>Direct-Mix Holdings Pty Ltd</b>                     |                        |                 |                                      |        |
| Direct-Mix Concrete Pty Ltd <sup>1</sup>               | Australia              | Ord             | 100                                  | -      |
| Direct-Mix Concrete (Products) Pty Ltd <sup>1</sup>    | Australia              | Ord             | 100                                  | -      |
| Southern Quarries Pty Ltd <sup>2</sup>                 | Australia              | Ord             | 49                                   | -      |
| <b>Southern Quarries Pty Ltd</b>                       |                        |                 |                                      |        |
| Adelaide Concrete Recyclers Pty Ltd <sup>1</sup>       | Australia              | Ord             | 100                                  | -      |

<sup>1</sup> Small proprietary company as defined by the *Corporations Act 2001* and is not required to be audited for statutory purposes.

<sup>2</sup> These controlled entities have been granted relief from the necessity to prepare financial reports in accordance with ASIC Class Order 98/1418 (as amended) dated 12 June 2013. For further information see Note 32.

<sup>3</sup> Aus-10 Rhyolite Pty Ltd joined Adelaide Brighton Ltd's Deed of Cross Guarantee under ASIC Class Order 98/1418 (as amended) dated 12 June 2013 on 3 December 2014 by Assumption Deed.

Unless otherwise stated, the subsidiaries as listed above have share capital consisting solely of ordinary shares, which are held directly by the Group, and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

**32 Deed of cross guarantee**

As at the date of this report, Adelaide Brighton Ltd, Adelaide Brighton Cement Ltd, Cockburn Cement Ltd, Adelaide Brighton Cement Investments Pty Ltd, Adelaide Brighton Management Ltd, Northern Cement Ltd, Premier Resources Ltd, Hy-Tec Industries Pty Ltd, Hy-Tec Industries (Victoria) Pty Ltd, Hy-Tec Industries (Queensland) Pty Ltd, Morgan Cement International Pty Ltd, Adbri Masonry Group Pty Ltd, C&M Masonry Products Pty Ltd, Adbri Masonry Pty Ltd, Hurd Haulage Pty Ltd, Aus-10 Rhyolite Pty Ltd, Screenings Pty Ltd, Southern Quarries Holdings Pty Ltd, Direct-Mix Holdings Pty Ltd and Southern Quarries Pty Ltd are parties to a Deed of Cross Guarantee (the Deed) under which each company guarantees the debts of the others. By entering into the Deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities & Investments Commission. The above companies represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the Deed that are controlled by the Company, they also represent the "Extended Closed Group". Aus-10 Rhyolite Pty Ltd, Screenings Pty Ltd, Southern Quarries Holdings Pty Ltd, Direct-Mix Holdings Pty Ltd and Southern Quarries Pty Ltd entered into the Deed on 3 December 2014. No other changes to the Deed were made during 2014. During 2013, to take into account changes that have been made to ASIC's Class Order 98/1418 over recent years, the Closed Group revoked the Deed of Cross Guarantee that had been in effect in previous years and each of the members of the Closed Group entered into a new Deed of Cross Guarantee reflective of the current requirements of ASIC's Class Order. The new Deed of Cross Guarantee was in effect at the end of the 2013 financial year.

**Adelaide Brighton Ltd and its controlled entities**  
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**32 Deed of cross guarantee** (continued)

Set out below is a consolidated balance sheet as at 31 December 2014 of the Closed Group.

|                                    | 2014<br>\$ million | 2013<br>\$ million |
|------------------------------------|--------------------|--------------------|
| <b>Current assets</b>              |                    |                    |
| Cash and cash equivalents          | 26.8               | 7.8                |
| Trade and other receivables        | 200.0              | 185.6              |
| Inventories                        | 154.2              | 127.3              |
| Carbon units                       | -                  | 52.5               |
|                                    | <u>381.0</u>       | <u>373.2</u>       |
| Assets classified as held for sale | 1.5                | 7.9                |
| Total current assets               | <u>382.5</u>       | <u>381.1</u>       |
| <b>Non-current assets</b>          |                    |                    |
| Receivables                        | 32.6               | 31.4               |
| Joint arrangements and associate   | 101.0              | 101.7              |
| Other financial assets             | 25.1               | 10.2               |
| Property, plant and equipment      | 953.3              | 808.2              |
| Intangible assets                  | 263.9              | 183.2              |
| Total non-current assets           | <u>1,375.9</u>     | <u>1,134.7</u>     |
| <b>Total assets</b>                | <u>1,758.4</u>     | <u>1,515.8</u>     |
| <b>Current liabilities</b>         |                    |                    |
| Trade and other payables           | 123.8              | 87.3               |
| Borrowings                         | 0.9                | -                  |
| Current tax liabilities            | 1.3                | 17.1               |
| Provisions                         | 24.5               | 26.4               |
| Provision for carbon emissions     | 14.0               | 39.7               |
| Other liabilities                  | 4.1                | 20.4               |
| Total current liabilities          | <u>168.6</u>       | <u>190.9</u>       |
| <b>Non-current liabilities</b>     |                    |                    |
| Borrowings                         | 389.2              | 259.1              |
| Deferred tax liabilities           | 76.2               | 53.5               |
| Provisions                         | 41.1               | 28.4               |
| Retirement benefit obligations     | 2.2                | 0.5                |
| Provision for carbon emissions     | -                  | 8.2                |
| Other non-current liabilities      | 0.1                | 0.1                |
| Total non-current liabilities      | <u>508.8</u>       | <u>349.8</u>       |
| <b>Total liabilities</b>           | <u>677.4</u>       | <u>540.7</u>       |
| <b>Net assets</b>                  | <u>1,081.0</u>     | <u>975.1</u>       |
| <b>Equity</b>                      |                    |                    |
| Contributed equity                 | 727.9              | 699.1              |
| Reserves                           | 4.3                | 4.4                |
| Retained earnings                  | 348.8              | 271.6              |
| <b>Total equity</b>                | <u>1,081.0</u>     | <u>975.1</u>       |

**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
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**32 Deed of cross guarantee** (continued)

Set out below is a condensed consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 31 December 2014 of the Closed Group.

|  | 2014<br>\$ million | 2013<br>\$ million |
|--|--------------------|--------------------|
| <b>Profit before income tax</b>                              | <b>229.6</b>       | 200.4              |
| Income tax expense   | (59.8)             | (55.5)             |
| <b>Profit for the year</b>                                   | <b>169.8</b>       | 144.9              |
| <b>Retained earnings 1 January</b>                           | <b>271.6</b>       | 226.6              |
| Retained earnings on members entering / leaving Closed Group | 32.9               | -                  |
| Profit for the year  | 169.8              | 144.9              |
| Other comprehensive income                                   | (0.8)              | 5.3                |
| Dividends paid   | (124.7)            | (105.2)            |
| <b>Retained earnings 31 December</b>                         | <b>348.8</b>       | 271.6              |

**33 Reconciliation of profit after income tax to net cash inflow from operating activities**

|   | Consolidated<br>2014<br>\$ million | 2013<br>\$ million |
|---|------------------------------------|--------------------|
| Profit for the year   | 172.6                              | 151.1              |
| Doubtful debts  | 2.3                                | 0.9                |
| Depreciation, amortisation and impairment   | 75.0                               | 70.6               |
| Share based payments expense  | (5.5)                              | (0.1)              |
| Finance charges on remediation provision  | 1.2                                | 1.0                |
| (Gain) on sale of non-current assets  | (1.2)                              | (0.4)              |
| Share of undistributed profits of joint ventures  | (0.7)                              | (7.9)              |
| Non-cash retirement benefits expense  | 0.9                                | 5.3                |
| Non-cash remediation obligation   | (7.3)                              | (1.4)              |
| Fair value accounting gain on acquisition of business   | (17.8)                             | -                  |
| Capitalised interest  | (0.6)                              | (1.2)              |
| Other   | 1.0                                | 0.7                |
| Net cash provided by operating activities before changes in assets and liabilities              | 219.9                              | 218.6              |
| Changes in operating assets and liabilities, net of effects from purchase of controlled entity: |                                    |                    |
| (Increase) in inventories   | (13.9)                             | (1.5)              |
| Decrease in prepayments   | 1.4                                | -                  |
| (Increase) in receivables   | (9.5)                              | (13.1)             |
| Increase in trade creditors   | 4.7                                | 9.4                |
| Increase in provisions  | 3.6                                | 13.0               |
| (Decrease) / increase in taxes payable  | (18.6)                             | 11.3               |
| Increase / (decrease) in deferred taxes payable   | 4.0                                | (2.8)              |
| Increase/ (decrease) in other operating assets and liabilities                                  | 2.4                                | (7.6)              |
| Net cash inflow from operating activities   | 194.0                              | 227.3              |

**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
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**34 Earnings per share**

|                            | Consolidated |       |
|----------------------------|--------------|-------|
|                            | 2014         | 2013  |
|                            | Cents        | Cents |
| Basic earnings per share   | 26.9         | 23.7  |
| Diluted earnings per share | 26.8         | 23.4  |

|  | Consolidated |             |
|--|--------------|-------------|
|  | 2014         | 2013        |
|  | Number       | Number      |
| <b>Weighted average number of shares used as the denominator</b>   |              |             |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share                                 | 641,365,689  | 638,099,312 |
| Adjustment for calculation of diluted earnings per share:  |              |             |
| Awards   | 3,319,603    | 6,262,180   |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 644,685,292  | 644,361,492 |

|  | Consolidated |            |
|--|--------------|------------|
|  | 2014         | 2013       |
|  | \$ million   | \$ million |
| <b>Reconciliation of earnings used in calculating earnings per share</b>   |              |            |
| <i>Basic and diluted earnings per share</i>  |              |            |
| Profit after tax   | 172.6        | 151.1      |
| Loss/(profit) attributable to non-controlling interests  | 0.1          | -          |
| Profit attributable to ordinary equity holders of the Company used in calculating basic and diluted earnings per share | 172.7        | 151.1      |

**35 Events occurring after the balance sheet date**

As at the date of this report, no matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**36 Segment reporting**

**(a) Description of segments**

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer. These reports are evaluated regularly in deciding how to allocate resources and in assessing performance.

The two reportable segments have been identified as follows;

- Cement, Lime, Concrete and Aggregates
- Concrete Products

The operating segments Cement, Lime, Concrete and Aggregates individually meet the quantitative thresholds required by AASB 8 as well as meeting the aggregation criteria allowing them to be reported as one segment. Concrete Products meets the quantitative threshold therefore is reported as a separate segment. Joint arrangements and associates related to the reportable segments form part of the above two reportable segments.

During 2014, the Aggregates segment met the quantitative threshold for disclosure required by AASB 8 and is now incorporated into the Cement, Lime, Concrete and Aggregates segment. In accordance with the standard, comparative information has been restated to reflect this change.

The major end-use markets of Adelaide Brighton's products include residential and non-residential construction, engineering construction, alumina and steel production and mining.

**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
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**36 Segment reporting (continued)**

**(b) Segment information provided to the Chief Executive Officer**

The segment information provided to the Chief Executive Officer for the reportable segments is as follows:

| <b>31 December 2014</b>  | <b>Cement, Lime,<br/>Concrete and<br/>Aggregates<br/>\$ million</b> | <b>Concrete<br/>Products<br/>\$ million</b> | <b>Unallocated<br/>\$ million</b> | <b>Total<br/>\$ million</b> |
|--|---|---|-----------------------------------|-----------------------------|
| Total segment operating revenue  | 1,411.2   | 137.4                                       | -                                 | 1,548.6                     |
| Inter-segment revenue  | (40.8)  | -   | -                                 | (40.8)                      |
| Revenue from external customers  | 1,370.4   | 137.4                                       | -                                 | 1,507.8                     |
| Depreciation and amortisation  | (62.1)  | (7.7)                                       | (3.2)                             | (73.0)                      |
| Impairment   | (2.0)   | -   | -                                 | (2.0)                       |
| EBIT   | 271.4   | 6.1   | (30.0)                            | 247.5                       |
| Share of net profits of joint venture and<br>associate entities accounted for using the<br>equity method | 21.7  | -   | -                                 | 21.7                        |
| <b>31 December 2013</b>  |   |   |                                   |                             |
| Total segment operating revenue  | 1,290.6   | 124.4                                       | -                                 | 1,415.0                     |
| Inter-segment revenue  | (25.7)  | -   | -                                 | (25.7)                      |
| Revenue from external customers  | 1,264.9   | 124.4                                       | -                                 | 1,389.3                     |
| Depreciation and amortisation  | 60.1  | 7.4   | 3.2                               | 70.7                        |
| EBIT   | 240.8   | 2.1   | (20.2)                            | 222.7                       |
| Share of net profits of joint venture and<br>associate entities accounted for using the<br>equity method | 24.2  | -   | -                                 | 24.2                        |

Sales between segments are carried out at arms length and are eliminated on consolidation.

The operating revenue assessed by the Chief Executive Officer includes revenue from external customers and a share of revenue from the joint ventures and associates in proportion to the Group's ownership interest, excluding freight, interest and royalty revenue. A reconciliation of segment operating revenue to revenue from continuing operations is provided as follows:

|  | <b>Consolidated</b> |                   |
|--|---------------------|-------------------|
|  | <b>2014</b>         | <b>2013</b>       |
|  | <b>\$ million</b>   | <b>\$ million</b> |
| Total segment operating revenue                    | 1,548.6             | 1,415.0           |
| Inter-segment revenue elimination                  | (40.8)              | (25.7)            |
| Freight revenue                                    | 139.4               | 128.3             |
| Interest revenue                                   | 1.8                 | 1.8               |
| Royalties  | 0.4                 | 0.7               |
| Elimination of joint venture and associate revenue | (311.6)             | (292.1)           |
| Revenue from continuing operations                 | 1,337.8             | 1,228.0           |

The Chief Executive Officer assesses the performance of the operating segments based on a measure of EBIT. This measurement basis excludes the effect of net interest. A reconciliation of the EBIT to operating profit before income tax is provided as follows:

|                          |        |        |
|--------------------------|--------|--------|
| EBIT                     | 247.5  | 222.7  |
| Net interest             | (15.0) | (14.1) |
| Profit before income tax | 232.5  | 208.6  |

**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
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**36 Segment reporting** (continued)

**(c) Other segment information**

Revenues of approximately \$168.7 million (2013: \$157.2 million) are derived from a single customer. These revenues are attributable to the Cement, Lime, Concrete and Aggregates segment.

**37 Parent entity financial information**

**(a) Summary financial information**

The individual financial statements for the Company show the following aggregate amounts:

|   | <b>2014</b>       | 2013       |
|---|-------------------|------------|
|   | <b>\$ million</b> | \$ million |
| <b>Balance sheet</b>                                    |                   |            |
| Current assets  | <b>1,556.3</b>    | 1,051.3    |
| Total assets  | <b>1,920.5</b>    | 1,572.0    |
| Current liabilities                                     | <b>674.3</b>      | 475.6      |
| Total liabilities                                       | <b>1,063.9</b>    | 736.0      |
| <b>Net assets</b>                                       | <b>856.6</b>      | 836.0      |
| Shareholders' equity                                    |                   |            |
| Issued capital  | <b>720.8</b>      | 692.0      |
| Reserves  |                   |            |
| Share-based payments                                    | <b>1.8</b>        | 3.3        |
| Retained earnings                                       | <b>134.0</b>      | 140.7      |
| <b>Total shareholders' equity</b>                       | <b>856.6</b>      | 836.0      |
| <b>Profit for the year</b>                              | <b>118.1</b>      | 128.3      |
| <b>Total comprehensive income</b>                       | <b>118.1</b>      | 128.3      |
| <b>(b) Guarantees entered into by the parent entity</b> |                   |            |
| Bank guarantees   | <b>2.5</b>        | 2.5        |

**(c) Contingent liabilities of the parent entity**

The parent entity did not have any contingent liabilities as at 31 December 2014 or 31 December 2013 other than the bank guarantees detailed above.

**38 Business combinations**

During 2014, the company acquired the following businesses:

- Direct Mix / Southern Quarries, an integrated aggregate and premixed concrete business to the South Australian building and construction materials market. The Company acquired the business from October 2014 through the acquisition of a 100% interest in the entities associated with the construction materials business.
- BM Webb construction materials is an integrated concrete, quarry, sand, transport and cement import business located in and around Townsville. The acquisition was completed in May 2014, with the Group acquiring 100% of the operating assets of the business.
- Penrice Minerals & Quarry, a quarry business located in the Barossa Valley of South Australia. The acquisition was completed in July 2014, with the Group acquiring 100% of the owned operating assets of the business.

The acquisitions are in line with Adelaide Brighton Ltd's business strategy of vertical integration.



**Adelaide Brighton Ltd and its controlled entities**  
**Notes to the consolidated financial statements**  
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**38 Business combinations** (continued)

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

|                              | <b>Fair value<br/>\$million</b> |
|------------------------------|---------------------------------|
| Purchase consideration       |                                 |
| Cash paid                    | 157.4                           |
| Contingent consideration     | -                               |
| Total purchase consideration | <u>157.4</u>                    |

The initial accounting for the acquisitions is not complete at the end of the year. Due to the timing of the acquisitions and the processes required to complete the fair value exercise, the initial accounting has not been completed for property, plant and equipment, intangible assets, inventory, restoration liabilities and deferred tax. Provisional information on the assets and liabilities recognised as a result of the acquisitions is set out below.

|  |              |
|--|--------------|
| Cash and cash equivalents                                | 1.8          |
| Trade and other receivables                              | 11.0         |
| Inventories  | 4.5          |
| Joint arrangements                                       | 0.3          |
| Freehold land  | 13.4         |
| Buildings  | 2.8          |
| Property, plant and equipment                            | 46.7         |
| Mineral reserves   | 45.1         |
| Asset retirement cost                                    | 4.7          |
| Intangibles  | 3.9          |
| Deferred tax asset                                       | 4.8          |
| Trade and other payables                                 | (9.0)        |
| Employment benefit liabilities, including superannuation | (2.2)        |
| Provision – restoration liability                        | (4.7)        |
| Current tax liability                                    | (0.9)        |
| Borrowings   | (9.3)        |
| Deferred tax liability                                   | (13.3)       |
| Net identifiable asset acquired                          | <u>99.6</u>  |
| Add: goodwill  | 75.6         |
| Less: gain on bargain purchase                           | (17.8)       |
| Net assets acquired                                      | <u>157.4</u> |

The goodwill is attributable to two acquisitions and relates to the expected synergies expected to arise from the Company's vertical integration strategy and the workforce. None of the goodwill is expected to be deductible for tax purposes.

A gain relating to a bargain purchase of \$17.8m was recognised within other income in the Income Statement. The gain on acquisition reflects the Group's overall strategy of completing on acquisitions, where negotiating conditions allow, at values approximating the fair value of the tangible assets. Transaction costs associated with the acquisitions of \$6.2 million are included in administration costs in the Income Statement.

The acquired businesses contributed revenues of \$35.4 million and net profit before tax, excluding the gain on acquisitions and acquisition related expenses, of \$0.3 million.

If the acquisitions had occurred on 1 January 2014, the annualised consolidated revenue and net profit before tax for the year ended 31 December 2014 would have been \$1,424.4 million and \$239.7 million respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the businesses to reflect additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment had applied from 1 January 2014, together with the consequential tax effects.

**Adelaide Brighton Ltd and its controlled entities**

**31 December 2014**

**Directors' declaration**

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 48 to 96 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 32.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



**LV Hosking**  
**Chairman**

Dated 12 March 2015



## Auditor's Independence Declaration

As lead auditor for the audit of Adelaide Brighton Limited for the year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Adelaide Brighton Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'K R Reid', is written over the text 'This declaration is in respect of Adelaide Brighton Limited and the entities it controlled during the period.'

K R Reid  
Partner  
PricewaterhouseCoopers

Adelaide  
12 March 2015



## **Independent auditor's report to the members of Adelaide Brighton Limited**

### ***Report on the financial report***

We have audited the accompanying financial report of Adelaide Brighton Limited (the company), which comprises the balance sheet as at 31 December 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Adelaide Brighton Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Independence***

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.



**Auditor's opinion**

In our opinion:

- (a) the financial report of Adelaide Brighton Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the remuneration report included in pages 14 to 33 of the directors' report for the year ended 31 December 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion**

In our opinion, the remuneration report of Adelaide Brighton Limited for the year ended 31 December 2014 complies with section 300A of the *Corporations Act 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

K R Reid  
Partner

Adelaide  
12 March 2015