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## 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 2011.

### 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:

C L Harris  
R D Barro  
L V Hosking  
G F Pettigrew  
K B Scott-Mackenzie  
A M Tansey (appointed 5 April 2011)  
M P Chellew

### 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 2011 is set out below:

<i>(A\$ million)</i>	<i>2011</i>	<i>2010</i>
<b>Revenue</b>	<b>1,100.4</b>	1,072.9
Depreciation and Amortisation	<b>(57.8)</b>	(52.8)
<b>Earnings before interest and tax ("EBIT")</b>	<b>223.4</b>	216.2
Net interest	<b>(17.0)</b>	(14.0)
<b>Profit before tax</b>	<b>206.4</b>	202.2
Income tax expense	<b>(58.0)</b>	(50.8)
<b>Net profit after tax</b>	<b>148.4</b>	151.4
Attributable to:		
Members of Adelaide Brighton Ltd	<b>148.4</b>	151.5
Non-controlling interests	<b>-</b>	(0.1)
Basic earnings per share (cents)	<b>23.3</b>	23.9
Ordinary dividend per share (cents)	<b>16.5</b>	16.5
Special dividend per share (cents)	<b>-</b>	5.0
Franking (%) – all dividends	<b>100%</b>	100%
Net debt	<b>248.4</b>	148.4
Net debt/equity (%)	<b>26.0%</b>	15.9%

2011 net profit after tax attributable to members of the Company declined marginally below the prior year to \$148.4 million as an increase in tax expense for the year offset the higher pre-tax profits. Revenue of \$1,100.4 million increased by 2.6% primarily due to stronger demand for cement from projects in South Australia and Western Australia, offsetting a reduction in residential activity.

Earnings before interest and tax (EBIT) increased by 3.3% to \$223.4 million. Margins improved due to increased selling prices, effective management of costs despite increased energy prices and improved import margins as a result of the strong Australian dollar. Cost management programs delivered benefits of \$23 million, which helped to offset rising energy prices.

Profit before tax increased 2.1% to \$206.4 million. Net interest increased by 21.4% to \$17.0 million on higher levels of debt and borrowing costs.

#### *Cement*

Increased demand from mining, resources and projects in South Australia and Western Australia helped to offset weakness in the residential sector and the loss of approximately fifty percent of the cement supplied to a major customer in Western Australia. The Victorian market experienced a strong year with sales increasing in line with market.

Despite input cost pressures, particularly labour and energy, cement margins improved as price increases and the benefits from cost management helped offset cost pressures.

Adelaide Brighton's successful import strategy saw sales volumes in excess of domestic production being met through imports of clinker and cement, addressing increased market demand and achieving optimal asset utilisation. The Australian dollar was stronger against the US dollar and Japanese yen throughout 2011 compared with the previous year and as a result import margins improved.

Clinker production capacity was fully utilised, with the Birkenhead kiln operating at near record production levels while using record quantities of alternate fuels.

#### *Lime*

Demand was generally in line with the prior year, although the temporary suspension of operations by a customer in the Northern Territory impacted volumes. Price increases and efficiency gains that more than covered cost increases lead to an improvement in margins.

The Munster (Western Australia), Angaston (South Australia) and Mataranka (Northern Territory) lime kilns continued to operate at full capacity, while the Dongara (Western Australia) plant operated efficiently supplying peak market demand when required.

### *Concrete and Aggregates*

Premixed concrete and aggregate volumes increased largely as a result of four acquisitions completed through the year. Aggregate sales were positively impacted by the supply of materials to the Pacific Highway upgrade.

Progress was made in relation to concrete production costs, use of alternate materials, management of mix designs and truck utilisation. Concrete and aggregate selling prices increased in line with expectations.

### *Concrete Products*

Soft housing and commercial activity resulted in difficult trading conditions across all masonry markets. Revenue for the year was 9% down on the prior year. The record levels of wet weather across the eastern states of Australia have exacerbated the softness in demand.

Overhead and production cost savings, combined with adjustment to manufacturing output levels have helped to offset the decline in sales volumes.

### *Joint Ventures*

Independent Cement and Lime reported improved earnings as a result of the continued strength in the Victorian construction industry driven by major projects. Margins improved as a result of higher selling prices and cost control.

Sunstate Cement reported decreased earnings due to weak construction activity in the south east Queensland market. Underlying market weakness, unfavourable weather at the start of the year and continued pricing pressure due to the impact of an entrant to the market in 2010 led to a decline in revenue and earnings for the year.

The Mawsons concrete and aggregates joint venture increased earnings despite the adverse impact of flooding in Victoria in the early period of the year. Reconstruction work and the continuation of project work resulted in strong demand following resumption of normal operations.

### *Operational results*

Despite the marginally higher trading results, cash flow from operations declined by \$33.5 million to \$155.0 million. The decline was largely the result of an increase of \$18.1 million in tax payments resulting from higher tax instalments and the payment of prior year assessment.

Overall working capital increased, with trade and other receivables increasing by \$15.6 million due to higher revenue in the last few months of the year, and an increase in inventory of \$10.1 million. Capital expenditure of \$138.9 million increased versus the prior year as development project spending was higher in the year. Four acquisitions were completed during the year for a consideration of \$48 million, land acquisitions totalled \$16 million and major projects spending totalled \$22 million.

Net debt increased \$100.0 million to \$248.4 million, increasing the level of gearing to 26.0% which is at the lower end of the Board's target range of 25% to 45%.

### **Dividends paid or declared by the Company**

During the 2011 financial year, the following dividends were paid:

- A final dividend in respect of the year ended 31 December 2010 of 9.0 cents per share (fully franked) was paid on 11 April 2011. This dividend totalled \$57,161,953.
- A final special dividend in respect of the year ended 31 December 2010 of 2.5 cents per share (fully franked) was paid on 11 April 2011. This dividend totalled \$15,878,320.
- An interim dividend in respect of the year ended 31 December 2011 of 7.5 cents per share (fully franked) was paid on 10 October 2011. This dividend totalled \$47,720,836.

Since the end of the financial year the Directors have approved the payment of a final dividend of 9.0 cents per share (fully franked) to be paid on 10 April 2012.

### **State of affairs**

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 other matter or circumstance has arisen since 31 December 2011 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.

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

Likely developments in the operations of the Group, known at the date of this report, and the expected results of those operations, have been covered generally within the financial report.

Further information on likely developments in the operations of the Group and the expected results of operations in the future financial years have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

### **Environmental performance**

The Group is subject to various Commonwealth, State and Territory laws concerning the environmental performance of Adelaide Brighton's operations. Management ensures that any regulations, licences or permits required for the Group's operations are obtained and observed. All operations have access to safety and environmental legislation summaries specific to their activities and a Group Safety, Health and Environmental management system is in place for monitoring, reporting and addressing matters raised. Two sites, Birkenhead and Angaston, are certified to the environmental management system standard ISO 14001.

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

A review was conducted during the year which verified the quality of mandatory government reporting for National Pollutant Inventory (NPI) at Munster plant, Western Australia, with no significant adverse findings.

The required data was collected for mandatory National Greenhouse Energy Reporting (NGER), to meet the requirements expected for 2012 when information provided in that report will be used for the Clean Energy Future Scheme and Renewable Energy Target assistance.

Hy-Tec Industries Pty Ltd received a penalty notice under The Protection of the Environment Operations Act 1997 on 8 December 2011, for \$1,500. The City of Botany Bay alleged a discharge of water containing aggregate sediment at Hy-Tec's Mascot, New South Wales plant and alleged this was a breach of section 120 of The Protection of the Environment Operations Act 1997.

Hy-Tec Industries (Queensland) Pty Ltd received notice on 2 December 2011 from the Queensland Government Department of Environment and Resource Management that its plant at Mundubbera, Queensland had not developed a Site Based Management Plan, which was a Condition General of the plant's licence. Hy-Tec had recently acquired this plant and worked with specialist external consultants to develop the plan, which was acknowledged by the Queensland Government.

Cockburn Cement Ltd was served on 30 September 2011 with a prosecution notice issued by the Magistrates Court of Western Australia. The Department of Environment and Conservation, as prosecutor, alleged a contravention of a licence and alleged breaches of the Environment Protection Act 1986 alleged to arise from a contractor's conduct in April 2010 involving the disposal of lime kiln dust at Munster. The prosecution is the subject of ongoing legal proceedings.

An environmental regulator has conducted investigations concerning regulated emissions at the Munster operations, which it considered may have breached environmental regulations. Cockburn Cement Ltd reported to the regulator with further information and no further action has been taken by regulators.

In relation to the Munster operations, Cockburn Cement Ltd:

- operates complex and unique equipment in accordance with a detailed environmental licence;
- has constantly been improving its environmental performance, including in relation to monitoring and reporting;
- reports environmental information to regulators on an ongoing basis;
- has had its premises inspected regularly by relevant authorities;

- has responded to a number of formal information requests from regulators regarding potential breaches of environmental regulations; and
- other than the prosecution and information requests referred to above, the Directors are not aware of any further action by regulators.

### Director profiles

Information relating to Directors' qualifications, experience and special responsibilities are set out on page 30 and 31 of the Annual Report.

### 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 and Remuneration Committee		Corporate Governance Committee		Independent Directors' Committee		SH&E Committee	
	A	H	A	H	A	H	A	H	A	H	A	H
C L Harris	8	8	4	4	4	4	3	3	0	0		
R D Barro	8	8									2	2
L V Hosking	8	8	4	4	4	4	3	3	0	0		
G F Pettigrew	8	8	4	4	4	4			0	0	2	2
M P Chellew	8	8							0	0	2	2
K B Scott-Mackenzie	7	8							0	0		
A M Tansey <sup>1</sup>	7	7										

A Number of meetings attended

H Number of meetings held during period of office

1 A M Tansey appointed on 5 April 2011

Throughout 2011, the general business of the Corporate Governance Committee was dealt with at the Company's Board Meetings and no separate committee meetings were held.

Particulars of the Company's corporate governance practices, including the roles of each Board Committee, are set out on pages 23 to 29 of this report.

### Directors' interests

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

	Ordinary shares
C L Harris	100,479
L V Hosking	4,739
G F Pettigrew	7,739
M P Chellew	448,366
R D Barro	174,187,036
K B Scott-Mackenzie	5,000
A M Tansey	5,000

Full details of the interests in share capital of Directors of the Company are disclosed in Note 30 to the Financial Statements on page 86 of this report. Full details of the interests in Awards of Directors of the Company are set out in the Remuneration Report on pages 38 to 48 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 38 to 48 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 25 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, its wholly owned subsidiaries, and nominee Directors on the Board of Independent Cement & Lime Pty Ltd. 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 2011 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 and whatever their outcome.

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 2011 to 30 April 2012. 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.

## 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 31 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 out below, 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 Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 97.

## Rounding off

The Company is of a kind referred to in ASIC Class Order 98/0100 dated 10 July 1998 and, 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

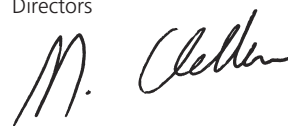
The details of shares under option at the date of this report are set out in notes 29 and 30.

## Registered Office

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

Dated 27 February 2012

Signed in accordance with a resolution of the Directors



Mark Chellew  
Managing Director

# Remuneration report

## Overview of 2011

The Directors of Adelaide Brighton Limited present the Remuneration Report for the Company and the Group for the year ended 31 December 2011 in accordance with section 300A of the *Corporations Act*. This Remuneration Report, which forms part of the Directors' Report, has been audited by PricewaterhouseCoopers.

This report sets out remuneration information for non-executive Directors, the Managing Director (and CEO) and members of the executive team (the "key management personnel" or "KMP"), and explains how the Group's performance for the 2011 financial year has driven remuneration outcomes for executives.

## Summary of remuneration matters for 2011

A summary of the key remuneration related matters approved for the 2011 financial year is set out below. There was no significant change to the Company's remuneration framework for 2011.

## Managing Director

The Managing Director's fixed remuneration for 2011 remained at \$1.5 million, as determined in 2009.

## Senior executives

Following a review by the Nomination and Remuneration Committee, and input from independent external consultants, senior executive fixed remuneration increased from 1 January 2011, based on long term performance, the individual role and responsibility of an individual executive and their future potential (which, based on this assessment, is generally set at or above market median for comparable roles in comparable companies).

## Performance-based remuneration (for the Managing Director and senior executives)

No changes were made to the Company's short term incentive (STI) arrangements for 2011. No additional Awards were granted under the Company's Executive Performance Share Plan (LTI) during 2011 (the previous grant being made in 2010 to ongoing senior executives). G Agriogiannis replaced M Finney as Executive General Manager, Concrete and Aggregates during 2011. M Finney's 2010 Awards lapsed when he ceased employment and a pro-rata grant of 2010 Awards was made to G Agriogiannis.

STI: A strong performance in a challenging economic environment saw 2011 Profit Before Tax (PBT) increase to a record \$206.4 million, which was 109% of budgeted net profit before tax.

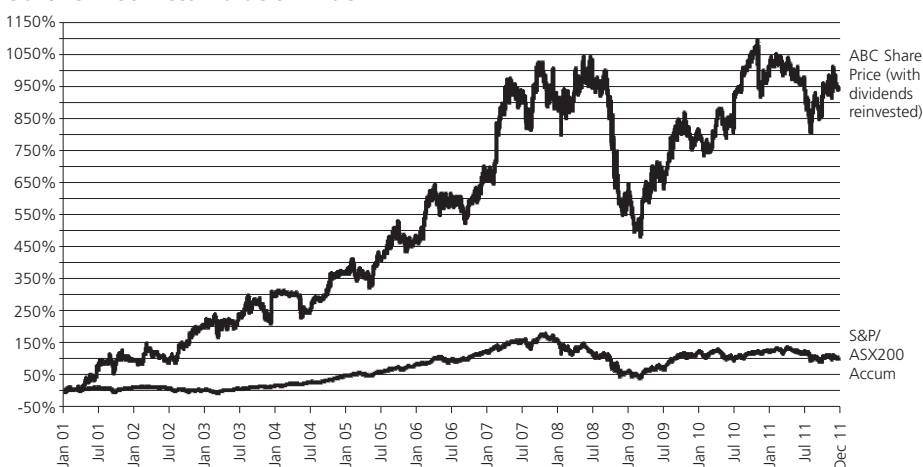
LTI: Tranche 3 of the 2007 Awards granted to senior executives vested at 100% in 2011 based on performance against the applicable TSR and EPS performance conditions measured over the four financial years commencing on 1 January 2007 and ending

on 31 December 2010. The Company's total shareholder return (TSR) growth over the period significantly exceeded the required premium over the three benchmark indices, while earnings per share (EPS) growth over the period of the EPS exercise condition exceeded the stretch hurdle.

The Board wishes to highlight the strong link between executive rewards, corporate performance and growth in shareholder value. The Board believes that the level of executive remuneration and rewards outlined in this report should be considered in light of the sustained out performance against the market enjoyed by long term shareholders in Adelaide Brighton Limited.

The graph below depicts the performance of Adelaide Brighton's share price with dividends reinvested versus the S&P/ASX 200 Accumulation Index from 1 January 2001 to 31 December 2011. The Adelaide Brighton share price has outperformed S&P/ASX200 Accumulation Index, reflecting the strength of its core markets in the resources and construction materials sectors and the success of the Group's strategy.

## Comparison of growth ABC share price (dividends reinvested) to the S&P/ASX200 Accumulation Index

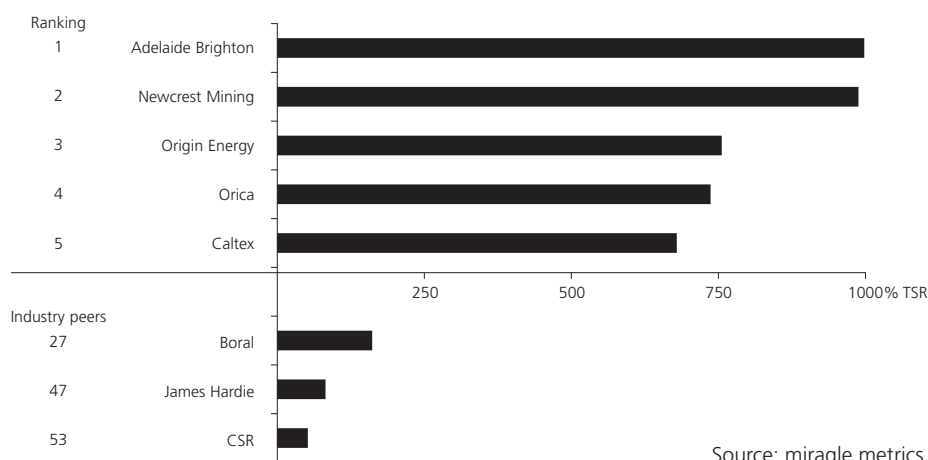


Source: ASX/First Advisers Pty Ltd

The graph below shows the growth in shareholder value, with the Company's TSR performance the highest rated of all companies in the S&P/ASX200 over the period 1 January 2001 to 31 December 2011 (independent report prepared by miraql metrics).

### TSR ranking:

#### Adelaide Brighton vs S&P/ASX200 1 January 2001 to 31 December 2011



### Non-executive Directors

Total fees paid to non-executive Directors in the year was \$890,719, being \$209,281 below the maximum aggregate for non-executive Directors' remuneration agreed by shareholders at the 2010 Annual General Meeting.

**Table 1 - Overview of remuneration components**

An overview of the components of remuneration for Directors and senior executives is set out below:

	Remuneration component	Directors			Senior Executives	Discussion in Remuneration Report
		Non-Executive	Executive			
Fixed remuneration	Fees	✓	✗	✗	page 48	
	Salary	✗	✓	✓	pages 42, 47	
At-risk remuneration	Short term incentive	✗	✓	✓	pages 42-44	
	Long term incentive	✗	✓	✓	pages 44-46	
Post-employment	Superannuation	✓	✓	✓	pages 47, 48	
	Notice periods & termination payments	✗	✓	✓	pages 46, 47	

### Key activities during 2011 and outcomes for 2012

- During the latter part of 2011, the Nomination and Remuneration Committee and the Board reviewed the Managing Director's total remuneration. The Managing Director's fixed remuneration was last reviewed in 2009 and, at that time, was fixed at \$1.5 million per annum for 2010 and 2011. It was agreed that his fixed remuneration would not be reviewed again until November 2011, for the 2012 year. Following the review, the Board has determined that the Managing Director's fixed remuneration be increased by 12% (to \$1.68 million per annum) effective from 1 January 2012, reflecting his and the Group's outstanding performance in challenging market conditions over the past two years. In addition, shareholder approval will be sought at the 2012 Annual General Meeting for LTI Awards proposed to be granted to the Managing Director in May 2012.
- The Nomination and Remuneration Committee also undertook a review of senior executive remuneration and has approved fixed remuneration increases for senior executives (effective from 1 January 2012), to reward long term individual performance and the responsibilities discharged by individual executives.
- A comprehensive review of the structure of the LTI Plan was undertaken during 2011, and the Board has decided to move towards annual grants over a performance period of 4 years, from 2013. As a transitional step towards annual grants from 2013, a grant will be made in 2012 comprising Tranche 1 (3 year performance period - Awards being tested and vesting in May 2015) and Tranche 2 (4 year performance period - Awards being tested and vesting in May 2016).
- Awards have previously been granted in batches comprising three tranches. A transitional period is necessary to achieve continuity in the Company's LTI scheme following expiry of the last tranche of the current 2010 Award in 2014, while moving to a schedule under which new Awards are granted annually four years before they are tested.

- The Nomination and Remuneration Committee reviewed the level of fees for membership of the Board and of the Board's committees during 2011. The Board has approved increases to the level of these fees effective from 1 January 2012 to be in line with market median rates.

As the above outcomes do not form part of the remuneration of executives in 2011, further details will be reported in next year's Remuneration Report for the 2012 financial year.

The Remuneration Report is set out under the following main headings:

Section 1 - Policy and structure of executive remuneration

Section 2 - Group performance 2011

Section 3 - Managing Director and senior executive remuneration

Section 4 - Non-executive Directors' fees

## Section 1 – Policy and structure of executive remuneration

### 1.1 Executive remuneration policy and objectives

The Company's remuneration strategy and policy are set by the Board and overseen by the Nomination and Remuneration Committee.

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

- Be competitive in the markets in which the Group operates in order to attract, motivate and retain a highly capable executive team, although individual executive remuneration is set with direct reference to the executive's long term performance, role and responsibility within the Group and his or her future potential;
- Drive leadership performance and behaviours that reinforce the Group's short and long term strategic objectives;

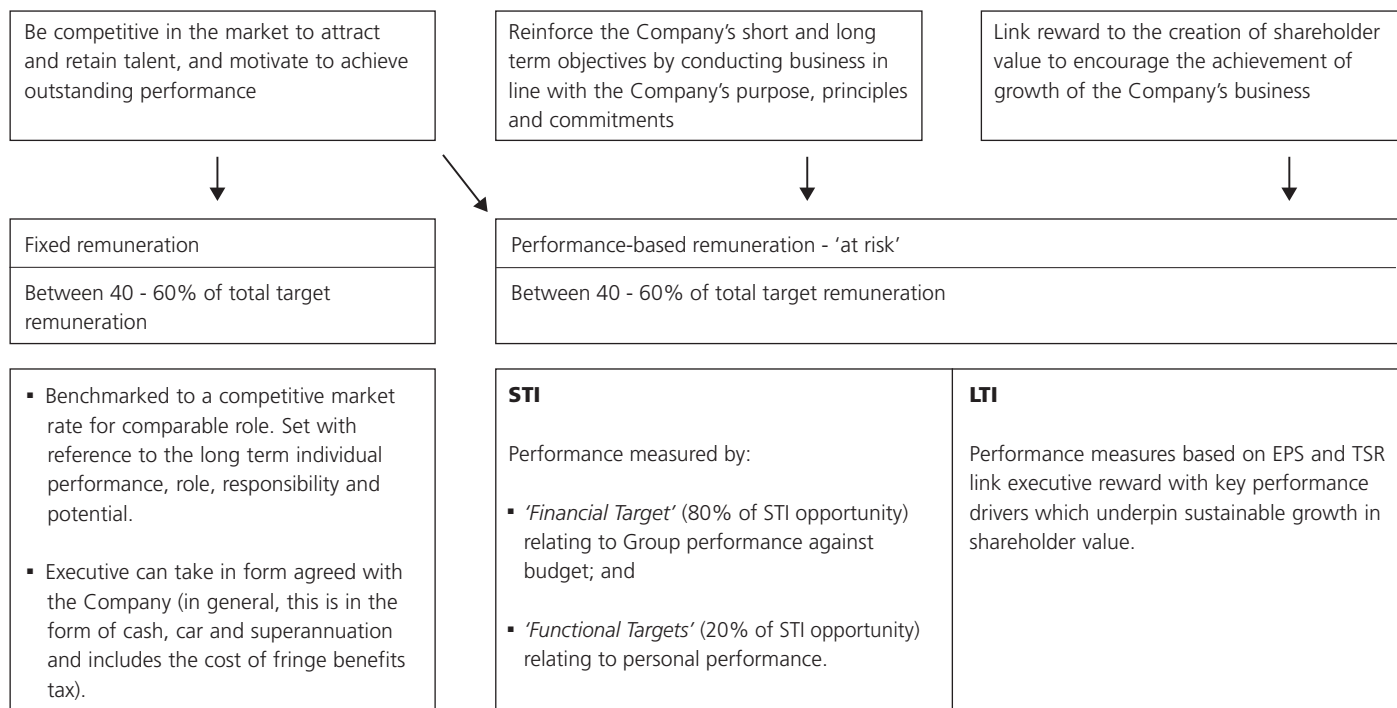
- Provide a common interest between executives and shareholders by linking the rewards that accrue to executives to the creation of value for shareholders, and ensuring that remuneration policy has regard to market practice and conditions; and

- Provide transparency and clarity on what is paid, to whom and on what basis remuneration has been paid.

The policy seeks to support the Group's objective to be perceived as "an employer of choice" by:

- Offering remuneration levels which are competitive relative to those offered by comparable employers; and
- Providing strong, transparent linkages between individual and Group performance and rewards.

The Board aims to achieve a balance between fixed and performance related (or 'at-risk') components of remuneration for each role and seniority level. The diagram below shows the policy implementation and remuneration arrangements as they apply to executives:





## 1.2 Role of Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for reviewing and making recommendations to the Board on Director and executive remuneration policy and structure.

The Board, based on the recommendations of the Nomination and Remuneration Committee, establishes the remuneration of the Managing Director, including his participation in the short term and long term incentive schemes.

The Nomination and Remuneration Committee, based on the recommendations of the Managing Director, approves the remuneration of senior executives reporting to the Managing Director, including their participation in both short term and long term incentive schemes.

Further details of the role and function of the Nomination and Remuneration Committee are set out in Corporate Governance Statement on pages 23 to 29. The Charter for the Nomination and Remuneration Committee is available on the Corporate Governance section of the Company's website at [www.adbri.com.au](http://www.adbri.com.au).

The Nomination and Remuneration Committee follows protocols around the engagement and use of external remuneration consultants to ensure ongoing compliance with the recently implemented executive remuneration legislation. This is to ensure that any remuneration recommendation from an external consultant is free from the undue influence by any member of the Company's key management personnel to whom it relates. In 2011, the Committee sought both market data in relation to senior executives and non-executive Director remuneration and independent advice from jws consulting in respect of senior executive remuneration related matters. Appropriate certification was provided to the Committee confirming that the recommendations provided were free from undue influence from any member of the Company's key management personnel to whom the recommendations related.

## Section 2 - Group performance 2011

### 2.1 Shareholders' wealth

The Company's long term incentive arrangements for the Managing Director and senior executives (described in section 3.4 below) are judged against two performance measures - total shareholder return (TSR) and earnings per shares (EPS), which the Board believes are indicators of the long term creation of shareholder wealth.

As set out in section 3.4 below, the long term incentive Awards granted in 2007 and 2010 reward sustained performance in relation to growth in these measures (TSR when compared to performance against the chosen indices and EPS based on percentage growth) over two, three and four year periods. In this

**Table 2 - Shareholders' wealth improvement from 2007 to 2011**

	<i>Year ended 31 Dec 07</i>	<i>Year ended 31 Dec 08</i>	<i>Year ended 31 Dec 09</i>	<i>Year ended 31 Dec 10</i>	<i>Year ended 31 Dec 11</i>
Share price (A\$) <sup>1</sup>	3.48	2.10	2.75	3.30	2.89
Total dividends (cents)	18.5	15.0	13.5	21.5	16.5
Franked dividends	100%	100%	100%	100%	100%
Operating cash flow	\$140.4m	\$150.1m	\$188.1m	\$188.5m	\$155.0m
EPS (cents per share)	21.0	22.2	20.4	23.9	23.3
TSR (%)	30.4%	(35.3%)	37.4%	27.8%	(7.47%)
TSR compound annual growth rate since 2001	32.9%	21.4%	22.0%	21.9%	18.8%

<sup>1</sup> The amount disclosed is the closing price of the Company's shares on the Australian Securities Exchange on the last trading day in December of the relevant year.

As can be seen from the table above, the TSR compound annual growth rate since 2001 is 18.8%, which has resulted in the Company:

- Delivering top ranking TSR performance (as measured against the companies comprising the ASX200) over the past 10 years, rewarding long term shareholders in Adelaide Brighton Limited;
- Maintaining a strong dividend payout ratio to profit earned; and
- Generating an average annual increase in EPS of 13.6% since 2001.

Tranche 3 of the 2007 Awards granted to senior executives vested at 100% based on performance against the applicable TSR and EPS performance conditions measured over the four financial years commencing on 1 January 2007 and ending on 31 December 2010.

way, the Board has striven to link executive rewards to shareholder value creation over the longer term, through which executives focus on medium to longer term strategic decision making as opposed to taking decisions which result in short term gains alone.

TSR measures the change in shareholder wealth over time - being the dividends paid by the Company, changes in share price and any return of capital over the relevant period. EPS divides earnings by the number of shares on issue (which includes the effect of capital raisings).

The table below shows details of dividends paid, the closing price of Adelaide Brighton shares on 31 December in each of the past five years and details of operating cash flow.

### 2.2 Earnings

In 2011, Adelaide Brighton reported record sales revenue and earnings before interest and tax (EBIT) as demand from projects offset weakness in the residential sector. EBIT margin further improved due to improvements in selling prices and effective cost management. NPAT declined marginally due to an increase in tax expense.

The table below sets out the Group's performance over a number of key performance indicators - sales revenue, earnings before interest and tax (EBIT), EBIT margin, profit before tax (PBT) and net profit after tax (NPAT) - over the past five financial years.

**Table 3 - Earnings improvement from 2007 to 2011**

(\$ Million)	Year ending 31 Dec 07	Year ending 31 Dec 08	Year ending 31 Dec 09	Year ending 31 Dec 10	Year ending 31 Dec 11
Sales revenue	888.4	1,022.4	987.2	1,072.9	1,100.4
Earnings before interest and tax (EBIT)	171.3	189.1	185.3	216.2	223.4
EBIT margin %	19.3%	18.5%	18.8%	20.2%	20.3%
Profit before tax (PBT)	149.6	155.3	168.6	202.2	206.4
Net profit after tax (NPAT)	113.9	120.8	123.1	151.5	148.4

The Group's committed executive team, who have overseen a consistent strategy over the five year period shown in the table above, have delivered:

- An improvement in EBIT from \$171.3 million in 2007 to \$223.4 million in 2011, a 30.4% increase;
- PBT increase from \$149.6 million in 2007 to \$206.4 million in 2011, a 38.0% increase; and
- An increase in NPAT from \$113.9 million in 2007 to \$148.4 million, a 30.3% increase.

PBT is the key component of the Group's short term incentive arrangements for executives (set out in section 3.3 below). PBT for the 2011 year increased to \$206.4 million, representing 109% of budget.

*Executives*                      *Position*

#### **Managing Director**

M P Chellew                      Managing Director and CEO

#### **Senior executives**

G Agriogiannis                      Executive General Manager, Concrete and Aggregates (current - commenced 27 June 2011)

M Brydon                              Executive General Manager, Cement and Lime

M R D Clayton                      General Counsel and Company Secretary

M A Finney                              Executive General Manager, Concrete and Aggregates (former - ceased 9 May 2011)

M Kelly                                      Chief Financial Officer

S B Rogers                              Executive General Manager, Concrete Products

S J Toppenberg                      Executive General Manager, Human Resources and Safety, Health and Environment

### **Section 3 - Managing Director and senior executive remuneration**

The following disclosures in relation to the remuneration of the Managing Director, Mr Mark Chellew, and members of the executive team, are provided on the basis that these executives ("senior executives") had the authority and responsibility for planning, directing and controlling the activities of the Company and the Group during the 2011 financial year. This includes the Managing Director and the five most highly remunerated senior executives within the Company and the Group during the financial year.

### **3.1 Components of executive remuneration**

The executive remuneration framework for the Managing Director and all senior executives consists of the following components:

- Fixed remuneration - guaranteed base salary (inclusive of superannuation) expressed as a dollar amount that the executive may take in a form agreed with the Company.
- Performance based remuneration - incentive or 'at-risk' components which comprise of an annual short term incentive and long term incentives, awarded at set levels for target or stretch (outstanding) performance.

### **3.2 Fixed remuneration**

This amount of fixed remuneration for an individual executive is set with regard to the size and nature of an executive role, the long term performance of an individual and his or her future potential within the Group. Executives may elect to have a combination of benefits provided out of their fixed remuneration, including cash, additional superannuation and the provision of a motor vehicle. The fixed remuneration of the Managing Director and senior executives for 2011 is outlined in section 3.6.

Fixed remuneration is reviewed annually under normal circumstances, as provided under the Service Agreements for executives. Fixed remuneration is benchmarked against comparable roles within comparable companies.

### **3.3 At-risk remuneration - Short Term Incentive (STI)**

#### **3.3.1 Summary of STI program**

*What is the STI and who participates?*

The STI program involves linking specific annual performance targets (predominantly financial) with the opportunity to earn cash incentives based on a percentage of fixed remuneration.

Participation in the STI is generally offered to the Managing Director and senior executives who are able to have a direct impact on the Group's performance against the relevant performance hurdles.

What is the maximum amount that executives can earn?

If the relevant performance measures are met:

**Table 4 - Maximum STI opportunity**

2011 Group performance against budget	% of fixed remuneration	
	Managing Director	Senior executives
Initial Target (Tier 1)	90% - 99%	12%
Target (Tier 2)	100%	60%
Partial Stretch (Tier 3)	101% - 109%	64% - 96%
Stretch (Tier 4)	110% or greater	100%

*How are performance criteria set?*

The performance criteria are set by the Board and agreed with the executive, in general, by the end of February in each year.

*What were the performance conditions applicable under the 2011 STI program?*

The cash bonus is dependent on both the Group's performance and the individual's performance.

For the 2011 financial year, the amount payable to the Managing Director and eligible senior executives is based on two separate performance measures:

- 1 80% is tested on the Group's performance against budget (Financial Target); and
- 2 20% is tested on both the Group's performance against its budget and the senior executive/Managing Director meeting personal targets agreed with the Managing Director/ Board (Functional Targets).

*Why were these performance conditions chosen?*

The key financial measure used is Profit Before Tax, which the Board believes is an appropriate annual performance target, aligned to Group budget.

Profit Before Tax (PBT) is defined for STI purposes as net profit after interest but before income tax expense, exceptional, abnormal, extraordinary items and the effect of any acquisitions made during the financial period. A percentage of the executive's 2011 STI is also subject to additional personal (functional) performance hurdles appropriate to each executive's role.

*What are personal or functional performance hurdles?*

Personal or functional performance targets for each financial year are agreed with the Managing Director and the Senior Executives. These include the development and execution of strategic plans, investigations and implementation of value adding growth options (including acquisitions and organic growth initiatives), safety, succession planning, individual business unit profit targets, negotiation of certain significant long term and short term customer and supply contracts, compliance with regulatory authorities' requirements and other specific personal or functional performance objectives which align the interests of Company executives and shareholders.

*How is performance against the performance conditions assessed?*

In assessing the extent to which these performance conditions were satisfied, the Board reviews the budgeted targets for the year, focusing on the PBT financial measure, and assesses the degree to which the Group met these targets. Where applicable, abnormal, extraordinary or unanticipated factors, which may have affected the Group's performance during the year, are considered and where necessary, the Group's performance is adjusted for the purposes of assessing performance against the target.

The Board also considers the Nomination and Remuneration Committee's assessment of the Managing Director's performance against the agreed functional targets, and that of the senior executives (based on the recommendation of the Managing Director).

*When is performance against criteria determined and the cash award paid?*

Assessment of performance against the performance hurdles for the relevant year is determined at the first meeting of the Nomination and Remuneration Committee and the Board subsequent to the balance date, in conjunction with finalisation of the Group's full year results (generally in February), and is normally paid to the executive by March.

*What happens to the STI award on cessation of employment?*

In general, where an executive's employment is terminated by the Company (other than for cause) during the course of a performance year, the executive is entitled to a pro-rata STI for that proportion of the current financial year elapsed on the termination date. In general, where an executive's employment ceases by reason of resignation, any STI opportunity lapses.

### 3.3.2 2011 actual performance

For 2011, the Group's actual PBT, as defined in section 3.3.1 above, was \$206.4 million. The Managing Director and senior executives satisfied the Financial Component of the performance conditions applicable to the 2011 STI as the Group achieved 109% of budgeted PBT after exceptional, abnormal and extraordinary items. Tier 3 (partial stretch) of the STI was reached, resulting in an STI opportunity equal to 77% of fixed remuneration for senior executives and 96% of fixed remuneration for the Managing Director.

In accordance with the 2011 STI scheme detailed below, 80% of the maximum STI opportunities were payable based on a Financial Target in relation to the Group's performance against budget in the 2011 financial year. The payable proportion of the remaining 20% Functional Targets were determined on each individual's success in achieving personal targets. The achievement of these personal targets by the individuals varied between 61% and 94% of the Functional Targets.

Specific information relating to the percentage of the 2011 and 2010 STI which was paid and the percentage that was forfeited for the Managing Director and senior executives of the Company and Group is set out in the table below.

**Table 5 - STI for the 2011 and 2010 financial years**

Managing Director & senior executives	Year	STI opportunity	Actual STI	% of STI	Actual STI payment <sup>3</sup>
		as % of fixed remuneration <sup>1</sup>	as a % of STI opportunity <sup>1</sup>	opportunity <sup>1</sup> payment not achieved <sup>2</sup>	
		%	%	%	\$
M P Chellew	<b>2011</b>	<b>96.0</b>	<b>98.6</b>	<b>1.4</b>	<b>1,419,840</b>
	2010	100.0	98.8	1.2	1,482,000
G Agriogiannis <sup>5</sup>	<b>2011</b>	<b>77.0</b>	<b>96.4</b>	<b>3.6</b>	<b>163,302</b>
	2010	-	-	-	-
M Brydon	<b>2011</b>	<b>77.0</b>	<b>98.2</b>	<b>1.8</b>	<b>571,642</b>
	2010	80.0	99.4	0.6	556,640
M R D Clayton	<b>2011</b>	<b>77.0</b>	<b>98.8</b>	<b>1.2</b>	<b>338,919</b>
	2010	80.0	99.6	0.4	322,704
M A Finney <sup>4</sup>	<b>2011</b>	-	-	-	-
	2010	80.0	94.0	6.0	338,400
M Kelly	<b>2011</b>	<b>77.0</b>	<b>98.5</b>	<b>1.5</b>	<b>467,205</b>
	2010	80.0	93.5	6.5	437,696
S B Rogers	<b>2011</b>	<b>77.0</b>	<b>92.2</b>	<b>7.8</b>	<b>310,102</b>
	2010	80.0	92.4	7.6	310,464
S J Toppenberg	<b>2011</b>	<b>77.0</b>	<b>97.8</b>	<b>2.2</b>	<b>289,928</b>
	2010	80.0	97.8	2.2	273,840

1 STI opportunity for 2011 is based on Tier 3 partial stretch (2010 Target STI was at the maximum of stretch STI Tier 4).

2 Where the actual STI payment is less than maximum potential, the difference is forfeited and does not become payable in subsequent years.

3 2011 STI constitutes a cash bonus granted during 2011; determined in conjunction with the finalisation of 2011 results and paid by March 2012.

2010 STI constitutes a cash bonus granted during 2010; determined in conjunction with the finalisation of 2010 results and paid in February 2011.

4 M A Finney ceased employment effective 9 May 2011.

5 G Agriogiannis commenced employment on 27 June 2011.

### 3.4 At-risk remuneration - Long Term Incentive (LTI)

#### 3.4.1 Summary of Adelaide Brighton Ltd Executive Performance Share Plan ("the Plan")

*What is the Plan and who participates?*

The Group's LTI arrangements are designed to link executive reward with sustainable growth in shareholder value.

The Plan provides for grants of Awards to eligible executives, each Award being an entitlement to a fully paid ordinary share in Adelaide Brighton Ltd, subject to the satisfaction of performance conditions, on terms and conditions determined by the Board.

Participation in the Plan is generally offered to the Managing Director and executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance against the relevant performance hurdles.

Awards have been issued under the Plan called the "2007 Award" and the "2010 Award". The 2007 Awards and 2010 Awards are each divided into 3 Tranches. Tranche 3 of the 2007 Awards became exercisable in 2011. Tranche 1 of the 2010 Awards will be tested and become exercisable to the extent of any vesting in 2012.

*What are the performance conditions and why were they chosen?*

Both the 2007 Awards and the 2010 Awards are measured against a TSR performance condition (as to 50% of each Award) and an EPS performance condition (as to the other 50%).

The Board considers these performance conditions to be appropriate because they ensure that a proportion of each executive's remuneration is linked to the generation of profits (expressed on a per share basis) and shareholder value.

In particular, the use of a relative TSR based hurdle:

- Ensures alignment between comparative shareholder return and reward for the executive; and
- Provides a relative, external market performance measure, having regard to those companies with which the Group competes for capital, customers and talent.

An absolute EPS growth based hurdle:

- Links executive reward to a fundamental indicator of financial performance; and
- Links directly to the Group's long term objectives of maintaining and improving earnings.

The use of dual performance measures combines a strong external market based focus through share price growth and dividends (TSR), and a non-market based measure aimed at driving improved Company results and the creation of shareholder wealth (EPS).

*Is re-testing permitted?*

No. Re-testing of either of the performance conditions applicable to a Tranche of Awards is not permitted.

*What happens to Awards that are not yet exercisable on cessation of employment?*

If an executive resigns or is terminated for cause, the Awards in respect of any Tranche that is not exercisable will generally be forfeited.

The Plan Rules provide that in other circumstances 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.

In addition, a number of executives with pre-2009 contracts have a specific entitlement built into their Service Agreement, which entitles them to pro rata vesting of Awards in the event of Company initiated termination of employment.

#### *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. 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 in the Plan Rules.

The Awards will lapse if the Board considers that the executive has acted fraudulently, dishonestly or in breach of their obligations to the Company.

The Plan Rules 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).

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.

### **3.4.2 2007 Awards**

#### *Tranche 3 of the 2007 Awards*

#### *When did the final tranche of the 2007 Awards vest?*

Tranche 3 of the 2007 Awards became exercisable (subject to satisfaction of relevant performance conditions) on 1 May 2011.

Shares were delivered to the executive on exercise of the Award. Awards were granted at no cost to the executive and no amount is payable by the executive on exercise of the Award. Any unexercised Awards expired on 30 September 2011.

#### *How was the TSR performance condition for Tranche 3 of the 2007 Awards measured?*

The Company's TSR performance must equal or exceed the growth in the returns of at least two of the three indices below (expressed as a percentage) plus the percentage premium applicable to the respective indices over the period 1 January 2007 to 31 December 2010:

- S&P / ASX Small Ordinaries Accumulation Index (XSO AI) plus 2% premium.
- S&P / ASX 200 Materials Accumulation Index (XMJ AI) plus 2% premium.
- S&P / ASX 200 Accumulation Index (XJO AI) plus 3% premium.

The Company's TSR growth over the four year performance period exceeded all three Indices listed above by the required premium, to result in 100% vesting of the Awards subject to the TSR performance condition.

#### *How was the EPS performance condition for Tranche 3 of the 2007 Awards measured?*

The EPS performance hurdle applicable to Tranche 3 of the 2007 Award measured the average annual growth in EPS of the Company from 1 January 2007 until 31 December 2010.

Tranche 3 of the 2007 Awards required at a minimum that the average annual growth in EPS of the Company equal or exceed 7% per annum growth measured against the EPS for the Company's financial year ended 31 December 2006, at which point 40% of the Awards subject to this performance hurdle would vest. Vesting increased on a straight line basis for performance between 7% and 11% EPS growth over the applicable period, with full vesting occurring at 11%.

As the Company's EPS growth over the four year performance period averaged 11.3% per annum, 100% of the Awards subject to the EPS performance condition vested.

#### *Actual Performance*

Overall, 100% of the Awards comprising Tranche 3 of the 2007 Awards became exercisable.

A detailed discussion of the Group's performance, set specifically against the Group's earnings and the consequences of the Group's performance on shareholder wealth, both in the current financial year and the previous four years, is set out on pages 38 to 42 of this report.

### **3.4.3 2010 Awards**

The terms of the 2010 Awards were considered by shareholders at the Company's 2009 Annual General Meeting.

The 2010 Awards were granted with effect from 1 January 2010, coinciding with the start of the performance period, and are divided into 3 Tranches as follows:

- Tranche 1: 30% of Award - earliest exercise date is 1 May 2012
- Tranche 2: 30% of Award - earliest exercise date is 1 May 2013
- Tranche 3: 40% of Award - earliest exercise date is 1 May 2014

Further details regarding the performance conditions applicable to the 2010 Awards and the relevant level of vesting of Tranche 1 of those Awards will be reported in next year's Remuneration Report.

### 3.4.4 Movements in Awards during 2011

Details of the movement in Awards held by the Managing Director and senior executives during the 2011 year are set out below:

**Table 6 Movement in Awards during the year**

<i>Managing Director &amp; senior executives</i>	<i>Balance at 31 Dec 2010</i>	<i>Awards granted during 2011</i>	<i>Exercised/ vested<sup>1</sup> 2007 Award</i>	<i>Number of Awards lapsed/ forfeited during the year</i>	<i>Balance at 31 Dec 2011<sup>5</sup></i>	<i>Value of Awards at grant date</i>	<i>Value per share at the date of exercise<sup>2</sup></i>
M P Chellew	2,235,000		435,000	-	1,800,000	2,362,500	3.1488
G Agriogiannis <sup>4</sup>	-	227,500	-	-	227,500	377,488	-
M Brydon	700,000		100,000	-	600,000	787,500	3.1110
M R D Clayton	400,000		100,000	-	300,000	393,750	15,000 @ 3.1110 10,000 @ 3.0661 75,000 @ 2.7547
M A Finney <sup>3</sup>	425,000		100,000	325,000	-	-	3.1148
M Kelly	600,000		100,000	-	500,000	656,250	3.2116
S B Rogers	425,000		100,000	-	325,000	426,564	2.7034
S J Toppenberg	300,000		100,000	-	200,000	262,500	2.7547
<b>Total</b>	<b>5,085,000</b>	<b>227,500</b>	<b>1,035,000</b>	<b>325,000</b>	<b>3,952,500</b>	<b>5,266,552</b>	<b>-</b>

1 All 1,035,000 Awards which were exercisable were exercised in 2011. The number of Awards vested during the period and exercisable at 31 December 2011 is nil. The number of Awards vested but not yet exercisable at 31 December 2011 is nil.

2 The value per share at the date of exercise is the Value 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 \$3,143,207 based on the Value Weighted Closing Price.

3 M A Finney ceased employment effective 9 May 2011, and all 325,000 Awards granted to M A Finney under the 2010 Award lapsed on this date in accordance with the terms of the 2010 Award. The value of those lapsed shares would have been \$1,014,000 based on the Company's closing share price on the ASX on the date of M A Finney ceasing employment.

4 As G Agriogiannis commenced employment on 27 June 2011, the Board approved a pro-rata grant for him to participate in Tranche 2 and Tranche 3 of the 2010 Award.

5 Refer to note 29 and 30 for details of the earliest date on which the Awards can be exercised, the financial years in which the Awards will vest if conditions are met and the total possible value of the grant for those financial years.

### 3.4.5 Review of LTI Plan for 2012

During 2011, the Nomination and Remuneration Committee has undertaken an extensive review of the executive remuneration arrangements including a review of the operation of the long term incentive for 2012 onwards.

As explained above, the Board has, in the past, approved a grant of Awards to executives every three years, with the grant divided into 3 tranches vesting over 2, 3 and 4 year performance periods. Accordingly, the next such grant would be expected in 2013.

As a result of shareholders' comments that the two year vesting period of the first tranche of Awards is too short, a performance period for a long term incentive plan and the Board's concern, in light of current global economic volatility, that setting performance criteria once every three years does not provide enough flexibility to ensure the Awards continue to constitute an appropriate

incentive for executives, the Board has decided to move towards annual grants under the LTI Plan with a four year performance period to allow an annual assessment of what are the appropriate performance conditions.

As a transitional measure, the Board has decided to bring forward the 2013 grant to 2012, to be granted in 2 tranches - with a three year performance period for Tranche 1 (1 January 2012 to 31 December 2014) and a four year performance period for Tranche 2 (1 January 2012 to 31 December 2015).

The Board intends that annual grants of Awards with a single four year performance period will commence in the 2013 financial year.

### 3.5 Service Agreements and termination payments

The remuneration and other terms of employment for the Managing Director and senior executives are set out in formal

employment contracts referred to as Service Agreements. All Service Agreements are for an unlimited duration and details of the executives entitlements on termination are set out below.

The Service Agreements of current senior executives other than M Kelly and G Agriogiannis were entered into prior to 24 November 2009, and are not subject to the new limits on termination payments introduced under the *Corporations Act 2001* (with effect from that date). The Company intends honouring its pre-existing contractual commitments to those executives upon separation, as permitted by law. The Service Agreements for M Kelly and G Agriogiannis were entered into during 2010 and 2011 respectively, and the payments made to each on termination under their individual Service Agreements will be within the legislative limit of one times 'base salary' (as defined in the *Corporations Act*).

**Table 7 Service Agreements**

Name	Notice periods	Separation payments <sup>1</sup>
G Agriogiannis	3 months notice by either party (or payment in lieu) May be terminated immediately for serious misconduct	9 months total remuneration where Company terminates on notice
Other senior executives <sup>3</sup> (including Managing Director)	3 months notice by executive 5 weeks notice by Company (or payment in lieu) May be terminated immediately for serious misconduct	12 months total remuneration where Company terminates on notice, or where executive is able to terminate for 'Fundamental Change' <sup>2</sup> Entitlement under the Company Redundancy Policy (if applicable)

1 In the case of resignation, no separation 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).

2 A 'Fundamental Change' includes circumstances where there has been a substantial diminution of responsibility, a material reduction in status or a relocation of the relevant position (and only certain executive roles have this entitlement).

3 Under an arrangement entered into some time ago, M Brydon is also entitled to an ex-gratia payment of \$10,000 upon termination, as well as payment of accrued sick leave.

On termination of employment for any reason, the Managing Director and other senior executives (other than M Kelly and G Agriogiannis) are prohibited from engaging in any activity that would compete with the Group for a period of up to six months in order to protect the Group's business interests. During the period of the restraint the executive will be paid a monthly amount equivalent to the executive's monthly fixed remuneration at the time of termination. These restraint arrangements apply to M Kelly in the event he resigns.

### 3.6 Remuneration paid

Details of the remuneration paid to the Managing Director and key management personnel of the Company and the Group, which includes the five senior executives who received the highest remuneration during the 2011 financial year is set out below.

**Table 8 – Remuneration for the 2011 and 2010 financial years**

Year	Short-term benefits		Post-employment benefits	Termination benefits	Share based payments <sup>1</sup>	Total		
	Fixed salary	STI	Super-annuation contributions		Long term incentive	\$	% <sup>2</sup>	
	\$	\$	\$	\$	\$	\$		
M P Chellew	<b>2011</b>	<b>1,484,513</b>	<b>1,419,840</b>	<b>15,487</b>	-	<b>633,291</b>	<b>3,553,131</b>	<b>18</b>
	2010	1,485,170	1,482,000	14,830	-	445,275	3,427,275	13
G Agriogiannis <sup>4</sup>	<b>2011</b>	<b>274,309</b>	<b>163,302</b>	<b>10,303</b>	-	<b>7,435</b>	<b>455,349</b>	<b>2</b>
	2010	-	-	-	-	-	-	-
M Brydon	<b>2011</b>	<b>740,513</b>	<b>571,642</b>	<b>15,487</b>	-	<b>208,063</b>	<b>1,535,705</b>	<b>14</b>
	2010	685,170	556,640	14,830	-	123,366	1,380,006	9
M R D Clayton	<b>2011</b>	<b>430,013</b>	<b>338,919</b>	<b>15,487</b>	-	<b>107,285</b>	<b>891,704</b>	<b>12</b>
	2010	390,170	322,704	14,830	-	70,650	798,354	9
M A Finney <sup>3</sup>	<b>2011</b>	<b>160,868</b>	-	<b>8,973</b>	<b>54,926</b>	<b>(46,628)</b>	<b>178,139</b>	<b>(26)</b>
	2010	424,800	338,400	25,200	-	74,237	862,637	9
M Kelly	<b>2011</b>	<b>591,000</b>	<b>467,205</b>	<b>25,000</b>	-	<b>173,299</b>	<b>1,256,504</b>	<b>14</b>
	2010	520,417	437,696	25,000	-	99,344	1,082,457	9
S B Rogers	<b>2011</b>	<b>411,800</b>	<b>310,102</b>	<b>25,000</b>	-	<b>122,794</b>	<b>869,696</b>	<b>14</b>
	2010	395,000	310,464	25,000	-	138,741	869,205	16
S J Toppenberg	<b>2011</b>	<b>360,000</b>	<b>289,928</b>	<b>25,000</b>	-	<b>74,276</b>	<b>749,204</b>	<b>10</b>
	2010	325,000	273,840	25,000	-	56,303	680,143	8
<b>Total for the Company and Group</b>	<b>2011</b>	<b>4,453,016</b>	<b>3,560,938</b>	<b>140,737</b>	<b>54,926</b>	<b>1,279,815</b>	<b>9,489,432</b>	
	2010	4,225,727	3,721,744	144,690	-	1,007,916	9,100,077	

1 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 which do not vest during the reporting period 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 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).

2 % 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.

3 M A Finney ceased employment effective 9 May 2011.

4 G Agriogiannis commenced employment on 27 June 2011, and received a sign-on payment of \$114,500 and certain other relocation benefits upon commencement.

## Section 4 - Non-executive Directors' fees

### 4.1 Board policy on non-executive Director fees

The total amount of fees paid to non-executive Directors is determined by the Board on the recommendation of its Nomination and Remuneration 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.

In setting fee levels, the Nomination and Remuneration Committee, which makes recommendations to the Board, takes into account:

- The Group's existing remuneration policies;
- Independent professional advice;
- Fees paid by comparable companies;
- The general time commitment and responsibilities involved;
- The risks associated with discharging the duties attached to the role of Director; and
- The level of remuneration necessary to attract and retain Directors of a suitable calibre.

Total fees, including committee fees, were set within the maximum aggregate amount of \$1,100,000 per annum approved at the 2010 Annual General Meeting.

Non-executive Director base fees were increased by 3% for the 2011 financial year.

Fees payable to non-executive Directors in 2011 are set out below. Non-executive Directors' fees are inclusive of contributions to superannuation.

**Table 9 - Non-executive Directors' fees**

<i>Fee applicable for 2011<sup>2</sup></i>	<i>Chairman</i> \$	<i>Member</i> \$
Board	330,000 <sup>1</sup>	98,000
Audit, Risk and Compliance Committee	23,000	13,000
Nomination and Remuneration Committee	23,000	10,500
Safety, Health and Environment Committee	10,500	8,000
Corporate Governance Committee	8,000	-

1 The Chairman receives no additional fees for Committee work.

2 At present, there are no fees payable for the Independent Directors' Committee.

The Group's policy is to support non-executive Director retirement through superannuation contributions.

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.

Directors are also entitled to be reimbursed for all business related expenses, including travel, as may be incurred in the discharge of their duties.

### 4.2 Fees paid to Non-executive Directors

Details of fees paid to non-executive Directors for the years ended 31 December 2011 and 31 December 2010 are set out below. All values are in A\$ unless otherwise stated.

**Table 10 - Non-executive Directors' remuneration for the 2011 and 2010 financial years**

	Year	<i>Fees and allowances</i>		<i>Post-employment benefits</i>	<i>Total</i>
		<i>Directors' fees</i>	<i>Committee fees</i>	<i>Superannuation contributions<sup>1</sup></i>	
		\$	\$	\$	\$
C L Harris (Chairman)	<b>2011</b>	<b>300,000</b>	-	<b>30,000</b>	<b>330,000</b>
	2010	228,571	-	22,273	250,844
R D Barro	<b>2011</b>	<b>89,908</b>	<b>7,340</b>	<b>8,752</b>	<b>106,000</b>
	2010	86,537	7,500	8,463	102,500
L V Hosking	<b>2011</b>	<b>89,091</b>	<b>40,000</b>	<b>12,909</b>	<b>142,000</b>
	2010	86,450	38,117	12,457	137,024
G F Pettigrew	<b>2011</b>	<b>89,091</b>	<b>40,000</b>	<b>12,909</b>	<b>142,000</b>
	2010	86,450	34,654	11,069	132,173
K B Scott-Mackenzie <sup>2</sup>	<b>2011</b>	<b>89,908</b>	-	<b>8,089</b>	<b>97,997</b>
	2010	37,966	-	3,420	41,386
A M Tansey <sup>3</sup>	<b>2011</b>	<b>66,717</b>	-	<b>6,005</b>	<b>72,722</b>
	2010	-	-	-	-
<b>Total</b>	<b>2011</b>	<b>724,715</b>	<b>87,340</b>	<b>78,664</b>	<b>890,719</b>
	2010	525,974	80,271	57,682	663,927

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

2 K B Scott-Mackenzie appointed as a Director effective 26 July 2010.

3 A M Tansey appointed as a Director effective 5 April 2011.

### Former Non-executive Director

M A Kinnaird <sup>1</sup>	2010	123,175	-	-	123,175
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1 M A Kinnaird AC retired on 19 May 2010, and therefore remuneration details are shown for comparative purposes only.



## Income statement

For the year ended 31 December 2011

(\$ Million)	Notes	Consolidated	
		2011	2010
<b>Revenue from continuing operations</b>	3	<b>1,100.4</b>	1,072.9
Cost of sales		<b>(681.2)</b>	(667.4)
Freight and distribution costs		<b>(159.5)</b>	(143.7)
<b>Gross profit</b>		<b>259.7</b>	261.8
Other income	3	<b>12.4</b>	8.5
Marketing costs		<b>(24.0)</b>	(25.4)
Administration costs		<b>(54.7)</b>	(58.5)
Finance costs	4	<b>(19.4)</b>	(16.3)
Other expenses		<b>(3.3)</b>	-
Share of net profits of joint ventures accounted for using the equity method	11(c)	<b>35.7</b>	32.1
<b>Profit before income tax</b>		<b>206.4</b>	202.2
Income tax expense	5(a)	<b>(58.0)</b>	(50.8)
<b>Profit for the year</b>		<b>148.4</b>	151.4
Profit attributable to:			
Owners of the Company		<b>148.4</b>	151.5
Non-controlling interests		-	(0.1)
		<b>148.4</b>	151.4
		<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	36	<b>23.3</b>	23.9
Diluted earnings per share	36	<b>23.2</b>	23.7

## Statement of comprehensive income

For the year ended 31 December 2011

(\$ Million)	Notes	Consolidated	
		2011	2010
<b>Profit for the year</b>		<b>148.4</b>	151.4
<b>Other comprehensive income</b>			
Actuarial (losses)/gains on retirement benefit obligation	22(d)	<b>(8.8)</b>	(2.7)
Exchange differences on translation of foreign operations		-	-
Income tax relating to components of other comprehensive income	5(c)	<b>2.5</b>	0.8
<b>Other comprehensive income for year, net of tax</b>		<b>(6.3)</b>	(1.9)
<b>Total comprehensive income for the year</b>		<b>142.1</b>	149.5
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		<b>142.1</b>	149.6
Non-controlling interests		-	(0.1)
<b>Total comprehensive income for the year</b>		<b>142.1</b>	149.5

## Balance sheet

As at 31 December 2011

(\$ Million)	Notes	<b>2011</b>	<i>Consolidated</i> 2010
<b>Current assets</b>			
Cash and cash equivalents	6	<b>11.0</b>	2.8
Trade and other receivables	7	<b>168.9</b>	153.3
Inventories	8	<b>127.9</b>	117.8
		<b>307.8</b>	273.9
Assets classified as held for sale	9	-	0.2
Total current assets		<b>307.8</b>	274.1
<b>Non-current assets</b>			
Receivables	10	<b>27.2</b>	30.4
Investments accounted for using the equity method	11	<b>97.2</b>	87.7
Property, plant and equipment	12	<b>851.0</b>	760.6
Intangible assets	14	<b>183.0</b>	179.1
Total non-current assets		<b>1,158.4</b>	1,057.8
<b>Total assets</b>		<b>1,466.2</b>	1,331.9
<b>Current liabilities</b>			
Trade and other payables	15	<b>98.5</b>	105.4
Borrowings	16	<b>0.7</b>	1.0
Current tax liabilities		<b>8.2</b>	27.1
Provisions	17	<b>21.7</b>	21.6
Other liabilities	18	<b>4.6</b>	3.9
Total current liabilities		<b>133.7</b>	159.0
<b>Non-current liabilities</b>			
Borrowings	19	<b>258.7</b>	150.2
Deferred tax liabilities	20	<b>70.7</b>	51.5
Provisions	21	<b>35.0</b>	32.6
Retirement benefit obligations	22(b)	<b>10.9</b>	4.2
Other non-current liabilities		<b>0.1</b>	0.1
Total non-current liabilities		<b>375.4</b>	238.6
<b>Total liabilities</b>		<b>509.1</b>	397.6
<b>Net assets</b>		<b>957.1</b>	934.3
<b>Equity</b>			
Contributed equity	23	<b>694.6</b>	692.7
Reserves	24	<b>2.3</b>	2.6
Retained earnings	24(b)	<b>257.3</b>	236.0
Capital and reserves attributable to owners of the Company		<b>954.2</b>	931.3
Non-controlling interests		<b>2.9</b>	3.0
<b>Total equity</b>		<b>957.1</b>	934.3

## Statement of changes in equity

As at 31 December 2011

Attributable to owners of Adelaide Brighton Ltd

Consolidated (\$ Million)	Notes	Contributed equity	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
<b>Balance at 1 January 2011</b>		<b>692.7</b>	<b>2.6</b>	<b>236.0</b>	<b>931.3</b>	<b>3.0</b>	<b>934.3</b>
Profit for the year		-	-	148.4	148.4	-	148.4
Other comprehensive income		-	-	(6.3)	(6.3)	-	(6.3)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>142.1</b>	<b>142.1</b>	<b>-</b>	<b>142.1</b>
<b>Transactions with owners in their capacity as owners:</b>							
Dividends provided for or paid	25	-	-	(120.8)	(120.8)	(0.1)	(120.9)
Executive performance share plan	23	1.9	(0.3)	-	1.6	-	1.6
		1.9	(0.3)	(120.8)	(119.2)	(0.1)	(119.3)
<b>Balance at 31 December 2011</b>		<b>694.6</b>	<b>2.3</b>	<b>257.3</b>	<b>954.2</b>	<b>2.9</b>	<b>957.1</b>
<b>Balance at 1 January 2010</b>		<b>690.4</b>	<b>2.9</b>	<b>200.6</b>	<b>893.9</b>	<b>3.1</b>	<b>897.0</b>
Profit for the year		-	-	151.5	151.5	(0.1)	151.4
Other comprehensive income		-	-	(1.9)	(1.9)	-	(1.9)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>149.6</b>	<b>149.6</b>	<b>(0.1)</b>	<b>149.5</b>
<b>Transactions with owners in their capacity as owners:</b>							
Dividends provided for or paid	25	-	-	(114.2)	(114.2)	-	(114.2)
Executive performance share plan	23	2.3	(0.3)	-	2.0	-	2.0
		2.3	(0.3)	(114.2)	(112.2)	-	(112.2)
<b>Balance at 31 December 2010</b>		<b>692.7</b>	<b>2.6</b>	<b>236.0</b>	<b>931.3</b>	<b>3.0</b>	<b>934.3</b>

## Statement of cash flows

For the year ended 31 December 2011

(\$ Million)	Notes	Consolidated	
		2011	2010
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		<b>1,189.0</b>	1,187.7
Payments to suppliers and employees (inclusive of goods and services tax)		<b>(989.4)</b>	(964.4)
Distributions received		<b>26.2</b>	16.9
Interest received		<b>2.4</b>	2.2
Other income		<b>9.7</b>	7.0
Interest paid		<b>(17.3)</b>	(13.4)
Income taxes paid		<b>(65.6)</b>	(47.5)
<b>Net cash inflow from operating activities</b>	35	<b>155.0</b>	188.5
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		<b>(91.3)</b>	(51.7)
Payments for acquisition of businesses, net of cash acquired	40	<b>(47.6)</b>	-
Proceeds from sale of property, plant and equipment		<b>1.6</b>	4.5
Repayment of loans from / (loans to) joint venture entities		<b>3.2</b>	(0.1)
<b>Net cash (outflow) from investing activities</b>		<b>(134.1)</b>	(47.3)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		<b>109.0</b>	-
Repayment of borrowings		-	(50.5)
Dividends paid to Company's shareholders	25	<b>(120.8)</b>	(114.2)
Dividends paid to non-controlling interests in subsidiaries		<b>(0.1)</b>	-
<b>Net cash (outflow) from financing activities</b>		<b>(11.9)</b>	(164.7)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>9.0</b>	(23.5)
Cash and cash equivalents at the beginning of the financial year	6	<b>2.0</b>	25.5
<b>Cash and cash equivalents at the end of year</b>	6	<b>11.0</b>	2.0

# Notes to the financial statements

## 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 27 February 2012. 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, unless otherwise stated. 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, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

#### *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 by Adelaide Brighton Ltd as at 31 December 2011 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 the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated 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) Joint venture entities*

The interest in joint ventures 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 joint venture 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 joint ventures and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint ventures on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

#### *(iv) 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 Managing Director.

### (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) Group companies*

The results and financial position of all the Group entities 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;

## 1 Summary of significant accounting policies (continued)

### (d) Foreign currency translation (continued)

- 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. 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 profit 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 consolidations

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. 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.

## 1 Summary of significant accounting policies (continued)

### (f) Income Tax (continued)

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 straightline 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.

### (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, 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 due for settlement no more than 30 to 45 days from the end of the month of invoice.



## 1 Summary of significant accounting policies (continued)

### (k) Trade receivables (continued)

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, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

#### (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.

### (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 other income or finance expense.

### (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 of 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 noncurrent 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 costs 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.

## 1 Summary of significant accounting policies (continued)

### (p) Property, plant and equipment (continued)

#### (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 to 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
▪ Leased plant and equipment	6 - 10 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.

### (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.

#### (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 and 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.

## 1 Summary of significant accounting policies (continued)

### (u) Provisions (continued)

#### (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 and any unrecognised past service cost.

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.

Past service costs are recognised immediately in profit or loss, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

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 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 Adelaide Brighton Ltd Executive Performance Share Plan is administered by the Adelaide Brighton employee share plan trust; see note 1(b)(ii).

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

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

#### *(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 when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. 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 dollars, unless otherwise stated.

### **(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 flow.

### **(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) Parent entity financial information**

The financial information for the parent entity, Adelaide Brighton Limited, disclosed in note 39 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### *(i) Investments in subsidiaries, associates and joint venture entities*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Adelaide Brighton Limited. 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.

#### *(ii) Tax consolidation legislation*

Adelaide Brighton Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Adelaide Brighton Limited, 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, Adelaide Brighton Limited 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.

## 1 Summary of significant accounting policies (continued)

### (ab) Parent entity financial information (continued)

#### (ii) Tax consolidation legislation (continued)

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Adelaide Brighton Limited 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 parent entity 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.

### (ac) New accounting standards and UIG interpretations

In the current year, the Group has adopted all of the new and revised accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these standards did not have any impact on the current period or prior period and is not likely to affect future periods.

Certain new accounting standards and interpretations have been published but are not mandatory for 31 December 2011 reporting periods and have not yet been adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

- AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013). AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets. Revised AASB 9 *Financial Instruments* (addressing accounting for financial liabilities and the derecognition of financial assets and financial liabilities) and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010). The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has decided not to early adopt AASB 9. The Group is yet to assess its full impact.
- AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 January 2013).

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Adelaide Brighton Ltd is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the Group.

- AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets* (effective from 1 January 2012). In November 2010, the AASB made amendments to AASB 7 *Financial Instruments: Disclosures* which introduce additional disclosures in respect of risk exposures arising from transferred financial assets.

The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Group's disclosures.

- AASB 2010-8 *Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets* (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 July 2012. The standard is not expected to have a material impact on the Group's financial statements.

- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

## 1 Summary of significant accounting policies (continued)

### (ac) New accounting standards and UIG interpretations (continued)

- AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted

for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The Group is assessing the impact of the new standard.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group and Company will not affect any of the amounts recognised in the financial statements.

- Revised AASB 119 *Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119* (September 2011) and AASB 2011-11 *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. The Group has not yet assessed the impact of the new standard, nor decided when to adopt the new standard.

- AASB 2011-9 *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

- AASB 2011-5 *Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* and AASB 2011-6 *Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation - Reduced Disclosure Requirements*

AASB 2011-5 and AASB 2011-6 provide relief from consolidation, the equity method and proportionate consolidation to not-for-profit entities and entities reporting under the reduced disclosure regime under certain circumstances. They will not affect the financial statements of the Group or the Company. The amendments apply from 1 July 2011 and 1 July 2013 respectively.

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

### (ac) New accounting standards and UIG interpretations *(continued)*

- AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* and AASB 2011-12 *Amendments to Australian Accounting Standards arising from Interpretation 20* (effective 1 January 2013)

Interpretation 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, the costs relating to the improved access to that component can be measured reliably and it is probable that future economic benefits associated with the stripping activity (improved access to the orebody) will flow to the Group. The costs will be amortised over the life of the identified component of the ore body. This is different to the Group's current accounting policy which is to capitalise stripping costs based on a general waste-to-ore stripping ratio and amortise the costs over the life of the mine. The interpretation must be applied retrospectively and the Group may have to write off existing stripping cost asset balances to retained earnings on the date of transition, unless they relate to an identifiable component of the orebody. The Group is assessing the impact of this new Interpretation.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (effective 1 January 2014 and 1 January 2013 respectively)

In December 2011, the IASB made amendments to the application guidance in IAS 32 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the IASB has also introduced more extensive disclosure requirements into IFRS 7 which will apply from 1 January 2013. The AASB is expected to make equivalent changes to IAS 32 and AASB 7 shortly. When they become applicable, the Group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group is assessing the impact of the new rules.

## 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 \$32.1m (2010: \$31.2m).

### (b) Impairment of assets

The Group tests annually whether goodwill 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 14.

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 entity and that are believed to be reasonable under the circumstances.

(\$ Million)	Consolidated	
	2011	2010
<b>3 Revenue and other income</b>		
Revenue from continuing operations		
Sales of goods	<b>1,096.8</b>	1,069.4
Interest from joint ventures	<b>1.2</b>	1.0
Interest from other parties	<b>1.2</b>	1.3
Royalties	<b>1.2</b>	1.2
	<b>1,100.4</b>	1,072.9
<b>Other income</b>		
Net gain on disposal of property, plant and equipment	-	2.6
Insurance recovery	<b>2.4</b>	0.9
Other income	<b>10.0</b>	5.0
	<b>12.4</b>	8.5
Revenue and other income (excluding share of net profits of joint ventures accounted for using the equity method)	<b>1,112.8</b>	1,081.4

#### 4 Expenses

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

Depreciation		
Buildings	<b>3.4</b>	3.1
Plant and equipment	<b>50.8</b>	46.9
Mineral reserves	<b>2.7</b>	2.0
Total depreciation	<b>56.9</b>	52.0
Amortisation of intangibles	<b>0.9</b>	0.8
Other charges		
Employee benefits expense	<b>144.5</b>	140.9
Operating lease rental charge	<b>2.9</b>	3.0
Bad and doubtful debts - trade debtors	<b>0.5</b>	0.8
Provision for inventory	<b>0.1</b>	0.5
Finance costs		
Interest and finance charges paid / payable	<b>17.2</b>	13.4
Unwinding of the discount on restoration provisions and retirement benefit obligation	<b>3.1</b>	2.9
Total finance costs	<b>20.3</b>	16.3
Amount capitalised (a)	<b>(0.9)</b>	-
Finance costs expensed	<b>19.4</b>	16.3

(a) The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the average monthly interest rate applicable to the entity's outstanding borrowings during the year, in this case 6.1% (2010: N/A).



(\$ Million)

2011

2010

**5 Income Tax****(a) Numerical reconciliation of income tax expense to prima facie tax payable**

Profit before income tax expense	<b>206.4</b>	202.2
Tax at the Australian tax rate of 30% (2010: 30%)	<b>61.9</b>	60.7
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non allowable expenses	<b>0.2</b>	0.3
Non assessable capital profits	-	(4.8)
Rebateable dividends	<b>(3.5)</b>	(5.7)
Investment allowance	-	(0.2)
Sundry items	<b>(2.0)</b>	(0.5)
Under provided in prior years	<b>1.4</b>	1.0
Aggregate income tax expense	<b>58.0</b>	50.8
Aggregate income tax expense comprises:		
Current taxation provision	<b>50.5</b>	58.0
Net deferred tax (note 13 & 20)	<b>6.1</b>	(8.2)
Under provided in prior year	<b>1.4</b>	1.0
	<b>58.0</b>	50.8

**(b) Amounts recognised directly in equity**

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	<b>(0.3)</b>	(0.5)
Net deferred tax	<b>(0.1)</b>	(1.3)
	<b>(0.4)</b>	(1.8)

**(c) Tax (income) expense relating to items of other comprehensive income**

Actuarial (losses) gains on retirement benefit obligation (note 22 (d))	<b>(2.5)</b>	(0.8)
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**(d) Tax losses**

Unused tax losses for which no deferred tax asset has been recognised:

Capital losses	<b>17.3</b>	17.8
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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).

(\$ Million)	Consolidated	
	2011	2010
<b>6 Current assets - cash and cash equivalents</b>		
Cash at bank and in hand	-	-
Deposits at call	11.0	2.8
Cash and cash equivalents	11.0	2.8

(a) **Reconciliation to cash at the end of the year**

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	11.0	2.8
Bank overdrafts (note 16)	-	(0.8)
Balances per statement of cash flows	11.0	2.0

(b) **Risk exposure**

The Group's exposure to interest rate risk is discussed in note 26. 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 Current assets - trade and other receivables**

Trade receivables	145.2	127.3
Provision for doubtful receivables	(1.8)	(2.1)
	143.4	125.2
Amounts receivable from joint ventures	15.6	16.9
Prepayments	6.6	5.6
Other receivables	3.3	5.6
	168.9	153.3

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

Included in the Group's trade receivables balance are debtors with a carrying value of \$7.9 million (2010: \$4.5 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 for debtors which there is no recent history of default. The Group believes these amounts are still recoverable. The ageing analysis is as follows: 60 days \$7.8 million, 90 days \$0.1 million (2010: 60 days \$4.5 million, 90 days \$nil).

(b) **Impaired trade receivables**

As at 31 December 2011 current trade receivables of the Group with a nominal value of \$2.3 million (2010 - \$2.4 million) were impaired. The amount of the provision was \$1.8 million (2010 - \$2.1 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.

(\$ Million)	Consolidated	
	2011	2010
The ageing of these receivables is as follows:		
1 to 3 months	0.1	0.1
3 to 6 months	-	-
Over 6 months	2.2	2.3
	2.3	2.4

**Movement in provision for doubtful receivables**

Opening balance at 1 January	2.1	2.0
Amounts written off during the year	(0.8)	(0.7)
Provision for doubtful receivables recognised during the year	0.5	0.8
Closing balance at 31 December	1.8	2.1

## 7 Current assets - 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 26.

(\$ Million)	Consolidated	
	2011	2010
<b>8 Current assets - inventories</b>		
Engineering spare parts stores	27.3	27.7
Raw materials and work in progress	42.5	40.8
Finished goods	58.1	49.3
	<b>127.9</b>	117.8

### 9 Current assets - assets classified as held for sale

Plant & Equipment	-	0.2
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### 10 Non-current assets - receivables

Loans to joint ventures	22.3	28.7
Other non-current receivables	4.9	1.7
	<b>27.2</b>	30.4

Details of the fair values, effective interest rate and credit risk are set out in note 26. 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.

### 11 Non-current assets - investments accounted for using the equity method

Interests in joint ventures are accounted for in the Group's financial statements using the equity method and are carried at cost by the respective parent entity.

### (a) Carrying amounts

Name of joint venture entity	Principal activity	Ownership interest		Group's share of Net Assets	
		2011 %	2010 %	2011 \$ Million	2010 \$ Million
Sunstate Cement Ltd	Cement manufacture	50	50	18.4	20.4
Independent Cement and Lime Pty Ltd	Cement distribution	50	50	45.8	40.0
Alternative Fuel Company Pty Ltd	Processing waste materials	-	50	-	-
E.B. Mawson & Sons Pty Ltd and Lake Boga Quarries Pty Ltd	Concrete and quarries	50	50	30.0	25.5
Burrell Mining Services JV	Mining industry products	50	50	2.0	1.3
Batesford Quarry	Quarry products	50	50	1.0	0.5
				<b>97.2</b>	87.7

Each of the above Australian joint ventures is incorporated with the exception of Batesford Quarry and Burrell Mining Services JV which are not incorporated. All the joint ventures have a balance sheet date of 30 June, which is different to the Group's balance sheet date of 31 December. Financial reports prepared as at 31 December are used for equity accounting purposes.

The Group's interest in Alternative Fuel Company Pty Ltd ("AFC") was sold to its joint venture partner on 15 March 2011. The proceeds from the sale marginally covered the investment and loan receivable from AFC.

(\$ Million)	Consolidated	
	2011	2010

## 11 Non-current assets - investments accounted for using the equity method *(continued)*

### (b) Movements in carrying amounts

Carrying amount at 1 January	<b>87.7</b>	72.5
Share of net profits	<b>35.7</b>	32.1
Dividends received	<b>(26.2)</b>	(16.9)
Carrying amount at 31 December	<b>97.2</b>	87.7

### (c) Share of joint ventures' profits

Revenues	<b>288.4</b>	266.7
Expenses	<b>(244.4)</b>	(228.1)
Profit before income tax	<b>44.0</b>	38.6
Income tax expense	<b>(8.3)</b>	(6.5)
Profit after income tax	<b>35.7</b>	32.1
Share of net profit - equity accounted	<b>35.7</b>	32.1
Retained profits at 1 January	<b>32.5</b>	17.3
Dividends and distributions	<b>(26.2)</b>	(16.9)
Share of retained profits at 31 December	<b>42.0</b>	32.5

### (d) Summarised financial information of joint ventures

Current assets	<b>178.1</b>	150.0
Non-current assets	<b>194.9</b>	188.9
Total assets	<b>373.0</b>	338.9
Current liabilities	<b>(57.8)</b>	(43.6)
Non-current liabilities	<b>(137.5)</b>	(138.3)
Total liabilities	<b>(195.3)</b>	(181.9)
Net Assets	<b>177.7</b>	157.0
Group's 50% share of joint ventures net assets	<b>88.8</b>	78.5
Adjustments arising from equity accounting:		
Goodwill	<b>8.7</b>	8.7
Unrealised profit in inventory	<b>(0.3)</b>	0.5
Carrying value at 31 December	<b>97.2</b>	87.7

### (e) Share of joint ventures' expenditure commitments

Lease commitments	<b>41.0</b>	36.1
Capital commitments	<b>1.0</b>	2.0
	<b>42.0</b>	38.1

## 12 Non-current assets - property, plant and equipment

### Consolidated at 31 December 2011

(\$ Million)	Freehold land	Buildings	Leasehold property	Plant & equipment	Leased assets	Mineral reserves	Asset retirement cost	In course of construction	Total
At cost	125.0	113.1	5.1	1,113.9	1.0	155.4	6.2	59.3	1,579.0
Accumulated depreciation	-	(43.5)	(1.5)	(662.5)	(0.2)	(17.7)	(2.6)	-	(728.0)
<b>Net book amount</b>	<b>125.0</b>	<b>69.6</b>	<b>3.6</b>	<b>451.4</b>	<b>0.8</b>	<b>137.7</b>	<b>3.6</b>	<b>59.3</b>	<b>851.0</b>

### Reconciliations

Carrying amount at 1 January 2011	113.4	61.5	3.8	442.9	0.9	105.1	2.8	30.2	760.6
Acquisition of businesses	6.4	4.9	-	15.3	-	34.9	0.2	-	61.7
Additions	1.4	1.7	-	21.9	-	0.2	0.8	61.7	87.7
Disposals	-	(0.1)	-	(2.0)	-	-	-	-	(2.1)
Reclassification	3.8	5.0	-	23.8	-	-	-	(32.6)	-
Depreciation/ amortisation expense	-	(3.4)	(0.2)	(50.5)	(0.1)	(2.5)	(0.2)	-	(56.9)

### Carrying amount at 31 December 2011

<b>31 December 2011</b>	<b>125.0</b>	<b>69.6</b>	<b>3.6</b>	<b>451.4</b>	<b>0.8</b>	<b>137.7</b>	<b>3.6</b>	<b>59.3</b>	<b>851.0</b>
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### Consolidated at 31 December 2010

(\$ Million)	Freehold land	Buildings	Leasehold property	Plant & equipment	Leased assets	Mineral reserves	Asset retirement cost	In course of construction	Total
At cost	113.4	101.5	5.1	1,076.4	1.0	120.3	5.2	30.2	1,453.1
Accumulated depreciation	-	(40.0)	(1.3)	(633.5)	(0.1)	(15.2)	(2.4)	-	(692.5)
<b>Net book amount</b>	<b>113.4</b>	<b>61.5</b>	<b>3.8</b>	<b>442.9</b>	<b>0.9</b>	<b>105.1</b>	<b>2.8</b>	<b>30.2</b>	<b>760.6</b>

### Reconciliations

Carrying amount at 1 January 2010	110.3	52.4	3.6	453.3	1.3	104.9	2.9	45.6	774.3
Additions	1.5	1.0	0.6	16.8	-	0.7	0.1	29.7	50.4
Disposals	-	-	-	(1.4)	-	-	-	-	(1.4)
Reclassification	1.6	11.2	(0.1)	20.8	(0.3)	1.2	-	(45.1)	(10.7)
Depreciation/ amortisation expense	-	(3.1)	(0.3)	(46.6)	(0.1)	(1.7)	(0.2)	-	(52.0)

### Carrying amount at 31 December 2010

<b>31 December 2010</b>	<b>113.4</b>	<b>61.5</b>	<b>3.8</b>	<b>442.9</b>	<b>0.9</b>	<b>105.1</b>	<b>2.8</b>	<b>30.2</b>	<b>760.6</b>
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(\$ Million)	Consolidated	
	2011	2010

### 13 Non-current assets - deferred tax assets

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

Share based payment reserve	1.1	1.5
Defined benefit obligations	3.3	1.3
Provisions	21.0	20.7
Other assets	4.0	5.1
Tax losses	1.9	3.1

<b>Deferred tax assets</b>	<b>31.3</b>	31.7
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Offset deferred tax liability (note 20)	(31.3)	(31.7)
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<b>Net Deferred tax assets</b>	<b>-</b>	-
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**Movements:**

Opening balance at 1 January	31.7	26.7
Recognised in the income statement	(2.5)	3.2
Recognised in other comprehensive income	2.5	0.8
Recognised in equity	0.1	0.5
Acquired in business combinations	0.1	0.8
(Under) provision in prior year	(0.6)	(0.3)
Offset deferred tax liability (note 20)	(31.3)	(31.7)

Closing balance at 31 December	-	-
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(\$ Million)	Goodwill	Consolidated		Total
		Software	Other intangibles	

### 14 Non-current assets - intangible assets

**31 December 2011**

Cost	170.6	11.3	2.8	184.7
Accumulated amortisation	-	(1.6)	(0.1)	(1.7)

Carrying amount at 31 December 2011	170.6	9.7	2.7	183.0
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Opening balance at 1 January 2011	170.3	7.0	1.8	179.1
Additions in current year	-	3.5	1.0	4.5
Acquisition of businesses	0.3	-	-	0.3
Amortisation charge	-	(0.8)	(0.1)	(0.9)

Closing balance at 31 December 2011	170.6	9.7	2.7	183.0
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**31 December 2010**

Cost	170.3	7.8	1.8	179.9
Accumulated amortisation	-	(0.8)	-	(0.8)

Carrying amount at 31 December 2010	170.3	7.0	1.8	179.1
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Opening balance at 1 January 2010	169.0	-	-	169.0
Additions in current year	0.6	7.8	1.8	10.2
Amortisation change	-	(0.8)	-	(0.8)
Finalisation of prior year acquisitions	0.7	-	-	0.7

Closing balance at 31 December 2010	170.3	7.0	1.8	179.1
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## 14 Non-current assets - intangible assets (continued)

### (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.

(\$ Million)	Consolidated	
	2011	2010
Cement and Lime	<b>131.0</b>	131.0
Concrete	<b>30.8</b>	30.5
Cement, Lime and Concrete CGU	<b>161.8</b>	161.5
Concrete Products CGU	<b>8.8</b>	8.8
	<b>170.6</b>	170.3

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on 2011 actual results and 2012 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>	
	2011	2010	2011	2010	2011	2010
	%	%	%	%	%	%
Cement, Lime and Concrete	<b>36.9</b>	38.6	<b>2.0</b>	2.5	<b>9.9</b>	10.0
Concrete Products	<b>25.5</b>	27.5	<b>1.6</b>	2.5	<b>9.9</b>	10.0

1 Budgeted gross margin (excluding fixed production costs)

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

3 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.

The impairment model has incorporated the estimated impact of the introduction of the Government's Clean Energy legislation, in line with the Group's guidance of a net profit after tax cost of \$5 million per annum in the initial year of the scheme.

(\$ Million)	Consolidated	
	2011	2010
Trade payables and accruals	<b>93.7</b>	102.9
Trade payables - joint ventures	<b>4.8</b>	2.5
	<b>98.5</b>	105.4

## 15 Current liabilities - trade and other payables

### (a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 26.

## 16 Current liabilities - borrowings

### Secured

Lease liabilities (note 28) **0.7** 0.2

### Unsecured

Bank overdraft - 0.8

**0.7** 1.0

Details of the Group's exposure to interest rate changes and fair value of borrowings are set out in note 26. Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. The carrying amount of plant and equipment under finance lease is \$0.8 million (2010 - \$0.9 million).

(\$ Million)	Consolidated	
	2011	2010

### 17 Current liabilities - provisions

Employee benefits	18.0	17.4
Workers' compensation (note 1 (u)(ii))	0.6	1.1
Restoration provisions (note 1 (u)(iv))	1.8	1.5
Other provisions	1.3	1.6
	<b>21.7</b>	21.6

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

(\$ Million)	Workers' compensation	Restoration provisions	Other provisions
Opening balance at 1 January 2011	1.1	1.5	1.6
Charged to income statement	0.4	-	1.4
Provisions reclassified from non-current	-	0.8	-
Payments	(0.9)	(0.5)	(1.7)
Closing balance at 31 December 2011	0.6	1.8	1.3

(\$ Million)	Consolidated	
	2011	2010

### 18 Current liabilities - other liabilities

Other	4.6	3.9
	<b>4.6</b>	3.9

### 19 Non-current liabilities - borrowings

<b>Secured</b>		
Lease liabilities (note 28)	-	0.7
<b>Unsecured</b>		
Bank loans	258.7	149.5
	<b>258.7</b>	150.2

Details of the Group's exposure to interest rate changes and fair values of borrowings is set out in note 26.

### 20 Non-current liabilities - deferred tax liabilities

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

Property, plant and equipment	88.4	72.0
Inventories	8.2	7.9
Other	5.4	3.3
<b>Deferred tax liabilities</b>	<b>102.0</b>	83.2
Offset deferred tax assets (note 13)	(31.3)	(31.7)
<b>Net deferred tax liabilities</b>	<b>70.7</b>	51.5

#### Movements:

Opening balance at 1 January	83.2	86.5
Recognised in the income statement	3.6	(5.0)
Acquired in business combinations	11.0	0.5
Under provision in prior year	4.2	1.2
Closing balance at 31 December	<b>102.0</b>	83.2



(\$ Million)	Consolidated	
	2011	2010
<b>21 Non-current liabilities - provisions</b>		
Employee benefits	<b>4.7</b>	2.9
Restoration provisions (note 1(u)(iv))	<b>30.3</b>	29.7
	<b>35.0</b>	32.6

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

(\$ Million)	Restoration provisions
Opening balance at 1 January 2011	29.7
Charged to income statement - Unwinding of discount to finance costs	0.4
Additional provision recognised - charged to asset retirement cost	0.8
Additional provision recognised - business acquisition	0.2
Provisions reclassified to current	(0.8)
Closing balance at 31 December 2011	30.3

## 22 Non-current liabilities - retirement benefit obligations

### (a) Superannuation plan

The majority of Adelaide Brighton Ltd 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.

Membership is in either the Defined Benefit or Accumulation categories of the Plan. The defined contribution 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. 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 2011, all new employees, who are members of this fund, have become members of the accumulation category of the Plan. The limited number of employees who are not members of the Plan are in complying superannuation funds as specified by the Enterprise Bargaining Agreements (WA and Victoria Award covered employees) that cover their employment.

(\$ Million)	Consolidated	
	2011	2010
<b>(b) Balance sheet amounts</b>		
Present value of the defined benefit obligation	<b>60.6</b>	55.4
Fair value of defined benefit plan assets	<b>(49.7)</b>	(51.2)
Net liability in the balance sheet	<b>10.9</b>	4.2

The Group has a legal obligation to make quarterly contributions of \$150,000 to finance the deficit with a view to return the Plan to a satisfactory financial position by 30 June 2015.

(\$ Million)

2011 2010

**22 Non-current liabilities - retirement benefit obligations** (continued)**(c) Reconciliations**

Reconciliation of the present value of defined benefit obligation, which is wholly or partially funded:

Opening balance at 1 January	<b>55.4</b>	52.1
Current service costs	<b>2.0</b>	2.0
Interest costs	<b>2.7</b>	2.6
Actuarial losses (gains)	<b>3.9</b>	1.2
Contributions by plan participants	<b>1.4</b>	1.3
Benefits, expenses and insurance premium paid	<b>(4.9)</b>	(3.9)
Transfers in	<b>0.1</b>	0.1
Closing balance at 31 December	<b>60.6</b>	55.4

Reconciliation of the fair value of plan assets

Opening balance at 1 January	<b>51.2</b>	46.3
Expected return on plan assets	<b>3.5</b>	3.1
Actuarial (losses) gains	<b>(4.9)</b>	(1.5)
Employer contributions	<b>3.3</b>	5.8
Contributions by plan participants	<b>1.4</b>	1.3
Benefits, expenses and insurance premium paid	<b>(4.9)</b>	(3.9)
Transfers in	<b>0.1</b>	0.1
Closing balance at 31 December	<b>49.7</b>	51.2

**(d) Amounts recognised in income statement and statement of comprehensive income**

The amounts recognised in the income statement are as follows:

Current service costs	<b>2.0</b>	2.0
Interest costs	<b>2.7</b>	2.6
Expected return on plan assets	<b>(3.5)</b>	(3.1)
Total included in employee benefits expense	<b>1.2</b>	1.5
Actual return on plan assets	<b>(1.4)</b>	1.6

The amounts recognised in the statement of comprehensive income are as follows:

Actuarial loss/(gain) recognised in the year	<b>8.8</b>	2.7
Cumulative actuarial losses recognised in statement of comprehensive income	<b>19.5</b>	10.7

**(e) Categories of plan assets**

The major categories of plan assets are as follows:

Australian Equity	<b>13.9</b>	14.3
International Equity	<b>14.4</b>	13.8
Fixed income	<b>7.0</b>	7.2
Property	<b>8.0</b>	5.1
Cash	<b>4.0</b>	5.1
Other	<b>2.4</b>	5.7
	<b>49.7</b>	51.2

(%)

2011

2010

**22 Non-current liabilities - retirement benefit obligations** (continued)**(f) Principal actuarial assumptions**

The principal actuarial assumptions used were as follows:

Discount rate	<b>3.20</b>	4.90
Expected return on plan assets	<b>7.25</b>	7.00
Future salary increases	<b>4.00</b>	4.00

The expected rate of return on assets is based on historical and future expectations of returns for each of the major categories of asset classes (equities, property, fixed interest and cash) as well as the expected actual allocation of plan assets to these major categories. This resulted in the selection of a 7.25% rate of return net of tax and expenses. The discount rate used to value the defined benefit obligation is based on the 10 year government bond rate.

**(g) Employer contributions**

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three yearly intervals, and the last assessment was made as at 1 July 2010.

Total employer contributions expected to be paid by Group companies for the year ended 31 December 2012 are \$2.5 million.

**(h) Historic summary**

(\$ Million)	2011	2010	2009	2008	2007
Defined benefit obligation	<b>(60.6)</b>	(55.4)	(52.1)	(54.9)	(57.9)
Plan assets	<b>49.7</b>	51.2	46.3	42.3	60.6
(Deficit) surplus	<b>(10.9)</b>	(4.2)	(5.8)	(12.6)	2.7
Experience adjustments arising on plan liabilities	<b>4.9</b>	1.5	(4.2)	18.8	(2.2)
Experience adjustments arising on plan assets	<b>(1.2)</b>	0.7	1.3	(6.4)	2.1

Consolidated

(\$ Million)

2011

2010

**23 Contributed equity****(a) Share capital**

Issued and paid up capital 636,277,810 (2010: 635,132,810) ordinary shares, fully paid	<b>694.6</b>	692.7
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**(b) Movements in ordinary share capital**

Opening balance at 1 January	<b>692.7</b>	690.4
1,145,000 shares issued under Executive Performance Share Plan (2010: 987,840) (i)	<b>1.9</b>	2.3
Closing balance at 31 December	<b>694.6</b>	692.7

(i) Ordinary shares issued under the Adelaide Brighton Ltd Executive Performance Share Plan (refer note 29).

**(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.

## 23 Contributed equity (continued)

### (d) Dividend reinvestment plan

In February 2010 the Company suspended the dividend reinvestment plan 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 the issue of new debt or the redemption of existing debt. The Group monitors capital on the basis of the gearing ratio.

The Company has an implied BBB+ credit rating and chooses not to apply for an official credit rating. The gearing ratio at 31 December was as follows:

(\$ Million)	Consolidated	
	2011	2010
Total borrowings	<b>259.4</b>	151.2
Less: cash and cash equivalents	<b>(11.0)</b>	(2.8)
Net debt	<b>248.4</b>	148.4
Total equity	<b>957.1</b>	934.3
Gearing ratio	<b>26.0%</b>	15.9%

### (f) Employee Share Scheme and options

Information relating to the employee share schemes, including details of shares issued under the schemes, are set out in note 29.

## 24 Reserves and retained earnings

### (a) Reserves

Share-based payment reserve	<b>2.3</b>	2.6
<b>Share-based payment reserve</b>		
Opening balance at 1 January	<b>2.6</b>	2.9
Awards expense	<b>1.4</b>	1.1
Deferred tax	<b>(0.1)</b>	(0.1)
Under provision of tax in prior periods	<b>(0.2)</b>	-
Issue of shares to employees	<b>(1.4)</b>	(1.3)
Closing balance at 31 December	<b>2.3</b>	2.6

#### Nature and purpose of reserves

The share-based payment reserve is used to recognise the fair value of Awards issued but not exercised.

### (b) Retained earnings

Opening balance at 1 January	<b>236.0</b>	200.6
Net profit for the year	<b>148.4</b>	151.5
Actuarial (loss)/gain on defined benefit obligation (net of tax)	<b>(6.3)</b>	(1.9)
Dividends	<b>(120.8)</b>	(114.2)
Closing balance at 31 December	<b>257.3</b>	236.0

(\$ Million)

2011

2010

**25 Dividends****Dividends paid during the year**

2010 final ordinary dividend of 9.0 cents (2009 - 8.0 cents) per fully paid ordinary share, franked at 100% (2009 - 100%) paid on 11 April 2011	<b>57.2</b>	50.7
2010 final special dividend of 2.5 cents (2010 interim special - 2.5 cents) per fully paid ordinary share, franked at 100% paid on 11 April 2011	<b>15.9</b>	15.9
2011 interim dividend of 7.5 cents (2010 - 7.5 cents) per fully paid ordinary share, franked at 100% (2010 - 100%) paid on 10 October 2011	<b>47.7</b>	47.6
Total dividends paid in cash	<b>120.8</b>	114.2

**Dividends not recognised at year end**

Since the end of the year the Directors have recommended the payment of a final dividend of 9.0 cents (2010 - 9.0 cents) per fully paid share, franked at 100% (2010 - 100%). The aggregate amount of the proposed final dividend to be paid on 10 April 2012, not recognised as a liability at the end of the reporting period, is	<b>57.3</b>	57.2
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In relation to the prior year, a special dividend of 2.5 cents franked at 100% was declared payable coincident with the final dividend. No special dividend has been declared for the current financial period. At 31 December 2010 the amount of the declared 2010 special dividend not recognised as a liability at the end of the reporting period, was	-	15.9
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**Franked dividends**

The franked portions of the dividends proposed as at 31 December 2011 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 2012.

Consolidated

(\$ Million)

2011

2010

Franking credits available for subsequent financial years based on a tax rate of 30% (2010 - 30%)	<b>80.6</b>	80.5
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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 \$24.6 million (2010: \$31.3 million).

## 26 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 exposures by degree and magnitude of risk.

### (a) Market risk

#### (i) Foreign exchange risk

The Group's activities through its overseas cement, clinker and equipment purchases 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 future 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) Cash flow interest rate risk

The Group's main interest rate risk arises from bank borrowings. Borrowings issued at variable rates expose the Group to cash flow 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 2011 and 2010, the Group's borrowings at variable rate 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 \$2.6 million (2010: \$1.5 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.

## 26 Financial risk management (continued)

### (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 and foreign exchange risk.

2011	(\$ Million)	Notes	Consolidated Carrying Value	Interest rate risk		Foreign exchange risk	
				-1.0%	+1.0%	-10%	+10%
				Consolidated Profit before tax		Consolidated Profit before tax	
<b>Financial assets</b>							
Cash		6	11.0	(0.1)	0.1	-	-
Receivables		7 & 10	196.1	(0.3)	0.3	-	-
			<b>207.1</b>	<b>(0.4)</b>	<b>0.4</b>	-	-
<b>Financial liabilities</b>							
Borrowings		16 & 19	259.4	2.6	(2.6)	-	-
Payables		15	98.5	-	-	-	-
			<b>357.9</b>	<b>2.6</b>	<b>(2.6)</b>	-	-
Total increase/(decrease)				<b>2.2</b>	<b>(2.2)</b>	-	-

2010	(\$ Million)	Notes	Consolidated Carrying Value	Interest rate risk		Foreign exchange risk	
				-1.0%	+1.0%	-10%	+10%
				Consolidated Profit before tax		Consolidated Profit before tax	
<b>Financial assets</b>							
Cash		6	2.8	-	-	-	-
Receivables		7 & 10	183.7	(0.3)	0.3	-	-
			<b>186.5</b>	<b>(0.3)</b>	<b>0.3</b>	-	-
<b>Financial liabilities</b>							
Borrowings		16 & 19	151.2	1.5	(1.5)	-	-
Payables		15	105.4	-	-	-	-
			<b>256.6</b>	<b>1.5</b>	<b>(1.5)</b>	-	-
Total increase/(decrease)				<b>1.2</b>	<b>(1.2)</b>	-	-

Foreign currency risk is immaterial due to the majority of sales being made 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.

## 26 Financial risk management (continued)

### (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 associated with account customers, 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 or using major credit cards, 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. With 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 2011, 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.

(\$ Million)	<i>Consolidated</i>	
	<b>2011</b>	2010
<b>Financing arrangements</b>		
Unrestricted access was available at balance date to the following lines of credit:		
<b>Credit standby arrangements</b>		
Total facilities		
Bank overdrafts	<b>4.0</b>	4.0
Bank facilities - external parties	<b>500.0</b>	360.0
Lease liabilities	<b>0.7</b>	0.9
	<b>504.7</b>	364.9
Used at balance date		
Bank overdrafts	-	0.8
Bank facilities - external parties	<b>258.7</b>	149.5
Lease liabilities	<b>0.7</b>	0.9
	<b>259.4</b>	151.2
Unused at balance date		
Bank overdrafts	<b>4.0</b>	3.2
Bank facilities - external parties	<b>241.3</b>	210.5
	<b>245.3</b>	213.7



## 26 Financial risk management (continued)

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. The interest rate used is 6% (2010: 7%) based on current bank borrowing rates and current expectations.

(\$ Million)	Consolidated	
	2011	2010
Ageing of financial liabilities into relevant maturity groups:		
Less than 1 year		
Lease liabilities	0.7	0.2
Bank overdraft	-	0.8
	<b>0.7</b>	1.0
Between 1 and 2 years		
Bank borrowings - external parties	274.2	160.0
Lease liabilities	-	0.7
	<b>274.2</b>	160.7

### (d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

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 financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The carrying amounts of financial assets and liabilities of the Group and the Company at balance date approximates fair values. Fair value is exclusive of costs which would be incurred on realisation of an asset, and inclusive of costs which would be incurred on settlement of a liability.

The carrying amount of the non-current assets is based predominantly on the recoverable loan amount to joint ventures and external parties.

(\$ Million)	Consolidated	
	2011	2010

## 27 Contingencies

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

### (a) Guarantees

Bank guarantees	14.2	15.3
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### (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.

(\$ Million)

Consolidated

2011

2010

## 28 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	<b>29.4</b>	15.4
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### (b) Lease commitments

#### (i) Finance leases

Commitments in relation to finance leases are payable as follows:

Within one year	<b>0.7</b>	0.2
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Later than one year but not later than five years	-	0.7
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Minimum lease payments	<b>0.7</b>	0.9
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Less: Future finance charges	-	-
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Recognised as a liability	<b>0.7</b>	0.9
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Representing lease liabilities:

Current (note 16)	<b>0.7</b>	0.2
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Non-current (note 19)	-	0.7
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	<b>0.7</b>	0.9
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#### (ii) 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>4.4</b>	2.5
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Later than one year but not later than five years	<b>13.6</b>	5.3
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Later than five years	<b>27.6</b>	26.2
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	<b>45.6</b>	34.0
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Commitments for operating lease payments relate mainly to rental leases on property.

#### (iii) Other purchase commitments

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

Within one year	<b>55.6</b>	48.4
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Later than one year but not later than five years	<b>164.4</b>	176.0
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Later than five years	<b>68.9</b>	34.1
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	<b>288.9</b>	258.5
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Commitments for other purchases relate mainly to energy purchases.

## 29 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. 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 (2010 - 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") provides for grants of Awards to the Managing Director and 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, the Awards since granted to the Managing Director 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.

#### 2007 Award

Under the Plan, Participants were invited to apply to take up an Award up to a maximum number of shares, divided into three equal tranches exercisable no earlier than 1 May 2009, 1 May 2010 and 1 May 2011 respectively. The total number of Awards granted under the 2007 Award was 3,650,000 with 1,145,000 exercised during the period (2010 - 1,002,840). The grant date of the 2007 Awards is set out on page 84.

The total number of Awards that lapsed during the period was 15,000 (2010 - 372,160).

#### 2010 Award

Under the Plan, Participants were invited to apply to take up an Award up to a maximum number of shares, divided into three tranches exercisable no earlier than 1 May 2012, 1 May 2013 and 1 May 2014 respectively.

The total number of awards originally granted under the 2010 Award was 4,155,000 with none exercised by 31 December 2011. During the period 227,500 Awards (2010: 4,155,000) were granted and 430,000 Awards lapsed. The grant date of the 2010 Awards is set out on page 85.

#### Performance conditions

Detailed discussion of 2007 Award and 2010 Award performance conditions is set out in the Remuneration Report on pages 44 to 45.

During 2011, 1,145,000 shares were issued under the Plan on the exercise of Tranche 3 under the 2007 Award, following the Board's determination that:

- Earnings per share exercise condition applicable to 100% of exercisable Awards had been satisfied for Tranche 3; and

- Total Shareholder Return exercise condition applicable to 100% of exercisable Awards had been satisfied for Tranche 3.

The value per share at the date of exercise is the Value 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 exercised during the year is \$3,468,734 (2010: \$2,786,992).

#### Balance of Awards

As at 31 December 2011, if the exercise conditions are satisfied and the remaining balance of all currently approved Awards are exercised, the Company would be obliged to transfer:

- nil shares to the Participants, under the 2007 Award (2010 - 1,160,000 shares)
- 3,952,500 shares to the Participants, under the 2010 Award (2010 - 4,155,000 shares)

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 \$1,377,937 (2010 - \$1,117,656) recognised as an expense during the year.

The weighted average remaining contractual life of Awards outstanding at the end of the period was 1.5 years (2010: 2.0 years).

(\$ Million)

Consolidated  
**2011**      2010

### 30 Key management personnel disclosures

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

Short-term employee benefits	<b>8.0</b>	8.9
Post-employment benefits	<b>0.1</b>	0.2
Share-based payments	<b>1.3</b>	0.9
Termination benefits	<b>0.1</b>	0.1
	<b>9.5</b>	10.1

The Company has applied the exemption under Amendment to Australian Accounting Standard - Key Management Personnel Disclosures by Disclosing Entities which exempts disclosing companies from the application of AASB 124 paragraphs AUS 29.2 to AUS 29.6 and AUS 29.7.1 and AUS 29.7.2 as the requirements are now incorporated into the *Corporations Act* and are provided in the section titled Remuneration Report included in the Directors Report designated as audited on pages 38 to 48.

#### (b) Awards holdings of key management personnel

The number of Awards granted as compensation and details of Awards vested, exercised or lapsed during the year are disclosed in the Remuneration Report on page 46.

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 assessed fair value at grant date of Awards granted to the individuals is allocated equally over the period from grant date to vesting date. Fair values 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.

#### 2007 Awards grant - pricing model inputs

	Number of awards	Grant date	Share price at grant date	Value per award at grant date	Expected annual dividends	Risk-free interest rate	Lack of marketability discount	TSR condition discount
			\$	\$	\$	%	%	%
M P Chellew								
Tranche 1	435,000	31/12/06	2.81	1.495	0.125	6.10	3.0	50.0
Tranche 2	435,000	31/12/06	2.81	1.275	0.125	6.10	6.0	50.0
Tranche 3	435,000	31/12/06	2.81	1.080	0.125	6.10	9.0	50.0
M Brydon								
Tranche 1	100,000	01/03/07	3.31	1.745	0.145	5.92	3.0	50.0
Tranche 2	100,000	01/03/07	3.31	1.485	0.145	5.92	6.0	50.0
Tranche 3	100,000	01/03/07	3.31	1.260	0.145	5.92	9.0	50.0
M R D Clayton, M A Finney, M Kelly and S J Toppenberg								
Tranche 1	100,000	31/12/06	2.81	1.495	0.125	6.10	3.0	50.0
Tranche 2	100,000	31/12/06	2.81	1.275	0.125	6.10	6.0	50.0
Tranche 3	100,000	31/12/06	2.81	1.080	0.125	6.10	9.0	50.0
S B Rogers								
Tranche 2	100,000	03/03/08	3.37	1.755	0.165	6.14	6.6	50.0
Tranche 3	100,000	03/03/08	3.37	1.480	0.165	6.14	9.6	50.0

### 30 Key management personnel disclosures (continued)

#### (b) Awards holdings of key management personnel (continued)

##### 2010 Awards grant - pricing model inputs

	Number of awards	Grant date	Share price at grant date	Value per award at grant date	Expected annual dividends	Risk-free interest rate	Lack of marketability discount	TSR condition discount
			\$	\$	\$	%	%	%
M P Chellew								
Tranche 1	540,000	04/06/2010	2.81	1.585	0.17	4.79	3.0	50.0
Tranche 2	540,000	04/06/2010	2.81	1.330	0.18	4.79	6.0	50.0
Tranche 3	720,000	04/06/2010	2.81	1.095	0.19	4.79	9.0	50.0
M Brydon								
Tranche 1	180,000	04/06/2010	2.81	1.585	0.17	4.79	3.0	50.0
Tranche 2	180,000	04/06/2010	2.81	1.330	0.18	4.79	6.0	50.0
Tranche 3	240,000	04/06/2010	2.81	1.095	0.19	4.79	9.0	50.0
M Kelly								
Tranche 1	150,000	04/06/2010	2.81	1.585	0.17	4.79	3.0	50.0
Tranche 2	150,000	04/06/2010	2.81	1.330	0.18	4.79	6.0	50.0
Tranche 3	200,000	04/06/2010	2.81	1.095	0.19	4.79	9.0	50.0
M A Finney and S B Rogers								
Tranche 1	97,500	04/06/2010	2.81	1.585	0.17	4.79	3.0	50.0
Tranche 2	97,500	04/06/2010	2.81	1.330	0.18	4.79	6.0	50.0
Tranche 3	130,000	04/06/2010	2.81	1.095	0.19	4.79	9.0	50.0
M R D Clayton								
Tranche 1	90,000	04/06/2010	2.81	1.585	0.17	4.79	3.0	50.0
Tranche 2	90,000	04/06/2010	2.81	1.330	0.18	4.79	6.0	50.0
Tranche 3	120,000	04/06/2010	2.81	1.095	0.19	4.79	9.0	50.0
S J Toppenberg								
Tranche 1	60,000	04/06/2010	2.81	1.585	0.17	4.79	3.0	50.0
Tranche 2	60,000	04/06/2010	2.81	1.330	0.18	4.79	6.0	50.0
Tranche 3	80,000	04/06/2010	2.81	1.095	0.19	4.79	9.0	50.0
G Agriogiannis								
Tranche 1	-	-	-	-	-	-	-	-
Tranche 2	97,500	21/11/2011	2.87	1.785	0.17	3.20	3.0	50.0
Tranche 3	130,000	21/11/2011	2.87	1.565	0.17	3.20	6.0	50.0

### 30 Key management personnel disclosures (continued)

#### (c) Shareholdings of key management personnel

The movement during the reporting period in the number of ordinary shares in Adelaide Brighton Ltd held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

#### Number of shares held in Adelaide Brighton Limited at 31 December 2011

	<i>Balance at start of year</i>	<i>Received on exercise of EPSP</i>	<i>Other changes</i>	<i>Balance at end of year</i>
<b>Non-executive Directors</b>				
C L Harris	70,479	-	30,000	100,479
L V Hosking	4,739	-	-	4,739
G F Pettigrew	7,739	-	-	7,739
R D Barro	147,179,642	-	21,907,394	169,087,036
K B Scott-McKenzie	-	-	5,000	5,000
A M Tansey <sup>1</sup>	-	-	5,000	5,000
<b>Executive Director</b>				
M P Chellew	448,366	435,000	(435,000)	448,366
<b>Senior executives</b>				
M R D Clayton	73	100,000	(100,000)	73
M Brydon	-	100,000	(95,000)	5,000
M A Finney <sup>2</sup>	78,400	100,000	(178,400)	-
M Kelly	10,000	100,000	(105,000)	5,000
G Agriogiannis <sup>3</sup>	-	-	-	-
S J Toppenberg	-	100,000	(100,000)	-
S B Rogers	-	100,000	(100,000)	-
<b>Total</b>	<b>147,799,438</b>	<b>1,035,000</b>	<b>20,833,994</b>	<b>169,668,432</b>

1 A M Tansey appointed 5 April 2011.

2 M A Finney ceased employment effective 9 May 2011 therefore his equity holding has been reduced to nil at 31 December 2011 through 'other changes'.

3 G Agriogiannis commenced employment effective 27 June 2011.

#### Number of shares held in Adelaide Brighton Limited at 31 December 2010

	<i>Balance at start of year</i>	<i>Received on exercise of EPSP</i>	<i>Other changes</i>	<i>Balance at end of year</i>
<b>Non-executive Directors</b>				
M A Kinnaird <sup>1</sup>	98,764	-	(98,764)	-
C L Harris	70,479	-	-	70,479
L V Hosking	4,739	-	-	4,739
G F Pettigrew	7,739	-	-	7,739
R D Barro	29,258,979	-	117,920,663	147,179,642
K B Scott-McKenzie <sup>2</sup>	-	-	-	-
<b>Executive Director</b>				
M P Chellew	448,366	341,040	(341,040)	448,366
<b>Senior executives</b>				
A D Poulter <sup>3</sup>	122,600	78,400	(201,000)	-
M R D Clayton	23	78,400	(78,350)	73
M Brydon	7,739	78,400	(86,139)	-
M A Finney	244,688	78,400	(244,688)	78,400
M Kelly	44,615	78,400	(113,015)	10,000
S J Toppenberg	-	78,400	(78,400)	-
S B Rogers	-	78,400	(78,400)	-
<b>Total</b>	<b>30,308,731</b>	<b>889,840</b>	<b>116,600,867</b>	<b>147,799,438</b>

1 M A Kinnaird retired on 19 May 2010 therefore his equity holding has been reduced to nil at 31 December 2010 through 'other changes'.

2 K B Scott-Mackenzie appointed 26 July 2010.

3 A D Poulter ceased employment effective 1 May 2010 therefore his equity holding has been reduced to nil at 31 December 2010 through 'other changes'.

### 30 Key management personnel disclosures (continued)

#### (d) 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 and M Brydon, a senior executive of Adelaide Brighton Ltd, are Directors of Sunstate Cement Ltd. M Brydon, a senior executive of Adelaide Brighton Ltd, is a Director of Independent Cement and Lime Pty Ltd. During the year, the Group traded significantly with both Independent Cement and Lime Pty Ltd and Sunstate Cement Ltd.

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

From time to time Directors of the Company or its controlled entities, or their related parties, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees. These transactions are conducted on standard commercial terms.

(\$)	Consolidated	
	2011	2010
Aggregate amounts of the above transactions with the Directors and their related parties:		
Sales to Director related parties	<b>59,055,100</b>	54,817,802
Purchases from Director related parties	<b>11,889,074</b>	9,423,905

### 31 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	
	2011	2010
(a) <b>Audit services</b>		
PricewaterhouseCoopers Australian firm		
Audit and review of financial statements	<b>683,379</b>	805,245
Total remuneration for audit services	<b>683,379</b>	805,245
(b) <b>Non-audit services</b>		
PricewaterhouseCoopers Australian firm		
Other assurance services	<b>22,100</b>	152,865
Total remuneration for non-audit services	<b>22,100</b>	152,865

### 32 Related parties

#### (a) Key management personnel

Disclosures relating to key management personnel are set out in note 30.

#### (b) Controlled entities

Details of interests in controlled entities are set out in note 33. The ultimate parent company is Adelaide Brighton Ltd.

#### (c) Joint venture entities

Details of interests in joint venture entities are set out in note 11(a). Nature of transactions with joint venture entities:

Adelaide Brighton Cement Ltd and Morgan Cement International Ltd supplied finished products and raw materials to Sunstate Cement Ltd and Independent Cement and Lime Pty Ltd. Hy-Tec Industries (Victoria) Pty Ltd, Hy-Tec Industries (Queensland) Pty Ltd, Adbri Masonry Pty Ltd and Adelaide Brighton Cement Ltd purchased finished products and raw materials from Sunstate Cement Ltd and Independent Cement and Lime Pty Ltd.

All transactions are on normal commercial terms and conditions and transactions for the supply of raw materials and finished products are covered by shareholder agreements.

(\$'000)	Consolidated	
	2011	2010

#### (d) Transactions with related parties

The following transactions occurred with related parties:

Sales of goods		
- Joint venture entities	<b>192,404</b>	183,758
Purchases of materials and goods		
- Joint venture entities	<b>42,019</b>	32,863
Interest revenue		
- Joint venture entities	<b>1,145</b>	985
- Other related parties	<b>20</b>	105
Dividend income		
- Joint venture entities	<b>26,095</b>	16,910
Superannuation contributions		
- Contributions to superannuation funds on behalf of employees	<b>202</b>	442
Loans advanced to/(from):		
- Joint venture entities	<b>3,203</b>	421
- Other related parties	-	(262)



(\$'000)

2011

2010

**32 Related parties** (continued)**(e) 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:

Current receivables		
- Joint venture entities (interest)	<b>586</b>	507
- Joint venture entities (trade)	<b>14,979</b>	16,357
Non-current receivables		
- Joint venture entities (loans)	<b>22,336</b>	28,655
- Other related parties (loans)	-	1,473
Current payables		
- Joint venture entities (trade)	<b>4,831</b>	2,497

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

**(f) Loans to related parties**

A loan to a wholly owned controlled entity, Adelaide Brighton Cement Ltd of \$82,860,247 funds a capital reduction payment. The loan is subordinated and is only repayable after full repayment of external borrowings. There was no interest charged on the outstanding balance during the reporting year. All other loans to and from Group entities are repayable at call.

The Company has provided Adbri Masonry Group Pty Ltd with a loan of \$42,718,929. There was no interest charged on the outstanding balance during the reporting year.

A loan to Independent Cement and Lime Pty Ltd has interest charged at the ruling commercial rates on the outstanding balance. Interest revenue brought to account by the Group during the reporting year on this loan was \$1,145,264 (2010: \$985,000).

The Company has provided MCB Wingfield Pty Ltd (MCBW), with a loan of \$2.75 million to fund the construction of the waste processing plant at the site owned by MCBW at Wingfield, South Australia in prior year. The site and the plant are leased to Alternative Fuel Company Pty Ltd and Resourceco. MCBW's obligations to the Company under the loan documents are secured by various securities including a deed of charge over all of the assets and undertaking of MCBW and a real property mortgage over the entire parcel of land. The loan was fully repaid on 28 March 2011. Interest revenue brought to account by the Group during the reporting year on this loan was \$20,118 (2010: \$105,000).

### 33 Investments in controlled entities

Name of entity	Place of incorporation	Class of shares	Equity holding	
			2011 %	2010 %
<b>Adelaide Brighton Ltd</b>				
Adelaide Brighton Cement Ltd <sup>2</sup>	South Australia	Ord	100	100
Adelaide Brighton Cement Inc	Washington USA	Ord	80	80
Adelaide Brighton Cement Investments Pty Ltd <sup>2</sup>	South Australia	Ord	100	100
Adelaide Brighton Management Ltd <sup>2</sup>	South Australia	Ord	100	100
Adelaide Brighton Cement International Pty Ltd <sup>1</sup>	South Australia	Ord	100	100
Adelaide Brighton Intellectual Property Pty Ltd <sup>1</sup>	South Australia	Ord	100	100
Cement Resources Consolidated Pty Ltd <sup>1</sup>	South Australia	Ord	100	100
Cockburn Cement Ltd <sup>2</sup>	Western Australia	Ord	100	100
Hy-Tec Industries (Queensland) Pty Ltd <sup>2</sup>	South Australia	Ord	100	100
Northern Cement Ltd <sup>2</sup>	Northern Territory	Ord	100	100
Premier Resources Ltd <sup>2</sup>	New South Wales	Ord	100	100
Adbri Masonry Group Pty Ltd <sup>2</sup>	Victoria	Ord	100	100
<b>Adelaide Brighton Cement Ltd</b>				
Exmouth Limestone Pty Ltd <sup>1</sup>	Western Australia	Ord	51	51
<b>Adelaide Brighton Cement Inc</b>				
Adelaide Brighton Cement (Florida) Inc	Florida USA	Ord	100	100
Adelaide Brighton Cement (Hawaii) Inc	Hawaii USA	Ord	100	100
Hileah (Florida) Management Inc	Florida USA	Ord	100	100
<b>Adelaide Brighton Management Ltd</b>				
Accendo Pty Ltd <sup>1</sup>	South Australia	Ord	100	100
Global Cement Australia Pty Ltd <sup>1</sup>	New South Wales	Ord	100	100
Hurd Haulage Pty Ltd <sup>1</sup>	Victoria	Ord	100	100
K.C. Mawson Pty Ltd <sup>1</sup>	New South Wales	Ord	100	100
<b>Adelaide Brighton Cement International Pty Ltd</b>				
Adelaide Brighton Cement Inc	Wash. State 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>	South Australia	Ord	100	100
<b>Cockburn Cement Ltd</b>				
Cockburn Waters Pty Ltd <sup>1</sup>	Western Australia	Ord	100	100
Hydrated Lime Pty Ltd <sup>1</sup>	Western Australia	Ord	100	100
Chemical Unit Trust <sup>1</sup>	Western Australia	Units	100	100
Kalgoorlie Lime & Chemical Company Pty Ltd <sup>1</sup>	Western Australia	Ord	100	100
<b>Premier Resources Ltd</b>				
Hy-Tec Industries Pty Ltd <sup>2</sup>	New South Wales	Ord	100	100
Hy-Tec Industries (Victoria) Pty Ltd <sup>2</sup>	New South Wales	Ord	100	100
Bonfoal Pty Ltd <sup>1</sup>	New South Wales	Ord	100	100
Aus-10 Rhyolite Pty Ltd <sup>1</sup>	New South Wales	Ord	100	100
Morgan Cement International Pty Ltd <sup>2</sup>	New South Wales	Ord	100	100
<b>Hy-Tec Industries (Victoria) Pty Ltd</b>				
CRC2 Pty Ltd <sup>1</sup>	Victoria	Ord	100	100
CRC3 Pty Ltd <sup>1</sup>	Victoria	Ord	100	100
Hy-Tec Industries (Victoria) No 1 Pty Ltd <sup>1</sup>	New South Wales	Ord	100	100
Hy-Tec Industries (Victoria) No 2 Pty Ltd <sup>1</sup>	New South Wales	Ord	100	100
Sheltacrete Pty Ltd <sup>1</sup>	New South Wales	Ord	100	100
<b>Adbri Masonry Group Pty Ltd</b>				
Adbri Masonry Pty Ltd <sup>2</sup>	Queensland	Ord	100	100
Adbri Mining Products Pty Ltd <sup>1</sup>	Queensland	Ord	100	100
C&M Masonry Products Pty Ltd <sup>2</sup>	South Australia	Ord	100	100
Betta Brick Pty Ltd <sup>1</sup>	Victoria	Ord	100	100
C&M Brick (Bendigo) Pty Ltd <sup>1</sup>	Victoria	Ord	100	100
C&M Design/Construct Pty Ltd <sup>1</sup>	Victoria	Ord	100	100

<sup>1</sup> Small proprietary Company as defined by the *Corporations Act* 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 Class Order 98/1418 issued by the Australian Securities & Investments Commission. For further information see note 34.

### 34 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 and Adbri Masonry 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".

Set out below is a consolidated balance sheet as at 31 December 2011 of the Closed Group.

(\$ Million)	2011	2010
<b>Current assets</b>		
Cash and cash equivalents	7.8	-
Trade and other receivables	238.7	230.0
Inventories	118.6	109.4
	<b>365.1</b>	339.4
Assets classified as held for sale	-	0.2
Total current assets	<b>365.1</b>	339.6
<b>Non-current assets</b>		
Receivables	27.2	30.4
Investments accounted for using the equity method	93.2	83.7
Other financial assets	10.2	10.2
Property, plant and equipment	767.0	673.2
Intangible assets	182.3	178.4
Total non-current assets	<b>1,079.9</b>	975.9
<b>Total assets</b>	<b>1,445.0</b>	1,315.5
<b>Current liabilities</b>		
Trade and other payables	156.8	163.8
Borrowings	0.7	2.3
Current tax liabilities	6.9	26.0
Provisions	21.5	21.4
Other liabilities	4.6	3.9
Total current liabilities	<b>190.5</b>	217.4
<b>Non-current liabilities</b>		
Borrowings	258.7	150.2
Deferred tax liabilities	58.3	39.9
Provisions	35.0	32.6
Retirement benefit obligations	10.9	4.2
Other non-current liabilities	0.1	0.1
Total non-current liabilities	<b>363.0</b>	227.0
<b>Total liabilities</b>	<b>553.5</b>	444.4
<b>Net assets</b>	<b>891.5</b>	871.1
<b>Equity</b>		
Contributed equity	694.6	692.7
Reserves	2.3	2.6
Retained earnings	194.6	175.8
<b>Total equity</b>	<b>891.5</b>	871.1

### 34 Deed of cross guarantee (continued)

Set out below is a condensed consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained profits for the year ended 31 December 2011 of the Closed Group.

(\$ Million)	Consolidated	
	2011	2010
<b>Profit before income tax</b>	<b>202.5</b>	199.4
Income tax expense	<b>(56.8)</b>	(50.0)
<b>Profit for the year</b>	<b>145.7</b>	149.4
Retained earnings 1 January	<b>175.8</b>	142.5
Profit for the year	<b>145.7</b>	149.4
Transactions recognised directly in retained earnings	<b>(6.1)</b>	(1.9)
Dividends paid	<b>(120.8)</b>	(114.2)
<b>Retained earnings 31 December</b>	<b>194.6</b>	175.8

### 35 Reconciliation of profit after income tax to net cash inflow from operating activities

Profit for the year	<b>148.4</b>	151.5
Doubtful debts	<b>(0.3)</b>	0.2
Depreciation and amortisation	<b>57.8</b>	52.8
Share based payments expense	<b>1.6</b>	1.1
Finance charges on remediation provision	<b>0.4</b>	0.3
Loss / (Gain) on sale of non-current assets	<b>0.5</b>	(2.6)
Share of un-distributed profits of joint ventures	<b>(9.5)</b>	(15.2)
Non-cash retirement benefits expense	<b>1.2</b>	1.5
Profit on acquisition of businesses	<b>(3.6)</b>	-
Capitalised interest	<b>(0.9)</b>	-
Other	<b>(7.5)</b>	(2.2)
Net cash provided by operating activities before changes in assets and liabilities	<b>188.1</b>	187.4
Changes in operating assets and liabilities, net of effects from purchase of controlled entity:		
(Increase) in inventories	<b>(8.8)</b>	(10.0)
(Increase) / decrease in prepayments	<b>(1.0)</b>	1.4
(Increase) / decrease in receivables	<b>(14.3)</b>	8.0
(Decrease) / increase in trade creditors	<b>(8.9)</b>	1.3
Increase / (Decrease) in provisions	<b>4.0</b>	(0.1)
(Decrease) / Increase in taxes payable	<b>(18.9)</b>	10.4
Increase / (Decrease) in deferred taxes payable	<b>8.1</b>	(8.3)
Increase / (Decrease) in other operating liabilities	<b>6.7</b>	(1.6)
Net cash inflow from operating activities	<b>155.0</b>	188.5

<i>(Cents)</i>	<i>Consolidated</i>	
	<b>2011</b>	2010
<b>36 Earnings per share</b>		
Basic earnings per share	<b>23.3</b>	23.9
Diluted earnings per share	<b>23.2</b>	23.7

<i>(Number)</i>	<i>Consolidated</i>	
	<b>2011</b>	2010
<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	<b>635,895,098</b>	634,851,343
Adjustment for calculation of diluted earnings per share:		
Awards	<b>3,952,500</b>	5,315,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<b>639,847,598</b>	640,166,343

<i>(\$ Million)</i>	<i>Consolidated</i>	
	<b>2011</b>	2010
<b>Reconciliation of earnings used in calculating earnings per share</b>		
<i>Basic and diluted earnings per share</i>		
Profit after tax	<b>148.4</b>	151.4
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	<b>148.4</b>	151.5

### 37 Events occurring after the balance sheet date

As at the date of this report, no other matter or circumstance has arisen since 31 December 2011 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.

### 38 Segment reporting

#### (a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Managing Director. 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 and Concrete
- Concrete Products

The operating segments Cement and Lime and separately Concrete 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. The Cement, Lime and Concrete Products Joint Ventures form part of the above two reportable segments as they meet the aggregation criteria.

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

## Financial history

Year ended (\$ Million unless stated)	Dec 2011	Dec 2010	Dec 2009	Dec 2008	Dec 2007	Dec 2006	Dec 2005	Dec <sup>8</sup> 2004	Dec 2003	Dec 2002	Dec 2001
<b>Statements of financial performance</b>											
Sales revenue	1100.4	1072.9	987.2	1,022.4	888.4	794.7	717.3	683.4	630.6	486.8	387.8
Depreciation and Amortisation	(57.8)	(52.8)	(56.8)	(56.8)	(52.4)	(51.8)	(47.0)	(51.4)	(52.3)	(45.1)	(41.0)
Earnings before interest and tax	223.4	216.2	185.3	189.1	171.3	148.8	134.1	119.6	97.0	80.0	46.9
Net interest earned (paid)	(17.0)	(14.0)	(16.7)	(33.8)	(21.7)	(15.2)	(14.0)	(14.7)	(12.6)	(13.1)	(16.3)
<b>Profit before tax, abnormal and extraordinary items</b>	206.4	202.2	168.6	155.3	149.6	133.6	120.1	104.9	84.4	66.9	30.6
Tax expense <sup>1</sup>	(58.0)	(50.8)	(45.4)	(34.5)	(35.7)	(31.0)	(29.2)	(11.8)	(25.8)	(16.2)	-
Profit from discontinued operations	-	-	-	-	-	-	-	1.3	-	-	-
Non-controlling interests	-	0.1	(0.1)	-	-	(0.5)	-	(1.1)	(0.9)	-	-
<b>Net profit after tax and non-controlling interests before abnormal and extraordinary items<sup>1</sup></b>	148.4	151.5	123.1	120.8	113.9	102.1	90.9	93.3	57.7	50.7	30.6
Abnormal and extraordinary items after tax and outside equity interest	-	-	-	-	-	-	-	-	-	-	-
<b>Net profit (loss) after tax, abnormal and extraordinary items</b>	148.4	151.5	123.1	120.8	113.9	102.1	90.9	93.3	57.7	50.7	30.6
<b>Group balance sheet</b>											
Current assets	307.8	274.1	308.8	290.8	233.1	224.7	211.0	196.2	173.3	143.3	119.0
Property, plant and equipment	851.0	760.6	774.3	801.9	742.5	694.2	665.6	613.5	620.1	561.3	510.7
Receivables	27.2	30.4	30.4	28.4	29.5	27.5	23.3	19.1	12.2	12.5	11.7
Investments	97.2	87.7	72.5	67.6	66.9	40.8	38.1	35.6	33.6	30.8	27.6
Intangibles	183.0	179.1	169.0	169.4	164.4	164.6	165.0	165.5	166.4	146.6	147.2
Other non-current assets	-	-	-	-	2.7	22.9	19.0	19.7	17.1	28.5	37.0
<b>Total assets</b>	1,466.2	1,331.9	1,355.0	1,358.1	1,239.1	1,174.7	1,122.0	1,049.6	1,022.7	923.0	853.2
Current borrowings and creditors	99.2	106.4	106.5	98.4	145.5	125.8	323.5	294.6	306.3	58.3	49.9
Current provisions	34.5	52.6	55.4	44.5	49.5	54.1	58.2	48.1	42.3	54.8	43.8
Non-current borrowings	258.7	150.2	200.5	410.5	281.9	210.7	1.0	1.1	1.5	200.8	228.5
Deferred income tax and other non-current provisions	116.7	88.4	95.6	102.8	94.3	109.1	105.3	116.8	97.0	83.3	77.0
<b>Total liabilities</b>	509.1	397.6	458.0	656.2	571.2	499.7	488.0	460.6	447.1	397.2	399.2
<b>Net assets</b>	957.1	934.3	897.0	701.9	667.9	675.0	634.0	589.0	575.6	525.8	454.0
Share Capital	694.6	692.7	690.4	540.4	514.0	513.3	513.3	512.8	512.8	512.1	462.4
Reserves	2.3	2.6	2.9	3.5	14.5	13.3	14.0	12.8	30.4	30.6	30.9
Retained Profits	257.3	236.0	200.6	155.0	136.4	139.8	98.4	54.1	22.4	(19.9)	(42.2)
Shareholders' equity attributable to members of the company	954.2	931.3	893.9	698.9	664.9	666.4	625.7	579.7	565.6	522.8	451.0
Non-controlling interests	2.9	3.0	3.1	3.0	3.0	8.6	8.3	9.3	10.0	3.0	3.0
<b>Total Shareholders funds</b>	957.1	934.3	897.0	701.9	667.9	675.0	634.0	589.0	575.6	525.8	454.0
<b>Share information</b>											
Net tangible asset backing (A\$/share)	1.22	1.19	1.15	0.97	0.93	0.94	0.87	0.78	0.76	0.70	0.65
Return on shareholders' funds (%)	15.6%	16.3%	13.8%	17.2%	17.1%	15.3%	14.5%	16.1%	10.2%	9.7%	6.8%
Basic earnings per share (¢/share)	23.3	23.9	20.4	22.2	21.0	18.8	16.8	17.2	10.7	9.9	6.5
Diluted earnings per share (¢/share)	23.2	23.7	20.3	22.0	20.8	16.4	16.2	14.6	10.7	9.9	6.5
Total dividend (¢/share)	16.5 <sup>2</sup>	21.5 <sup>2</sup>	13.5 <sup>2</sup>	15.0 <sup>2</sup>	18.5 <sup>2</sup>	18.5 <sup>2</sup>	10.5 <sup>2</sup>	7.5 <sup>2</sup>	6.0	5.25	4.0
Interim dividend (¢/share)	7.5 <sup>2</sup>	7.5 <sup>2</sup>	5.5 <sup>2</sup>	6.5 <sup>2</sup>	6.0 <sup>2</sup>	5.0 <sup>2</sup>	4.25 <sup>2</sup>	3.5 <sup>2</sup>	2.75 <sup>3</sup>	2.5 <sup>5</sup>	2.0 <sup>6</sup>
Final dividend (¢/share)	9.0 <sup>2</sup>	9.0 <sup>2</sup>	8.0 <sup>2</sup>	8.5 <sup>2</sup>	9.0 <sup>2</sup>	7.5 <sup>2</sup>	6.25 <sup>2</sup>	4.0 <sup>2</sup>	3.25 <sup>2,7</sup>	2.75 <sup>4</sup>	2.0 <sup>5</sup>
Special dividend (¢/share)	-	5.0 <sup>2</sup>	-	-	3.5 <sup>2</sup>	6.0 <sup>2</sup>	-	-	-	-	-
Gearing	26.0%	15.9%	19.6%	55.3%	48.4%	33.6%	35.8%	31.4%	37.7%	34.6%	45.6%

1 Excluding extraordinary items

4 35% Franked

7 Dividend declared after year end as a result of Boral Ltd Takeover Offer of Adelaide Brighton Ltd

2 Fully franked

5 20% Franked

8 Restated for AIFRS

3 60% Franked

6 13% Franked